



IRAN NATIONAL COMPANY

IRAN NATIONAL COMPANY, founded by brothers Aḥmad and Maḥmud Khayami with an initial capital of 100,000,000 Rls, and later directed by Maḥmud Khayami alone. Established in August 1962, it was the single pioneer of the automotive industry in Iran, assembling and manufacturing various motor vehicles, including buses, mini-buses, passenger cars, and their spare parts and components. It rapidly grew to become the largest car and commercial vehicle producing company in pre-revolutionary Iran and exported its cars and buses to a number of countries. Its most famous product was the “Peykan” (Peykān) car, which began production in 1966 and soon grew so popular that it became known as the national car of Iran; by 1977, approximately 100,000 units were manufactured annually.

There was no better symbol of Iran’s industrial development in the 1960s-70s than the contribution of Iran National Company. Concomitant with the implementation of a pro-active industrial policy and the rapid expansion of the domestic market in this period, Iran National experienced significant growth in output and technological progress. In 1980, following the Islamic Revolution, the company, along with other large modern manufacturing enterprises, was nationalized, becoming a public joint stock company, and had its name changed to “Iran Khodro Company.”

The early period. In its early days the company was involved in the assembly of semi-knocked-down parts of buses and mini-buses from Mercedes Benz of Germany. At this stage, nearly all parts and components were imported in a semi-knocked-down (SKD) form, and the company was involved in final



assembly with little, if any, incorporation of domestic manufactures. The main advantage of this operation for commercial vehicles was the savings in transportation cost. On the basis of estimates made in the early 1970s, it was found that there was a freight saving of \$700 to \$1,000 resulting from shipping a large bus or truck from Europe or the USA to Iran in SKD form rather than already assembled (Hansen, 1973, p. 17).

A more significant contribution of Iran National, however, started in 1966, when the company signed a contract with Rootes Group, an originally British company that had been bought by American Chrysler in 1964 to form Chrysler UK. The contract between Iran National and Rootes Group, or effectively Chrysler UK, was to produce Hillman cars domestically under the brand name of “Peykan.” In 1978, when Chrysler UK was bought by Peugeot, its name was changed to “Talbot.” Nevertheless, the legacy of Iran National is closely linked to the Peykan name (Iran Khodro website).

Production growth. Production of the various versions of the Peykan (including Deluxe, Standard, Sport, and Taxi) expanded rapidly from 51 units in 1966 to 90,866 units in 1977, reaching a total of 98,051 units if one includes Peykan vans (Table 1). As the Table indicates, Iran National had a dominant share in the Iranian market throughout this period. The market share of Peykan in the total supply of passenger cars, which included both domestic production and imports, was in the range of 42 to 73 percent over this period. Imports accounted for 5 to 35 percent of the total market, while other domestic firms produced the remainder. As is clear from Table 1, there was a major upsurge in imports between 1974 and 1978 despite the rapid expansion of domestic production in the same period. The increased domestic demand for passenger cars during this time was a consequence of government expansionary fiscal policies following the oil price rise of 1973 (see ECONOMY ix). Furthermore, the government opted for more of an ‘open door’ trade policy to satisfy the growing domestic demand (see Alizadeh, 1985, pp. 242-43). Table 1 also shows the decline in production on the eve of 1978-79 Revolution.

Iran National also maintained a dominant position in the production of vans, buses, and mini-buses throughout this period, as its share in domestic production of buses and mini-buses reached 85 percent in 1968 and 88 percent in 1977. It also produced 41 percent of total vans in the latter year (see IMDBI, 1978, and Table 2).

Iran National also began to export cars to the Middle Eastern and Eastern



European countries during the 1970s: 1,070 buses and minibuses to Egypt, 430 to the Persian Gulf States, 250 to Jordan, and 214 to Afghanistan. Exports to Eastern European countries included 250 buses and minibuses to Romania, 270 to Poland, and 15 to Bulgaria. Also exported were 390 units of Peykan cars to the Persian Gulf States and 45 to Greece (former Iran National Director of Export).

Domestic share of components. One of the most impressive achievements of the company was to increase the domestic share of components in its passenger cars and commercial vehicles to 40-45 percent by the eve of the 1979 Revolution. This was a relatively high level of local content compared with other domestic producers, which were predominantly involved in assembly operations (see Alizadeh, 1985, pp. 299-311)

Two issues were pivotal in the rapid expansion and the vertical integration of the company. One was the far-sighted management of the company, which was intent on reducing the company's dependence on imported parts and components. The other was the context within which the company evolved. The latter was shaped by the developmental role of the Iranian state, which intended to transform an oil-based economy into an industrial one (see 'Ālikāni, pp. 103-26).

The management of Iran National fostered the development of the backward linkages in the automotive industry and hence facilitated the production of a host of parts that were indispensable in the transformation of the industry from an assembly modality into a manufacturing one.

Affiliated component producers. On the one hand, Iran National was directly involved in the manufacturing of parts and components. Production of Peykan, which started with the full assembly of parts and components—known as assembly from CKD parts—soon advanced into the production of body parts, which requires application of heavy pressure and mating dies for the stamping of sheet metal. Above all, the company was a major shareholder in a number of components-producing firms that were involved in the production of mechanical parts. Mechanical parts, of which the engine is the most substantial item (accounting for 25 percent of the value of the vehicle), are technologically the most complex parts. Iran National was a major shareholder in several firms producing mechanical parts; these included (with product in parentheses): Iran Bearing Company (ball and bearing); Iran Piston Manufacturing Company (pistons); Idem Motor



Producing Industries in Tabriz [Kārḳānajāt-e motorsāzi-e Idem-e Tabriz], which made Mercedes Benz engines for buses and minibuses; Juš o Oxygen (welding), Ta'amin-e māseh-ye riḳtagari (sand for foundry); Towlid-e qaṭa'āt-e otomobil-e Mašhad (automobile parts); Mobl-e Irān (upholstery); and Režā Industries (Kārḳānajāt-e Režā) in Mashad, which produced wheels, fenders, and wiring systems for buses and cars. Iran National was also involved in the production of upholstery for cars and commercial vehicles.

Also affiliated with Iran National were a large number of factories producing various parts for Iran National products. These included Miral Glass Factory (producing all glass components for cars and buses), Šāhin Plastic Factory (producing plastic covers for seats, roof, and upholstery of cars and buses), Latex Industries (producing foam for seats of cars and buses), Plascokar Industries (producing plastic profiles), subsidiary factories of Royal, General, and B. F. Goodrich Tires, Niru Battery Industries (producing batteries for Iran National), Iran Radiator Manufacturing Industries (producing radiators for cars and buses), Iran Muffler Industries (producing mufflers for Iran National products), and National Industries (producing radio and sound systems for Iran National products).

To facilitate the activities of affiliated component producers, Iran National founded the Bank of Industries of Iran (Bānk-e Šanāye'-e Iran) with the investment of 53 companies, all of which manufactured various parts for cars, buses, and minibuses.

The expansion of Iran National, as the major vehicle producer in Iran, provided a favorable market for the development of “hang-on” parts by independent producers. “Hang-on” parts, though not technologically complex components—including seats and upholstery, radiators, fan, fuel and air tanks, batteries, electrical wiring harnesses, exhaust pipes, tires, and tubes—account for 15-17 percent of the value of a finished vehicle.

Developmental policies. The visionary management of the company was intertwined with developmental ambition of the Iranian state (see 'Āliḳāni, pp. 103-26). The state, through the Industrial and Mining Development Bank of Iran (IMDBI), the largest and the most prominent development bank, formulated and implemented a progressive policy of vertical integration of domestic industries. The objective was the transformation of the assembly phase of industrialization into the production of intermediate inputs and capital goods. IMDBI's implementation of industrial policy took a number of



forms (Parvin Alizadeh, 1985). These included: (1) Provision of cheap long-term credit to large modern manufacturing enterprises, of which Iran National was a prime example. Undoubtedly, it is difficult to estimate the overall lending to Iran National by IMDBI. Nevertheless, there is no question that these loans played an important part in increasing the equity capital of the company to over fifteen billion rials in 1978 (Šerkat-e Irān K2odrow, 2006). (2) Direct participation in a number of industrial projects to encourage private sector participation in ventures that were beyond the financial and technical means of single investors. A good example is IMDBI investment for the manufacture of automotive components. Table 3 shows that, alongside IMDBI, which was a direct investor in several projects, government as well as domestic and foreign investors were all directly involved.

(3) Monitoring the conduct and performance of Iran National as a borrower. The provision of loans was conditional on achievement of a performance standard by Iran National. The performance standard included progressive increase in local content. The first step in promoting the vertical integration of the industry was taken in 1964, when the Ministry of Economy issued a mandatory regulation demanding local procurement of pressed body parts and all hang-on components (see Tawassoli, 1973). Monitoring of compliance with the regulation was effectively done by IMDBI, which had accumulated in-depth knowledge about Iran National as a borrower. (4) Prevention of the fragmentation of the industry into several small and uneconomical producers. Iran National, during its life cycle in the 1960s and 1970s, had a virtual monopoly in the production of medium-sized cars, while two other car producers were specialized in the production of small- and large-sized cars. The monopoly pricing implication of the above policy, which could potentially harm consumers, was rectified through government-imposed pricing controls. It is worth mentioning that production of passenger cars is highly susceptible to economies of scale. On the basis of engineering and economic data for Europe and North America in the mid-1970s, it was found that the optimum level of output in the production of passenger cars is 200,000 to 400,000 units per year (Jenkins, 1977). Admittedly, estimates for industrialized countries are based on the price of factors of production in those countries and may not be particularly relevant to the case of Iran. Nevertheless, there is general consensus that the production of car body shells, that is, pressing/stamping of body parts, is highly susceptible to economies of scale. This means that concentration of production in a particular company and a particular model can reduce the unit cost of production considerably, while market



fragmentation has the opposite effect. Although Peykan was produced in five models, they were all trim variations, and hence there was no loss of scale economies.

Iran National possessed all the characteristics of a ‘national leader.’ A national leader is a nationally owned and controlled firm that is distinguished by its superior performance in terms of its dominant market share, its increased local content and technical progress, and its export drive (Amsden, 2000). Iran National remained a national firm in terms of its management and control, despite the fact that it was operating under a license agreement with Mercedes Benz of Germany for the production of buses and mini-buses and had a similar agreement with Chrysler UK for the production of passenger cars. In fact, the development of Iran National created a platform for national firm formation in Iran, similar to Hyundai in South Korea, Siam Motors in Thailand, Yuelong in Taiwan, and Porton Motors in Malaysia (Amsden, 2000, pp. 212-13).

The national ownership-management structure of Iran National, as the largest producer, was tied in with the close relationship between the state and the private sector. This sums up the specificities of institutional setup for industrial development in Iran over the 1960s and the 1970s: national ownership combined with a pro-active industrial policy. This pattern differed qualitatively from the development of the Latin American automobile industry in the 1960s and 1970s. In the latter case, the industry was characterized by the domination of foreign firms and fragmentation of the domestic market among a large number of firms that were producing at a very low level of output (Jenkins, 1977).

The evolution of Iran National shows noticeable similarities to that of the Asian model that was followed by Japan in the 1950s and 1960s and later by South Korea and Taiwan in the 1960s and 1970s (Amsden, 2000). The only significant deviation from the Asian model is the lack of concern with the exports market. Although Iran National exported 2,600 buses and mini-buses and 400 passenger cars and vans in the 1970s, its production was nevertheless primarily oriented towards the domestic market (Šerkat-e Irān K2odrow, 2006). The lack of focus on the export market was accentuated further over the period 1973-78, following the upsurge in domestic demand in response to increased oil revenues. In this respect, Iran National remained a domestically oriented company and differed from a company like Hyundai in South Korea, which began large-scale exports in 1982—only 15 years after its founding. It



should be noted that the expenditure of the oil revenue and the resultant inflationary pressure acted against the development of an export market. Exports, especially for passenger vehicles, required much larger scale and more advanced technologies that the management of Iran National envisioned to achieve in a reasonable period of time.

Existing evidence suggests that, to this day, the legacy of Iran National has provided an important model for appropriate conduct and performance by a firm in Iran (Šerkat-e Irān K2odrow, 1994, pp. 14-16).

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