

Chapter 2

Outlook for Iran's Apparel Industry

Abstract The production and business environment for Iran's apparel industry as well as that for its parent textile industry was never quite stable. It had been ranked as the national mainstay industry from the modernization era through to oil nationalization as a way to realize import substitution. However, the government's industrialization strategy was de facto abandoned owing to the rapid growth in oil income. The restrictions and subsequent relaxations of textile and apparel imports were repeated in turn in response to changes in terms of trade arising from political circumstances. Meanwhile, strong demand backed by one of the biggest markets in the Middle East has continuously attracted private investment. Consequently, it never absolutely disappeared despite repeated rises and falls, and instead maintained a certain presence in Iran's manufacturing industries. It is rather noticeable that Iran's apparel industry has managed to supply products to the domestic market so far despite its minute scale under the aforementioned unstable business environment.

Keywords Industrialization strategy • Import substitution • Monopoly of foreign trade by the government • Import control system

2.1 Historical Development of the Textile and Apparel Industries and Their Business Environment

2.1.1 *Modernization Era*

Prior to discussing the industrial organization of contemporary Iran's apparel-producing industry, historical development process of the industry should be clarified.

The theme of industrialization has attracted significant interest from numerous countries around the world in twentieth century, particularly from Asian countries that were later to pursue economic development, where people became more motivated to achieve economic development, witnessing the economic prosperity of

the Western advanced industrialized countries; however, at the same time, these Asian countries were exposed to their menace. It was certainly an emergent task for them to realize the economic development through industrialization so that they could secure their political and economic independence.

Many countries threw their energy into development of a domestic textile industry, whose market potential seemed to be quite large, as an initial phase of modern industrialization. Iran was no exception to this rule. Manufacturing skills within Iran's textile products, typified in carpets and silk, had already attained a high level since early times and private capital had been invested briskly in the field. In the Qajar period, when modern industrialization had not yet begun on a full scale, Premier Amīr-e Kabīr, who was intent twentieth on protecting the existing domestic industries, conducted buildup policies for the textile industry, such as construction of a silk fabric factory and introducing a worker training system. These steps indicate that the textile industry was ranked as the mainstay industry for Iran during this period.

By the middle of the nineteenth century, Iran traded its various local specialties incessantly, such as Kermān's woolen fabrics, Isfahan's brocades, and the silk carpets of Yazd and Kāshān, with neighboring countries like India, Turkey, and Russia. It remained a textile exporting country, although it is pointed out that the industry had already begun to decline in those days. Circumstances changed, however, in the middle of the nineteenth century and imports of English textile products grew dramatically.

These changes resulted in changes to the composition of Iran's exports. Textile products, which had accounted for 25% of all Iran's export, were replaced by agricultural products such as fruits, rice, grain, and raw cotton. The only textile exports that increased were carpets, which accounted for 12% of all Iranian exports in 1913. The trading partners also changed from neighboring countries to European industrialized countries such as Britain and Russia (Issawi 1982, 17–43).

As mentioned earlier, the modernization of manufacturing industries became a critical issue in keen competition with Europe. However, it is thought that most of the domestic manufacturing sector maintained a traditional production system, with the few exceptions of modern spinning and weaving factories built in Tehran and Isfahan. Polak identified labor shortages, dishonest practices by managers, and high transportation costs for the introduction of machinery and equipment as the reasons why "factory production" in those days did not become established successfully in Iran (Issawi 1971, 275).

The establishment of the Pahlavi regime was a landmark for Iran's manufacturing industries—including the textile industry—from the viewpoint that the government pursued industrialization on its own initiative. The development strategy of Reza Shah, founder of the Pahlavi dynasty (1925–1941 on the throne), had a more comprehensive scheme compared with previous "modernization"

policies.¹ That is, it included the modernization (Westernization, more precisely) of the political system through steps such as introducing a Western legal system, improving the tax collection system, and so on. It was partly a consequence of the Constitutional Revolution that took place at the beginning of the twentieth century. The government's industrialization policies were promoted as before, with public investment in Isfahan's textile industry listed first. Construction of the north–south railroad was also started in order to overcome deficiencies in transportation facilities, the biggest obstacle to Iran's industrial development.²

Policies from the Reza Shah era have some common characteristics that bear pointing out. First, the policies clearly intended to pursue “import substitution industrialization” which was adopted frequently at the first stage of industrialization by late-started countries. Many late-started countries promoted domestication of manufacturing products that they imported in order to prevent economic invasion by advanced industrialized countries. Support for the mainstay textile industry by Reza Shah clearly shows that Iran in those days sought to pursue this same strategy.³

Second, the government acquired the funds for industrialization through the old land-owing system (Gotō 2000).⁴ Oil income had not yet become the government's effective revenue source, and its funds were severely limited. Therefore, the state played a key role in efficient collecting and redistribution of the domestic private funds scattered all over the country.

¹The “modernization” policies pursued by Amīr-e Kabīr are well known as representative development attempts in nineteenth-century Iran, while the Qajar government was utterly unable to devise any appropriate measures to protect the domestic manufacturing sectors, which were still no more than the handcraft industry, from the harm caused by the inflow of cheap European manufactured commodities. According to Adamiyat, Amīr-e Kabīr recognized the importance of accomplishing Iran's own industrialization to prevent economic penetration by foreign countries. In those days, two sugar refinery mills, a spinning factory, a silk weaving factory and such were established with his encouragement, and European machinery was introduced. He also dispatched Iranian craftsmen to Russia and France for training. (Issawi 1971, 292–293) A series of his policies were rolled back after his dismissal in 1851. At this point of time, development issues were still raised, only against the inflow of European commodities, but now as a political issue and emergent treatment of symptoms toward the country's economic invasion by two great menaces, Russia and Britain.

²Railroad construction project began in 1927, and completed in 1938, connecting some routes that had already been in operation before the construction of traversing railroad. The route started from the Caspian Sea (Bandar-e Shāh) and ran through Tehran, Ahvāz to reach the Persian Gulf (Bandar-e Shāhpūr).

³Needless to say, the recovery of tariff autonomy in 1928 and the monopolization of foreign trade by the government, accompanied by 27 exclusive articles such as tobacco, sugar, and tea, played an important role.

⁴Gotō points out that the surplus from agricultural production in this period was invested in the public sector by the landholders who dwelled in cities through the banking system, and that the government's monopoly system of agricultural products sales supported the state finances.

The government's monopoly of foreign trade plainly indicates Iran's industrial protection policies during this period. Import–export businesses in Iran came to be completely under the government's control via the Law of Government's Monopoly in Foreign Trade (*qānūn-e vā-gozārī-ye enhesār-e tejārat-e khārejī-ye mamlekat be doulat*)⁵ enacted in 1931. It stipulated that a foreign country's volume of exports to Iran must not be more than 20% of that country's volume of import from Iran. Furthermore, a 25–35% tariff was imposed on imported textile products (Bharier 1971, 178). This policy possibly intended to encourage industrial investment with the surplus private funds by excluding domestic merchants from the import–export business.

Refined sugar, matches, and cement factories were also prioritized by the government in addition to spinning and cotton weaving. The textile industry, which needed less initial investment and created mass employment, attracted more private funds. Although the precise conditions are unclear, according to Rabizade's record, twelve cotton spinning factories, five cotton weaving factories, six wool weaving factories, and a jute weaving factory were established in the form of joint-stock companies in 1932–38. The total capital was more than 190 million rial, which exceeded the total public investment at that time of 130 million rial. These factories employed approximately 15,000 workers, an amount almost double the public sector's employment (Rabizade 1975, 56). It is thought that relatively “large-scale factory” construction was promoted in those years.

It was reported, on the other hand, that many state-owned factories in the textile sector during the Reza Shah era were cotton spinning factories. This indicates that the government attempted to reduce imports through domestication of yarn production. By this move, a self-supply system would be established while the private sector took on the role of developing the remaining steps of the textile production, including final processing.

The Reza Shah era, as stated above, was the dawn of thorough industrialization for Iran, a period when the restructuring was aggressively conducted in the state's financial system although infrastructure was only partially developed and private industrial sector remained weak.

The level of domestic textile production in Iran at the time is unknown; however, raw cotton exports from Iran decreased by half within a decade after the end of the 1930s, according to international trade statistics (United Nations 1953, 170–173). One could surmise that the raw cotton that had been a conventional major export was instead allocated to domestic production. On the other hand, imports of cotton textile products, such as yarn, cotton fabric, and dyed cotton fabric, doubled in the same decade. Imports of synthetic fiber products, which had been low in 1930s, also increased considerably at the end of 1940s. These facts show Iran was unable to achieve the self-supply of textile products at that time, notwithstanding a certain

⁵It was enacted on 6th of Esfand in 1309 (February 25, 1931) and another law, the Enlarged Edition of the Law of Government's Monopoly in Foreign Trade (*qānūn-e motammem-e qānūn-e enhesār-e tejārat-e khārejī*) with more comprehensive contents was enacted on 20th of the same month. (*Rūz-nāme-ye rasmī-ye Jomhūrī-ye Eslāmī-ye Īrān* 2009, 476–478).

increase in domestic production under the government's industrialization strategy. Under the government-imposed trade monopoly, in any case, it was clearly expected that local textile enterprises would play a major role in modern industrialization alongside state-owned enterprises.

2.1.2 Post-World War II Period

The occupation by the Allied forces seriously damaged Iran's economy during the war. Consequently, the industrialization process started before the war was physically interrupted. Therefore, the first emergent task for postwar Iran became rehabilitation of the national economy, with a focus on postwar reconstruction. At the same time, Mohammad Reza Shah (1941–79 on the throne), who ascended after Reza Shah, also faced an immediate need to settle the domestic political disorder caused by a series of ethnic separatist movements after the war.

The Iranian government followed the old import-substitution strategy for some time after the war. The government bolstered up the textile, sugar-refining, and steel industries in order to stimulate relatively weak private manufacturing investment. The state-owned factories established in Reza Shah's era were again opened. The introduction of a preferential tax and material import system for industrial production also served to promote private investment.

A more aggressive economic development strategy was discussed in this period, including reorganizing existing state-owned enterprises and formulation of a development plan. In 1946, some government officials emphasized the necessity of having such a development plan, pointing out that a laissez-faire policy was not suitable for Iran, which had never experienced economic development. Plan Organization (Sāzmān-e Bar-nāme), the nucleus of the new development plans, was set up in 1949. An American consultancy (Overseas Consultants Incorporated) took responsibility for the specific planning, a step Iran took because the World Bank requested Iran to submit a detailed development plan when the Iranian government asked them for financial aid.⁶ Iran's industrialization strategy, however, greatly transformed after this planning as a result of oil nationalization in 1951.

In March 1951, the parliament approved the oil nationalization bill and thus ended the Iranian oil concessions that had been held by Britain (via the Anglo-Iranian Oil Company) since the beginning of the twentieth century. In the subsequent 2 years of Mosaddeq's premiership, who took over the leadership of

⁶Along with the start of the World Bank Group, including International Bank of Reconstruction and Development (IBRD), development funds began to be disbursed to developing countries as well as postwar rehabilitation funds allocated to advanced countries. It is thought that these efforts noticeably reflected the argument for postwar economic recovery in those days, mainly in the US, which aimed at to achieve complete employment, prevent protective trade, secure stable economic growth and such, for the sake of realization of "reconstruction of the free trade system."

Iran's oil nationalization movement, public favor toward nationalism and democratization continued to shake the Shah's political foundation.

Given ongoing political disturbances due to the oil nationalization movement, the investment environment for domestic manufacturing was not very stable. The country remained entrenched in postwar reconstruction. In the public sector, the budget for the mining and manufacturing industries suffered drastic cuts in the middle of first National Development Plan (1949–55) owing to the oil nationalization movement. In private sector, too, an unstable situation continued. New factories were established in order to respond the demand growth for domestic products caused by a foreign currency shortage. But when the foreign currency situation improved and prices of imported goods dropped, these producers immediately suffered from surplus stock.

When the oil nationalization movement came to a standstill after a coup in 1953, the Shah gained another supporter: the US, who replaced Britain and increased its presence in Iran. A new political situation appeared. Rapid increases of oil income as a result of oil nationalization and the sequent political stabilization secured the expansion of manufacturing production and investment. The government advocated the same "import substituting industrialization" as in Reza Shah's era to protect and develop the private sector. Ample funds were supplied to the private sector through various industrial banks, backed by sufficient oil income (Benedick 1964).

During and after the third National Development Plan (1962–68), the government's investment priority shifted to heavy industries from light industries. But importing commodities was prohibited when similar goods were produced in Iran, and many privileges such as tax holiday were given to domestic enterprises. Overall manufacturing production grew by 12.9% per annum in 1963–72 (United Nations 1975, 231).

Textile industry, which was one of the priority industries just after the war, gradually faded from the center of the government's industrialization strategy. The macro trend of Iran's textile production at that time was as follows.

Textile production grew 11.5% on average per annum during the 9 years in 1963–72 (United Nations 1975, 231). Its ratio to the whole manufacturing production, however, dropped rapidly from 28.9% in 1959 to 16.6% in 1972. Investment in textiles also expanded in parallel with production but its ratio to the whole manufacturing investment dropped from 23% in 1962 to 10.9% in 1972 (Ministry of Industry and Mines 1976, 10–11).

The import–export trend of the period indicates that Iran's fabric imports were quite limited due to the import control policy until 1972, it is thought that Iran was importing yarn and producing fabric domestically until that time. As for cotton fabric, the fact that barely any cotton yarn was imported while raw cotton was exported suggests that cotton yarn was almost self-supplied (Iwasaki 1993, 69).

Demand growth accompanying the improving national standard of living had been already witnessed since the beginning of the 1960s. It is plausible that Iran's textile industry responded to this trend until at least 1972 by expanding the production although the some raw materials depended on imports.

Under these circumstances, the state of firms and workers in the textile industry changed as given below. Many new manufacturing firms were established in the

1960s. Concerning the number of textile firms, only fragmentary data are available from the end of 1950s until the mid-1980s. The number of firms with more than 10 workers (hereafter called large-scale firms)⁷ increased by 150% in a decade from 863 in 1962 to 1367 in 1972 (Ministry of Interior 1964, 10); (Ministry of Industry and Mines 1976, 36).⁸ It seems plausible that a large number of new textile firms were established between the end of 1950s and the beginning of 1960s in general (Iwasaki 1993, 69–70). On the other hand, the actual number of firms with fewer than 10 workers (hereafter called small-scale firms) through this period is not known. According to the 1962 Industrial Census, the number of small-scale firms was reported to be 6170, amounting to 87% of the whole (Ministry of Interior 1964, 10).

How has the number of workers employed by firms changed? According to the breakdown by industry type, out of all workers employed by large manufacturing firms in 1947, approximately 60% worked in the textile industry (Bharier 1971, 179). The textile industry contributed considerably to employment supply in manufacturing, although the state of small-scale firms was unknown. The data from Ministry of Industry and Mines also indicate that the number of workers in the textile and carpet (as well as apparel) industries increased continuously between 1962 and 1972 (see Table 2.1). It reached nearly 160 thousand in 1972, and its ratio to all manufacturing workers maintained about 25%. Incidentally, the number of workers in apparel industry at that point of time was about 93 thousand (Ministry of Industry and Mines 1976, 6). It is remarkable that the contribution of the textile and apparel industry to the employment supply was outstanding compared to that of other industries.

Although public investment increasingly prioritized modern sectors and shifted away from traditional sectors like textiles after the oil nationalization, the protective trade policy operating under the industrialization strategy since 1930s helped the textile industry survive. Iran's textile industry, which employed the most workers in the manufacturing sector and where private firms were the pillar of the industry, barely continued to respond to domestic demand, instead partially relying on imported raw materials.

Nevertheless, Iran's textile imports grew rapidly after 1972, possibly due to drastic changes in the domestic economic environment concerning the textile (and apparel) industry. The government's oil income jumped to approximately fivefold owing to the steep rise in oil prices in 1973. Import restrictions on scarce textile products were greatly relaxed. The old import-substitution industrialization strategy, which had been previously advocated, was in fact abandoned.

⁷This denomination is based on the division in Iran's official statistics. The data on manufacturing firms including textile and apparel that Statistical Centre of Iran (Markaz-e Āmār-e Īrān) provide are classified by the number of workers. Firm with more than 10 workers are customarily categorized as "large-scale firms" (kār-gāh-hā-ye san'atī-ye bozorg).

⁸The number of large-scale apparel-producing firms was reported as 365 in the 1972 data (Ministry of Industry and Mines 1976, 36).

Table 2.1 The number of workers employed in textile and carpet industry 1962–72

	Textile and carpet (a)	Whole manufacturing (b)	a/b (%)
1962	69,272	249,589	27.8
1963	82,428	290,432	28.4
1964	107,494	338,469	31.8
1965	124,687	372,474	33.5
1966	127,216	388,850	32.7
1967	131,437	461,488	28.5
1968	142,401	462,215	30.8
1969	148,209	530,462	27.9
1970	151,454	547,343	27.7
1971	157,554	581,250	27.1
1972	159,243	616,254	25.8

Source Ministry of Industry and Mines (1976)

Figure 2.1 shows that after this period, more troubles emerged in the self-supply of domestic cotton products. Fluctuations in the exchange rate after the oil crisis, the subsequent decline of Iran's export competitiveness, and shrinking of the carpet market due to recession experienced by its trade partners led Iran's exports to a fall after 1975. That is to say, de facto "import liberalization" began to exert a negative influence on the textile industry after the oil crisis, although domestic production continued to expand.

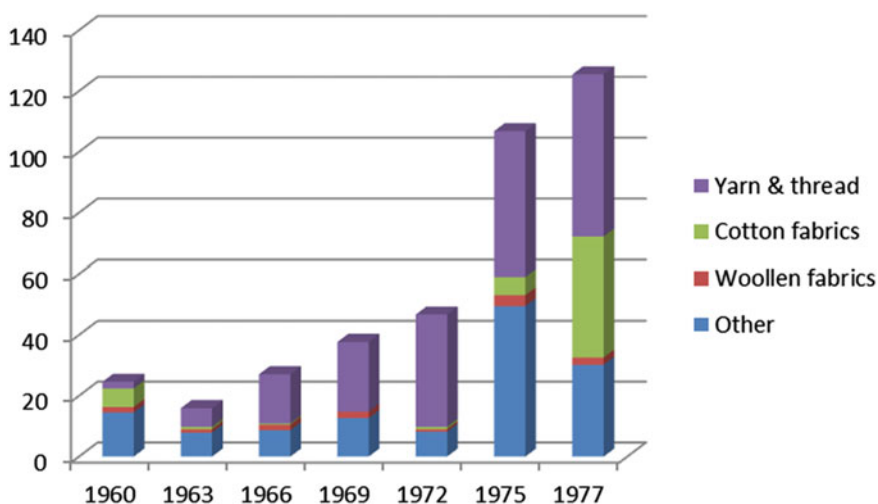


Fig. 2.1 Change in volume of textile import (1960–77). Note A unit of weight: thousand metric ton. Source United Nations, Yearbook of International Trade Statistics (1965, 1967, 1969, 1974, 1978, 1982)

2.1.3 Textile and Apparel Industry After the 1979 Revolution

This import liberalization trend, however, was again disturbed for 10-odd years by the Revolution in 1979. Impatient “Westernization” policies forged by the Shah and his alliance with the US aroused criticism throughout the country, and consequently, the Pahlavi regime fell when Islamic jurists grabbed political power.

Iran then faced serious international isolation after they declared a new form of government known as “Islamic Republicanism.” Following the revolution, Iran broke off relations with the US, which had previously backed the country. A heavy decline in the exchange rate, coupled with economic sanctions, impeded Iran’s ability to trade freely with foreign countries. The Iran–Iraq War broke out, following Iraq’s invasion, and continued for 8 years, causing oil income to fall. The government was compelled to put the country on a severely controlled economic system. A prohibition on introducing foreign capital and import restrictions on Western consumer goods were, indeed, not only to boost the government’s financial position but also to reflect its cultural policy, which intended to prevent the inflow of unpleasant Western culture at the beginning of the revolutionary era. As a consequence, Iran’s manufacturing industries were once again put under protective policies and given a means of survival so that they could respond to domestic demand. It goes without saying that the textile and apparel industry was not exempted.

On the other hand, Iran’s predisposition to relying on imported intermediate and capital goods, which originated in the Pahlavi era, was never eliminated. The government supported domestic firms by intervening in the currency market and fixing the exchange rate, thus allowing the gap between the market rate and the fixed rate to be filled by the oil income in order to maintain manufacturing production. Considerable subsidies were disbursed to manufacturing firms, which were requisitioned and nationalized after the revolution.

In this period, the government set up Centers for Procurement and Distribution (*marākez-e tahīye va touzī‘-e kālā*) for direct control of imports. The centers were solely responsible for importing the necessary goods as classified by industry and item, and then supplied domestic firms. The system originated in the wartime economic policy that had mainly focused on exchange rate control and commodities allocation during the Iran–Iraq War (1980–1988), and the restrictions continued in the same way after the ceasefire. Imports of intermediate goods such as raw materials and machinery for domestic manufacturing became totally under the government’s control, with only some institutions, firms, and individuals being granted import permission to secure access. In this system, the centers themselves purchased goods from suppliers abroad. The majority of the goods were distributed to domestic state-owned firms through the centers. In parallel with this system, firms and factories with special permission from the government could purchase foreign goods directly. Although private firms were to be treated as possible purchasers in the system, the actual buyers were mainly the big state-owned

companies. Private firms without an “import license,” equivalent to foreign currency allocation, were obliged to buy imported goods from the centers or the end suppliers in the domestic market.

These postrevolution economic policies, which combined wartime economic necessities and protectionism, caused severe negative economic effects, such as inefficiency, weak financial standing, and rent-seeking. Consequently, revision of these policies and “liberalization” began to be discussed early in the 1990s. President Khātāmī (1997–2005 in office)’s government greatly promoted liberalization, which was symbolized by privatization of state-owned firms, a move that accelerated the considerable change in trade policy. Meanwhile, restrictions on foreign currency were temporarily eased due to the rapid increase of oil income while the domestic market expanded greatly due to postwar population growth.

As far as the textile and apparel industry is concerned, the influence of this change in trade policies came to be felt only after 2000. This delay in impact reflects the fact that the import–export business continued to be controlled by a license system, although the above-mentioned procurement centers gradually lost their leverage and almost ceased to function by the end of the 1990s.

Trends from the beginning of 1970s through to today can be understood to some degree by following the data from the Statistical Centre of Iran (Markaz-e Āmār-e Īrān, hereafter MAI). Iran’s textile and apparel industry was also exposed to such changes in business environment caused by substantial political upheavals.

The MAI figures mainly concern large-scale firms, with exceptions in some years. Their figures reveal that the output (in real terms) of Iran’s textile industry remained mostly steady in the three decades between 1350 (in the Gregorian calendar 1971/72) and 1390 (2011/12), peaking around 1992. The number of workers in large-scale firms remained around 140–150 thousand throughout the 1980s and 1990s, and continued to be one of the biggest sources of employment. The total number of workers, including those working in small-scale firms, is available for some years from 1987. These figures show that total number of workers in the textile industry exceeded 430 thousand, which corresponds to 30% of all manufacturing workers. Production in this period increased, possibly due to the expanded wartime demand and import restrictions.

What deserves special mention is that a certain level of production was upheld despite the upheavals of revolution and war. This could possibly reflect the fact that large factories were nationalized and put under the protection of the revolutionary government, while the rapid expansion of domestic demand can be attributed to population growth, which constantly encouraged the entry of private funds.⁹ It is not plausible, however, to conclude that domestic production sufficiently responded to the demand. The steady imports perhaps made up for shortages in textile products like yarn and fabrics.

The number of workers in large-scale textile firms began to decrease swiftly after 2000, and fell below 80 thousand in 2011, a change largely attributable to

⁹Population of Iran is reported as approximately 33 million in 1355 (1976/77), and 75 million in 1390 (2011/12), respectively (Markaz-e Āmār-e Īrān 2014, 98).

termination of preferential treatment toward state-owned firms under the “liberalization” policies. The share to the whole manufacturing dropped to 6%, while food processing and motorcycle production came to occupy superior positions in the employment supply (Markaz-e Āmār-e Īrān 2014, 338).

The apparel industry used to be included in general textile industry. As mentioned earlier, the trend of the textile industry as a whole after the Second World War can be inferred from the statistical data to some extent. But it is not chronologically clear the extent to which textile production comprised apparel production, while woven fabrics were traditionally the main product of Iran’s textile industry.

Up through 1372 (1993/94), the statistical data categorized textile, apparel, and leather industries as the same industry, and no breakdown into these subcategories was given in most cases. In the middle of 1990s, homemade apparel and small made-to-order tailors (shakhsī-dūz) were still rather common; therefore, it is supposed that Iran’s ready-made apparel industry does not have a very long history (Iwasaki 2000, 97).

Nonetheless, it seems apparent that the apparel industry, as well as textile industry, relied heavily upon imported machinery and raw materials. As the next chapter will explore in detail, fieldworks conducted by the author since 1990s have shown that both relatively large-scale and small-scale firms used imported goods for production. Accordingly, the business environment surrounding the apparel industry may not have been very different from that of the textile industry. There are, however, some exceptional data in some years that offer insight into movements that occurred in the apparel industry. For example, the number of workers in the apparel industry in 1972 was reported to be about 93 thousand, as mentioned earlier. During 1359 (1980/81) and 1364 (1985/86), there were some 200 large-scale apparel firms in the country¹⁰ and approximately 5 thousand people were employed (Markaz-e Āmār-e Īrān 1983, 1984, 1985, 1986, 1987, 1988). The production level of these firms comprised 0.6% of the whole manufacturing production.

2.2 Iran’s Apparel Industry According to Recent Statistical Data

2.2.1 *Scale of the Apparel Industry*

A category of “apparel industry” was created under the overarching category of “textile industry” in Iran’s statistical data in 1373 (1994/95). Apparel products thus came to be distinguished clearly from other textile products. The data for 1373

¹⁰The number of large-scale apparel-producing firms in the country was reported 632 in 1360 (1981/82) but it is rather an unreliable figure in the light of figures of year before and after (Markaz-e Āmār-e Īrān 1985).

(1994/95), 1375 (1996/97), and 1381 (2002/03) include figures for small-scale firms; therefore, it is possible to conjecture trends for the whole apparel industry.

The number of workers in the apparel industry in 1373(1994/95) was reported to be about 98 thousand, which was almost the same level as in 1972 (Markaz-e Āmār-e Īrān 1998, 207). Although this number decreased to 87 thousand at one point (Markaz-e Āmār-e Īrān 1999, 250), it rose to 126 thousand again in 1381 (2002/03) (Markaz-e Āmār-e Īrān 2004, 265). A total of 45 thousand firms operated in the sector in 1373 (1994/95) (Markaz-e Āmār-e Īrān 1998, 200), falling to 38 thousand in 1375 (1996/97) (Markaz-e Āmār-e Īrān 1999, 243), and rising to 58 thousand in 1381 (2002/03) (Markaz-e Āmār-e Īrān 2004, 258), respectively.

The salient point here is that a quite large proportion of firms were small-scale, and accordingly, a large proportion of workers worked for small-scale firms. Out of all workers in apparel industry, those working in small-scale firms accounted for 87% in 1373, 88% in 1375, and 93% in 1381, respectively. The proportion of small-scale firms also amounted to 98% in 1373, 98% in 1375, and 99% in 1381. Thus, the industry was predominantly composed of small-scale firms with fewer than 10 workers each.¹¹

This is an important point when we consider the main drivers of Iran's apparel production. The output data show that those small-scale firms produced most of the value added generated by the entire apparel industry, that is 74.8% in 1373, 79.3% in 1375, and 84.9% in 1381 (Markaz-e Āmār-e Īrān 1998, 216, 1999, 263, 2004, 273). These facts indicate that those small-scale firms can be considered the most important pillar in Iran's apparel production.

It is not possible to grasp today's status accurately since the relevant statistical data concerning the small-scale firms with fewer than 10 workers have been not published for years after 1381 (2002/03). In any case, further discussion starting from an assumption that the minuteness of firms is the special characteristics of Iran's apparel industry will be appropriate.

Following data from other years that concerned only large-scale firms is not sufficiently precise to catch the real trends of Iran's apparel industry, as a substantial portion of its production comes from small-scale firms.¹² Taking this characteristic into account, we can now examine the trends of large-scale firms. The total number of firms decreased by one-third in the period 1376 (1997/98)–1390 (2011/12) (see Table 2.2). The state-owned firms, originally few in number, almost disappeared. The number of middle-scale firms with 10–49 workers, however, fluctuated widely and therefore cannot be considered to have shown a constant trend toward decline. The number of workers peaked at 12 thousand in 1373 (1994/95) (Markaz-e Āmār-e Īrān 1998, 207), and then decreased rapidly to 5 thousand in 1379 (2000/01) (Markaz-e Āmār-e Īrān 2002, 256) (see Table 2.3). As the number of

¹¹The ratio of number of apparel-producing firms to all manufacturing firms was 12% in 1373 (1994/95) (Markaz-e Āmār-e Īrān 1998, 200), rising to 13% in 1381 (2002/03) (Markaz-e Āmār-e Īrān 2004, 259).

¹²For textile production excluding apparel, the trend can be grasped to a certain degree based on MAI data since in the fields of spinning or reeling, large-scale firms are the main actors.

Table 2.2 Change in number of apparel-producing firms by classified by number of workers 1998–2012

	1–9 workers	10–49 workers	50–99 workers	More than 100 workers
1376(1997/98)		376(1)	8(5)	10(9)
1377(1998/99)		380(2)	8(5)	6(5)
1378 (1999/2000)		127(1)	9(1)	7(2)
1379(2000/01)		109(2)	11(2)	7(1)
1380(2001/02)		119(2)	11(3)	8(1)
1381(2002/03)	58,538(0)	339(2)	18(1)	9(1)
1382(2003/04)		263(0)	21(0)	10(1)
1383(2004/05)		206(3)	15(0)	9(0)
1384(2005/06)		182(1)	13(0)	11(0)
1385(2006/07)		151(0)	10(1)	12(0)
1386(2007/08)		135(1)	16(1)	14(0)
1387(2008/09)		N.D	N.D	N.D
1388(2009/10)		133(1)	17(0)	17(0)
1389(2010/11)		116(0)	9(0)	22(0)
1390(2011/12)		103(1)	12(0)	16(0)

Note The figures in round brackets are the number of state-owned firms. *Source* Markaz-e Āmār-e Īrān (2000/01, 2001, 2002, 2003, 2004, 2005, 2006/07, 2007/08, 2008/09, 2011, 2012, 2013, 2014)

firms and workers in the entire apparel industry rose in this period, as mentioned earlier, it can be assumed that firm scale within the industry shrank in the latter half of the 1990s.

2.2.2 Apparel Production and Import Liberalization

Output (in real terms) from large-scale apparel firms remained on almost the same level in 1376 (1997/98)–1388 (2009/10) and increased after the end of 2000s, with an exceptional period occurring from the late 1990s until 2000, when output suddenly decreased by half (Markaz-e Āmār-e Īrān 1999, 2000/01, 2002, 2003, 2004, 2005, 2006/07, 2007/08, 2008/09, 2011, 2012, 2013, 2014). It can be observed that large-scale firms barely maintained a stable output level even as the number of firms and workers greatly decreased.

On the other hand, the proportion of apparel output (including that from small-scale firms) out of all manufacturing output dropped to about 1.4% in 1381 from 2.3% in 1373 (Markaz-e Āmār-e Īrān 2004, 273). The trend after this date is unknown at the moment.

Table 2.3 Change in number of workers in apparel-producing firms classified by number of workers 1995–2012

	1–9 workers	More than 10 workers
1373(1994/95)	85,862	12,734
1374(1995/96)		N.D
1375(1996/97)	77,287	10,209
1376(1997/98)		9066
1377(1998/99)		7546
1378(1999/2000)		5112
1379(2000/01)		5049
1380(2001/02)		5151
1381(2002/03)	117,955	8859
1382(2003/04)		8585
1383(2004/05)		7188
1384(2005/06)		6605
1385(2006/07)		6504
1386(2007/08)		7003
1387(2008/09)		N.D
1388(2009/10)		7973
1389(2010/11)		7856
1390(2011/12)		7366

Source Markaz-e Āmār-e Īrān (1998, 1999, 2000/01, 2001, 2002, 2003, 2004, 2005, 2006/07, 2007/08, 2008/09, 2011, 2012, 2013, 2014)

As already mentioned, the period between the end of 1990s and the beginning of 2000s saw the government's "liberalization" policies begin to influence the textile and apparel industries. The conventional control system regarding the import of raw materials was eased, and the goods that the domestic distributors brought in appeared on the market. In this sense, the business environment improved for apparel firms, who needed to procure foreign fabrics and accessories. Possibly due to the relatively better commodity supply and a domestic market exhibiting lively demand, the number of small-scale apparel firms swelled in this period.¹³

¹³Prior to liberalization, the Iran's import controls were enforced by an assortment of policies: foreign exchange allocation, introduction of "import permission items" by the Ministries of Commerce, Industry and Mines, and imposition of high duties (basic tariff plus commercial profit tax). Although the trade policy change was never explicitly announced, conditions relating to apparel imports were removed after 1380 (2001/02). At the same time, the tariff rate was reduced considerably from 200 to 90%. This was again reduced to 50% in 1383 (2004/05), but raised to 100% in 1385 (2006/07), where it has remained ever since (Directorate-General for Export-Import Regulations 2004, 2005, 2006; Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt-e Vezārat-e Bāzargānī 2000, 2003, 2004, 2005; Trade Promotion Organization of Iran, Directorate-General for Export-Import Regulations 2008; Sāzmān-e Touse'e-ye Tejārat-e Īrān, Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt 2011).

Nevertheless, although apparel products were hard to find in the domestic market because of severe import controls on final consumer goods import restrictions on these products were also substantially relaxed. The following chapters will fully examine influence of these relaxations on Iran's apparel production as a whole. The actual statistical data concerning the apparel trade are provided below. Iranian export of apparel products (in terms of volume) expanded constantly up to about 1382 (2003/04) and then gradually decreased until 1389 (2010/11), when it fell considerably (see Table 2.4). This exactly coincided with the tightening of economic sanctions toward Iran by Western countries. Furthermore, the output of large-scale apparel firms, who were the main exporters, remained level. Therefore, the drop in export was more attributable to restrictions in foreign trade other than to the domestic production environment.

Meanwhile, apparel imports surged in the same period (see Table 2.4). Iran's apparel imports were almost negligible in 1990s. But the data indicate that they swelled rapidly after 1382 (2003/04). The volume of imported apparel products in 1382 was approximately 11 times as much as that in 1381 (see Fig. 2.2). As mentioned previously, a huge quantity of foreign apparel goods (especially Chinese) poured into Iran in this period. The trade data figures substantiate this occurrence.

The import volume declined markedly in 1385 (2006/07), but increased again in 1387 (2008/09). Taken together, these findings indicate that compared to previous times, an enormous quantity of foreign apparel goods began to flow steadily into Iran after 1382.

Table 2.4 Change in volume of apparel export and import 1999–2013

	Export (ton)	Import (ton)
1377(1998/99)	3406	29
1378(1999/2000)	6307	1
1379(2000/01)	10,005	6
1380(2001/02)	12,896	14
1381(2002/03)	14,064	145
1382(2003/04)	16,815	1597
1383(2004/05)	12,033	5640
1384(2005/06)	12,592	6182
1385(2006/07)	10,825	975
1386(2007/08)	10,038	1270
1387(2008/09)	8589	1973
1388(2009/10)	11,581	2055
1389(2010/11)	6594	2432
1390(2011/12)	5054	2212
1391(2012/13)	5131	1771

Source Markaz-e Āmār-e Īrān (2000/01, 2001, 2002, 2003, 2004, 2005, 2006/07, 2007/08, 2008/09, 2011, 2012, 2013, 2014)

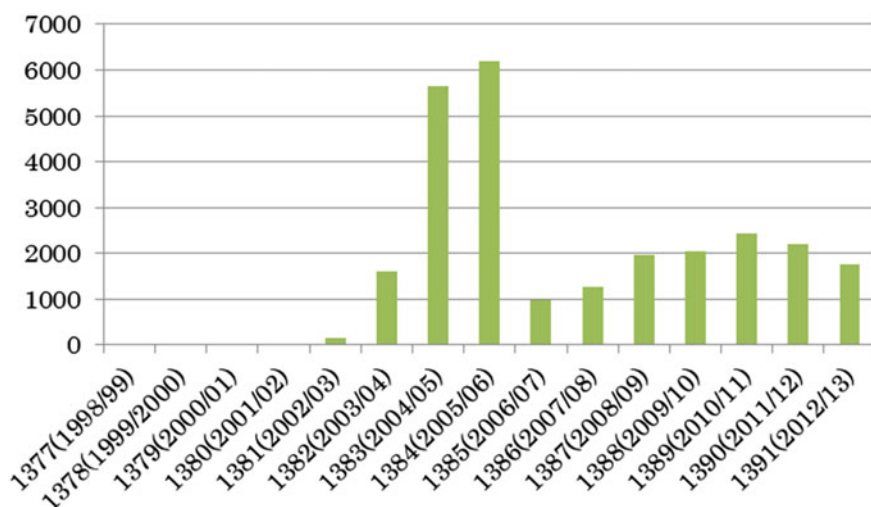


Fig. 2.2 Change in volume of apparel import (1999–2013). *Note* A unit of weight:ton. *Source* Markaz-e Āmār-e Īrān (2000/01–2014)

As stated above, the production and business environment for Iran's apparel industry, and for its parent, the textile industry, was never quite stable. In particular, the fact that the government's industrialization strategy was de facto abandoned owing to the rapid growth of oil income seriously hindered the textile industry's development, although it had been ranked as the national mainstay industry from the modernization era until oil nationalization as part of the strategy to realize import substitution. Moreover, restrictions on textile and apparel products were repeatedly imposed and relaxed according to changes in terms of trade caused by political circumstances. The fact that the apparel industry was given a role as a control valve for the country's balance of payments can be said to have exerted a great negative influence on the business management strategy of apparel firms, regardless of their scale. Meanwhile, strong demand backed by one of the biggest markets in the Middle East continuously attracted private investment.

Consequently, the industry was never absolutely destroyed despite repeated rises and falls, and thus was able to maintain a certain presence among Iran's manufacturing industries. It is rather noticeable that Iran's apparel industry has managed to supply products to the domestic market so far despite its minuteness in firm scale under the above-mentioned unstable business environment.

It is therefore necessary for an analysis of the performance of Iran's apparel industry to focus not only on the macro conditions and environment but also on the organizations within the industry, as mentioned at the beginning of this book. The following chapters will discuss the characteristics of Iran's apparel firms and their organization based on the author's fieldwork conducted in Tehran, the country's biggest apparel-producing center, mainly from the perspective of firms' tolerance of quite an unstable business environment.

References

- Benedick, R. E. (1964). *Industrial finance in Iran: A study of financial practice in an underdeveloped economy*. Boston: Harvard University.
- Bharier, J. (1971). *Economic development in Iran 1900–1970*. London: Oxford University Press.
- Directorate-General for Export-Import Regulations. (2004). *Export-Import Regulation Act 2004–2005*. Tehran.
- Directorate-General for Export-Import Regulations. (2005). *Export-Import Regulation Act 2005–2006*. Tehran.
- Directorate-General for Export-Import Regulations. (2006). *Export-Import Regulation Act 2006–2007*. Tehran.
- Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt-e Vezārat-e Bāzargānī. (2000). *Moqarrarāt-e Sāderāt o Vāredāt va Jadāvel-e Zamīme-ye Ān, 1379 (Export-Import Regulations)*. Tehrān.
- Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt-e Vezārat-e Bāzargānī (2003) *Moqarrarāt-e Sāderāt o Vāredāt va Jadāvel-e Zamīme-ye Ān, Sāl-e 1382 (Export-Import Regulations)*. Tehrān.
- Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt-e Vezārat-e Bāzargānī. (2004). *Moqarrarāt-e Sāderāt o Vāredāt va Jadāvel-e Zamīme-ye Ān, Sāl-e 1383 (Export-Import Regulations)*. Tehrān.
- Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt-e Vezārat-e Bāzargānī. (2005). *Moqarrarāt-e Sāderāt o Vāredāt va Jadāvel-e Zamīme-ye Ān, Sāl-e 1384 (Export-Import Regulations)*. Tehrān.
- Gotō, A. (2000). Iran ni okeru Kokumin keizai no Keisei: Taisen-kanki no Mondai (Iranian Economy between Two World Wars). *Iran Kokumin Keizai no Dainamizumu (The Dynamism of Iranian National Economy)* (pp. 3–39). Chiba: Institute of Developing Economies.
- Issawi, Ch. (Ed.). (1971). *The economic history of Iran 1800–1914*. Chicago: The University of Chicago Press.
- Issawi, Ch. (1982). *An economic history of the Middle East and North Africa*. London: Methuen.
- Iwasaki, Y. (1993). Iran Sen'i Sangyō Gaikan: Jūkyū Seiki shotō kara Isuramu Kakumei made no Rekishiteki Hatten. (A Historical Survey on the in Iran). *Gendai no Chūtō (The Contemporary Middle East)*, 15, 61–75.
- Iwasaki, Y. (2000). Iran no Seisan Soshiki to Ryūtsū kikō: Teheran Apareru Sangyō no Jirei. (The System of Production and Distribution in Iran: A Case Study of the Apparel Industry in Tehran). *Iran Kokumin Keizai no Dainamizumu. (The Dynamism of Iranian National Economy)* (pp. 93–129). Chiba: Institute of Developing Economies.
- Markaz-e Āmār-e Īrān. (1983). *Sāl-nāme-ye Āmārī 1360 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1984). *Sāl-nāme-ye Āmārī 1361 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1985). *Sāl-nāme-ye Āmārī 1362 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1986). *Sāl-nāme-ye Āmārī 1363 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1987). *Sāl-nāme-ye Āmārī 1364 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1988). *Sāl-nāme-ye Āmārī 1365 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1998). *Sāl-nāme-ye Āmārī-ye Keshvar 1375 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (1999). *Sāl-nāme-ye Āmārī-ye Keshvar 1376 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2000/01). *Sāl-nāme-ye Āmārī-ye Keshvar 1378 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2001). *Sāl-nāme-ye Āmārī-ye Keshvar 1379 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2002). *Sāl-nāme-ye Āmārī-ye Keshvar 1380 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2003). *Sāl-nāme-ye Āmārī-ye Keshvar 1381 (Iran Statistical Yearbook)*, Tehrān.

- Markaz-e Āmār-e Īrān. (2004). *Sāl-nāme-ye Āmārī-ye Keshvar 1382 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2005). *Sāl-nāme-ye Āmārī-ye Keshvar 1383 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2006/07). *Sāl-nāme-ye Āmārī-ye Keshvar 1384 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2007/08). *Sāl-nāme-ye Āmārī-ye Keshvar 1385 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2008/09). *Sāl-nāme-ye Āmārī-ye Keshvar 1386 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2011). *Sāl-nāme-ye Āmārī-ye Keshvar 1388 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2012). *Sāl-nāme-ye Āmārī-ye Keshvar 1389 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2013). *Sāl-nāme-ye Āmārī-ye Keshvar 1390 (Iran Statistical Yearbook)*, Tehrān.
- Markaz-e Āmār-e Īrān. (2014). *Sāl-nāme-ye Āmārī-ye Keshvar 1391 (Iran Statistical Yearbook)*, Tehrān.
- Ministry of Industry and Mines. (1976). *Iranian Industrial Statistics 1972*. Tehran.
- Ministry of Interior. (1964). *Industrial census of Iran 1963: Manufacture of textile in Urban Areas*. Tehran: The Plan Organization.
- Rabizadeh, M. M. (1975). (Trans. from Russian by Kato, K.). *Nijisseiki Sanjū Nendai no Iran Kōgyō ni okeru Shihonshugiteki Kigyō no Hatten. (The development of capitalistic enterprises of Iran in 1930s)*. Tokyo: Institute of Developing Economies.
- Rūz-nāme-ye Rasmī-ye Jomhūrī-ye Eslāmī-ye Īrān. (2009). *Majmū'e-ye Qavānīn va Moqarrarāt-e Sāl-hā-ye 1300–1312 Bakhsh-e Avval (Collections of Laws and Regulations)*. Tehrān.
- Sāzmān-e Touse'e-ye Tejārat-e Īrān, Edāre-ye Koll-e Moqarrarāt-e Sāderāt o Vāredāt. (2011). *Moqarrarāt-e Sāderāt o Vāredāt-e Sāl-e 90 (Export-Import Regulations)*. Tehrān.
- Trade Promotion Organization of Iran, Directorate-General for Export-Import Regulations. (2008). *Export-Import Regulation Act 2008–2009*. Tehran.
- United Nations. (1953). *Yearbook of International Trade Statistics 1952*. New York: The Statistical Office of the United Nations.
- United Nations. (1965). *Yearbook of International Trade Statistics 1963*. New York: The Statistical Office of the United Nations.
- United Nations. (1967). *Yearbook of International Trade Statistics 1965*. New York: The Statistical Office of the United Nations.
- United Nations. (1969). *Yearbook of International Trade Statistics 1967*. New York: The Statistical Office of the United Nations.
- United Nations. (1974). *Yearbook of International Trade Statistics 1972–73*. New York: The Statistical Office of the United Nations.
- United Nations. (1975). *The Growth of World Industry 1973 Edition (Vol. I)*. New York: The Statistical Office of the United Nations.
- United Nations. (1978). *Yearbook of International Trade Statistics 1977*. New York: The Statistical Office of the United Nations.
- United Nations. (1982). *Yearbook of International Trade Statistics 1981*. New York: The Statistical Office of the United Nations.

Industrial Organization in Iran

The Weakly Organized System of the Iranian Apparel Industry

Iwasaki, Y.

2017, XI, 102 p. 24 illus., 21 illus. in color., Softcover

ISBN: 978-981-10-4578-3