

Economic Diversification in Iran – Policies between Convictions and Interests –

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<http://16746-presscdn-0-67.pagely.netdna-cdn.com/wp-content/uploads/2015/04/oil-barrel-stack-oil-price.jpg>

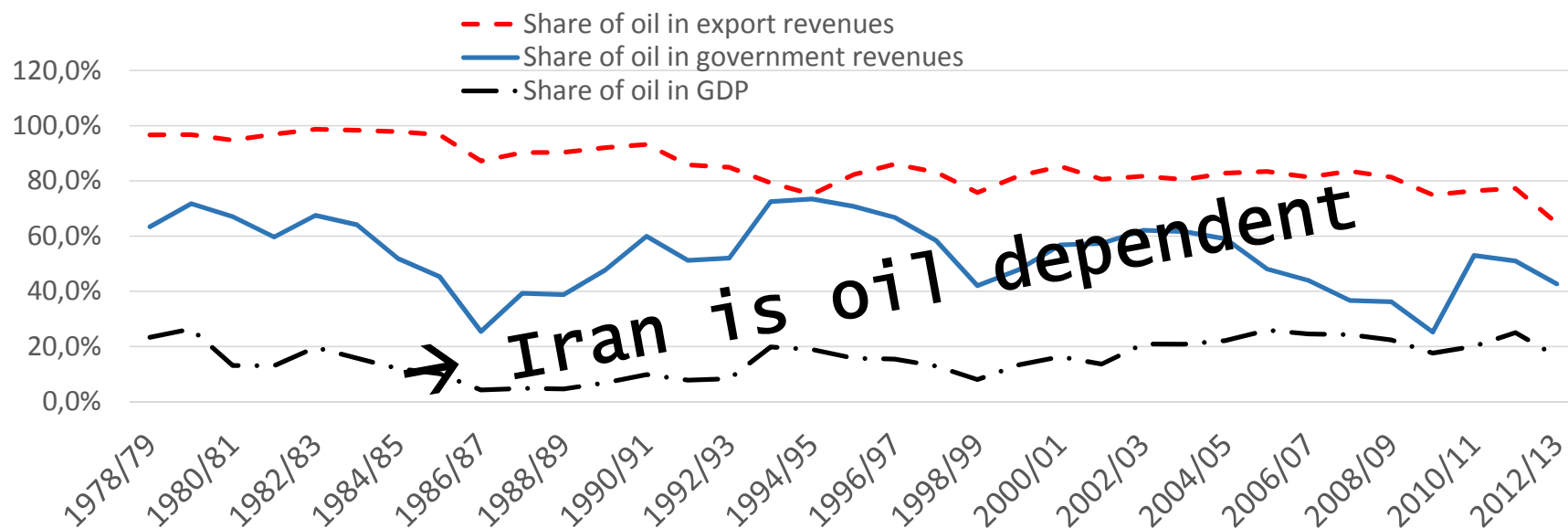


photo : Erfan Kouchari

<http://www.tasnimnews.com/en/media/2016/04/30/1062727/labor-day-iranian-workers>



Share of oil in government and export income and GDP



Source: Bank-e Markazi-e Iran



Emphasised by politicians

- resistance economy (*eghtesād-e moghāvemati*)
 - make Iran independent from crude oil exports and protect its domestic national market from external influence
- Rohani: “produce more than oil and oil-related products”
- Khamene’i: “10 fundamental actions for rescuing the country’s economy”
 - resurrect domestic production,
 - avoid exports that weaken domestic production,
 - not waste money that enters the country after the nuclear deal,
 - make sensitive and important sectors [oil, gas, airplane, train and ship manufacturing] knowledge based,
 - make the transfer of technology a condition of foreign trade, seriously fight against corruption and
 - give special attention to medium and small industries” (*Al-Monitor* 21.3.2016).



Prescriptions from theory

Oil exporting countries should...

“...use market mechanisms

- including a liberalized trade and exchange rate regime,
- privatization
- and the deregulation of prices, wages and interest rates
- a convertible currency
- property rights
- improve productivity in agriculture and industry
- reform the financial sector
- improving their judicial systems
- cut public spending
- avoid popular public works programs”

**Policies
based on
economic assumptions**

Karl, Terry Lynn (1999): “The Perils of the Petro-State: Reflections on the Paradox of Plenty.” In: *Journal of International Affairs*, Vol. 53(1): 31-48; p. 44)

Reform programs in practice

	Subsidy Reform	Tax Reform	Privatization
2004/05			
2005/06			
2006/07			
2007/08	Rationing of subsidized fuel		
2008/09			
2009/10			
2010/11	Targeted Subsidies Act (Phase I)		
2011/12	Amendment		
2012/13			
2013/14	Targeted Subsidies Act Phase II		
2014/15	Decree „Resistance Economy“		
2015/16	Cuts in spending		

Cleavages in the Iranian (economic) policy

„security narrative“

Authoritarianism /
theocratic rule

Social justice /
public goods

Convictions /
ideology

Islamism/ tradition/
independence
(isolation)

Modernization/ economic
development/ openness
to the world economy/
diversification

Protection of
private ownership

Representative
/ participatory
politics
(democracy)

„development narrative“

Source: based on Ehsani 2009 with modifications.

Factions, Cleavages and Economic Diversification

	mercantile elite/ conserv. Right	state- oriented/radical left	pragmatic faction	reformers	hardliner/ neo- conservatives
basic political orientation	conservative, anti-state intervention, pro-market liberalization	state-oriented, anti-market liberalization, pro-state intervention	pragmatic, anti-state intervention, pro-market liberalization	reformist, anti-state intervention, pro-market liberalization	conservative, anti-state intervention, pro-market liberalization
politically relevant	state-oriented, anti-market liberalization, pro-state intervention	state-oriented, anti-market liberalization, pro-state intervention	pragmatic, anti-state intervention, pro-market liberalization	reformist, anti-state intervention, pro-market liberalization	conservative, anti-state intervention, pro-market liberalization
distribution of oil income / economic diversification	state-oriented, anti-market liberalization, pro-state intervention	state-oriented, anti-market liberalization, pro-state intervention	pragmatic, anti-state intervention, pro-market liberalization	reformist, anti-state intervention, pro-market liberalization	conservative, anti-state intervention, pro-market liberalization
economic policy	state-oriented, anti-market liberalization, pro-state intervention	state-oriented, anti-market liberalization, pro-state intervention	pragmatic, anti-state intervention, pro-market liberalization	reformist, anti-state intervention, pro-market liberalization	conservative, anti-state intervention, pro-market liberalization
foreign policy	state-oriented, anti-market liberalization, pro-state intervention	state-oriented, anti-market liberalization, pro-state intervention	pragmatic, anti-state intervention, pro-market liberalization	reformist, anti-state intervention, pro-market liberalization	conservative, anti-state intervention, pro-market liberalization

Power struggles...

interests

- Opposing in opposition...
- ...pushing for reform when in power
- Blocks between institutions (Republican institutions vs. Theocratic institutions)
- Advantages for certain groups close to dominant faction

What weighs more?



Impact of sanctions...

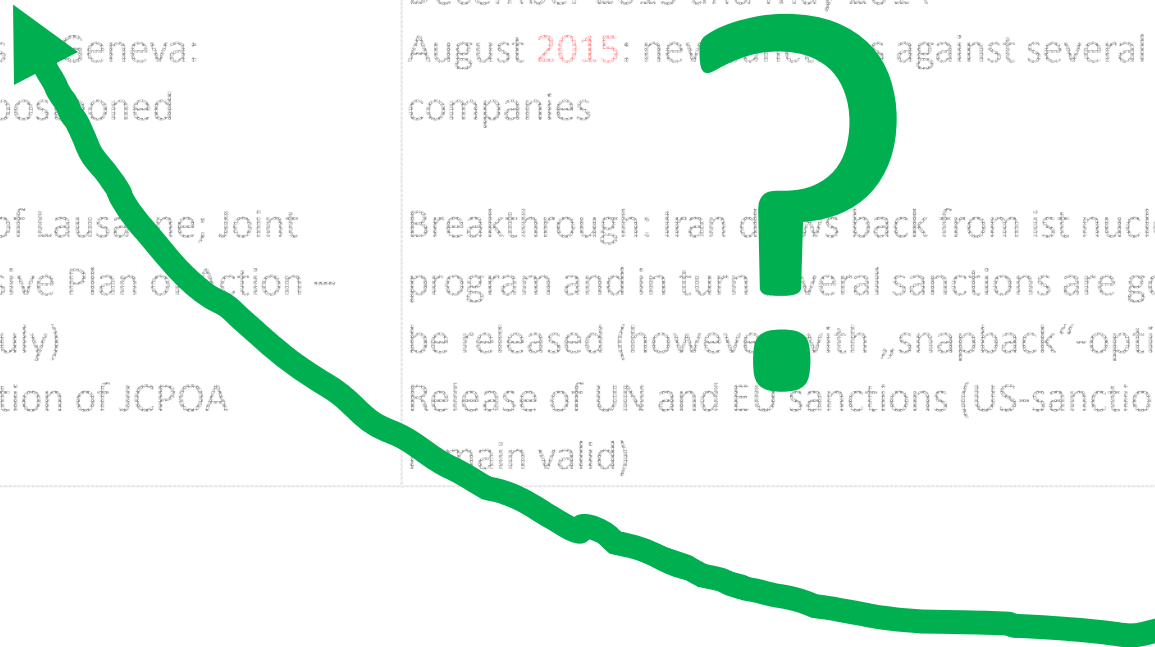
	Decisions/ Negotiations	Sanctions	Threat to attack	
2006	Refusal of Tehran Declaration	UNSC-Resolutions 1696, 1737, 1747		
2007				
2008		UNSC-Resolution 1803		
2009		Freezing of Iranian accounts in GB; Travel sanctions by EU		
2009				Cyberwar attacks
2010		UNSC-Resolutions 1929, CISADA, EO 13553, UN Sanctions; further EU Sanctions		Stuxnet-Virus found; assassination of nuclear scientists
2011		Sanctions against the Iranian Central Bank; Decision upon EU oil embargo; freezing of foreign accounts of Iranian Central Bank (now classified as „jurisdiction of primary money laundering concern“)		
2012	Exclusion from the SWIFT system; further EU- and US-Sanctions (EU: ban of insurance for oil trade with Iran); start EU oil embargo; further US sanctions; Gold-sanctions; sanctions against NIOC			

→ pressure to reform
→ security narrative



Impact of their phasing out

	Decisions/Negotiations	Sanctions	Threat to attack
2013	Preliminary Geneva Agreement	(Almost) No new sanctions planned between December 2013 and May 2014	
2014	Negotiations in Geneva: Agreement postponed	August 2015: new sanctions against several Iranian companies	
2015	Agreement of Lausanne; Joint Comprehensive Plan of Action – JCPOA (14. July)	Breakthrough: Iran draws back from its nuclear program and in turn several sanctions are going to be released (however with „snapback“-option)	
2016	Implementation of JCPOA	Release of UN and EU sanctions (US-sanctions remain valid)	



Consequences for diversification efforts in Iran?

- Blocking?
- Acceleration?
- Other priorities?
- Conquest of „untapped“ Iranian market by foreign companies?

→ Good or bad for diversification?

→ *Scenario 1: lifting of sanctions*

→ *Scenario 2: prolongation of sanctions*

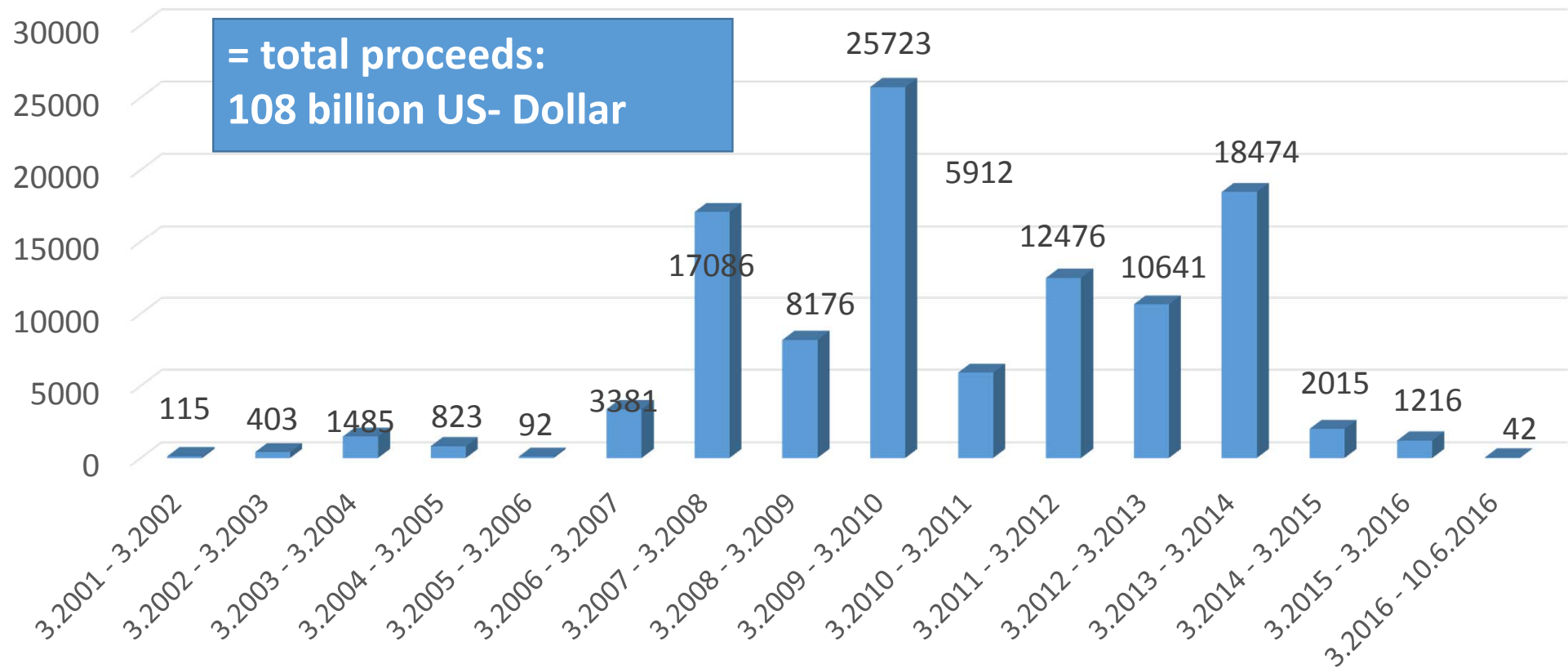
Discussion: what does diversification of oil exporting countries mean for different actors?



Thank you for your attention,
your questions & remarks



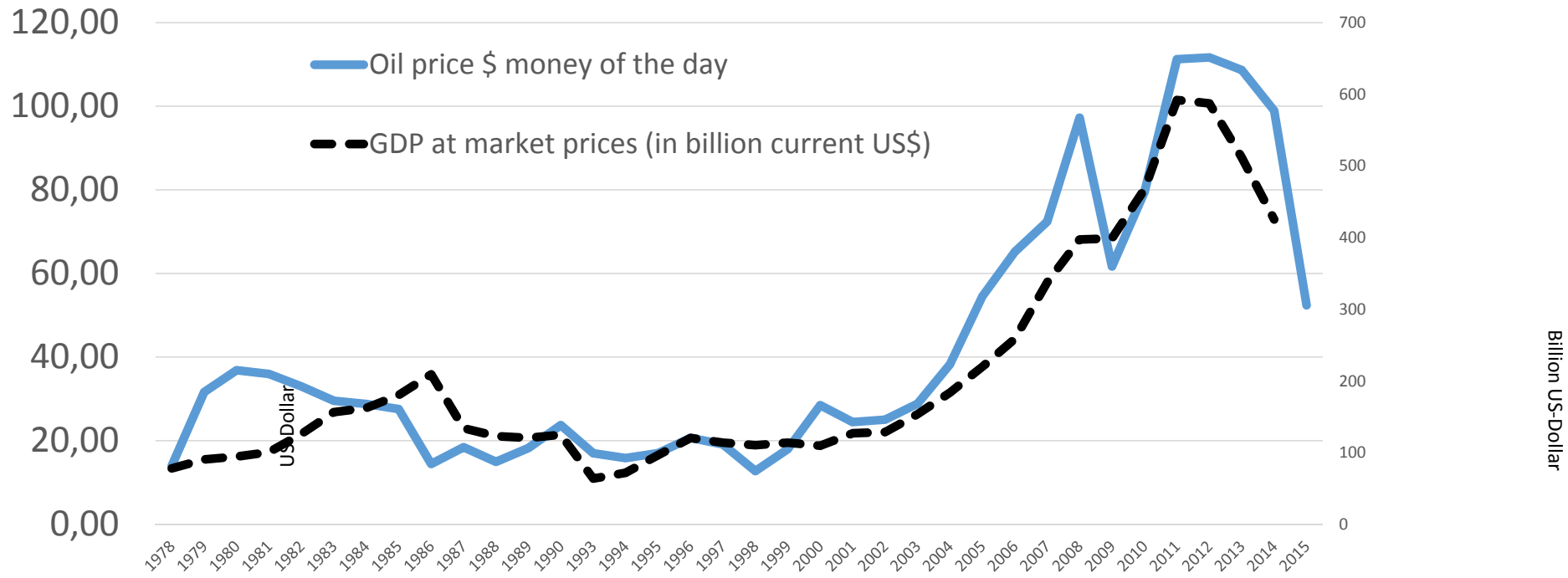
Income from Privatization, 2001- June 2016



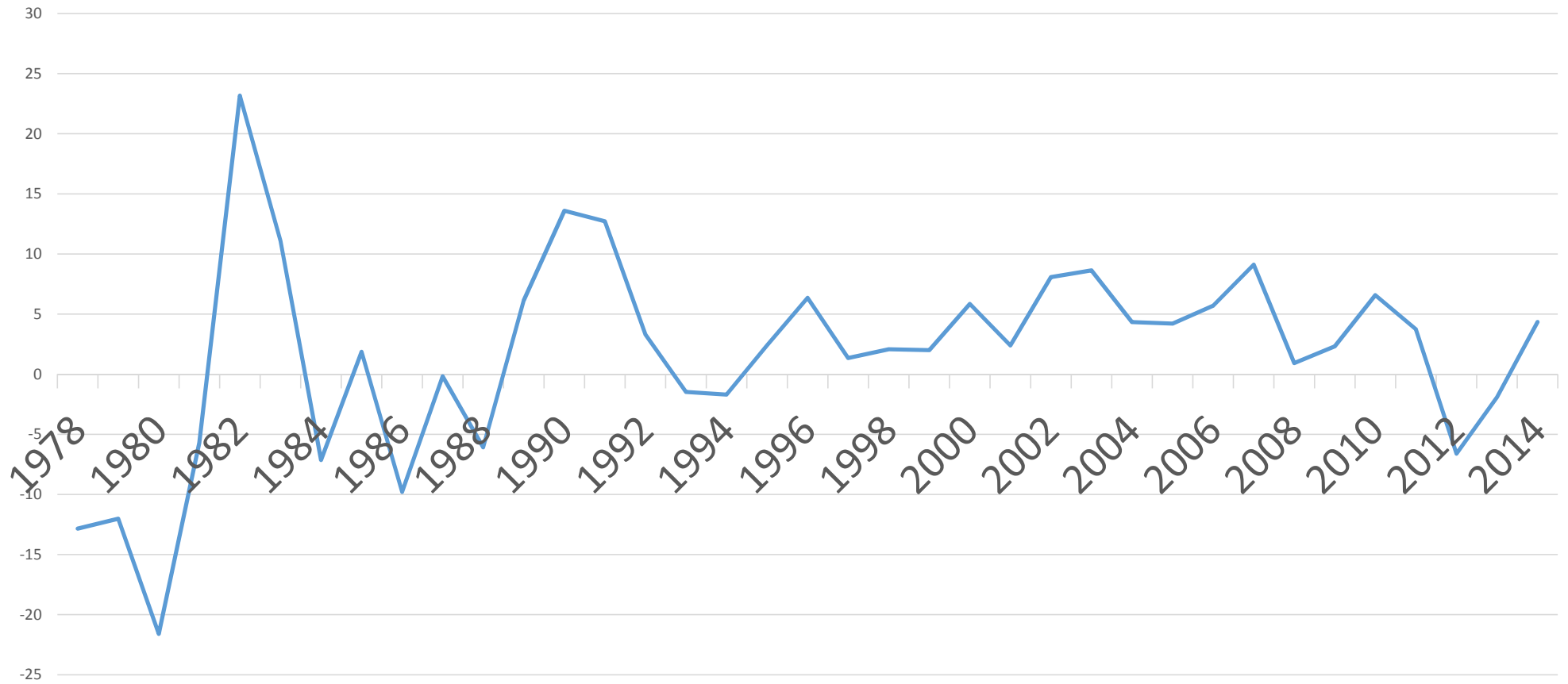
Source: Iranian Privatization Organization 2015, Mio. US-Dollar.

<http://www.en.ipo.ir/uploads/ipo-2016-06-10-3.pdf>

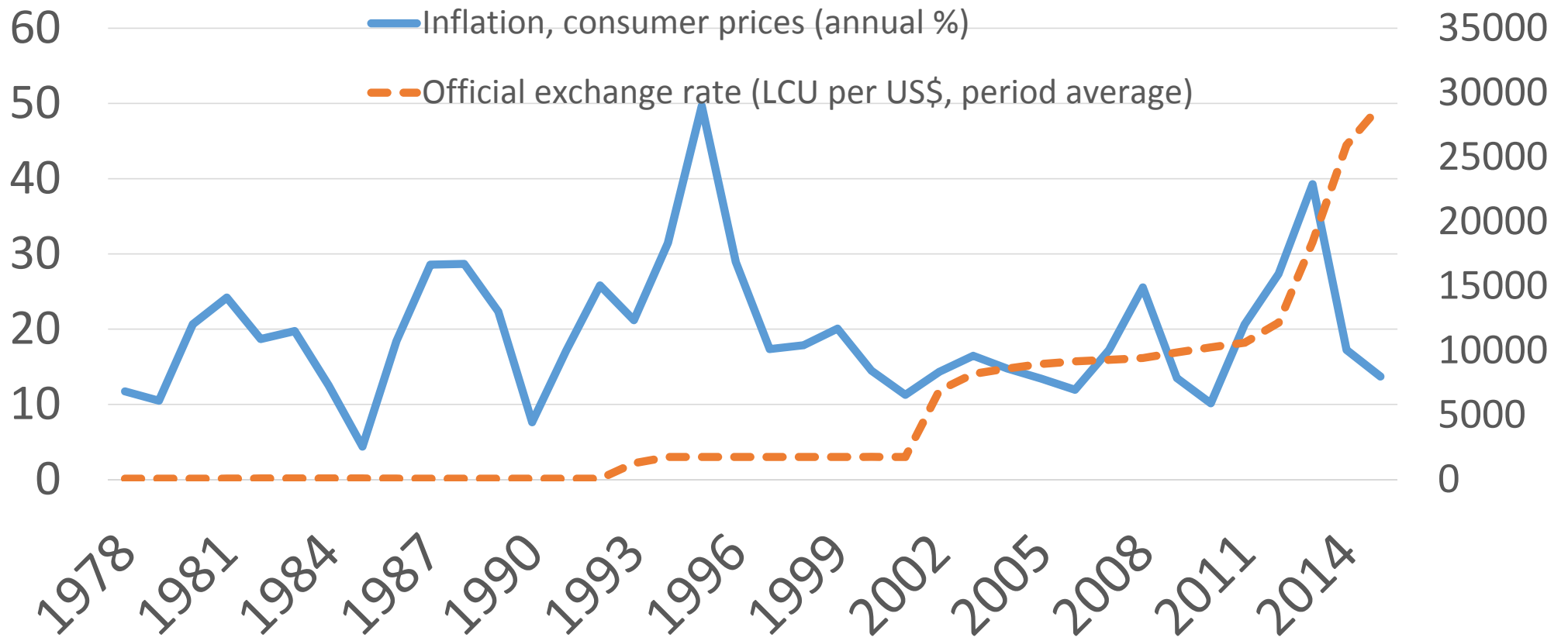
Oil prices and GDP



GDP growth



Inflation and exchange rate



Contribution of different sectors to GDP in percent (constante prices of 1997/98)

