

ECONOMIC MECHANISMS FOR THE SUSTAINABLE DEVELOPMENT OF INDUSTRY OF ISLAMIC REPUBLIC OF IRAN IN MARKET ECONOMY CONDITIONS

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ABSTRACT

One of the most important economic sectors in each country, which in turn serves as a basis for sustainable development of the national economy is industry. Iranian contemporary economists and industry experts are trying to access a balance relationship between production and gross domestic product ratio, its status and supporting it, national use, foreign income, foreign exchange, and the ratio between imports and exports. Their purpose is to coordinate industrial development, to support domestic production and to achieve stable national stable economy. The reality is that economic development is one of the most critical moments of economic presence of Iran in the international community. This factor is more important even due to this fact that during previous years, industries of Islamic Republic of Iran faced many ups and downs of downturn. In this way probably because of the global economic crisis, that reduced the number of major corporations as well as production of goods and serviced, had influenced on Iranian economy as well, and has reduced the industry share of Iran from the entire industries all over the world. Industry has a special position in modern economy of Iran. Thus, in the current situation of development, industrial policy not only created conditions for the development of the industry, but also should maintain production capacity and employment in the manufacturing sector.

Keywords: *Sustainable Development, Gross Domestic Product, Economic Stability, Economic Development*

INTRODUCTION

Industry is one of the most sectors of every country. It is evaluated by the financial support in this paper of sustainable development, which in turn serves as a basis for sustainable development of the national economy. Iranian contemporary economists and industry experts are trying to access a balance relationship between production and gross domestic product ratio, its status and supporting it, national use, foreign income, foreign exchange, and the ratio between imports and exports. Their purpose is to coordinate industrial development, to support domestic production and to achieve stable national stable economy. The reality is that economic development is one of the most critical moments of economic presence of Iran in the international community. This factor is more important even due to this fact that during previous years, industries of Islamic Republic of Iran faced many ups and downs of downturn. In this way probably because of the global economic crisis, that reduced the number of major corporations as well as production of goods and serviced, had influenced on Iranian economy as well, and has reduced the industry share of Iran from the entire industries all over the world (extraction of GDP) (Diewert, 1976). Industry has a special position in modern economy of Iran. Thus, in the current situation of development, industrial policy not only created conditions for the development of the industry, but also should maintain production capacity and employment in the manufacturing sector. Methodology basis of sustainable development of industry in Iran are discussed more widely in the media, publications, national and international conferences. In order to resolve this issue, the major economic society was assigned to world summit in the early twenty-first century. However, it should be noted that there is no unique single concept of "sustainable development". This situation can be explained by the fact that the issue is not yet

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clear. In our opinion, sustainable development can be explained in two levels: national and philosophical (Kumbhakar and Heshmati, 1996).

The philosophical assumption of sustainable development is derived from scientific works of the classical economists. Sustainable development of social and economic systems have become such scientific positions as evolutionary economics, sustainable development structure, catastrophe theory, cybernetics, information, and economic cycles theory. Scientists and experts of various scientific positions interpret the concept of sustainable development differently. The concept of "growth" refers to a process, because under this definition, understanding the dynamics can be understood in terms of a positive trend. The concept of "sustainable" makes the meaning of stability and balance beneficial. Training and studying various scientific opinions about the compliance of the English term of "sustainable development" means sustainable development generates a lot of controversy in Russian and other languages. The author believes that the term "sustainable" cannot be translated as "stable", because in Persian language it means "motionless" and "non-active". There is also another opinion that the words "stability and growth" contradict one another, i.e. growth cannot be sustained, so it's necessary that one of them stop either growth or stability. But from the philosophical point of view, growth is defined as the random mode of motion (Baltagi & Griffin, 1988). In recent years the concept of "sustainable development" has been interpreted in the following three aspects: environmental, economic, and social. Classifying the last two aspects of this concept is very difficult. Unfortunately, over the past three decades, no results succeeded to maintain the environment. Until now, the accumulation process of biological waste and greenhouse gas emissions into the atmosphere and reduction of biological activity of forest ecosystems continue. Human development in the last decade certifies that scientific economic and technical achievement is still not enough to ensure environmental sustainability (Kavoosi et al, 2010).

A number of scientists know the concept of sustainable development as speeding national wealth to supply the quality of life that was responsive to the demands of international standards and were volume index of output consumption levels, income level of the population, utilization level and features of develop and implement constructive (creative) ability, and conserving and regenerating natural habitats. The author believed these measures would help to gradual development of the economy, raising living standards, and dealing with poverty. One of the most important aspects of sustainable economic development is to supply healthy competition of imports substituting industrial production in the economic development conditions of Islamic Republic of Iran. The solution of this problem needs to search for domestic and foreign sources in order to restructure the industrial institutions, by attracting modern technologies, marketing, search for ways to improve the quality, customs clearance level of import. Production and substituting import and export-oriented products provide the possibility to achieve the highest economic benefits, including the balance of imports and exports of industrial goods. However, executing implementation mechanisms for effective economic development policies and competitive imports is poor in Iran (Capalbo, 1988).

The solution to this problem can be obtained by producing commercial and governmental programs of imports and competitive goods production.

- Securing sustainable economic development state of industrial companies that will support national economy;
- Establishing infrastructures of industrial development and organizing;
- Raising people's welfare.

In Iran, there are objective preconditions for solving the above problems. Iran's strategic objectives determine the necessary to pass from reduction policies to improve economic policy, effective resistance to internal and external threats of economic security. Therefore, it is necessary to mention that it is necessary as a major threat to the economy to:

1. Increasingly develop the economic structures;
2. Reduce investment activity and scientific and technology destruction;
3. Increase dependency;

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4. Rise foreign currency reserves;
5. Increase community distinction from personal property;
6. Increase in external debt;
7. Economic relationships, etc.

Unfortunately, we can admit that almost all of the above threats exist in the economy of Iran. Analyzing the external and internal threats to economic security of government shows that the main external threats are as follow:

- Increase in external debt;
- Exports of raw materials, mining, and agriculture sectors;
- Export exchange and national strategic resources;
- Inefficient use of revenue from their sales;

And internal threats are as follow:

- Incomplete development of modern financial, organizational and informational infrastructure;
- Lack of government support for exports.

It should be noted that foreign debts affect relatively on national economic security, which is related to international politics and government facilities to implement foreign policies. Economic security strategy is possible to shift into a political mechanism of action only when security and sustainable development become evident in different sectors and are resolved at different levels (Kumbhakar et al, 2000). In this regard while assessing economy of Iran, searching for ways out of crisis, and achieving positive trends in sustainable development, we shouldn't restrict ourselves to the study of macroeconomic factors.

In economic literature, much attention is given to Iran in order to search for sustainable development of corporate. Yet there are no comprehensive mechanisms that enable corporate executives to make serious desiccations in order to assess the stability of companies' activities while solving problems or external structure (banks, government officials and others). Unfortunately, in inner experience a method is used that still evaluating the stability of companies is incomplete and inconsistent. According to the author financial analysis methods are relatively acceptable, because all are easily accessible and different from their population. Studying a certain branch of literature is an evident on the existence of different methods to detect and prevent bankruptcy (Capalbo, 1988).

One of the key factors which will affect the company's revenue is price. These changes can occur in both used prices by reserves winning companies and selling price of the products. Prices can be changed, both as a result of the influence of external factors, such as inflation, and as a result of matching internal resource management policies, price changes for resources are associated with price changes for products that are produced based on these resources. Thus, the research process of stability of the company consists of the following steps:

- Selected symmetric measure of production plan for price changes of resources;
- Approved review of production plan to price changes of the product;
- Uniting the accepted decisions due to limitations.

The production problem is this dependency of the total production volume of production factors' volume. It is possible that the balance between the resources consistent with available technologies be selected for better application of them. Unfortunately, this method is not used in domestic enterprises, and there is no implementation mechanism for it. Acute social and economic status accelerated the situation of domestic industrial companies. The problems of economic recession, economic relations gap, the need to search for new independent partners, and new markets were added to other problems due to such business events. In general, corporate located in administrative centers of country suffered hard. Social and economic instability, lack of experience in proper decisions and management skills of corporate leaders to achieve short-term goals don't help company to get rid of the crisis. In market conditions, scope and significance of the problems depended on effective activity of company are very broad. Accordingly, the risk of losing balance and stability increases. Thus, in this condition financial stability assessment of the company becomes of important properties. Financial stability of the company, which depends on the result of its

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activity, reflects especial influence of industrial production, market structure, government regulation policies, and pricing strategy and investment policies of corporate executives (Kumbhakar, 2004).

Car market performance in Islamic Republic of Iran in past and present

Taxes, subsidies, price, and anti-monopoly competition policy such as governmental regulation actions directly affect the company's revenue volume. The objective evaluation results of financial situation affect the stability of financial system which is used in company. Index of company's financial status reflects distribution and use of funds. Determining the competitiveness of a company's financial situation is its ability to collaborate with other companies. Financial stability situation forms during operation process of the company. Financial performance should answer to the questions of partner of companies on trusting cooperation and continuing it in the future. Any interested person (we mean partners who have agreements and contracts with corporate, shareholders, banks, and tax authorities) has economic knowledge, so there should be situation indices for various aspects. The company can accommodate its economic interests based on creating mutually beneficial relationships with partners. The method of assessing financial situation that forms the financial basis of the company and nowadays is used in action, modern properties of national economy, and company's outdoor such as equities and commodities are not taken into account. Evaluating financial situation of the company and its analysis are not equivalent. The analysis of evaluating financial situation makes the context. Each learning assessment suggests a index that is a result of analysis. For example:

- Factors affecting some measurements;
- Necessary measurements to predict indicators and methods to achieve them;
- Interdependence of financial situation, proper financing of the company.

Objective and accurate financial assessment of companies will get a special meaning in terms of being non-payment and passing bankruptcy process compared to large number of companies. The main criteria for evaluating the financial condition are related to the indicators of being payable and financial stability. Being payable is calculated by three factors: liquidity ratios, the average coverage, and total coverage coefficient (or average current liquidity ratio). All three indicators determine the appropriate assets to short term commitments. First factor of net assets includes short-term investments, received accounts are added to the second factor, and resources are added to the third factor. The mentioned index is used the same as formal criteria for determining playability of the company (Diewert, 1981).

Modes and methods of associating Iran industry management

We discuss dynamics of state budget compared to indicators, i.e. as percentage to gross domestic production. These statistics allow us to analyze the changes taking place in national economy of Iran.

The state budget of Iran (percent of GDP)

indicators	years				
	2004	2005	2006	2007	2008
Revenues	11.2	12.2	10.3	11.7	10.8
tax on excise (VAT)	2.1	1.9	1.3	1.8	2.3
Income tax	3.3	2.9	2.4	1.9	1.1
Land tax	0.9	0.8	0.6	0.7	0.5
Population tax	0.8	0.9	1.2	1.5	1.3
VAT	1.6	1.8	1.9	2.1	2.2
Revenues from foreign economic activities	2.5	2.8	2.9	3.2	3.4
Costs	5.8	6.2	6.4	5.9	5.7
Economical, , social events, cultural and scientific sectors	5.8	6.2	6.4	5.9	5.7

Source: National Statistical Agency of Iran from 2004 to 2008

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As seen from the figures above, the contribution of income tax, land tax and population have not been changed, which suggest not implementing the government plan for poverty reduction that had been approved. It is obvious that a much part of budget money returns to economic institutions and this capital would be paid for basic construction, infrastructure development, increasing wages. Budget can affect productivity from two sides:

First, with the help of the budget the financial and material resources are divided again;

Second, budget preparation motivates financial resources fraction of their economic benefits to increase net income. When a large amount of money in the budget is removed, the dependency of financial situation in the company and the motivation of employees would be reinforced from the results of economic activity.

Current situation of Iran's industry: Causes of the crisis and development trend

Industry usually acts as a solver in social and economic development of each country, and its level of development depends on the degree of growth or retardation of the manufacturers in the society. Since the early 20th century Iran chose active use of capital and foreign experience. Despite sanctions against Iran and reducing foreign capital flow, foreign direct investment still continues to investment process, and in 2008 total amount of accumulated foreign direct investment was nearly \$ 7 billion (Kavoosi et al, 2010).

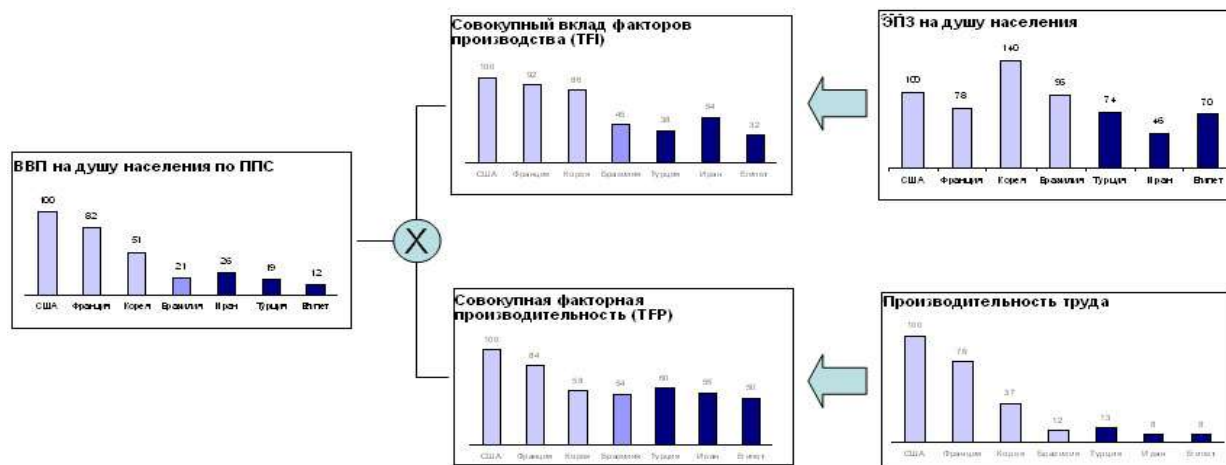
Revival of king rule was done with difficulty about attraction of foreign investment, the relatively better law on attraction of foreign investment was approved just in 2002, two years after sharp debates in the Parliament. It limited much of foreign activities of the company, but the desire to use is often obvious from attracting foreign investment. Iran rejected the general government, and participates actively in International Partnership for goods and services. Its direct investment in foreign countries in 2008 is nearly \$ 1 billion, and the total foreign trade turnover is more than 183 billion dollars, while exports form over \$ 114.6 billion (Kumbhakar, 2004). The rapid development in a number of new industrial countries in South Asia was obtained by promoting the development of new economic sectors and financial and loan operating policies. It should be emphasized that in today's economic conditions absorbing foreign investment and proper financial and loan policies would help economic development. Economic development of Iran in recent years is at first related to external factors. Oil exports for Iran is without a doubt the main source of GDP growth in 1 to 10 past years. High oil prices made it possible for Iran and other oil-producing countries to gather large currency reserves. Fund formation mechanism is very simple: in terms of increasing the budget indices from the provision of "revenues from oil exports" extra income s transferred to the fund. Therefore, the assets of Iran's oil stabilization fund in 2006 became \$ 16 billion-fold. As a result, the median annual rate of gross investment and fixed capital reached 7% from 1998 to 2006. In addition, based on the Cobb-Douglas model, we separated the major components of rate of GDP for each person: Cumulative contribution of the factors of production (i.e. amount of labor and capital in the production process) and the share of production factors (i.e. volume labor and capital in the production process) and productivity total factors (i.e. labor and capital productivity): proportionally labor productivity and intensity of capital production. The research showed that Iran is retarded from developed countries and from the standpoint of efficient use of resources: total factor production remains at low levels (Figure 1). Despite the relative predictions and conclusions presented, we understand the existing restrictions that use Cobb-Douglas production function. Before all these problems, they depend on selecting weights of work and economic growth factors. In our model, the capital weight is equal to 0.45 (the average weight of capital is 0.33 for USA and 0.60 for Iran). Based on such method another assumption is suggested that the recent investment will affect the dynamics of GDP.

Now, as the research indicated, the main factor explaining the low level of TFI (factors of production contribution), is low level of using human resources in production. International labor organization uses the FTE term (full tantamount of employment) in order to calculate the real share of human resources in producing products. In the suggested plan it may be stated that Iran is 50% retarded from USA. According to FTE index, we observed that significant contribution of the population in Iran is totally

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matched to developed countries. It is important to understand that our figures do not include employment in informal economic sectors, which consist 20-30% from different assessments. In informal sectors those companies are included that escape from employing the workers due to different reasons. For example, in Iran there are always intents restrictions to fire the staff, so many companies are not profitable to hire staff, hence it is easier to give informal employment relation. If we enter housewife sector to the concept of informal sector of employed people, the share of informal sector reaches nearly 40-50%. This approach is quite fair to Iran, where housewives form a great part of female population (Kumbhakar et al, 2000).

Fig 1. Cumulative contribution of total factor productivity and production growth such as levers of GDP for each person in 1990s.



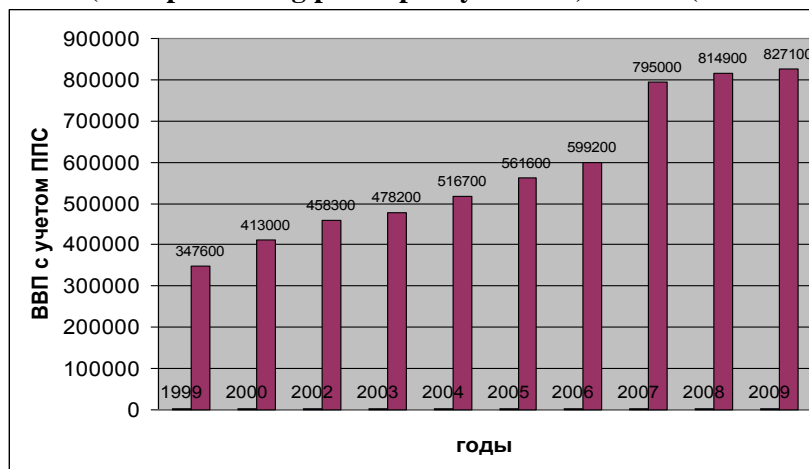
Sources: Online World Development Indicators (Electronic database in March 2008); International Comparison Program, 2005, ILO, LABORSTA, McKinsey Global Institute, analysis of lines writer.

Figure description:

1. It is established based on Cobb-Douglas function with capital share of 0.45 (average geometric weight between 0.33 for USA and 0.60 for Iran).
2. This method is taken from McKinsey research.
3. All required figures of the index were considered as 100 for America (2005).
4. GNP is measured for each person according to FTE criteria in 2005.
5. FTE - full tantamount of employment

Another important indicator of economic development of Iran is purchasing power parity (PPP) of GDP.

Fig 2. GDP (from purchasing power parity of GDP) of Iran (million dollars)



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The above figure shows GDP considering purchasing power parity of Iran, which is still observed in positive trends of industry structure in the development of some industries, particularly automobiles (Table 2).

Table 2. the dynamic structures of Iran's industry (%)

	All industry sectors	2005	2006	2007	2008	2009
1	Electricity	18.1	17.5	16.9	18.6	18.1
2	Fuel	2.3	2.3	2.3	2.3	2.3
3	Colorful iron production sector	47.4	45.2	49	45.7	46.1
4	Chemistry and petrochemistry	2	1.8	2.2	2.8	3.1
5	Machine-building and metal processing	9.8	9.7	10.1	11.2	12.1
6	Wood and Woodworking	2.5	2.7	2.9	2.5	2.1
7	Glass and Porcelain	0.4	0.5	0.6	0.7	0.8
8	Production of construction materials	3.7	4	4.2	4.3	4.5
9	style	5.7	6.1	6.2	6.4	6.7
10	food	8.10	10.30	5.6	5.5	4.2
	sum	100	100	100	100	100

Source: National Statistical Agency of Iran from 2005 to 2009

As the figures in the above table show, the auto industry [machine-building] is in good condition. In fact, the auto industry in the past few years not far ago competed with total fuel and energy, but currently has been without government support and not attractive enough for private investors. It is hoped that with the development of our national economy and stabilizing the political situation in Central Asia, particularly in Afghanistan, demands for auto industry products of Iran would increase and motivate its development. Therefore, it's necessary for determining the goals and vision of economic development of Iran to divide the social and economic problems of the country during the past 25-30 years into two groups, which contradict each other:

1. Solving problems that allow to reform economics using economic levers and achieving minimum level of economic development.
2. Solving economic problems considering more complex mechanisms for the economy.

The first group of social problems depends on:

- Health systems development and food supply that are not only necessary for the humans, but to improve the performance;
- Improving education system, which should address to decentralization of secondary schools and other educational institutions, based on advanced technological achievements, financial and industrial activity, etc;
- Effective use of resources, as in many parts of the country labor forces are not used, and even a small part belongs to work of supplied to hidden unemployment.

The second group of problems is related to the necessity of rapid economic development. The figures in official statistics hide the real modes in workplaces. The slow pace of industry development except inflation shades on official figures. In these cases, problems that are different from the first group emerge and join to problems that accelerate economic development.

One of the major problems of this group is the early change of government policies in the area of enterprise development and client, rated debt, tax policies, which should help to increase the production capacity of the companies. Obviously, foundation of any economic reforms is the existence of different forms of organizational management. Monopoly is one of the forms of ownership that makes it difficult to

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adapt actions to transits with respect to new market economy. Hence there is a point in favor of which market relationship transits and one of the forms of ownership during performance becomes possible.

The development of industrial space for constructing companies is in the form of common small companies, in which the small companies should be active. These companies helped the allocation of new materials and technology, so industrial cooperation would spread. In addition, small companies which are specialized and restricted in producing goods, provides the proper opportunity for development.

Since the creation of favorable conditions in the economy and transition to sustainable development, it is needed to solve the following problems:

- Absorbing necessary work resources;
- Accelerating industrial and simultaneous development of prospects for industrial development and realization of industrial method and technology in all sectors of the economy, especially in industrial production;
- Implementation of fundamental structural changes by the aim of forming industrial developed economy space.

After studying the history of industrial development of Iran in past 30-40 years we concluded that one of the major and significant ways to economic development of the accelerating process was industrial development. Industrialization of the economy of Iran consists of several stages.

The first stage relates to the development of agriculture sector. In this stage of development, horticulture and grape farming was a serious shock to the food industry. For many years food industry gained the first position in industrial structure of Iran. In terms of economy reforms forming structure of industrial production has a special role, because progress in this direction will describe the economy situation and is important in increasing agent productivity.

Characteristics and features of economy structure of country are determined based on production relations. Industry in material production structure of Iran and its contribution to GDP and national income took the first place. It constituted 56.4% of industry share in GDP and one third of the nation's income in 2008. In general, the Islamic government actually uses the mechanisms underlying economic model, which are implemented in most countries. However, compared with many countries government has a great contribution in economy of Iran. In 2008 the share of public sector in GDP was 21.2, which was 33% in gross fixed capital formation. Based on estimation of "Doing business" (terms of trade), in 2008 Iran ranked 137 among 183 countries in the world, slightly behind Russia (120) and slightly after Uzbekistan and Tajikistan (Kavoosi et al, 2010). In 2002 the volume of industrial production in GDP declined to 20%, and it formed 40% in 2008. Increasing the share of industry in the national economy has played a major role in its own time. On the one hand, it helps the economy to industrial development and on the other hand, the efficiency of industrial production has increased in comparison to other industries.

It should be noted that today there has been a rapid decline in the volume of consumer goods. Reducing the turnover during the increase of retail price has brought poverty to society. Therefore if the structural changes to improve people's welfare have been made recently, it would be related to people's survival. All is about that industrial policy reforms should solve the task of convincing the priority needs of population (food, shelter, medicine, etc.), to provide employment and social stability, and to increase investment activities.

Therefore, the solution to the problems in the Islamic Republic of Iran should consider the prospect of the following structural reforms:

- Development of agro-industry, food and style;
- Supply the population with food;
- Industrial supply with agricultural raw materials;
- Effective use of human resources;
- Solution of constructing new roads, that should refer to development of road infrastructure (linking industrial centers, agricultural areas, places of raw material extraction and residential areas);

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- Development of fuel-energy complex considering production industry and social sectors, such as long-term complex with electricity, fuel and raw materials. Structural policy implementation demands a complete change from management system. It should help a set of direct and indirect measures of state laws regulating.

The direct influence of government on development of sectors' prospects should be from the following policies:

- Developing budget financing cycle for future considering the formation of branch financial programs, which until today have lost their actuality.
- Enforcement actions of government pricing regulations, which helps to reduce the monopoly impacts on the economy.

As the indirect methods show the regulating industry developments for future, in our opinion they should include policies in context of taxes and borrowing as well as custom policies.

It should be stated that solving these problems would help to moderate the economy and the social and political situation of Iran and thus further development of the economy.

Economic crisis in the industry of Iran and the ways to solve it

Today, most companies use only 20-30% of their capacity and their recoverable products will not be sold. Most companies, especially the processing of agricultural products and mining companies are able to produce competitive products. However, they also need a lot of things: modern equipment and recruit specialized workers. One of the main reasons for the economic decline from 2002 to 2008 was the deep crisis in the public finances. In fact, the budget revenues decreased due to decline in traditional sources of tax especially decline of proceeds from the sale, increase of levy funds related to immediate supply in military area and the need for financing social benefits. But it should be emphasized that in the first year after the war budget size increased that caused inflation.

Market mechanism is a special tool for stimulating economy of Iran and it will make the economic reforms beneficial. In terms of market condition the profit or revenue of investors would stimulate economic growth. Analyzing the current state of the industry of Iran, we recommend that functioning national industrial restructuring plan should be accelerated. This plan should not be based on the existing capital stock and human capacity, but should consider contemporary trends in the economy of developed industrial countries of the world. In this regard, we support the development program of Iran accepted by government until 2020, it is mentioned in it that forming accelerating contexts for economic development is necessary to reform the national industry. These conditions include:

- Provision of high-speed economic development;
- Forming new developing market relations,
- Completion of production and social systems;
- Providing optimal balance between savings and consumption;
- The evolution of product quality and enhancement of their competitiveness;
- Raising the income level of the community based on providing employment for them.

It should be emphasized that the above statements require large investments, conducting broad market research in domestic and international markets of the consumer (Diewert, 1981).

Situation and ways to complete investment policies in industry of Iran

Regulating governmental investment activities and providing effective market mechanisms, which is recognized in all countries as stimulus of investment activity regardless of their level of economic relation development, are necessary. In periods of economic crisis and developing new economic relations, regulating macroeconomic governmental processes, searching for its scale of impact on national economy, and providing management mechanisms are very important. Therefore, the role of governmental investment policy is investment in stimulating activities and helping economic tools in order to create favorable investment climate in the country.

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Investment policy of Iran similar to economy market of a developed country in recent years reflects search and implementation of market structure and technological change to meet the new emerging demands of the society. It is prescribed that the most important feature of capital accumulation in Iran relies in the fact that adoption and implementation of investment decisions should be institutionalized on a non-funding (private) and re-circulating basis. The fact which interferes taking advantage of developed countries experiences, and is imperative for the Islamic Republic of Iran, is that while modeling performance of the investment to predict investment processes in industry, special features of Iran's industry must be considered. Investment policies of the Islamic Republic of Iran in the circle of public investment programs are analyzed for 2000-2010 and in recent years have had distinctive features. The changes of government policies have been reflected in investment in government programs (PIP 2000-2013):

- a) Speeding up the national economic growth;
- b) Evaluating investment processes in relation and interdependence with all social and economic trends and events in the country.

The primary task of macroeconomic is investment process management in Iran in market conditions and adjusting total amount of private investment, which are done by monetary, tax and amortization policies, but actually not enough attention is paid to it.

Investment resources determine economic development level, its self-efficacy and efficiency of used resources. The foreign capital flow in Iran remains less in upgrading structural and qualitative industrial production. It means the current situation in Iran actually undermined investment process at both macro and micro levels. Formation of favorable investment climate is one of the key challenges for the future prosperity of Iran. Investment climate in any country is described by legal, political, institutional, economic, financial, natural, geographical and other forms of factors that would help investment or have a negative effect on it. Investment policy studies and adjusting investment activity systems of foreign countries have shown that it is impossible to use the experience of adjusting investment processes in countries where economy market flow without serious normalization of economic relations.

Hence, there is a need to resolve the following issues:

- Absorbing capital to the industry;
- Basic establishment and development of national investment in the form of government system and private companies and nurseries for financial plans of establishing economy; make joint-stock banks responsible in order to do so;
- Establishing governmental regulation of internal economy in the basis of using design and plan.

Experience of developed countries with an economic market shows that creating monetary policies is to get rid of capital crisis and solving problems that help development of private enterprise and enabling investment activities of national economy sectors.

Therefore in different steps of the circuit of main assets, the unique mechanism for economic management should be established with continuing trend of investment, which is understood as the transformation of investment in national income growth. Obviously, the passed state tax policy should firstly have stimulated the investment on development, modernization of production and innovation equipment, and industrial investment, because only in this way it is possible to increase the consumption growth and social sector development. In order to absorb investment reserves in governmental industrial sector to improve tax, specific actions should be considered. It is generally necessary in forming market environment in investment context that Institutional design issues of investment activities and the economic pricing mechanism for investment resources should be solved. Financing investment projects in economic reform condition habitually absorb common capitals from different resources. Therefore, the departments of project investments draw the attention of many economists both in countries with economic market and economically reforming countries. Especially by its help it is possible to set all of the investment management processes. Providing mechanisms and methods, which allow financing the

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investment processes, is one of the most important sides in problem solving of using internal and external sources effectively.

1. Deep evaluation on effectiveness of investment projects and the study of economic feasibility using internal and external methods. Establishing scientific and practical method to determine investment projects is one of the key problems in promoting the use of industrial, energy and labor resources.
2. Preparing new governmental regulating investment plan:
 - a) Thinking of specific investment policies;
 - b) Function of investment priorities.
3. While designing and developing investment projects it is important to select a proper financial model for investment projects, i.e. making a desirable scheme to finance projects. A good example of it is shown clearly by selecting a proper structure to financially supply the investment projects using financial leverage methods. In fact, the appropriate structure of project capital is a mechanism for managing financing investment projects.

Development of securities markets, along with a banking system, is a fund absorbing mechanism for investment. Only when the stock market or stocks for individuals are absorbed, it would become an effective mechanism of capital flow from financial sector in production. The same underlying problem needs the civilized market be established. With this purpose it is essential that financial reforms be passed in the following directions:

- Necessary reinforcing of banking regulations and deep regulating of securities market, if possible;
- Along with reinforcing banking regulations it is essential that decisions be made about reducing demand for foreign borrowing in the short-term and fluctuations in the volume;
- The facilities to reinforce the international cooperation in preparation and d implementation of tax, budget, money, loan and currency policies should be considered;
- Foreign investment in long-term should set the policies ensuring a healthy economic environment such as investing for human capital, creating work conditions for the domestic markets, supporting the strong regime to protect rights and implementing the commitments of investors;
- Cope with reducing investment based upon reviving activation of all economic institutions.

The problem of foreign direct investment and private capital flows should be examined from the point of view of "globalization" of the financial system. It is clear that foreign capital inflows bring substantial economic benefits to all parties. Foreign investors prorate their risks outside the domestic market, and try to access to opportunities for profit in the world. Recipient countries also benefit from capital flows. First of all it increases the level of capital investment flow. When talking about direct foreign investment, capital flows are often transferring experience of training plan managements of experts and improving important relationships with suppliers and international markets that lead to achieving new technologies. However, international capital flows, especially short-term non-steady investment flows, would compromise the countries with economies in transition. Therefore, importing such capital for operating policies and institutions, which consider achieving balance as a principle and accelerating capital flows into the incoming country should be consistent with the interests of the countries in transition, not to undermine their economies.

The economic policies to transit financial reforms should be carried out. As mentioned above, in the context of the overall macroeconomic reform, one of the tasks is to increase in the industry. In order to achieve this goal in Iran situation, it can be described as follows:

- a) Development of joint venture activity of government with large organization, investment banks, funds, insurance companies for mutual benefits and reducing risks of losing investors;
- b) Establishing a consortium of investors by investment and commercial banks, marketing data services, insurance companies, and those activities launched based on preferential tax and specifically aimed at real investment;

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- c) Establishing national banks, reconstruction and development in comparison with international banks. Accordingly, integrating corporate and government investment in order to expand investment and financing priority projects has priority and government can be the guarantor representing ministries;
- d) Establishing new resources for financing by organizing financial and industrial groups, and absorbing bank capital by company stock. Facilities of absorbing funds and concessional lending would be created in production;
- e) Cash from privatization that incur for state budget will have to be sent to revive industrial ability and should be used in financing new projects with high quality.

Important reference point for attracting foreign investors is inside investment. Before creating a favorable investment climate for foreign investors, the government needs to think about the internal potential investors. The government's aid is very important because in market trends, although partial, it can help private contractors to solve the problems of sustainable development of the industry.

In order to absorb foreign investments, comprehensive long-term systematic programs about forming a stable and favorable investment climate are necessary in country, including observing financial and payment system, creating appropriate taxation system, and system of state guarantees for foreign investors, providing credible information of investors. Thus, it should be noted that investment process of economic transition era is complex and likely to be poor, that needs persistent decision making in non-specific and venture condition (Kavoosi et al, 2010).

Conclusion

From author's point of view, it is necessary to activate the national monetary system to stabilize the economy and get rid of the crisis. It requires an accurate and effective implementation of the provisions of the state system. Similarly, positive change and predicting national economic developments causes the long-term development program of Iran for the years 2008-2020 lead to economy improvement and raising living standards of people. Based on this study the following conclusions are undertaken:

1. Despite the political instability in Iran in the last decades of the twentieth century, there was a recession in the country, such that there were international sanctions against Iran, imports limited investment in the economy of Iran. It had a negative impact on sustainable development of the economy of the Islamic Republic of Iran in the last twenty years.
2. By analyzing statistical data it became clear that the major factor of coping with economic crisis of Iran was after Iraq war and in years after the war it was taken to reform the uncertain economic situation.
3. Attracting domestic and foreign investment in economy and key sectors of the national economy;
4. Legislation on Free Economic Zone and absorbing foreign direct investment;
5. Implementation of social development of healthcare, education, efficient use of labor, private sector development, preferential credits, effective tax policies.
6. Analysis of Iranian economy situation shows that achieving sustainable economic development should be performed from machine building, energy and agriculture sectors. Hence it is necessary to improve the national infrastructure industries. To achieve these objectives, absorbing a wide range of foreign and domestic investment should be used.
7. Reducing dynamics of industrial production in the past had a negative impact on national economy developing including industrial production.
8. This study concludes that government tried to maintain monopoly (in volume of 90-92%) in the key sectors of industry from 2010 to 1992.
9. It is necessary to use modern production to get out of economic isolation. the current economic policies of Iran during 2005-2010 led to a steady economic growth.

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10. In Iran's economy such preconditions were preferred in order to overcoming the economic downturn: accelerating growth of industrial production, increasing domestic and foreign investment volume, establishing new market relations.
11. Improving industrial relations and ensuring a balance between savings and consumption, improving the quality and competitiveness of products, increased levels of household income based on securing employment.
12. By analyzing the economic situation and the aim of supplying sustainable industrial development of Iran, we suggest that in order to create sustainable economic situations in companies and industries, the safety of the national economy, the formation of industrial and organizational infrastructures should be ensured for economic growth.
13. With the aim of providing sustainable economic and industrial development of Iran in this research, it is suggested that tax, financial and credit tools should be completed to provide sustainable development. They must be flexible, affordable and progressive. The author of this research suggests at least more than 14 types of taxes that are united in the content, purpose and significance.
14. We found that one of the most important economic and industrial growth factor during the transition to a market economy is credit and financial policy and investment. By this purpose, financing the most important parts (machine building, energy and agriculture) of Iran is suggested in the research, which can solve the problems of the productive and social positions.
15. The economic reform process in Iran is done by adoption of market economy, privatization of state property, improvement of financial and monetary relations. When the economic reforms will come into a result that the increase in the annual rate of economic growth is evident. Macroeconomic indicators, especially GDP tend to positive growth. Moreover, the share of foreign investment in the industry has the potential to increase.
16. The domestic product growth of Iran showed that reinforcing the production development, that has a relation with science, has even a military nature, thus it has multi-dimensional properties that can help to form an independent economy.
17. Despite all considerations, financial situation of Iran is already sustainable enough and it is possible to be transferred absolutely without any risks in the form of new investment in market conditions.
18. In order to stabilize the economy, industry and sustainable development the budget, monetary and fiscal system should be activated. Thus the financial leverages of economic recovery are as follows:
 - Rejecting normal monopoly, which leads to destruction of the productive forces of society;
 - Encouraging long-term loans from the government;
 - Full implementation of the rules associated with repaying the loans and admitting debtors' decisions;
 - strict controls on compliance with pricing methods, cancellation of prices and tariffs, use of economic sanctions against companies that violate laws in pricing;
 - Predicting to decrease tax to 10% of gains tax and value added. Some parts of income tax should be free in order to lead to product development, new technology developments, implementation of scientific achievements and providing social needs;
 - Fiscal policy of Iran suffers a lot of changes. It tends to western standards of economy market;
 - Reviewing fiscal policies of government results in "identifying bottlenecks", and new parts of efficiency will allocate to social production, i.e. they gradually quit priorities of oil industry.

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