A Typology of the Perceived External Barriers Hindering Export of Agricultural Products in Iran

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This study attempts to explore, understand, and classify the external barriers to the export of agricultural products as perceived by the small businesses operating in Iran. The data are collected from twenty external export barriers, including the Trade Embargo/Political Friction, Inflation, Slow Collection of Payments from Abroad, and Currency Exchange Rate for evaluation. These areas are considered highly important for the purpose of this analysis. Our analysis recognized seven thematically classified export barriers. Those barriers were further analyzed and the following categories are found significant: Unfavorable Domestic Conditions, Governmental Barriers, and Procedural Barriers. In view of the Iranian socio-economic environment, the underlying factors are discussed and implications are pointed out.

1. Introduction

In the past decades globalization has led to the liberalization and expansion of the world trade. Consequently, a new global business environment has emerged offering plenty of opportunities to the medium and small-sized businesses to sell their products and services on the international markets (Leonidou, 2004, 1995; Albam and Peterson, 1984; Barrett and Wilkinson, 1986). As the most popular form of business activity in the international marketplace, exporting brings about many benefits: It increases profitability, improves capacity utilization, provides employment and ultimately leads to the economic growth (Barker and Kaynak, 1992). Exporting is particularly suitable for small businesses as it presents a low risk entry into the market with relatively low managerial and financial resources and offers a high degree of flexibility (Leonidou, 1995). Nevertheless, there are a wide range of internal and external factors that can hinder the export operations (Bauerschmidt et al., 1985; Kedia and Chhokar, 1986; Barrett and Wilkinson, 1986; Cavusgil, 1982; Cavusgil and Nevin, 1981; Gripsrud, 1990). While some of the export barriers are associated with the organizational factors and the physical or managerial resources, some others are originated in the underlying socio-economic business environment (Cavusgil, 1982; Christensen et al., 1987; Ghauri and Kumar, 1989; Sullivan and Bauerschmidt, 1989; Yang et al., 1992). These export barriers discourage entrepreneurs from selling their products on the international markets and ultimately cause devastating effects on their businesses and the local/national economies. As such, it is very important to understand the nature, origins, and the implications of export barriers.

Review of the literature reveals that while most of the studies on export barriers are devoted to the developed economies of North America and Western Europe, there is a dearth of research on developing countries. It is argued that there is a need for understanding the nature and implications of export barriers in less developed economies as such countries portray different socio-economic realities and are gaining larger market share in the business world (Styles, 1998; Zou, Taylor and Osland, 1998). Indeed, the studies on the developing countries may be useful not only for managerial and practical purposes but also for building the wide-ranging cross-national theories. Along with this view and by recognizing the existing gap in literature, this article aims at investigating the perceived export barriers in a developing country, particularly for Iran. More specifically, this study attempts to explore, understand, and classify the perceived
external barriers to the export of agricultural products by the small businesses operating in Iran. Choosing Iran for the purpose of this study has important theoretical and managerial implications as Iran represents an important regional economy with a strategic location in the Persian Gulf and Central Asia. Furthermore, Iran has the largest oil and gas reserves in a very complex socio-economic environment.

This article is organized in the following manner: The first part is devoted to understanding the Iranian socio-economic and business environment and conceptualization of export barriers. In the second part the methods and data are described and results are presented. Finally, the findings are discussed and some avenues for future research are outlined.

2. The Iranian Economic and Business Environment

With a relatively large population and the world's largest oil and gas reserves, Iran is a major regional economy. Goldman Sachs Financial Group (2005) included Iran in the ‘Next Eleven’ group with the potential to become one of the largest world economies by mid-century (Goldman Sachs Report, 2005). In 1990s, President Rafsanjani’s political and social reforms provided a more hospitable environment for business activities (Behdad, 2000). As a result, the Islamic regime emphasized the security of capital and private property rights and gradually distanced from the strict populist and Islamist economic discourse (Nomani and Behdad, 2008). Between 1997 and 2005, President Khatami followed mainly the economic liberalization policies of his predecessor and launched extensive reforms such as tax policy changes, unification of the exchange rate, liberalization of imports and exports, and adoption of regulations to attract investments (Behdad, 2000). The election of Ahmadinejad in 2005 and his reliance on a superficial populist perspective led to adoption of increasingly chaotic economic policies. Ahmadinejad had no clear economic agenda and represented one of the most reactionary factions of the Islamic Republic; and subsequently his political and social policies resulted in growing international pressure on Iran.

Generally speaking, Iran might be described as a ‘rentier economy’ receiving substantial amounts of oil revenues (80 per cent of GDP). Many analysts believe that oil revenues have been responsible for weakening the Iranian industrial and agricultural competitiveness (Mahdavy, 1970). Especially in the recent years, industry sector has suffered due to increased Iran’s exchange rate, making the manufacturing sector less competitive. Furthermore, the high reliance on oil revenues reinforces unaccountable/autocratic governments and promotes economic/administrative inefficiency (Mahdavy, 1970). Since 1979, the Islamic Republic has emphasized the importance of agriculture as a means of economic and political self-sufficiency. However, in the recent years the weight of agriculture in the Iranian economy has decreased constantly. While agriculture represents only 11% of Iran’s GDP (EIU, Country Profile, 2007), it is still the largest employers, representing around twenty percent of all jobs based on a 1991 census (EIU, Country Profile, 2007). Agricultural output is relatively low, due to poor soil, lack of adequate water distribution, low quality seed, and old farming techniques. Iran is a net importer of grains, especially rice and wheat, and a net exporter of some well-known agricultural products such as caviar, pistachio, saffron, rice, wheat, barley, and a variety of fruits.

According to the Iranian constitution, “the economy of the Islamic Republic of Iran is to consist of three sectors: state, cooperative, and private, and is to be based on systematic and sound planning” (Article 44, Iranian Constitution). In practice, Iran’s economy is a mixture of central planning, state ownership of large enterprises, village agriculture, and small private firms (Khajehpour, 2000). The state sector includes all large-scale and mother industries such as foreign trade, radio and television, telephone services and aviation. The private sector consists of small and medium size companies concerned with production and services that supplement the economic activities of the state. The cooperative sector is practically insignificant and includes enterprises offering limited number of products and services (Khajehpour, 2000).

The small and medium-sized exporting businesses are owned and run mostly by the middle class individuals. They have limited financial, technological, and managerial resources and they struggle to make a living. As a result, these firms often cannot increase the size of their businesses and grow at the national and international levels. Moreover, the harsh Western economic sanctions and three decades of political isolation have deprived Iranian businesses from access to technological and managerial resources. Over the course of past years, the government has taken some measures to streamline the business activities, but the Iranian entrepreneurs face various hurdles such as complex bureaucratic procedures and bothersome legal registrations. According to the World Bank report, Iran is ranked 137 out of 183
countries in the ‘Ease of Doing Business’ (Doing Business Report, 2010). Therefore, the overall environment of doing business in Iran does not seem attractive.

3. External Export Barriers

According to Leonidou (1995), export barriers refer to “the attitudinal, structural, operational, and other constraints that hinder the firm's ability to initiate, develop, or sustain international operations” (Leonidou, 1995: 31). The export barriers in Iran can be categorized as internal as well as external. While the internal barriers are related to the organizational resources/capabilities, the external barriers include all those factors originated in the environment within which the firm operates (Leonidou 1995). The external export barriers can be associated with a wide range of issues such as socio-economic dynamics, foreign consumer preferences, exchange rate fluctuations, unfamiliar business protocols and practices, tariff or non-tariff barriers, and competition. Leonidou (1995) classified the external barriers into procedural, governmental, task-oriental, and environmental factors.

Table 1 depicts the main categories of external export barriers. Procedural barriers include unfamiliarity with techniques/procedures, communication failures, and slow collection of payments (Kedia and Chhokar 1986; Moini 1997). Many firms, particularly, small businesses find customs documentation, financing and shipping activities complex, costly and difficult to manage. Communicating with foreign customers and linguistic differences are other obstacles that might result in misunderstanding, poor control over business activities in overseas markets, and delay in making decisions. Slow collection of payments from abroad is a very serious barrier that may prevent many small businesses from developing their export operations. The distance between buyer and seller coupled with institutional and procedural complexities may aggravate this problem (Leonidou 1995). Government barriers are associated with the lack of interest in assisting exporters and the restrictive policies and regulations on export management practices.

In many countries, governments promote exports by offering loans, organizing trade fairs, and sponsoring trade missions (Albaum, Strandskov, and Duerr 1998). Likewise, governments may promote or impede export by imposing friendly or hostile regulatory frameworks. According to Leonidou (2004, 1995), task barriers include two groups of factors: different foreign customer habits/attitudes and competition in overseas markets. Variations in consumer habits and attitudes across the world may have negative effects on the level of exports and thus prevent small firms from conducting international operations (Cateora and Graham 2001). Competition in international markets is more complex as it can originate from many sources and may have different bases such as cost, differentiation, and government protection (Doole and Lowe 2001).

Environmental barriers are very diverse and include a wide range of economic, political, legal, and sociocultural factors (Kedia and Chhokar 1986; Moini 1997). Leonidou (2004, 1995) identified eight groups of environmental factors as poor economic conditions abroad, foreign currency exchange risks, political instability in foreign markets, strict foreign country rules and regulations, high tariff and non-tariff barriers, unfamiliar foreign business practices, different sociocultural traits, and verbal/nonverbal language differences. Poor economic conditions make the international markets less attractive and deter businesses from developing their export operations.

Similarly, the risks associated with foreign currency exchange may endanger the export profitability, thus resulting in reluctance toward export operations. Political instability can endanger the exporter’s operations abroad and may result in halting business activities or loss of earnings (Terpstra and Sarathy 2000). Strict foreign country rules and regulations can have different forms such as entry restrictions which delay or restrict the flow of the product in the market, price controls which limit the firm’s profitability, and special tax rates which increase the export price of the product in the foreign country (Cateora and Graham 2001). Due to business globalization and the liberalization of world trade, the tariff and non-tariff barriers have been reduced in the past decades, however in some cases, high tariff and non-tariff barriers are considered as serious problems for exporters, especially those small businesses that cannot overcome complex non-tariff barriers and administrative delays. Unfamiliar foreign business practices and different sociocultural traits can jeopardize any kind of business activity. Finally, linguistic barriers and verbal or nonverbal language differences may create problems in negotiation and communication with business partners.
It has been suggested that managers should be familiar not only with the oral aspects of the foreign language but also with its body language and temporal and spatial perceptions.

Table 1: The Main Categories of External Export Barriers

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<thead>
<tr>
<th>External Barriers</th>
<th>1. Procedural Barriers</th>
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<tr>
<td></td>
<td>Unfamiliar Exporting Procedures/ Documentation</td>
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<td></td>
<td>Problematic Communication with Foreign Customers</td>
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<td></td>
<td>Slow Collection of Payments from Abroad</td>
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<td></td>
<td>2. Governmental Barriers</td>
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<td></td>
<td>Lack of Home Government Assistance/Incentives for Exporting</td>
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<td></td>
<td>Unfavorable Home Government Rules and Regulations</td>
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<td>3. Task Barriers</td>
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<td></td>
<td>Different Foreign Customer Habits/Attitudes</td>
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<td></td>
<td>Keen Competition in Overseas Markets</td>
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<td></td>
<td>4. Environmental Barriers</td>
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<td></td>
<td>Poor/Deteriorating Economic Conditions Abroad</td>
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<tr>
<td></td>
<td>Foreign Currency Exchange Risks</td>
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<td></td>
<td>Political Instability in Foreign Markets</td>
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<td></td>
<td>Strict Foreign Country Rules and Regulations</td>
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<td></td>
<td>High Tariff and Nontariff Barriers</td>
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<td></td>
<td>Unfamiliar Foreign Business Practices</td>
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<td></td>
<td>Different Socio-cultural Traits</td>
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<td></td>
<td>Verbal/Nonverbal Language Differences</td>
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</table>

Source: Leonidou, 1995

4. Methods and Data

The main objective of this investigation was to explore and understand the external barriers to the export of agricultural products as perceived by the small exporters in Iran. Considering the exploratory nature of the study, depth interviews and open ended questions were used. This method seems appropriate because it provides a deep understanding of the phenomenon from the interviewee’s perspective (Hudson and Ozanne, 1988). To conduct the investigation, the interviewees were selected from export managers in the Iranian province of Kerman. Kerman province is particularly famous for producing and exporting high quality agricultural products such as pistachio, date, and various spices and dried fruits. The interviews were digitally transcribed in Farsi (Persian) and the resulting transcripts were analyzed and coded using NVIVO software (Richards, 2000).

The coding process involved different phases. At the first phase, all elements which were likely to affect the export operations were organized in hierarchical nodes. This resulted in a variety of factors which could affect export operations either positively or negatively. For example, some interviewees emphasized the “financing programs” to enhance their export operations (positive factor), and some viewed “inflation and the rising cost of production” as important impediments to exporting. Since we were looking for export barriers, it was important to understand the issues which could involve negative effects on the export operations. Therefore, at the second phase, the positive factors were inverted to their negative equivalence to arrive at the perceived export barriers. At the third phase, all negative factors were thematically organized in sub-categories. Finally, at the fourth phase, all sub-categories were classified as general categories.

Figure-1 presents the different stages of data analysis and barriers classification.
5. Results

The data analysis revealed twenty factors perceived as the main external export barriers. As shown in Figure 2, among these twenty factors, Trade Embargo/Political Friction, Inflation, Slow Collection of Payments from Abroad, and Currency Exchange Rate are placed at the top of the list and represent the most problematic obstacles to the Iranian exporters. Lack of Financing Mechanisms, Lack of Home Government Assistance/Incentives for Exporting, Subsidies Cut, and Unfavourable Home Government Rules and Regulations are identified as other important external export barriers by the Iranian managers and business owners. Surprisingly, factors such as Problematic Communication with Foreign Customers, Political Instability in Foreign Markets, Different Foreign Customer Habits/Attitudes, High Tariff and Nontariff Barriers, Unfamiliar Foreign Business Practices, Poor/Deteriorating Economic Conditions Abroad, and Transport/Delays are viewed less important by the Iranian exporters. While many respondents recognized the existence of cultural differences between Iran and export destinations, they emphasized that these differences were not detrimental to their export operations. For instance, a few managers mentioned that with education and communication, they had overcome cross-cultural hurdles and they were very comfortable in dealing with their foreign customers. Similarly, the managers did not view Poor/Deteriorating Economic Conditions Abroad and logistical issues such as Transport/Delays as important barriers to their export operations. Subsidies Cut, Unfavourable Home Government Rules and Regulations, Unfamiliar Exporting Procedures/Documentation are some other factors that have received more attention and thus can be categorized as moderately important.

At the next stage of data analysis, the twenty factors were organized in hierarchical orders and were thematically classified. The reduction of data led to the identification of seven principal categories, namely: Unfavorable Domestic Conditions, Governmental Barriers, Procedural Barriers, Financial and Logistic Barriers, Environmental Barriers, Task Barriers, and Cultural & Communication Barriers. Figure 3 presents the seven categories of external barriers and the associated standardized weights. As depicted in Figure 3, among all the seven categories, Unfavorable Domestic Conditions, Governmental Barriers, and Procedural Barriers are seemingly the most important barriers. Two other categories, Financial and Logistic Barriers, and Environmental Barriers are viewed as relatively significant, and Task Barriers and Cultural/Communication Barriers are seen as the least important obstacles to the export operations of small businesses.
Figure 2: The twenty external export barriers
6. Discussion

Based on the data analysis, it is understood that the export operations of small businesses in Iran are primarily hampered by the unfavorable domestic conditions which have been deteriorated after the Islamic Revolution of 1979. The four main export barriers, namely 1) Embargo/Political Friction, 2) Inflation, 3) Slow Collection of Payments from Abroad, and 4) Currency Exchange Rate, essentially reflect the realities of the post-revolutionary Iran. The main political frictions of Iran with the United States started with the hostage crisis of 1979-1981. Afterwards, the United States continued to impose a wide range of harsh economic, political, financial, and financial sanctions on Iran to promote its foreign policy objectives in the Persian Gulf region. The American economic sanctions' cost to Iran was estimated to be about 1.1 per cent of Iran’s GDP (Torbat, 2005). Since oil is a fungible commodity, despite all the restrictions, Iran could find other customers for its oil and gas exports especially among emerging economies such as China, India and Turkey. However, it seems that the effects of economic sanctions on Iran’s non-oil exports especially agricultural products have been more significant (Torbat, 2005).

In 2008, the U.S. Department of the Treasury levied financial sanctions against the Iran largest banks, allegedly, because of their involvement in Iran’s nuclear and missile programs. As a result, the Iranian banks have been cut off from the global financial system. These harsh measures explain why the Iranian exporters have so much difficulty in doing business especially in collecting payments from their foreign customers. As shown in Figure 2, Slow Collection of Payments from Abroad is perceived as one the most important export barriers.

The two other important export barriers, namely Inflation and Currency Exchange Rate have their underlying causes in the post-revolutionary conditions. Iran has experienced persistent high consumer price inflation after the Islamic Revolution. Since 2000, the average annual inflation rate has been hovering around 15 percent per year. This high rate of inflation is attributed to structural inefficiency pushing the Central Bank to increase the money supply. For instance, the government has a tendency to provide cheap/easy credits to politically powerful borrowers such as the Revolutionary Foundations and State owned enterprises (Crane et al., 2008). To compensate for the difference between the real values of these loans and other expenditures, the government makes the Central Bank print more money, and naturally creates inflation.
Other causes of inflation in Iran may be identified as the lack of government accountability, rampant corruption, lack of budget planning, and the expansionary fiscal policies. Since 2002, the exchange rate in Iran has followed a hybrid managed floating regime. In this regime, the Iranian central Bank regularly intervenes by injecting enough supply of the dollar into the market to keep the exchange rate at a particular point. The continuation of this regime and the resulted relative stability of exchange rate has been hinging upon the availability of high amount of foreign reserves and high oil revenues in the past ten years. Apparently, the objectives of this regime were to keep inflation under control and to make investment in Iran more attractive (Dadkhah, 2009). However, the fixed exchange rate regime coupled with high inflation (averaging 15% per year) have had devastating effects on agriculture and manufacturing sectors as they have resulted in cheaper imports and more expensive exports. Indeed, despite a two-digit annual inflation, the Iranian Government has artificially kept the national currency at a fixed rate and thus has made exports less attractive.

Among other export barriers, Lack of Financing Mechanisms, Lack of Home Government Assistance/Incentives for Exporting, and Unfavorable Home Government Rules and Regulations are perceived relatively important. It should be noted that Iran’s economy is overwhelmingly energy-based and the vast majority (80 to 90 percent) of Iran's export earnings and a quarter of its gross domestic product are resulted from energy exports (Berman, 2006). Under these circumstances, the non-oil exports such as agricultural products do not receive enough support from the policy makers. Apparently, the Iranian policy makers overlook the fact that agriculture and the associated industries are still very important and create around twenty percent of all jobs (EIU, Country Profile 2007). Our results indicated that the respondents were generally pessimistic about the prospects of their businesses as they viewed the whole industry in decline. Their pessimism was especially aggravated by the Government intention to cut energy and staples subsidies. In their view, the elimination of government subsidies could lead to even higher inflationary pressures.

7. Conclusion and Recommendation

This study aimed at exploring and understanding the perceived external barriers to exporting the agricultural products in Iran. Considering the complexity of the Iranian socio-economic environment and the exploratory nature of our investigation, we employed qualitative methods to collect data through in-depth interviews. The data analysis produced twenty external export barriers of which Trade Embargo/Political Friction, Inflation, Slow Collection of Payments from Abroad, and Currency Exchange Rate were evaluated as highly important. Further analysis identified seven thematically classified export barriers of which three categories specifically, Unfavorable Domestic Conditions, Governmental Barriers, and Procedural Barriers were placed at the top of list.

The findings of this study point to the peculiar situation of Iran at the international stage and its antagonistic relations with the western countries which have resulted in harsh economic sanctions. Furthermore, the study shows that the fiscal and economic policies in the post-revolutionary Iran have greatly undermined the export operations of small and medium-sized businesses. In addition to the ideological and administrative ineffectiveness, it seems that the over-reliance of the Iranian government on oil revenues has decreased the level of support for exporting businesses. Under these circumstances, the interviewed Iranian exporters are generally pessimistic about the future outlook of their businesses and see their industry in decline.

This study provides a better understanding of the complexity of export barriers by shedding light on the Iranian socio-economic environment. Through this study it is understood that export managers, particularly in the developing countries, face serious challenges that are originated in the wider socio-economic environment and remain beyond their control. While the study has a limited scope and focuses only on the agricultural products, the findings generally confirm the Leonidou’s (2004, 1995) classification of external export barriers. The future studies may look into the similarities/dissimilarities of external export barriers across the developing and developed countries and put forward theories explaining such differences. In addition, it would be appealing to investigate the relationships between external and internal export barriers in both developing and developed countries.
References


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