

## What Happened to the China Model?

**Siamak Namazi\***

*The following article was written by Siamak Namazi in connection with his participation in the conference entitled “Iran After 25 Years of Revolution: A Retrospective and a Look Ahead,” which was held at the Woodrow Wilson International Center for Scholars on November 16-17, 2004. The opinions expressed here are those of the author and in no way represent the views or opinions of the Woodrow Wilson International Center for Scholars.*

When the conservatives initiated their takeover of the elected institutions in Iran, starting with the February 2003 municipal (local council) elections, continuing with the *Majles* elections one year later, and culminating in the 2005 presidential election, Western analysts widely expected that the reemergence of the right wing would accelerate economic liberalization and usher in a period of coherence among this faction. It was believed that, in line with what was being talked about as a program to turn Iran into an “Islamic Japan” (in the words of *Majles* Speaker Haddad-Adel) or yet again, to pursue a “Chinese model” (that is prioritizing economic and social reforms and openings while giving political developments and liberties second priority), economic change would be expedited.

The announcement of Iran’s *20-Year Perspective* (for 2005-2025), a document outlining the Islamic Republic’s vision for the future, was created at the request of the Supreme Leader in the Economic Council and added to such analyses. For the first time since the 1979 Revolution, the Islamic Republic said it was setting its sights on becoming an “economic and technological power” in an attempt to take what it considered its rightful position in the region. The *20-Year Perspective* concentrates on issues including welfare, wealth creation, agricultural and industrial growth, and a software movement to achieve this goal. Essentially, Iranian leaders had become convinced that Iran would be strong and secure only if it achieved economic and technological advancement.

Despite this vision, since the 7<sup>th</sup> *Majles* came to power in March 2004, we have witnessed conflicts emerge among the conservatives. Most evident are disagreements on economic issues, including the extent of liberalization. From the outset, the new members of Parliament focused their wrath on the extant economic policy. They rejected key parts of the Fourth Five-Year Development Plan, including those calling for further privatization, and tried to gain additional insight into foreign deals signed by the government. Parliamentarians objected to laws that would open Iran up for privatization measures. More importantly, the *Majles* sought to increase its control over the signing of foreign deals<sup>1</sup>. Meanwhile, cabinet ministers who acted favorably toward major international investors found themselves targeted by the 7<sup>th</sup> *Majles*.<sup>2</sup>

---

\* Siamak Namazi is Managing Director at Atieh Bahar Consulting, Tehran, Iran.

<sup>1</sup> Initially, Parliament members wanted to secure a bill that would give them a right of insight and veto over all deals where foreign participation was above 49 percent. They ultimately backed down and targeted, instead, two specific deals, both involving Turkish companies: TAV for managing the new Imam Khomeini International Airport in Tehran, and TurkCell for a new GSM network. The author cannot think of another incident when the *Majles* has passed a law dealing exclusively with specific contracts.

<sup>2</sup> For example, the *Majles* impeached Roads and Transport Minister Khorram and ousted him from office, partly for having worked to secure the deal with a Turkish consortium to operate the new Imam Khomeini International Airport (IKIA). Culture Minister Masjed-Jamei was also pushed into a corner for allowing Royal Dutch Shell to carry out cultural activities in Iran, which were deemed by radical MPs as constituting a “cultural onslaught.”

So, what happened to Iran's China Model and the business-friendly conservatives? To help answer that question, I will start with a discussion of what the Islamic Republic's leadership means by the China Model. With that background, I will outline the economic policy of the various groups within the Iranian right wing, an exercise that should help explain recent aberrations in behavior. Finally, I will discuss various scenarios for Iran's economy under the next administration in an attempt to show that the administration has limited maneuvering room in economic policy, making it next to impossible for Iran to reverse its path toward limited liberalization.

### ***What is the Iranian China Model Anyway?***

It is important to gain a common understanding of what the Iranians mean when they talk about the pursuit of a China Model. In many ways, the China Model is a misnomer when applied to the Iranian case. At its core, the China Model as exercised by Beijing involves placing political will and policies (domestic, social, and foreign) at the service of economic objectives and growth while maintaining a tight grip on political power as the exclusive realm of the State.

The Iranian political apparatus, however, is not designed to act in this fashion. In Tehran, policy is frequently crafted to respond to ideological objectives and not necessarily to maximize economic growth. Ultimately, in the Iranian case, the economy remains at the service of the State's political objectives, rather than the other way around. This is not to mention the numerous other core differences between Iran and China, such as the size of the domestic market, Iran's rentier economic structure, and the fact that the Islamic Republic is not as liberal in opening up its social sphere and will continue to police social behavior.

The best way to understand what Iranian politicians really mean when advocating the adoption of a China Model is to compare it to the other models available to them. Calling for the China Model is essentially code for declaring the concept of "political reforms first," which was the Khatami Administration's original policy platform, dead. The Islamic Republic is also saying that it will not reform the economy under the Gorbachev or Russian Model, when economic reform had to accompany political change. Instead, economic reforms take the front seat. Iran's leaders intend to open up the economy without making compromises in the political sphere. And that is ultimately what it means by emulating China. As Afshin Molavi astutely put it in his article in *Foreign Affairs*, Iran is pursuing the "China Lite" Model.<sup>3</sup>

Still, if the conservative establishment in Iran is pursuing the lite version of the China Model, how do we explain the recalcitrant moves of the 7<sup>th</sup> *Majles*?

### ***Economic Thinking on the Right***

The key to understanding the difference between the expedient economic policy advocated among the top brass of the regime and the actions of the new Parliament is to dissect the structure of the Iranian conservative movement. Economic analysts who hoped that the conservatives' rise in the *Majles* would mean a more business-friendly legislature in Iran failed to consider the diversity within the Iranian conservative faction. The conservative faction is in no way a homogenous group. Even if we want to simplify matters, at least three different shades have to be

---

<sup>3</sup> Afshin Molavi, "Buying Time in Tehran – Iran and the China Model." *Foreign Affairs*, November 2004.

identified within this faction: the traditional right, the right-of-center pragmatists, and the new right.<sup>4</sup>

*The Traditional Right.* Two groups dominate the traditional right: the *Motalefeh* (Society of Islamic Toilers), and the main rightist clerical faction, the *Jame-ye Rohaniyat-e Mobarez* (Society of Combatant Clerics or JRM). Both groups have deep roots in the Revolution.

The *Motalefeh* was created in 1963 when the late Ayatollah Khomeini launched his attack on the Pahlavi regime. Following his arrest and exile, a group of bazaar merchants decided to create a movement and coordinate its activities with clerics close to the Ayatollah. The Society of Combatant Clerics of Tehran was created in the wake of the Islamic Revolution of 1979.<sup>5</sup> The *Motalefeh* benefits from its ties with the merchants and with some of the numerous institutions created following the Revolution, notably the powerful *Mostazafan and Janbazan Foundation* (MJF) and the Imam Khomeini Relief Foundation.

Both of these groups traditionally believe in a freer economy and a *laissez-faire* style of economics that is best described as mercantilist rather than as following Adam Smith. Of course, today they frequently benefit from the status quo, especially from the ingrained monopolies and special treatments that they receive. All the same, they tend to believe that they will be able to benefit even more if Iran opens its doors to increased foreign trade.

*The Right-of-Center Technocrats and Pragmatists.* The Executives of Construction Party (ECP), a party of technocrats that grouped together under the presidency of Akbar Hashemi Rafsanjani, is the main political force in this group. Broadly speaking, its members prefer bureaucratic and technocratic strategies to political ones. On the economy, ECP members believe in the existence of an “invisible hand” and follow a kind of industrial and production-oriented capitalism. They support foreign investment and loans as well as privatization policies along lines recommended by the IMF. The faction’s main economic goal is Iran’s greater integration into the world economy, particularly through membership in the World Trade Organization (WTO).

Similar to the traditional Right, the ECP calls for privatization and a reduction in the size of the government. In contrast to the Right, however, it emphasizes international economic and capitalistic concepts, whereas conventional Rightists base their economic proposals on Islamic values. From the ECP point of view, the economies of Southeast Asian countries are ideal.

*The New Right: The Abadgaran.* The *Abadgaran* (Developers) are a new phenomenon in the political landscape of the Islamic Republic. They began their ascent in the February 2003 local council elections, in which they swept the reformists’ seats away in most major cities. It was also an election that the traditional rightist groups had boycotted.

Although still a broad and loose coalition, we can think of the *Abadgaran* as the right-wingers with the following characteristics:

- They are the Second Generation of the Revolution, meaning they were age 30 or under in 1979. They are often described as “younger” figures, although many are middle-aged now.
- They did not have high-level positions in the early years of the Islamic Republic.

---

<sup>4</sup> This breakdown, incidentally, corresponds with the main groupings in the right wing that vied for supremacy in the 9<sup>th</sup> presidential race in Iran in June 2005.

<sup>5</sup> The late Ayatollah Beheshti, the right hand man of Ayatollah Khomeini, initially headed the JRM.

- Many served in the IRGC during the 8-year long war with Iraq (1980-1988).
- They have a populist approach to politics and matters of governance. For example, when President Mahmud Ahmadinejad, one of their key leaders, was mayor of Tehran, he was known occasionally to wear the outfit of a city street cleaner and join them in sweeping the town.
- They believe that “the trusted few” should reign over government, and not just anyone.

After convincing the conservatives that their chances in the *Majles* elections would be greatly improved if they put forth “new faces,” this group won the majority of seats in the 7<sup>th</sup> *Majles*.

The *Abadgaran* are classified as a conservative group in Iran, mainly due to their allegiance to the Supreme Leader, but they are more in line with many leftist groups when it comes to economic policy. In fact, a closer look at the economic framework prescribed by this group explains the current surges against economic liberalization and foreign investment. In summary, this group takes a populist stance and focuses on the common good at the expense of individual interests. They believe that a capitalistic society based on the private sector will innately lead to a rift between the haves and have-nots and heighten social injustice. It is necessary, therefore, for the government to interfere in production, trade, the management of economic enterprises, and for governmental enterprises to participate directly in the economy to establish and insure social justice. Economic maladies such as inflation, in this view, are the result of greedy entrepreneurs; the solution is for the state to police the economy through price controls and other similar policies. These Iranian neo-cons are highly suspicious regarding opening Iran to world markets and making commitments to international trade ties, due to concerns about a loss of sovereignty and the “plundering of Iran’s resources.” They prefer isolation from the world community and confrontation with it rather than multilateral cooperation to foster domestic “creativity.”

### ***The Iranian Economy After the Presidential Elections***

The above breakdown should make it clear that a presidency by a member of either the traditional right or pragmatic right is likely to mean more or less the continuation of the economic policies that we have witnessed in the past five years under the Third Plan (2000-2005). But what will happen now that the *Abadgaran* have take over? Will there be a U-turn away from economic liberalization? It’s hard to imagine that is possible, for a number of reasons.

Decision-making in the Islamic Republic is top-heavy. Current policies were devised after long, drawn-out, exhaustive negotiations among the top brass of the regime. An example is the long debate over passage of the *20-Year Perspective* document. According to Mohsen Rezai, the secretary of the Expediency Council, it took 5 years to finalize the document and get the signature of the Supreme Leader. The *Perspective* was debated for three years in the Council’s secretariat before being referred to the whole Council, which took an additional two years to review and amend it. During this time, a number of officials and councils were consulted, including the administration, the *Majles*, and the judiciary. Other power centers, such as syndicates, industrial groups, and prominent economic experts and businessmen were also consulted.<sup>6</sup>

Consensus-building takes a very long time to achieve in Iran, but decisions made through this painstaking process tend to endure. It is very unlikely that a group of newcomers would be

---

<sup>6</sup> See Rezai’s interview with the daily *Hamshahri*, 18 October 2004.

allowed to alter decisions taken at this level.<sup>7</sup> Moreover, Tehran's economic reform policy was devised ultimately to serve greater purposes, such as making the nation a regional powerhouse, than merely to address the nation's current economic maladies.

More importantly, there is the issue of economic reality. As Herb Stein once said, "that which cannot go on forever, won't." After all, much of what the *Abadgaran* espouses are also values upheld by the left. Khatami's government supported many of the same plans, such as reducing the price of petrol and increasing subsidies. In fact, much of the criticism economists raise today about the *Abadgaran* mirror what was being said when Khatami chose Hossein Namazi, a leftist, to be his Minister of Finance. Any administration that comes to power in Tehran must deal with the country's main economic problems, particularly the plague of high unemployment and inflation, along with a growing budget deficit. That is reality.

### ***Difference Among Potential Future Administrations***

The above analysis explains why many Iranian economists believe that no matter what kind of administration comes to power, the solutions it will have to implement are not so far apart. As a ranking Iranian economist in the Management and Planning Organization (MPO) told me, "even if the next administration thinks it can get behind the wheel of the economic car of Iran and take it to new directions, it will quickly discover that it has boarded the locomotive of a train with the only direction forward."

This is not to imply that *all* will be the same no matter who takes over the next administration. There will certainly be differences over economic policy, particularly in the short-run. Differences between a traditional rightist administration and a pragmatic one are likely to be more subtle. The traditionalists will want to concentrate on trade over investment, for example, while the pragmatists will try to move toward economic liberalization with a concentration on accelerating investment. Another difference between the two groups has involved the countries with which they prefer to do business. While the pragmatists prefer Western technologies, the traditionalists put more emphasis on the need for greater relations with the East, particularly China.

The *Abadgaran* can shock the system in the short-run. This group can be expected to try to inject a big dose of independence—one of their strongest values—into trade and investment policies. They are also keen on keeping their populist stances. Thus, we could expect moves such as:

- Lobbying to raise the Iranian share of joint-venture projects and minimize the foreign component. "Trusted" individuals and organizations would be given preference as the Iranian partner, so we would see more companies affiliated with the IRGC and various foundations stepping up for this purpose, especially for larger deals.
- Pressuring foreign contractors to increase the local content requirements, particularly in buy-back agreements.
- Continuing protectionism in industries such as the automotive industry.

---

<sup>7</sup> We can see how "corrective measures" kick in when looking at the 7<sup>th</sup> *Majles* and its fight against privatization initiatives in the Fourth Plan. When the regime felt that the Parliament was going too far, the Expediency Council stepped in with a new interpretation of Articles 43 and 44 of the Constitution, opening up the economy to the private sector at levels previously unimaginable.

- Maintaining subsidies on basic goods (especially wheat and fuel) for a much longer period than currently planned, particularly if oil prices stay over \$30 a barrel.
- Using Iran's oil surplus fund (OSF) for purposes such as loans to the lower classes and also to bail out failing state-owned enterprises (SOEs).

The xenophobic tendencies of the *Abadgaran* are bound to worry foreign investors, and Iran's investment ratings may suffer. The *Abadgaran* are likely to create a psychological impact that will take longer to expel than the duration of their policies.

### ***Conclusions***

Do all the above points of discussion mean that Iran will achieve its goals and follow the China Model successfully? It is hard to imagine in the short-run. As Albert Einstein once said, "problems cannot be solved by the same level of thinking that created them." The fact remains that economic policy has been of tertiary importance for the Islamic Republic as a whole, although the regime has begun paying more attention to improving its economic standing lately. Furthermore, Iran remains a rentier state filled with heavily vested interest groups, and is generally extremely slow-moving in its reforms. High oil prices will afford this system the luxury of moving even slower in addressing its serious economic maladies and opting in favor of band-aid solutions.

Still, such measures are not durable and, sooner or later, Tehran will have to take much more serious steps in addressing its economic woes. The good news is that the economic path seems irreversible, although short-term ebbs and flows may be seen. Moreover, while the economic model of the *Abadgaran* was predominant in Iranian thinking 15 years ago, today it is the minority voice in the system. The majority of the elite in power admit that the status quo cannot continue.

Iran is not moving in a void. Unless it speeds up economic reform measures, the distance between Iran and its regional competitors will continue to increase, making it even harder for Iran to catch up. It remains to be seen whether Tehran will need a serious shock, such as watching Iraq come back economically and speed ahead of it, before it takes the race seriously, or if it can take advantage of opportunities and not just respond to existential threats. For now, following the June 2005 elections, the top priority in Tehran will be domestic politics, factional power grabs, and national security issues, particularly the nuclear case.

To answer the question more directly, Iran will continue on a path toward economic liberalization. However, it is very unlikely that it will embark on a fast-track "China Model" in the next five years. Meanwhile, a more steady march along the China Lite Model will require greater centralization of political power, a process that many analysts believe had already begun under the Khatami Administration.