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**THESIS**

**OVERCOMING THE ULAMA: GLOBALIZING IRAN'S  
POLITICAL ECONOMY**

by

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December 2008

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**OVERCOMING THE ULAMA: GLOBALIZING IRAN'S POLITICAL  
ECONOMY**

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Submitted in partial fulfillment of the  
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## ABSTRACT

In the nearly thirty years following the Islamic Revolution, two opposing forces – an isolated conservative theocracy versus globalization – struggling to coexist, placed Iran in a precarious position to either move back toward the traditional ideologies that prompted such a radical transformation, away from the pressures, challenges and interdependencies created through globalization, or to participate more actively in the outside world. The religious establishment or *ulama* play the most significant role in the dichotomy between Iran's theocratic conservatism and the position Iran takes in globalization.

The modern history of Iran is replete with examples of the *ulama* actively participating in the political economy of the country, usually acting with their own interests in mind. Despite basing their actions within the theology and jurisprudence of Shi'a Islam, significant space exists with the principles of Islamic economic thought to allow the *ulama* in Iran to lead their country into the global economy. Yet the uncertainties and diffusion of power brought about through the processes of globalization keep the religious establishment from doing so in an effort to maintain their control over all Iranian institutions captured after the revolution.

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# I. INTRODUCTION

## A. MAJOR RESEARCH QUESTION

This thesis will examine the dichotomy between Iran's theocratic conservatism and the role Iran plays in globalization. In the nearly thirty years following the Islamic Revolution, these two opposing forces struggling to coexist place Iran in a precarious position to either move back toward the traditional ideologies that prompted such a radical transformation, away from the pressures, challenges and interdependencies created through globalization or to participate more actively in the outside world. How can Iran integrate into the international political economy if its theocracy, lead by religious conservatives, resists globalization? Through what mechanisms will Iran embrace its role in globalization? What function do foremost Shi'a *ulama*<sup>1</sup> have in shaping Iran's political economy?

To study Iran's position in the international political economy this thesis will explore the economic challenges facing Iran through the pressures applied by globalization and survey the economic theory of Shi'a Islam to determine under what framework globalization can exist within the Islamic Republic of Iran.

## B. IMPORTANCE

In 1979, a growing populist movement initiated by an exiled Ayatollah brought Iran from the rule of a pro-western monarch into a belligerent Islamic Republic. While throughout the history of Iran, the *ulama* have played an active role in the political economy, the Iranian Revolution (or Islamic Revolution as it is sometimes referred to), "marked the first time (in history) that Muslim clerics harnessed the power of their

---

<sup>1</sup> In his thesis, Brian P. Maynard uses the Arabic word *ulama* as "a collective term referring to the members of the Islamic religious establishment including scholars, preachers, and teachers. Though the terms cleric and clergy are not completely analogous with *ulama*, they have been used extensively in western studies and are used synonymously in this work," as well. Brian P. Maynard, "The Role of the Ulama in Shiite Social Movements: Bahrain, Lebanon and Iraq," (Master's Thesis, Naval Postgraduate School, 2005), 1.

religious authority to replace a secular, modern state with a theocracy.”<sup>2</sup> Almost overnight Iranian society became infused with new social, economic, political and military pressures which would determine not only the strength of the emerging state as a Middle Eastern regional power, but also its future as a symbol of influence in the international environment.

While the Islamic Republic of Iran wields tremendous regional importance, “as a country of 70 million people, with a history of three thousand years of statehood, substantial oil and gas resources, and a rich and influential culture,”<sup>3</sup> its significance in a globalized international economy is virtually non-existent.<sup>4</sup> Iran sits at a cross-road of two potentially destabilizing forces threatening to pull the country apart. On one hand the ulama persist in keeping Iran inaccessible through isolationist political and economic policies, while on the other hand, markets forces seek to penetrate and expose Iran to the rest of the world. A quarter of a century after the Revolution, reform minded leaders “sought (to bring Iran) greater liberty and democracy,” however, the June 2005 election of President Mahmoud Ahmadinejad “dealt a serious blow to the reform movement in Iran,”<sup>5</sup> and brought the resurgence of the uncompromising theocratic politics of the Supreme Council of Guardians and ensuing economic policies of the new government.

Iran must not only deal with increased domestic pressure over a stagnant economy and suppressed civil liberties and personal freedoms of a growing population, but also international pressure over its nuclear program, support to international terrorism including Hezbollah in the Levant and accusations of assisting militant Shi’a groups in Iraq as well. The pressure brought on by globalization, namely the opening up of its economy and society to an external political economy further serve to exacerbate the

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<sup>2</sup> John Baylis and Steve Smith, “Conflict Without Victory: The Iran Iraq War,” *Case Studies of Contemporary Conflicts* (Oxford: Oxford University Press: 2007), [http://www.oup.com/uk/orc/bin/9780199289783/01student/cases/iran\\_iraq\\_war.pdf](http://www.oup.com/uk/orc/bin/9780199289783/01student/cases/iran_iraq_war.pdf), (accessed January 24, 2008).

<sup>3</sup> Ali Mohammadi, *Iran Encountering Globalization: Problems and Prospects* (London: Routledge Curzon, 2003), xii.

<sup>4</sup> Iran placed last out of 62 countries in A.T. Kearney’s 2006 Globalization Index published in *Foreign Policy*.

<sup>5</sup> Patrick O’Neil, Karl Fields and Don Share, “Iran,” *Cases in Comparative Politics* (New York: Norton and Company, 2006), 313.

problem which casts Iran in an “uncertain fate whose future will profoundly affect its surrounding region”<sup>6</sup> that classifies the Islamic Republic as a pivotal state in American foreign policy considerations.

### C. PROBLEMS AND HYPOTHESIS

The problems and issues raised by my major research questions are threefold. The first problem derives from the principle role leading Shi’a *ulama* have in shaping Iran’s political economy – which is their influence on the government in determining fiscal and monetary policy as well as bilateral and multilateral trade agreements. As the literature demonstrates, a distinguishing feature of Iran’s political economy is the active role played by the religious clergy, not only before the Islamic revolution, but afterwards, despite Ayatollah Khomeini’s quip that, “economics is for donkeys,” and that they did not overthrow the Shah “just to lower the price of watermelons.” As the literature will indicate, the *ulama* are not a homogenous group with disagreements occurring over Islamic theology and over economic strategies. Conservative elements argue for increase isolationism, while both pragmatists and reformists both lean towards varying degrees of economic liberalization. Thus, a preliminary conclusion would indicate a resistance to modernization through the process of globalization exists within the conservative leadership of the religious ranks, however the forces and pressures exerted upon Iran will transcend the traditional ideologies and usher in a new era of economic growth within the Islamic Republic.

The second problem deals with determining Iran’s place in the global economy despite multilateral sanctions imposed by the United Nations (UN) over Iran’s reluctance to give up its ongoing nuclear program as well as unilateral sanctions imposed by the United States since the 1980s. The sanctions, in effect, inevitably limit Iran from participating fully in the global economy, yet globalization weakens the potential impact of sanctions “by increasing the number of ways that sanctions can be circumvented,”<sup>7</sup> as

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<sup>6</sup> Robert S. Chase, Emily B. Hill and Paul Kennedy, “Pivotal States and U.S. Strategy,” *Foreign Affairs* 75, No 1, (January/February 1996): 33.

<sup>7</sup> Lance Davis and Stanley Engerman, “History Lessons: Sanctions: Neither War nor Peace,” *Journal of Economic Perspectives* 17, No. 2, (Spring, 2003): 196.

evidenced by the nearly 40 percent of Iran's trade with both the European Union and China combined. Therefore, a potential hypothesis is, despite economic sanctions, levied by the UN and U.S.; these alone do not limit Iran's participation in the global economy.

The final problem relates to the nature and definition of globalization. To some in the Muslim world globalization manifests as a Western or even American ideal whose place in the Middle East is not yet realized, or even understood. As globalization takes shape throughout the world, the Middle East is caught in a precarious position. While the merits of globalization and free trade bring about economic growth and development, it can also threaten culture and tradition while causing a rise in vulnerability, uncertainty and political instability. With globalization comes a mixing of markets, culture and nations to create a new economic system. In a region that does not particularly respond well to change, globalization is likely to make certain parts and societal group – namely the Shi'a *ulama* of Iran – uncomfortable. Thus, to accept globalization would be to abandon their traditional social values.

#### **D. LITERATURE REVIEW**

The Islamic Republic of Iran can trace the history of its statehood in one form or another for over three thousand years. During that time the lands encompassing Iran have enjoyed splendid isolation while hosting the rise and fall of empires and dynasties, monarchies and constitutional reforms culminating in the Islamic Revolution that formed the modern day republic. Central to Iran's history is the role played by the *ulama* or religious clerical leaders and part of the religious establishment of Shi'a Islam.

The *ulama* are more than just the religious clergy; they represent countless years of study in traditional Islamic scholarship, becoming a part of the educated class “responsible for shouldering the task of ministering to the community's religious needs as well as its social and political interests.”<sup>8</sup> The Shi'a *ulama* are those “who have acquired sufficient knowledge to be able to understand and interpret religious text and Islamic

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<sup>8</sup> Vali Nasr, *The Shi'a Revival*, (New York: W.W. Norton and Co, 2006), 67.

laws”<sup>9</sup> and “became functional replacements for the authority of the imams.”<sup>10</sup> The source of reverence and emulation (*taqlid*) comes not only “for their knowledge, but for the link to the Twelfth Imam that they represent.”<sup>11</sup> Though a hierarchical system within the *ulama* exists based on stature of instructors, religious credentials and number of followers, there is no one leader among them.

While the lofty title of *ayatollah* (the sign of God) is accorded “without ceremony in which the office is formally bestowed,”<sup>12</sup> to an *alim* by his peers based on years of study and religious writings, where “the most senior clergy (elevate to) sources of emulation.”<sup>13</sup> An *ayatollah*, while well versed in matters of Islamic law and jurisprudence, is also a well-rounded scholar on other issues outside of religion, such as philosophy, economics – or increasingly in Iran’s case – politics.

With this title comes the ability to write statements of religious discourse and issue *fatwas*, or religious edicts that offer “a practical solution, a way out, addressed to the problems, paradoxes, anomalies and puzzles that life throws up constantly in the face of the faithful,”<sup>14</sup> to his followers or to all followers if bestowed the title of Grand Ayatollah. “Even if *ulama* considered that they could not change *Shari’a* Law itself, ample room for interpretation remains through *fatwas*,”<sup>15</sup> and under *taqlid*, these *fatwas* must be followed or risk committing “a crime against the Imam.”<sup>16</sup> The *ulama*, however, do not have a complete monopoly on religious discourse.

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<sup>9</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 548.

<sup>10</sup> Vali Nasr, *The Shia Revival*, 66-67.

<sup>11</sup> Vali Nasr, *The Shia Revival*, 68.

<sup>12</sup> Brendan I. Koerner, “How Shiite Clerics Earn the Name,” <http://www.slate.com> (accessed August 17, 2008).

<sup>13</sup> Vali Nasr, *The Shia Revival*, 70.

<sup>14</sup> Sadik J. al-Azm, “Is the Fatwa a Fatwa,” *Middle East Report* 83, Political Islam, (July/August 1993): 27.

<sup>15</sup> Nikki R. Keddie, “Iran: Change in Islam; Islam and Change,” *International Journal of Middle East Studies* 11, No. 4., (July 1980): 528.

<sup>16</sup> Abbas Kadhim, statement at seminar attended by author, Monterey, CA, February 4, 2008.

The Islamic intelligentsia, though not members of the clerical religious establishment, also contribute to this discourse. In secular Western society, Weber considers the intelligentsia, “the classes privileged through property and education,”<sup>17</sup> however, in Iran the term identifies “the educated, middle class Islamic intellectuals with a responsibility and a duty to build a modern Islamic society in Iran.”<sup>18</sup> Feeling disconnected with the *ulama* due to their different methods of Islamic learning, this group of people, though devote Shi’a Muslims, were critical of the *ulama* and “accused them of becoming part of the ruling class, of institutionalizing revolutionary Shi’ism, and thereby transforming it into a highly conservative religion.”<sup>19</sup> According to the Islamic Intelligentsia, the *ulama* were not capable of leading a return to true Islam. To placate these individuals, members of the *ulama* united with the intelligentsia during the late nineteenth and early twentieth century against un-Islamic rulers. The *ulama* “formulated an ideology that sought to appeal to the intelligentsia by harmonizing Islamic injunctions with pluralistic precepts,”<sup>20</sup> yet remained distinctive through their exceptional religious perspective.

The individual character, level of scholarship and political involvement make each member of the *ulama* unique. To disregard “the persistent political divisions with the *ulama*”<sup>21</sup> in treating them as a collective does disservice to the individual who has gained wisdom through decades of learning, study, experience and writing. These central figures have been a part of Iran’s history since the middle of the last millennium.

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<sup>17</sup> Max Weber, *Economy and Society*, (Berkeley: University of California Press, 1978), 462.

<sup>18</sup> Riaz Hassan, “Iran’s Islamic Revolutionaries: Before and after the Revolution,” *Third World Quarterly* 6, No. 3, (July 1984): 680.

<sup>19</sup> Riaz Hassan, “Iran’s Islamic Revolutionaries: Before and after the Revolution,” *Third World Quarterly* 6, No. 3, (July 1984): 680.

<sup>20</sup> Ray Takeyh, “Review of *Creating an Islamic State: Khomeini and the Making of a New Iran* by Vanessa Martin,” *International Affairs (Royal Institute of International Affairs 1944-)*, Vol. 78, No. 2, (April 2002), 414.

<sup>21</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 520.

The literature is ripe with history on the transition of the Safavid Empire to Shi'ism under Shah Ismail in the sixteenth century as well as the early Safavid rulers who sought to convert both Sunni Muslims and non-Muslims alike to Shi'a Islam. Reinforcing that the people should follow the religion of their rulers, "Shi'a *ulama* from Iran, Lebanon and Bahrain were brought to Iran as missionaries and became part of the state-created and controlled Shi'a religious establishment."<sup>22</sup> Having a ruler practicing the same religion as the population brought legitimacy to that rule, as well as offered the *ulama* complete endorsement from the state for its political and economic policies. The roots of the Shi'a *ulama* were now entrenched in the state of Iran having "retained their autonomous religious authority as well as their control over appreciable resources."<sup>23</sup>

In an unusual showcase of political power, not seen among contemporaries in other prominently Sunni Muslim countries, "one of the distinguishing features of Iranian political history is the active role played by the Shi'a *ulama* in virtually all the country's historically significant political and economic events."<sup>24</sup> Religious institutions, especially those with an integral part of the national heritage, "are the most effective systems of communication, and religious leaders who are often more devoted, efficient and intelligent than government officials, cannot be ignored."<sup>25</sup> This history showcases the evolution of power structures tied to both social and economic changes that have reduced the power of certain social classes at the same time increasing the power of others.<sup>26</sup>

The literature on *ulama*/state economic relations in Iran from a historical context seeks to determine the nature of that relationship through explanatory models. Mansoor Moaddell rejects both the ideological model and the modernization model in favor of one

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<sup>22</sup> John Esposito, *Islam: The Straight Path* (Oxford: Oxford University Press), 63.

<sup>23</sup> Said A. Arjomand, "Iran's Islamic Revolution in Comparative Perspective," *World Politics* 38, No. 3, (April 1986): 389.

<sup>24</sup> Mansoor Moaddell, "The Shi'i *Ulama* and the State in Iran," *Theory and Society* 15, No. 4, (July 1986): 519.

<sup>25</sup> Mark Juergensmeyer, "The New Religious State," *Comparative Politics* 27, No. 4, (July 1995): 384.

<sup>26</sup> Nikki R. Keddie, "The Iranian Power Structure and Social Change 1800-1969: An Overview," *International Journal of Middle Eastern Studies* 2, no. 1, (January 1971): 3.

that emphasizes class conflicts.<sup>27</sup> The ideological model taken from Hamid Algar argues, “*ulama* political behavior under varying historical conditions can indeed be explained by the political teachings of Shi’ism.”<sup>28</sup>

Under the modernization model, the actions of the *ulama* occur within the context of modernization – namely the *ulama*’s resistance to these processes.<sup>29</sup> Modernization, with its connotations of secularism, “is generally understood as a process of change mainly caused by the increasing penetration of the world capitalist system in to Iran,”<sup>30</sup> naturally evokes a response by the *ulama* as “the *ulama* are the principle agents of traditionalism whose ‘distinctive feature in twentieth century Iran is that it has been a general movement for the defense of Islam against Western influence.’”<sup>31</sup> This model implies, “an inverse correlation between *ulama* power and the growth of a strong government,” exists while the *ulama*’s “opposition to the state comes from (their) attempts to protect their social, cultural and economic privileges.”<sup>32</sup> In this context, the *ulama* view globalization as a modern, Western ideal which must be rejected.

What these two models do not explain or take into consideration are the *ulama*’s relationships with social classes, specifically, “how changes in *ulama* political behavior could be produced by changing class relations”<sup>33</sup> under varying economic conditions. This context considers the *ulama* as a special social category, whose “distinctive unifying

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<sup>27</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 519.

<sup>28</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 519.

<sup>29</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 519.

<sup>30</sup> Mohammad H. Faghfoory, “The *Ulama*-State Relations in Iran: 1921-1941,” *International Journal of Middle Eastern Studies* 19, No. 4 (November 1987): 413.

<sup>31</sup> Said A. Arjomand, “Traditionalism in Twentieth Century Iran,” as quoted by Mansoor Moaddel, “The Shi’i and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 520.

<sup>32</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 520.

<sup>33</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 520.



religious and occupational functions set them apart from the rest of society.”<sup>34</sup> This model regards the *ulama* as a heterogeneous group consisting of various factions, vice what “virtually all scholars that consider the *ulama* a homogeneous group.”<sup>35</sup>

Following the Revolution in 1979, the *ulama* under the supervision of Ayatollah Khomeini composed the Revolutionary Committee for Economic Policy and established a nine-point program to guide the economy in post revolutionary Iran. From the genesis of taking a relatively healthy economy able to service foreign debts by reviving oil output had, by 1980, deteriorated into “fierce contests between secular and religious forces shaping the post-Shah economy into one of eventual slow down and decline.”<sup>36</sup> The 1979 Islamic Revolution marked the beginning of isolationist policy which hindered relationships with not only the region’s Sunni governments, but also from the rest of the world.

The post-revolutionary architects consisting of both *ulama* and religious intelligentsia imbedded new government institutions within the framework of the Iranian constitution which created the modern day theocratic, religious state. Out of Khomeini’s vision under the principle of guardianship of the jurist (*velayat-e faqih*) came the office of the Supreme Leader, the Assembly of Experts, the Council of Guardians, the Expediency Council, the Supreme National Security Council, the Central Bank and the Islamic Revolutionary Guard Corps (IRGC). These institutions (see Figure 1), dominated by the *ulama*, play a significant role in “creating order and reducing uncertainty,”<sup>37</sup> and combined with economics, “set the incentive structure and shape the direction of economic change towards growth, stagnation or decline.”<sup>38</sup> These institutions served to promote theocratic conservatism while at the same time restrict Iran’s role in the emerging global economy.

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<sup>34</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 520.

<sup>35</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 520.

<sup>36</sup> Abbas Alnasrawi, “Economic Consequences of the Iraq-Iran War,” *Third World Quarterly* 8, No. 3, (July 1986): 871.

<sup>37</sup> Douglas C. North, “Institutions,” *Journal of Economic Perspectives* 5, No. 1, (Winter 1991): 97.

<sup>38</sup> Douglas C. North, “Institutions,” *Journal of Economic Perspectives* 5, No. 1, (Winter 1991): 97.

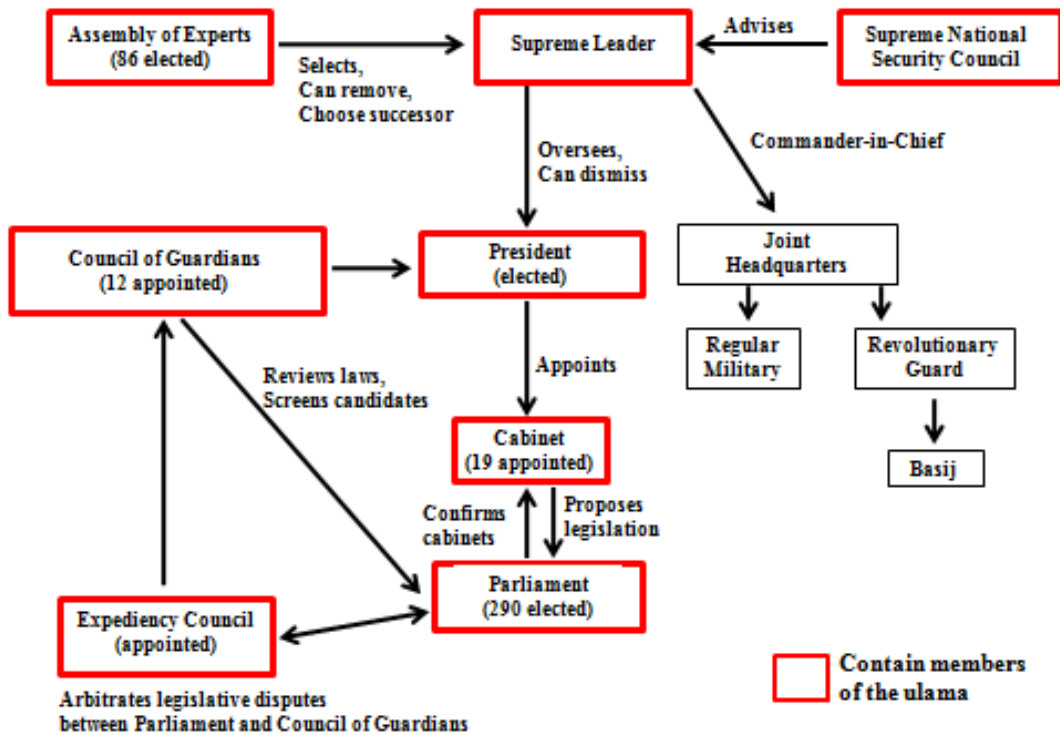


Figure 1. Structure of Iranian Government.<sup>39</sup>

The clerical composition of Iran’s governmental institutions varies from very few to its entirety. While the Supreme Leader and Assembly of Experts are composed entirely of members of the *ulama*, the Council of Guardians and Expediency Council consist of fifty percent and forty-two percent respectively.<sup>40</sup> The makeup of the Parliament changes from election to election, but has been around thirty percent of the 290 seats.<sup>41</sup> Members of the *ulama* comprise twenty percent of the Supreme National Security Council and five percent of the executive cabinet.<sup>42</sup> While current (as of 2008)

<sup>39</sup> Red highlights by author; figure from Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” *CRS Report for Congress*, RL32048, Updated March 7, 2008, 54.

<sup>40</sup> Percentages calculated from open source news reporting from Iran News Daily (<http://www.irannewsdaily.com>), Pars Times (<http://www.parstimes.com>) and the Open Source Center (<https://www.opensource.gov>) accessed November 20, 2008.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

Iranian President Mahmoud Ahmadinejad is not part of the religious establishment, his two predecessors, Mohammad Khatami and Ali Akbar Hashemi Rafsanjani, are both Shi'a *ulama*. The Supreme Leader commands the Joint Headquarters of the Iranian armed forces which include both regular military and the Revolutionary Guard. With nearly absolute control over every governmental institution, the *ulama* are in key positions to not only screen the secular and religious candidates alike running for elected positions, but also draft, arbitrate, pass and execute laws which pertain to the political economy of Iran.

While some of today's economists consider Iran as having one of strongest performing economies in the Middle East based on economic growth rates, others cite inefficiency in the oil sector, wasteful public spending, corruption, inflation, high unemployment, and lack of development in non-petroleum related sectors as signs of a stagnant economy which has squandered much of its oil revenue. Reminiscent of Mohammed Reza Shah's extravagant spending of oil revenues exceeding fifteen percent of GDP during the militarization of Iran during the 1970s,<sup>43</sup> so do Iran's current leaders propagate uneven economic development with spending along parochial lines plaguing the country with inequalities in education, jobs and economic status. The Fund for Peace cites one third of the national income rests in the hands of only ten percent of the population with an increasing gap in the rural-urban divide as a lack of even the most basic of services are more rampant in the rural areas.<sup>44</sup>

Patterns of progressive economic decline such as double-digit inflation, small business failures, decreased trade revenue, capital flight and limited direct foreign investment exist despite increasing oil revenues through increased oil prices, and "while (Iran's) economic performance has improved over the last several years, there has been little progress made in alleviating poverty or unemployment."<sup>45</sup> In addition to bilateral economic sanctions imposed by the United States, Iran's economy suffers under

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<sup>43</sup> Morteza Gharehbaghian, "Oil Revenue and the Militarisation of Iran: 1960-1978," *Social Scientist* 15, No. 4/5, (April/May 1987): 98.

<sup>44</sup> Fund for Peace, "Iran Country Profile," <http://www.fundforpeace.org>, (accessed January 26, 2008).

<sup>45</sup> Robert E. Looney, "The Re-Emergence of Iranian Petro-Populism," *Gulf Research Center, Gulf Yearbook 2006/2007*, (Dubai: GRC, 2007), 417.

multilateral economic sanctions levied by the United Nations. As Iran continues developing its nuclear program, these sanctions are not likely to be lifted in the near future.

Since the revolution of 1979, the Supreme Leader and his Council of Guardians work in the background to override political leaders and decide the economic fate of a state and its population of over 70 million people supported by an economy fueled by rising oil revenues that cannot maintain growth, curb unemployment or inflation, or limit wide-spread poverty reaching both rural and urban areas. The indications of a state caught in the dichotomy between theocratic conservatism and increasing globalization remains – replete with international pressures over a budding nuclear program and support to international terrorist organizations and domestic pressures over a deteriorating economy and limited political freedoms. That being said, Iran remains a pivotal state whose position between the two fronts on the Global War on Terrorism has “the capacity to affect regional and international stability” and whose demise “would spell trans-boundary mayhem.”<sup>46</sup>

This thesis adds to the body of knowledge and attempts to close the “black hole” on a part of Iranian society and politics<sup>47</sup> by addressing the role of the traditional *ulama* and state relations in Iran by looking at their role in influencing Iran’s decision to transition into or away from the world economy through the process of globalization. As the economic train of globalization is not likely to come off its tracks anytime soon, hard-line, conservative and moderate Shi’a clerics who support economic growth must continue to elucidate debate over the benefits of globalization. The West must allow Iran to accept globalization on its terms and not force Western ideals and their negative connotations on a reluctant leadership.

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<sup>46</sup> Robert S. Chase, Emily B. Hill and Paul Kennedy, “Pivotal States and U.S. Strategy,” *Foreign Affairs* 75, No 1, (January/February 1996):37.

<sup>47</sup>Henry Precht, “Ayatollah Realpolitik,” *Foreign Policy*, No. 70, (Spring 1988): 109.

## **E. METHODS AND SOURCES**

The development of the Iranian revolutionary economy to determine under what framework globalization can exist within the Islamic Republic, presents an ideal case study. Taking a macroeconomic approach to the study of Iran, the research will be focused on the structure, performance and behavior of the economy, while not only taking market forces into account, but also the intervention of those forces which exist outside the market – namely those stemming from theocratic conservatism pervasive not only among the Guardian Council, but also with the executive and legislative branches of the Iranian government.

Source materials for this research will be acquired in several forms. A collation of relevant primary sources from economic indices produced by international and domestic institutions such as the World Bank, International Monetary Fund, World Trade Organization, United Nations, Central Bank of Iran and multinational corporations will be utilized to group related items of information together. These include economic indicators such as growth rates, inflation, interest and investment, unemployment, balance of payments, foreign currency reserves, national debt and price indices. Also, primary source materials containing interpretations of Shi'a economic theory written by classic and modern thinkers alike, along with leading Grand Ayatollahs and Ayatollahs will be examined. To evaluate their reliability and relevance, secondary sources will include books, journals and articles written by experts in political economy, free trade, economic cooperation and Islamic economics and finance. Throughout the course of this project, analysis will be conducted in an effort to establish the significance and implications of this research as it applies directly to the major problems and hypotheses identified in this thesis.

## **F. THESIS OVERVIEW**

This thesis will be organized into five chapters with the conclusion comprising the fifth and final chapter. The scheme of logic for addressing the problems and issues raised by the research question is as follows:

Chapter I contains the introduction which states the purpose and importance of the research being undertaken. The literature review will survey the important academic literature on *ulama*/state economic relations as well as domestic and foreign perceptions of the strength of Iranian economic development and how these two factors collide under globalization. Introducing the main players – the *ulama* – will demonstrate how their roles in shaping the past, present and future affect the Iranian political economy.

Chapter II will look at Islamic economic theory from classical and modern thinkers, how it is applied in Iran and whether or not globalization has a place in the political economy of Iran.

Chapter III examines the influence of the *ulama* over the economic policies of the state compared over significant events in Iranian history beginning in 1891 with the Tobacco Protests through the Islamic Revolution of 1979. The second half of this chapter will detail the evolution of Iran's post revolutionary economy through four different stages. At each stage the influence of the religious leadership on Iran's role in the global economy will be evaluated. It is important to first establish the history behind why Iran behaves as it does in the global economy before tackling the components of globalization.

Chapter IV examines the forces of globalization in Iran through the creation of complex economic interdependencies created through market integration and expansion, or lack thereof, as evidenced by Iran's ranking on major indices measuring globalization and economic freedom. The prospects of free trade agreements, involvement of both inter-governmental and non-governmental intuitions and multinational corporations will be explored. A section on the impact of economic sanctions in this process will also be covered.

Chapter V summarizes the findings of this thesis and offers the conclusion that significant space exists with the principles of Islamic economic thought, to allow the Shi'a *ulama* in Iran to lead their country into the global economy, yet the uncertainties and diffusion of power brought about through the processes of globalization keep them from doing so in an effort to maintain their firm on power captured after the revolution.

## II. ISLAMIC ECONOMIC THOUGHT ON GLOBALIZATION

Since early Safavid rules brought Shi'a clerics to Persia, the economy of Iran has long links to established Islamic economic thought. Since the Islamic Revolution, this thought has been dominated by the *ulama* closest to the Supreme Leader and Iran's religiously dominated political institutions. As an Islamic Republic, "Islam not only comprises a set of principles and doctrine that guide a Muslim's relationship with God and with society, but also sets forth a code of conduct which regulates and organizes mankind in both spiritual and material life."<sup>48</sup> The traditionally educated religious clergy play an ever increasing role in modern society, developing the relationship between man and God, advancing that code which dictates the nature of that relationship, while slowly adapting to the challenges and complexities of operating a modern political economy within an increasing bureaucratic and dominant state. In Iran, incorporating Islamic economic thought towards the process of globalization is held back in favor of a view of economics which seeks to strengthen the religious establishment's firm grip on not only political, but also economic power and social control.

Iran is caught in a position of uncertainty as the forces of globalization move throughout the world. While the merits of globalization and free trade bring about economic growth and development, it carries a stigma of vulnerability, which includes cultural change and political instability. With globalization comes a mixing of markets, culture and nations to create a new social order – in direct conflict with the one established and maintained since 1979. To those that do not react well to changes, globalization is likely to make certain members of the *ulama* uncomfortable. To accept globalization would be to abandon their traditional social and economic values. Can Muslim clerics find value in the benefits of globalization through Islamic economic thought? Or is globalization, seen as another Western ideal with connotations thrust upon a reluctant population, incongruent with Islam?

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<sup>48</sup> John R. Presley and John G. Sessions, "Islamic Economics: The Emergence of a New Paradigm," *The Economic Journal* 104, No. 424, (May 1994): 585.

If principles of Islamic economics encourage trade and enterprise, yet restricts self-interest and undue profiteering, does Islamic economics include, by extension, building a relationship between the individual and community through cooperation to the global economy?

In order to determine whether or not globalization has a place in the political economy of Iran, this chapter will examine the principles of Islamic economics and finance under the *Shari'a* in the proper paradigm as they relate to the components of economic integration. The components include actual economic flows, trade and capital restrictions, market growth and development and state interference in those markets. The elements of actual flows consist of trade, foreign direct investment (FDI), portfolio investment and income payments to foreign nationals, while import barriers, tariffs, taxes and capital account limits encompass the restrictions. Despite Islam's emphasis on the promotion of equality, social welfare and rejection of excess consumption and materialism within the Muslim community (*umma*) much room exists for greater integration into the world economy through globalization.

#### **A. THE PARADIGM OF ISLAMIC ECONOMICS**

For the traditionally educated *ulama* to get past the perception of globalization as a Western ideal born out of liberal capitalism, it must be presented within the paradigm of Islamic economics. This paradigm is not new, however, and if traced back to the *Qur'an*, economics based on Islam "is much older than the theoretical foundations of most Western economic paradigms."<sup>49</sup> Accompanying this paradigm is terminology rooted in philosophic foundations:

- i) *tawhid*: God's unity and sovereignty.
- ii) *rububiyyah*: divine arrangements for nourishment and directing things towards their perfection.
- iii) *khilafah*: man's role as God's vicegerent on the earth.
- iv) *tazkiyah*: purification plus growth.

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<sup>49</sup> John R. Presley and John G. Sessions, "Islamic Economics: The Emergence of a New Paradigm," *The Economic Journal* 104, No. 424, (May 1994): 585.



v) Accountability: belief in accountability on the day of judgment and its implications for the life in this world and in the hereafter.

vi) *falah*: attaining success through happiness by acquiring that which one desires or what is good.<sup>50</sup>

Rejecting previously iterated definitions of Islamic economics<sup>51</sup>, for one which favors a statement of the basic economic problem, Muhammad Arif offers, “Islamic economics as the study of a Muslim’s behavior who organizes the resources, which are a trust, to achieve *falah*.”<sup>52</sup> This definition implies that actors within a Muslim society establish the Shari’a as the basic foundation guiding economic thought. Therefore, an Islamic economic system subjected to the Shari’a with philosophic foundations of “accountability and individualism in the role of vicegerent to Allah with an objective to achieve *falah*, not only in this world, but in the Hereafter,”<sup>53</sup> replaces the capitalist economic system operating under a market economy paradigm under “utilitarian individualism based on laissez faire philosophy.”<sup>54</sup> Under this paradigm, “*falah* can be used to affect aggregate demand (AD) of an Islamic economy:”<sup>55</sup>

$$AD = Y = C + I + G + (X - M) + \textit{falah}$$

where:

Y = real Gross Domestic Product (GDP)

C = subsistence level of consumption plus desirable consumption, that is over and above which is required for subsistence but within the limits prescribed by the *Shari’a*.

I = investment

G = government spending

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<sup>50</sup> Muhammad Arif, “Toward a Definition of Islamic Economics: Some Scientific Considerations,” *Journal of Research in Islamic Economics* 2, No. 2 (Winter, 1985): 80-81.

<sup>51</sup> See, for example, Akram Khan, “Islamic Economics: Nature and Need,” and S.M. Hasanuz Zaman, “Definition of Islamic Economics,” in *Journal of Research in Islamic Economics* 1, No. 2, (Winter, 1984).

<sup>52</sup> Muhammad Arif, “Toward a Definition of Islamic Economics: Some Scientific Considerations,” *Journal of Research in Islamic Economics* 2, No. 2 (Winter, 1985): 87.

<sup>53</sup> *Ibid.*, 92.

<sup>54</sup> *Ibid.*

<sup>55</sup> *Ibid.*, 86.

$(X - M)$  = net exports of goods and services

*falah* = direct voluntary spending for the sake of Allah<sup>56</sup>

The view which contends economics must exist within an Islamic paradigm is also expressed by Muhammad Baqr al-Sadr.<sup>57</sup> However, al-Sadr's definition of Islamic economics concentrates on justice, especially within the Islamic community, rather than an individual seeking success:

...the way Islam prefers to follow in the pursuit of its economic life and in the solution of its practical economic problems in line with its concept of justice.<sup>58</sup>

Taken from the *Qur'an* social justice is tantamount to any solution of these problems:

...we have already sent Our messengers with clear evidences and sent down with them the Scripture and the balance that the people may maintain their affairs in justice...<sup>59</sup>

The nature of al-Sadr's economic thought created a new socio-economic order based neither on socialism nor capitalism. Others, such as Muhammad Iqbal, regarded Islam, "as the middle path between the alien capitalist spirit which strikes at the root of exploitation and the harmful, coercive policies of socialism."<sup>60</sup> The contributions of al-Sadr detail the behavior of markets, handling of transactions, distribution of wealth and well as the role of the state in economic affairs. Despite his justification of economics in terms of moral values, "he believed that there were natural universal laws of economics,

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<sup>56</sup> Equation for AD from Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 521-522. Integration of *falah* from Muhammad Arif, "Toward a Definition of Islamic Economics: Some Scientific Considerations," *Journal of Research in Islamic Economics* 2, No. 2 (Winter, 1985): 86.

<sup>57</sup> Al-Sadr (1935-1980 AD) was an Iraqi-born religious cleric who achieved the rank of Grand Ayatollah and published his seminal work on Islamic economic thought in *Iqtisaduna: Our Economics*, (Tehran: World Organization for Islamic Services, 1982).

<sup>58</sup> Al-Sadr as quoted by Rodney Wilson in "The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought," *Journal of Islamic Studies* 9, No. 1, (1998): 47.

<sup>59</sup> Seheeh International, ed., *The Qur'an: English Meanings*, (Jeddah, Saudi Arabia: Al-Muntada al-Islami, 2004), 57:25.

<sup>60</sup> Muhammad Iqbal, "Recent Works on History of Economic Thought in Islam: A Survey," *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

such as supply and demand and the notion of diminishing returns, which could not be disregarded as they explained economic phenomena and events,”<sup>61</sup> however, the foundation of his economic ethics lies within Islamic law. With the Shari’a as the basis for Islamic economic thought, a system which allows for the tenants of globalization can be created.

## **B. PRINCIPLES OF ISLAMIC GLOBAL ECONOMICS UNDER THE SHARI’A**

The ethics which guide Islamic economics, create a system which is not only compatible with Islamic law, but also, as with all other aspects of life, a means of achieving success (*falah*), or simply the maximization of utility although achieving market equilibrium is not the goal of Islamic economics as the promotion of social justice dominates the discussions of its basic principles.

Discussions of Islamic economics can be found “buried in the vast literature on the exegesis of the Qur’an (*tafsir*), commentaries on the life and times of Muhammad (*Hadith*), principles of jurisprudence (*usal al-fiqh*), and the law (*fiqh*).”<sup>62</sup> From purveyors of classical Islamic thought,<sup>63</sup> to modern theorists<sup>64</sup> and international

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<sup>61</sup> Rodney Wilson, “The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought,” *Journal of Islamic Studies* 9, No. 1, (1998): 48-49.

<sup>62</sup> “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 30, 2008).

<sup>63</sup> See, for example, Zaid bin Ali (699-738 AD), Abu Hanifa (699-767 AD), Al-Awaza’I (707-774 AD), Malik (717-796 AD), Abu Yusuf (731-798 AD), Muhammad bin Hasan al-Shaibani (750-804 AD), Shafi’I (767-820 AD), Abu ‘Ubayd al-Qasim ibn Sallam (d. 838 AD), Ahmad bin Hanbal (780-855 AD), Qudamah bin Ja’far (d. 948 AD), Al-Mawardi (d. 1058 AD), Ibn Hazam (d. 1064 AD), Al-Sarakhshi (d. 1090 AD), Nizam al-Mulk al-Tusi (1018-1093 AD), Al-Ghazali (1055-1111 AD), Al-Kasani (d. 1182 AD), Al-Shaizari (d. 1193 AD), Najmuddin al-Razi (d. 1256 AD), Nasiruddin Tusi (1201-1274 AD), Ibn Taimiyyah (1263-1328 AD), Ibn Al-Ukhuwwah (d. 1329 AD), Ibn al-Qayyim (1292-1350 AD), Abu Ishaq al-Shatibi (d. 1388 AD), Ibn Khaldun (1332-1404 AD), Al-Maqrizi (1364-1441 AD), Shah Waliullah (1703-1762 AD), and Muhammad Iqbal (1873-1938 AD) from “Recent Works on History of Economic Thought in Islam: A Survey,” <http://islamic-world.net> (accessed September 30, 2008).

<sup>64</sup> See, for example, Sheikh Mahmud Ahmad, M. Umer Chapra, Mohamed Aslam Haneef, Monzer Kahf, Mohsin S.Khan, Muhammad Mannan, Sayyid Naqvi, Muhammad Baqir Sadr, Haroon Khan Sherwani, Mohammad Nejatullah Siddiqi (whose survey of contemporary Islamic thought of the twentieth century is covered in *Muslim Economic Thinking*, Leicester, U.K.: Islamic Foundation, 1981), and Sayyid Talehani.

institutions,<sup>65</sup> “there is little debate concerning the fact that Islam does legislate for economic activities, however, there is virtually no consensus or knowledge as to the logic, intellectual impetus, or operational bases of an all-encompassing Islamic body of economic thought,”<sup>66</sup> or “that denominational differences between Sunni and Shi’a writers have little relevance in Islamic economics.”<sup>67</sup> This provides a daunting challenge to extract principles which form Islamic global economics.

## 1. Distinctive Characteristics of Islamic Economic Thinking

Although an all-encompassing Islamic body of economic thought may not exist, there is consensus on its distinctive characteristics. Universal in Islam, whether in politics or economics, is its endorsement of economic equality as well as its “quest for justice and promotion of social justice above wealth as a necessary condition for prosperity.”<sup>68</sup> The prohibition of interest (*riba*) is the most oft cited characteristic of Islamic economics which aim to promote social justice above all.<sup>69</sup>

The literature rejects a common view that “an Islamic economy is a static structure consisting of fixed norms with outdated redistribution and financial systems equipped with an unchanging set of instruments,” for one that “recognizes opportunities that generate pressure for institutional adaptation by asserting the holy laws of Islam

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<sup>65</sup> See, for example, Association of Muslim Social Scientists, U.S.A. (established in 1972), The Islamic Foundation, Leicester, U.K. (1973), Islamic Economics Research Bureau, Dhaka, Bangladesh (1976), the Center for Research in Islamic Economics, Jeddah, Saudi Arabia (1977), the International Institute of Islamic Thought, Herndon, Virginia (1981), the Islamic Research and Training Institute of the Islamic Development Bank (1983), the International Institute of Islamic Economics, Islamabad, Pakistan (1983), the College of Economics, Kuala Lumpur, Malaysia (1983), and the International Association of Islamic Economics (1984), from Mohammad Umar Chapra, “What is Islamic Economics?” *Islamic Development Bank, Prize Winners’ Lecture Series*, No. 9, (2001): 45-46.

<sup>66</sup> Seyyed Vali Reza Nasr, “Islamic Economics: Novel Perspectives,” *Middle Eastern Studies* 25, No. 4, (October 1989): 517.

<sup>67</sup> Rodney Wilson, “The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought,” *Journal of Islamic Studies* 9, No. 1, (1998): 57.

<sup>68</sup> “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 30, 2008).

<sup>69</sup> See, for example, Imtiaz A. Pervez, “Islamic Finance,” *Arab Law Quarterly* 5, No. 4, (November 1990), John R. Presley and John G. Sessions, “Islamic Economics: The Emergence of a New Paradigm,” *The Economic Journal* 104, No. 424, (May 1994), S. Ramachandran, “Banking Regulations and Finance,” *Economic Political Weekly* 24, No. 51/52, (December 23-30, 1989), and Delwin A. Roy, “Islamic Banking,” *Middle Eastern Studies* 27, No. 3, (July 1991).

accommodate all the necessary flexibility for change.”<sup>70</sup> Ahmad bin Hanbal also shares this view by encouraging jurists, “to adopt a fore more flexible and realistic stance on changing economic issues.”<sup>71</sup> The injunctions and norms of Islamic law which “prevent injustice in the acquisition, management and disposal of resources,” also promote “trade, business and enterprise but at the same time is inimical to self-interest and undue profiteering.”<sup>72</sup> While the later may of secondary interest to the promotion of equality, “Islam does favor growth and development.”<sup>73</sup>

To attain sustainment growth and development while maintaining high standards of social justice requires the continuous execution of seemingly incompatible economic drivers. While Islam favors growth, appeals to limit consumption and increase savings persist. These economic inhibitors are overcome through three other principles of Islamic economics. First, the *Qur’an* institutionalized social justice “through decrees that required the payment of an alms tax (*zakat*) and a voluntary charity for the poor.”<sup>74</sup>

...all Muslims share equally in their obligation to worship God, so they all are duty bound to attend to the social welfare of their community by redressing economic inequalities through payment of an alms tax. All adult Muslims who are able to do so are obliged to pay annually...usually 2 ½ percent of their accumulated wealth and assets.<sup>75</sup>

As savings increase, religious institutions take a greater amount of money through *zakat*; likewise, as the *zakat* is redistributed to the poor, it is spent back in the economy. The moral dimension of the *zakat* allows “Muslims to pay in recognition of their social

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<sup>70</sup> Timur Kuran, “Islamic Economics and the Islamic Subeconomy,” *The Journal of Economic Perspectives* 9, No. 4, (Autumn, 1995), 160.

<sup>71</sup> Ahmad bin Hanbal, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>72</sup> Imtiaz A. Pervez, “Islamic Finance,” *Arab Law Quarterly* 5, No. 4, (November 1990): 260.

<sup>73</sup> Seyyed Vali Reza Nasr, “Towards a Philosophy of Islamic Economics,” *Hamdard Islamicus* 12, No. 4, (1989), <http://www.financeinislam.com> (accessed October 1, 2008).

<sup>74</sup> John L. Esposito, *Islam: The Straight Path*, 30.

<sup>75</sup> John L. Esposito, *Islam: The Straight Path*, 30.

responsibilities by fostering good behavior among the more prosperous.”<sup>76</sup> Secondly, despite calls for an increase in savings, Islamic economics rejects “the hoarding of wealth to the exclusion of its subordination to higher ends:”<sup>77</sup>

And do not make your hand as tied to your neck, by refusing to spend, or extend it completely, by being extravagant, and thereby become blamed and insolvent.<sup>78</sup>

This brings the third principle into play – investment. As the remainder is invested, “then economic development takes place with purity as Muslims will not invest in any project which is undesirable to Allah.”<sup>79</sup> These projects may take place in the global economy as long as they contribute to improving overall social justice, promote economic equality and are considered desirable to Allah. The final stipulation, however, is left open to interpretation, through the process of *ijtihad*, by the *ulama*.

### **C. INTEGRATION OF ISLAMIC ECONOMICS**

Integration of economic activity into the world market is a necessary condition to foster the process of globalization and the economic incentives that follow. Both actual economic flows, primarily through trade, foreign direct investment and portfolio investment, and the restrictions of those flows, through import barriers, tariffs and taxes, constitute the level of integration. Islamic economic thought seeks to answer just how integrated an Islamic state, whose main responsibility is to promote social justice, can become with the global economy if either these economic flows are encouraged or limited. Only when the goals of economic policy are in line with the objectives of the *Shari'a* does the state create conditions “favorable to the organization of an active economic society.”<sup>80</sup>

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<sup>76</sup> Al-Sadr as paraphrased by Rodney Wilson in “The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought,” *Journal of Islamic Studies* 9, No. 1, (1998): 49.

<sup>77</sup> John L. Esposito, *Islam: The Straight Path*, 30.

<sup>78</sup> Seheeh International, ed., *The Qur'an: English Meanings*, (Jeddah, Saudi Arabia: Al-Muntada al-Islami, 2004), 17:29.

<sup>79</sup> Muhammad Arif, “Toward a Definition of Islamic Economics: Some Scientific Considerations,” *Journal of Research in Islamic Economics* 2, No. 2 (Winter, 1985): 85.

<sup>80</sup> Ibn Taimiyyah, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

While Muhammad Baqir al-Sadr holds the state accountable to promote social justice by satisfying human needs, “a considerable scope is given for individual freedom within a framework of Islamic norms, goals and values for the private sector.”<sup>81</sup> This runs contrary to a competing hypothesis which suggests “economic incentives shape the structure of Islamic economics more so than religious norms.”<sup>82</sup> The following survey of the integration of Islamic economics most certainly agrees with al-Sadr.

### 1. Actual Economic Flows

The indicators of globalization which point to actual economic flows include trade, foreign direct investment and portfolio investment.<sup>83</sup> Trade is the exchange of goods and services between two parties, a practice al-Sadr promoted for he saw that the process of exchange created value.<sup>84</sup> Foreign direct investment (FDI) is “the flow of funding provided by an investor or lender to establish or acquire a foreign company or finance an existing foreign company that the investor owns and controls.”<sup>85</sup> Due to the prohibition of *riba*, profits from FDI cannot be made through the charging of interest. Two FDI schemes supported by Islamic economics include profit-and-loss sharing (PLS) and the mark-up principle. Portfolio investment, which is more of an instrument of modern finance, is a short-term investment in assets of developing countries, such as stocks, bonds or other securities.<sup>86</sup> Classical Islamic thinkers and modern theorists alike find room in Islamic thought to explicate these indicators.

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<sup>81</sup> Al-Sadr as paraphrased by Rodney Wilson in “The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought,” *Journal of Islamic Studies* 9, No. 1, (1998): 56.

<sup>82</sup> Rajesh K. Aggarwal and Tarik Yousef, “Islamic Banks and Investment Financing,” *Journal of Money, Credit and Banking* 32, No. 1, (February 2000): 119.

<sup>83</sup> Indicators from KOF Index of Globalization. <http://globalization.kof.ethz.ch> (accessed October 28, 2008)

<sup>84</sup> Al-Sadr as paraphrased by Rodney Wilson in “The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought,” *Journal of Islamic Studies* 9, No. 1, (1998): 51.

<sup>85</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 321.

<sup>86</sup> David L. Richards and Ronald D. Gellensy, “Is it a Small World After All: Globalization and Government Respect for Human Rights in Developing Countries,” in *Coping with Globalization: Cross-national Patterns in Domestic Governance and Policy Performance*, Steve Chan and James R. Scarritt, eds., (London: F. Cass, 2002), 71.

*a. Trade*

Economic analysis on the effects of trade, especially free trade, emphasizes the whole world benefits received from international trade.<sup>87</sup> The *Qur'an* and *Hadith* elucidate the value of trade. These themes resonate in the works of Islamic economic thinkers from Ibn Khaldun to Muhammad Baqir al-Sadr as both appreciated the benefits of trade as they spoke favorably about cooperation between people of different societies. Ibn Khaldun understood the principle of comparative advantage, especially as related to the division of labor, to justify the “terms of exchange between rich and poor countries and of the prosperity to import and export.”<sup>88</sup>

...what is obtained through the co-operation of a group of human beings satisfies the need of a number many times greater (than themselves). For instance, no one, by himself, can obtain the share of the wheat he needs for food. But when six or ten persons, including a smith and a carpenter to make the tools, and others who are in charge of the oxen, the plowing of the soil, the harvesting of the ripe grain, and all the other agricultural activities, undertake to obtain their food and work toward that purpose either separately or collectively and thus obtain through their labor a certain amount of food, (that amount) will be food for a number of people many times their own. The combined labor produces more than the needs and necessities of the workers.<sup>89</sup>

Although al-Sadr did not specifically address the merits of international trade, he did emphasize cooperation. He recognized, “the complexity of life, arising from his relationship with the environment, made it difficult for him to cope adequately with his needs,” therefore, “cooperation with others made the effort to satisfy he needs manageable.”<sup>90</sup> The *Qur'an* also stipulates the obligation of other Muslims to provide

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<sup>87</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 27.

<sup>88</sup> Ibn Khaldun, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>89</sup> Franz Rosenthal, trans., *The Muqaddimah: Abd Ar Rahman bin Muhammad ibn Khaldun*, (Princeton: Princeton University Press, 1969), <http://www.muslimphilosophy.com/ik/Muqaddimah/> (accessed October 2, 2008).

<sup>90</sup> T.M. Aziz, “An Islamic Perspective of Political Economy: The Views of (late) Muhammad Baqir al-Sadr,” *Tawhid Islamic Journal X*, No. 1, Qum, The Republic of Iran, <http://www.al-islam.org/al-tawhid/politiceconomy/> (accessed July 31, 2008).



assistance for those unable to engage in trade through no fault of their own.<sup>91</sup> Taken a step further, if the resources of one's environment cannot adequately provide for man and by extension, his society, or man is unable to provide for himself, then through assistance or collaboration can he acquire those resources, perhaps trade in a global area is permissible.

Global Islamic economic thought recognizes trade as an efficient method to make a profit. As an early proponent of the free market, Ibn Khaldun valued profit-making commerce to coincide with the forces of supply and demand, even if domestic markets could no longer support the production supply:

It should be known that commerce means the attempt to make a profit by increasing capital, through buying goods at a low price and selling them at a high price, whether these goods consist of slaves, grain, animals, weapons, or clothing material. The accrued (amount) is called "profit" (*ribh*). The attempt to make such a profit may be undertaken by storing goods and holding them until the market has fluctuated from low prices to high prices. This will bring a large profit. Or, the merchant may transport his goods to another country where they are more in demand than in his own, where he bought them. This, (again,) will bring a large profit.<sup>92</sup>

These concepts were not lost on Ibn Taimiyyah as well, for he "had a clear notion of prices in a free market being determined by demand and supply."<sup>93</sup>

As trade and commercial activity expands in a prosperous economy, so does the requirement for trade contract enforcement in order to sustain fairness and social justice. While Qur'an is very specific on the regulations of written contracts regarding business transactions and the payment of debts:

...when you contract a debt for a specified term, write it down. And let a scribe write down for you in justice. Let no scribe refuse to write as Allah has taught him. So let him write and let the one who has the obligation

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<sup>91</sup> Seheeh International, ed., *The Qur'an: English Meanings*, (Jeddah, Saudi Arabia: Al-Muntada al-Islami, 2004), 2:273.

<sup>92</sup> Franz Rosenthal, trans., *The Muqaddimah: Abd Ar Rahman bin Muhammad ibn Khaldun*, (Princeton: Princeton University Press, 1969), <http://www.muslimphilosophy.com/ik/Muqaddimah/> (accessed October 2, 2008).

<sup>93</sup> Ibn Taimiyyah, "Recent Works on History of Economic Thought in Islam: A Survey," *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

dictate. And let him fear Allah, his Lord, and not leave anything out of it. But if the one who has the obligation is of limited understanding or weak or unable to dictate himself, then let his guardian dictate in justice. And bring two witnesses...so that if one of them errs, the other can provide reminder. And do not be too weary to write it, whether it is small or large, for all its specified term. That is more just in the sight of Allah and stronger as evidence and more likely to prevent doubt between you, except when it is an immediate transaction which you conduct among yourselves. For then there is not blame upon you if you do not write it. And take witnesses when you conclude a contract...<sup>94</sup>

There is some room for interpretation in the Shari'a on the sale of commodities not yet available for delivery in the market – or futures. Abu Hanifa's solution to allow these transaction to occur required all contracts to be made in writing to exactly specify "what must be known and stated clearly in the contract to include the commodity, its kind, quality and quantity, and the date and place of delivery,"<sup>95</sup> in order to prevent disputes on both sides. Although, these practices to not restrict international business transaction, it does reflect the importance of detailed, written contracts in today's global marketplace.

#### ***b. Foreign Direct Investment***

As an instrument of modern global economics there is no specific reference to foreign direct investment in early Islamic economic thought, however, investment by a party through either profit-and-loss (PLS) sharing or via the mark-up principle form the basis of FDI justification. Classical thinkers such as al-Awza and al-Shaibani realized the potential value of this type of investment through preferences in financing in order to raise capital to increase growth and prosperity, therefore improving social justice.<sup>96</sup>

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<sup>94</sup> Seheeh International, ed., *The Qur'an: English Meanings*, (Jeddah, Saudi Arabia: Al-Muntada al-Islami, 2004), 2:282.

<sup>95</sup> Abu Hanifa, "Recent Works on History of Economic Thought in Islam: A Survey," *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>96</sup> "Recent Works on History of Economic Thought in Islam: A Survey," *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

Islamic economics justifies the profit-and-loss principle through distributive risk acceptance, thus easing the burden across all parties equally and justly. There are two instruments based on this principle:

*Mudarabah*: banks provide capital and entrepreneurs contribute effort and exercises complete control over the business venture. In case of a loss, the bank earns no return or a negative return on its investment and the entrepreneur receives no compensation for her effort. In case of a gain, returns are split according to a negotiated equity percentage.

*Musharaka*: the entrepreneur and the bank jointly supply the capital and manage the project. Losses are borne in proportion to the contribution of capital while profit proportions are negotiated freely.<sup>97</sup>

Al-Kasani recognized, under *mudarabah*, “profits on capital devolve on its exposure to risk and uncertainty, clearly making the supplier of capital liable to losses.”<sup>98</sup>

Engrained in the fabric of Islamic economics is the more traditional mark-up principle which allows for investment through the negotiation of an agreed upon profit margin. Like with PLS, there are two widely used instruments:

*Murabaha*: the bank purchases an asset on behalf of an entrepreneur, then resells the asset to the entrepreneur at a predetermined price that covers the original cost and an added, negotiated profit margin. Payment is made in the future in lump sum or in installments. Ownership resides with the bank until all payments are made. *Murabaha* is the classic instrument for trade financing, dating to ninth-century Arabia.

*Ijara*: the bank purchases the asset and allows the entrepreneur to use it for a fixed charge. The ownership of the asset either remains with the bank or is gradually transferred to the entrepreneur in a rent-to-own contract. *Ijara* financing is the traditional contract for what is known as leasing today.<sup>99</sup>

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<sup>97</sup> Rajesh K. Aggarwal and Tarik Yousef, “Islamic Banks and Investment Financing,” *Journal of Money, Credit and Banking* 32, No. 1, (February 2000): 96.

<sup>98</sup> Al-Kasani, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>99</sup> Rajesh K. Aggarwal and Tarik Yousef, “Islamic Banks and Investment Financing,” *Journal of Money, Credit and Banking* 32, No. 1, (February 2000): 96.

Under both PLS and the mark-up principle, investors can either acquire or finance an existing foreign company within the ethical limits of Islamic economics. The limits of these two investment schemes do not inhibit participation in the global economy.

*c. Portfolio Investment*

As an instrument of modern finance, there is no specific Islamic economic thought detailing the permissibility of portfolio investment, however, unlike FDI, portfolio investment does not require the investor to take an active role in the management of these assets. Thus portfolio investment runs into conflict with the principle of Islamic economics that requires active participation in all business enterprises.

**2. Government Regulation in Trade and Capital Restrictions**

The economic aspect of a religion which provides structure and direction for all ways of life not only includes guidance for what must be done (*wajib*), but also on what is prohibited (*haram*). Although government regulation remains a part of Islamic economics, the degree of such regulation remains at the forefront of the debate. State inference in market operations is not prohibited although such actions can restrict trade and capital flows to the point where it not only affects economic integration, but also growth and development. While “economic responsibilities of the rulers have been a recurrent theme of Islamic economic thought since the earliest days,” central to the state’s foremost duty is “the elimination of oppression and establishment of justice in ensuring the welfare of the people.”<sup>100</sup> Muhammad Siddiqi summarizes the role of the state into four types of action:

- (1) Ensuring compliance with the Islamic Code of conduct by individuals through education and, whenever necessary, through coercion;
- (2) Maintaining health conditions in the market to ensure its proper functioning;

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<sup>100</sup> Abu Yusef, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

(3) Modifying the allocation of resources and distribution of income affected by the market mechanism by guiding and regulating it as well as by direct intervention and participation in the process.

(4) Taking positive steps in the field of production and capital formation to accelerate growth and ensure social justice.<sup>101</sup>

While al-Sadr did not rule out government intervention, it should be relegated to “encouraging and developing individual virtue and moral behavior.”<sup>102</sup> As such, for an Islamic economic system to be the most capable of not only solving the contradictions of both socialist or capitalist orders, it must also be “more able to satisfy human needs as well as have the capacity to develop and progress in accordance with human potentials.”<sup>103</sup>

The teachings of Abdul ‘Abbas Ahmad ibn Taimiyyah provide insight into the role of state interference in economic life based on “ensuring that every individual’s basic needs are fulfilled.”<sup>104</sup> In this regard, he believed the state has a three-fold responsibility in enforcing the Islamic code of conduct:

...to ensure producers, traders, and other economic agents adhere to honest and fair dealings; 2) to keep the market free of coercion and exploitation of the weak and needy; and 3) that the market functions on the basis of fair competition between equals.<sup>105</sup>

This keeps the state in a position to only coordinate activities between economic actors, not necessarily dictating the regulations in which these activities take place, or as Haroon Khan Sherwani classifies, “a middle path in contrast with the extreme positions

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<sup>101</sup> Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature*, (Leicester, U.K.: The Islamic Foundation, 1981), 18-19.

<sup>102</sup> Al-Sadr as paraphrased by Rodney Wilson in “The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought,” *Journal of Islamic Studies* 9, No. 1, (1998): 48.

<sup>103</sup> Sadr as paraphrased by T.M. Aziz, “An Islamic Perspective of Political Economy: The Views of (late) Muhammad Baqir al-Sadr,” *Tawhid Islamic Journal* X, No. 1, Qum, The Republic of Iran, <http://www.al-islam.org/al-tawhid/politiceconomy/> (accessed July 31, 2008).

<sup>104</sup> Ibn Taimiyyah, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>105</sup> Ibn Taimiyyah, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

taken in modern times by capitalism and socialism.”<sup>106</sup> The state utilizes various components of government regulation in trade and capital restrictions to exert their influence over economic flows.

**a. Import Barriers**

Import barriers are limits on the total quantity of imports of a specific product allowed into a country during a specified period of time.<sup>107</sup> Various import barriers include quotas, export restraints, government procurement, local content, product standards, advanced deposits, licensing and other customs procedures.<sup>108</sup> A proponent of early protectionism by placing restriction on imports included Ibn al-Ukhuwwah who advocated these regulating practices in order to protect the public interest.<sup>109</sup>

**b. Tariffs**

A tariff is a tax on importing goods or services into a country through the process of international trade.<sup>110</sup> A form of tariff is the fixing of prices as they enter the country. Abu Yusuf considers tampering with prices outside of the forces of the market to run counter to the principles of Islamic economics, citing “the prevailing thought to free the market of hoarding, monopoly, and other corrupt practices and leave the determination of prices to the forces of supply and demand.”<sup>111</sup>

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<sup>106</sup> H.K. Sherwani, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>107</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 149.

<sup>108</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 148.

<sup>109</sup> Ibn al-Ukhuwwah, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>110</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 129.

<sup>111</sup> Abu Yusef, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

*c. Taxes on International Trade*

Taxes on international trade differ from tariffs in that they levy taxes on business transactions and trade in the international arena. While the imposition of taxes fall within the principles of Islamic economics, classical thinkers noted “the evil consequences of oppression and extortions by tax officers against the intentions of Allah,”<sup>112</sup> while others “opposed all taxes not explicitly prescribed in the *Shari’a*.”<sup>113</sup>

*d. Capital Account Restrictions*

Capital accounts are the net flows, as functions of foreigners increasing holding over domestic assets relative to domestic holdings of foreign assets, as a part of a country’s balance of payments.<sup>114</sup> Government imposed regulations on these flows comprise capital account restrictions. While not specifically placing restrictions on capital accounts, al-Sharaksi opposes either government of private selling of land, as he believes it rightfully belongs to the Islamic state.<sup>115</sup> If taken literally, this would take away all land held by foreigners from the domestic capital account. Ibn Hazm takes this notion one step further stating landowners to not have the right to offer their land available for investment as only the owner should be allowed to cultivate his land.<sup>116</sup>

**D. ISLAM AND ECONOMIC DEVELOPMENT**

Islamic thought on development must take the public interest into consideration on all economic endeavors. While these activities seek growth and development, they must not forsake its primary responsibility of improving social justice, reducing

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<sup>112</sup> Najmuddin al-Razi, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>113</sup> Nasiruddin Tusi, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>114</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 360-361.

<sup>115</sup> Al-Sarakhsi, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>116</sup> Ibn Hazm, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

unemployment and curbing inflation. Factors leading to economic decline, such as corruption and oppression must also be avoided,<sup>117</sup> as they only serve to uphold “economic backwardness and hinder the fulfillment of (a state’s) Islamic role in the world.”<sup>118</sup> While economic growth is a positive indicator which drives development, the negative effects of unemployment and inflation can work to reverse its effects. Islamic economic thought reflects on these components of development.

## 1. Growth and Development

The foundations for Islamic economic thought promotes growth and development, “for a true Muslim looks upon developmental efforts as striving in the cause of Allah,”<sup>119</sup> but not at the expense of social justice. This presents a possible dilemma as continued economic growth through the means of savings, investments and capital formation safeguards the maintenance of social justice.<sup>120</sup> To perpetuate this cycle, Islamic economists call for a Keynesian-style “supply-pushed system while at the same time reject a demand-pulled” approach.<sup>121</sup> Growth based on an increased consumer spending cannot be sustained due to Islam’s “depreciation of excess, wariness of consumption” and materialism.<sup>122</sup> Although, some economists do not think such a condition could severely prohibit demand, “it will sufficiently restrict expansion of the demand function as to hamper the contribution of that function to economic growth.”<sup>123</sup>

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<sup>117</sup> Al-Ghazali, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>118</sup> Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature*, (Leicester, U.K.: The Islamic Foundation, 1981), 42.

<sup>119</sup> Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature*, (Leicester, U.K.: The Islamic Foundation, 1981), 10.

<sup>120</sup> Seyyed Vali Reza Nasr, “Towards a Philosophy of Islamic Economics,” *Hamdard Islamicus* 12, No. 4, (1989), <http://www.financeinislam.com> (accessed October 1, 2008).

<sup>121</sup> *Ibid.*

<sup>122</sup> *Ibid.*

<sup>123</sup> Seyyed Vali Reza Nasr, “Towards a Philosophy of Islamic Economics,” *Hamdard Islamicus* 12, No. 4, (1989), <http://www.financeinislam.com> (accessed October 1, 2008).



Shah Waliullah, however, did identify the causes of economic decline within an Islamic system. These include the concentration of wealth, conspicuous consumption by the rich, emergence of a class of have-nots, and the increasing burden of taxes on the common man,<sup>124</sup> all of which are present in Iran's modern day economy. Classical Islamic economic thinkers identified the causes of economic decline for an Islamic system over two-hundred years before the Islamic Revolution of 1979.

## 2. Unemployment

Chronic unemployment leading to poverty is one of the major inhibitors of economic development. Although the goal of economic prosperity benefits a virtuous society, the individual may be left without a job. Therefore it is up to the community to ensure work is available to all those who can perform it. Since interest is prohibited, "all earning is exclusively linked to working."<sup>125</sup> Al-Sadr also held the protection of labor in high regard, "for if work is penalized, this means a death blow to the most important power that pushes the economic system ahead."<sup>126</sup> According to al-Sadr, "poverty and deprivation can be eliminated through the presence of a mutually beneficial morally defined framework of human relationships between the rich and the poor."<sup>127</sup>

## 3. Inflation

Inflation is the rise in the national price levels as the relationship between the money supply and demand changes.<sup>128</sup> As a student of Ibn Khaldun, al-Maqrizi identified several factors that contribute to inflation, namely "corruption and bad

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<sup>124</sup> Shah Waliullah, Al-Maqrizi, "Recent Works on History of Economic Thought in Islam: A Survey," *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>125</sup> T.M. Aziz, "An Islamic Perspective of Political Economy: The Views of (late) Muhammad Baqir al-Sadr," *Tawhid Islamic Journal X*, No. 1, Qum, The Republic of Iran, <http://www.al-islam.org/al-tawhid/politicaconomy/> (accessed July 31, 2008).

<sup>126</sup> Al-Sadr as paraphrased by Rodney Wilson in "The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought," *Journal of Islamic Studies 9*, No. 1, (1998): 52-53.

<sup>127</sup> Al-Sadr as paraphrased by Rodney Wilson in "The Contributions of Muhammad Baqir al-Sadr to Contemporary Islamic Economic Thought," *Journal of Islamic Studies 9*, No. 1, (1998): 56.

<sup>128</sup> Thomas A. Pugel, *International Economics*, Thirteenth Edition, (New York: McGraw-Hill, 2007), 433.

administration, heavy burden of taxes, and increases in the supply of money.”<sup>129</sup> Based on his teachings, a foreign exchange system based on gold and silver could be the only true determinant of value,<sup>130</sup> realizing the benefits of the Bretton Woods System five hundred years for its time.

## **E. CONCLUSION**

The paradigm of Islamic economics seeks to rectify the extremes of capitalism and socialism, individualism and egalitarianism, into an Islamic system that promotes social justice as the necessary condition for prosperity while striving for growth and development for the betterment of its people. As such, the ethics of Islamic economics prohibits excesses on free market economic activity – whether consumption, savings, or debt – as these inevitably promote unfairness and inequality prompting interference from the state. The basic principles of Islamic economics follow these same ethical lines through the encouragement of trade and enterprise while at the same time restricting self-interest and undue profiteering. This provides the justification for the state to build a relationship between the individual and community through cooperation and access to the opportunities available within the global economy.

While the state has a role in the promotion of social justice, Islamic economic thought permits a wide-range of economic activities that adhere to a code of conduct prescribed under the *Shari'a*. Though concerned for the weak and the needy, encouraging, promoting and expanding trade opportunities are understood as conditions for improving the welfare of all economic agents – even those who participate in the global economy. The benefits of globalization found in Islamic economic thought include the encouragement of cooperation through trade, understanding of comparative advantage, protection of free markets, creation of financial markets, support for profit-seeking ventures and diverse investment opportunities.

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<sup>129</sup> Al-Maqrizi, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

<sup>130</sup> Al-Maqrizi, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

Classical Islamic economic thinkers such as Ibn Khaldun understood the potential positive impact of globalization due to his “keenness to take into consideration the various geographical, ethnic, political, and sociological forces,”<sup>131</sup> that contribute to various economic situations and to counter the inevitable problems which would arise. Other purveyors of Islamic economics did not dismiss the validity of these factors as well in applying them to the challenges brought by trying to maintain the virtues of provided social justice. Since participating in the world’s global economy increases the prospect for furthering social justice, it falls within the capacity of approval within Islamic economics.

With the foundations of Islamic economic thought on globalization set, a historical narrative of the *ulama*’s economic activism to the evolution of a post-revolutionary global political economy will be examined.

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<sup>131</sup> Ibn Khaldun, “Recent Works on History of Economic Thought in Islam: A Survey,” *Islamic Economics*, <http://islamic-world.net/economics> (accessed September 28, 2008).

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### III. FROM A HISTORY OF ECONOMIC ACTIVISM TO THE EVOLUTION OF A POST REVOLUTIONARY GLOBAL POLITICAL ECONOMY

The *ulama* demonstrate their entrenchment in the state as the instruments of political economic power. Despite the allowances of Islamic economics for the processes of globalization, the *ulama* remain firmly entrenched in keeping outside influence from interceding on their grip of power over the instruments of Iran's political economy. Iran's history showcases the evolution of this power structure tied to both social and economic changes that have reduced the power of certain social classes at the same time increased the power of others,<sup>132</sup> despite factions among them, keeping the *ulama* at the highest levels of control.

To illustrate the socioeconomic activism of the *ulama*, Iran's history from the end of the Qajar Dynasty through the Pahlavi Dynasty leading up to the Islamic Revolution of 1979 is examined. The *ulama* were seen as the active leaders of the Tobacco Protest of 1891-1892, championing both sides of the Constitutional Revolution of 1906-1911, the nationalization of oil under Prime Minister Mohammad Mosaddeq leading to the 1953 coup d'état, spearheading violent protests against the Shah's land reform bills in 1963, and finally as the leading organizers of the 1979 Islamic Revolution resulting in the ascendancy of Ayatollah Ruhollah Khomeini as the Supreme Leader under the guardianship of the jurist (*velayat-e faqih*). Prior to the Revolution, the *ulama* worked from outside the government to affect economic policy outcomes in their favor.

The post revolutionary period further demonstrates the *ulama*'s hold over Iran's economic policy. While the Iran-Iraq War of the 1980s had a significant destabilizing impact on the economy, three distinct Five Year Plans did little to integrate Iran in the global economy. The second half of this chapter follows the radical beginnings of a post revolutionary economy to the rise of the pragmatists from 1989-1996, the reform movements of 1997-2005 to a return of the hardliners after the 2005 presidential election.

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<sup>132</sup> Nikki R. Keddie, "The Iranian Power Structure and Social Change 1800-1969," *International Journal of Middle East Studies* 2, No. 1 (January 1971): 3.

## A. A HISTORY OF ECONOMICALLY BASED POLITICAL ACTIVISM

While Iran had no direct colonial experiences, both dynasties of the nineteenth and twentieth centuries endured Anglo and American influences. Through the mismanagement of state affairs, Iran suffered from high debt under the Qajar monarchy and allowed British influence in both agriculture and oil industries – a source of tension with the merchant class and the *ulama*. Their resentment of the Qajar’s policies lead to the Iranian Constitutional Revolution with the creation of the Iranian Parliament (*Majlis*) in 1906, and the rise of Reza Khan Pahlavi, who eventually over threw the Qajar monarchy and installed himself as Shah in 1925. His reign lasted until his ousting in 1941, when his son Mohammed Reza Pahlavi became Shah of Iran. Common within the state of Iran, the new government sought to “transform Iran’s economy to a semi-industrialized and commercialized system (in a global context) while aiming to expand the power of the central government over all segments of society” with the explicit purpose of “eliminating the traditional social forces and ideologies such as the *ulama* and religion” and replacing them with “new ideologies seen more compatible with modernist aims.”<sup>133</sup>

The history of economically based political activism on the part of the *ulama* began with the Tobacco Protest of 1891-1892. In this case religious leaders used their position in society as sources of emulation against the Shi’a of Iran to force the monarchy to alter its economic policy away from previously granted foreign government concessions. During the Constitutional Revolution the *ulama* argued for greater political representation through the creation of a new parliament. This legislative body – to which the *ulama* could be directly elected into – now had the ability to draft and pass laws directly affecting the future of Iran’s political economy. Again, during the process to nationalize Iran’s oil industry and later during attempts at land form, the *ulama* advocated policies that provided what they perceived to have the most beneficial economic outcomes for themselves as well as their constituents.

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<sup>133</sup> Mohammad H .Faghfoory, “The *Ulama*-State Relations in Iran: 1921-1941,” *International Journal of Middle East Studies* 19, No. 4, (November 1987): 414.

## 1. The Tobacco Protest of 1891-1892

The origins of the Tobacco Protest trace back to March 1890, when the Iranian monarch Nasir al-Din Shah gave control of Iran's indigenous production, sale and exportation of tobacco over to a British company, effectively giving a foreign power monopoly over a domestic industry. A popular resistance movement provoked by the merchant class and lead by the *ulama*, "the situation rapidly transformed into a movement of protest against internal corruption and misgovernment on the one hand, and foreign influence on the other."<sup>134</sup> What started as an economic disruption to the merchant and bazaar classes evolved into a fight against Islam as perpetuated by some of the religious leaders. From their point of view, "with the Shah unable to defend the nation, ayatollahs stepped into the breach to defend national rights and interests,"<sup>135</sup> however, not all the *ulama* stood united against the concessions on tobacco given to the British.

In early 1891, Ayatollah Mirza Hasan Shirazi, the sole source of emulation (*Marja' Taqlid*) in Karbala, sent an initial telegram to the Shah initially condemning the tobacco concessions:

...permitting foreigners to interfere in the internal affairs of the country, their intermingling and closeness with the Muslim people, and the act of the banking, tobacco, and railroad concession and so forth are contrary to the Quran and Godly principles, weaken the independence of the state and the order of the country and deteriorate the condition of the people.<sup>136</sup>

The words of the ayatollah did not deter the Shah or put an end to the issue.

Despite this proclamation by a powerful member of the *ulama*, many religious leaders either aligned with the Shah politically or directly affected by the concessions economically through land holdings moved against the protest. The *ulama* in Tehran, for

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<sup>134</sup> Asghar Fathi, "Role of the Traditional Leader in Modernization of Iran, 1890-1910," *International Journal of Middle East Studies* 11, No. 1, (February 1980): 88.

<sup>135</sup> Vali Nasr, *The Shia Revival*, 122.

<sup>136</sup> Mansoor Moaddel, "Shi'i Political Discourse and Class Mobilization in the Tobacco Movement of 1890-1892," *Sociological Forum* 7, No. 3, (September 1992): 460.

example, “believed boycotting tobacco was the elimination of an evil by a worse evil,”<sup>137</sup> which caused a few of them to lift the boycott. The Shah also sought the assistance of Ayatollah Haj Mirza Javad, an influential *mujtahid* in Tabriz to convince other leading *ulama* to ease the boycott. In response, tobacco merchants in Mashhad looked to the *ulama* for support, but only found it in a few, namely Va-ez Sabzivari, Mirza Abdorrahman, and Sayyid Mohammad Kalati, while the tobacco company gained the support of Mirza Ahmad Razavi, Haj Shaykh Mohammad Taqi and Sayyid Habibullah.<sup>138</sup>

In December 1891, Shirazi resorted to the power and influence his position granted him and issued a *fatwa* banning the use of tobacco among his followers stating:

In the name of God, the Merciful and the Forgiving. As of now, the consumption of tobacco and tootoon in any form is tantamount to war against the Imam of the Age.<sup>139</sup>

This *fatwa* instigated a nationwide boycott, reaching not only outside the palace walls with huge demonstrations, but also inside, “when the Shah’s servants refused to fill his waterpipe.”<sup>140</sup> By the end of January 1892, despite a deeply divided *ulama*, the Shah reversed the concessions.

## 2. The Constitutional Revolution of 1906-1911

The political involvement of the *ulama* over global economic interests in the Tobacco Protest served “as a preamble to a more significant revolt that came about fourteen years later,”<sup>141</sup> when they joined in the Constitutional Revolution. Like the previous movement, “the *ulama* could not maintain their unity as politically diverse

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<sup>137</sup> Mansoor Moaddel, “Shi’i Political Discourse and Class Mobilization in the Tobacco Movement of 1890-1892,” *Sociological Forum* 7, No. 3, (September 1992): 462.

<sup>138</sup> Mansoor Moaddel, “Shi’i Political Discourse and Class Mobilization in the Tobacco Movement of 1890-1892,” *Sociological Forum* 7, No. 3, (September 1992): 463.

<sup>139</sup> Mansoor Moaddel, “Shi’i Political Discourse and Class Mobilization in the Tobacco Movement of 1890-1892,” *Sociological Forum* 7, No. 3, (September 1992): 464.

<sup>140</sup> Vali Nasr, *The Shia Revival*, 122.

<sup>141</sup> Asghar Fathi, “Role of the Traditional Leader in Modernization of Iran, 1890-1910,” *International Journal of Middle East Studies* 11, No. 1, (February 1980): 89.



factions emerged in their ranks,”<sup>142</sup> and split among constitutionalists, those who advocated a check on the monarch’s powers, and anti-constitutionalists, who sought to defend the *Shari’a* in the wake of the Western ideal of constitutionalism and republicanism.

Even among the constitutionalists where the movement represented an alliance of influential urban groups including the Shi’a clergy, the business community and the secular intelligentsia,”<sup>143</sup> division within the *ulama* existed. Members of the *ulama* permeated each of the five influential organizations playing significant roles in the revolution: the Secret Society; the Secret Center; the Social Democratic Party; the Society of Humanity; and the Revolutionary Committee; with “The Secret Society, (considered) the most important of the these organizations,” formed in Tehran in early 1905 by members of the *ulama*.<sup>144</sup> The Secret Society established its legitimacy, credibility and institutional authority by maintaining “contact with the leading *ulama* in Karbala and Najaf, as well as with Ayatollah Abdullah Rehbhani and Ayatollah Muhammad Tabatabai, two of the three important *mujtahids* living in Tehran.”<sup>145</sup>

During the Constitutional Revolution the constitutionalist *ulama* looked to Najaf for institutional authority, namely the writing of the preeminent Shi’a leader, Ayatollah Mirza Na’ini. His advocacy of constitutionalism argued:

...in the absence of the twelfth imam an Islamic government could not be constructed...the government of Islam is the government of God on earth, and it is incumbent on every Muslim to follow its orders. Precisely for this reason, however, Islamic government requires the infallible wisdom of the Imam himself at its helm; mere mortals are incapable of ruling in

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<sup>142</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 522.

<sup>143</sup> Nahid Yeganeh, “Women, Nationalism and Islam in Contemporary Political Discourse in Iran,” *Feminist Review*, No. 44, Nationalisms and National Identities, (Summer, 1993): 4.

<sup>144</sup> Ervand Abrahamian, “The Causes of the Constitutional Revolution in Iran,” *International Journal of Middle East Studies* 10, No. 3, (August 1979): 401.

<sup>145</sup> Ervand Abrahamian, “The Causes of the Constitutional Revolution in Iran,” *International Journal of Middle East Studies* 10, No. 3, (August 1979): 401.

the name of God. While the world awaits the return of the twelfth Imam the form of governance most compatible with Shi'ism is democracy shaped and defined by a popularly ratified constitution.<sup>146</sup>

Fundamentally, the Revolution could move forward as long as it kept intact the tenants of Islam.

The *ulama* in direct opposition of the Revolution disagreed. Leading the anti-constitutionalist faction stood Ayatollah Sheikh Fazlollah Nouri, “a strict traditionalist and a champion of an absolutist fundamentalism based solely on Islamic *Shari'a*.”<sup>147</sup> He argued:

...the drafting of a constitution involves three innovations, all of which are against Islam and are forbidden: (i) writing law apart from the Islamic law; (ii) forcing subjects to obey a law which is not present in the sharia; (iii) punishing subjects for their failure to obey the written law.<sup>148</sup>

With his argument, Nouri gained a following among some of the *ulama* while advocating the same position held by Mohammad Ali Shah as they both opposed constitutionalism.

Na'ini did not let Nouri's response go unchecked. He provided an Islamic justification in his reply:

Once these three points are clear, there remains no room to doubt the necessity of changing a despotic regime into a constitutional one. This is true, because the former consists of three sets of usurpations and oppressions: 1) It is usurpation of the authority of God and injustice to Him; 2) it is usurpation of the Imam's authority and oppression of the Imam; 3) it also involves oppression of the people. By contrast, a constitutional system is only oppression of the Imam, because his

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<sup>146</sup> Abbas Milani, “Iran's Peculiar Election: A Historical Perspective,” *Journal of Democracy* 16, No. 4, (October 2005): 26-27.

<sup>147</sup> Abbas Milani, “Iran's Peculiar Election: A Historical Perspective,” *Journal of Democracy* 16, No. 4, (October 2005): 27.

<sup>148</sup> Mansoor Moaddel, “The Shi'i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 532.

authority is usurped. Thus, a constitutional regime limits three sets of oppressions to one; consequently it is necessary to adopt it (the constitution).<sup>149</sup>

The Constitutional Revolution showcases that the *ulama*, “with (their) intense ideological issues between two politically divergent factions,”<sup>150</sup> were not monolithic in their positions. Although internal disagreement amongst the *ulama* would continue throughout the course of significant events in Iran’s history, a more unified front would begin to emerge.

### 3. Oil Nationalization and the 1953 Coup D’état

Following the ratification of Iran’s Constitution and the implementation of parliamentary authority, a growing sentiment in the *Majlis*, that included members of the religious establishment, spearheaded by now Prime Minister Mohammad Mosaddeq, expressed a “desire to transfer political power from the royal court to the parliament, and a desire to increase Iran’s control over its oil industry.”<sup>151</sup> The nationalization of the British owned Anglo-Iranian Oil Company by a bill introduced by Mosaddeq and passed by the *Majlis* again brought the *ulama* out from the seminaries and mosques to the forefront of political economic debates.

During a conference of the *ulama* in Qom in 1949, the recognized sole source of emulation, Ayatollah Muhammad Husayn Boroujerdi, attempted “to prevent the *ulama* from taking part in politics (by) adopting a firm non-interventionist position prohibiting all the *ulama* from joining parties trafficking in politics.”<sup>152</sup> In effect Boroujerdi reinforced the power of the Shah by maintaining the status quo, keeping the *ulama*

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<sup>149</sup> Ervand Abrahamian, *Iran: Between Two Revolutions* (Princeton: Princeton University Press, 1982), 193-194.

<sup>150</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 537.

<sup>151</sup> Mark J. Gasiorowski, “The 1953 Coup D’état in Iran,” *International Journal of Middle East Studies* 19, No. 3, (August 1987): 262.

<sup>152</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 537.

politically sidelined. Concern over the Grand Ayatollah's position came from Ayatollahs Morteza Khademi, Sayyid Mohammad Yazdi, Ruhullah Khomeini, and Mohammad Reza Musavi Golpayegani.<sup>153</sup>

Despite the attempts by Boroujerdi to limit the *ulama*'s role in politics, the issue of oil nationalization brought the *ulama* to the political forefront as, "while many in the Shi'a *ulama* supported Mosaddeq's goals, most senior clerics backed the restoration of the monarchy because they feared chaos and communism more."<sup>154</sup> A faction led by Ayatollahs Boroujerdi and Behbahani continued to support the Shah, while Mosaddeq received backing from Ayatollahs Abol-Ghasem Kashani, Mohammad Khvansari and Ali Akbar Burgha'i,<sup>155</sup> although Kashani eventually broke from the ranks of the National Front and spoke out against Mosaddeq after the coup which removed the Prime Minister from power. In the aftermath, the *ulama* retreated from the political vanguard as the Shah consolidated his powers in an authoritarian regime with strong anti-clerical policies, where "no united opposition on the part of the *ulama* against the Pahlavi state developed until the land reforms in the late fifties."<sup>156</sup>

#### **4. Land Reform Bills of 1959-1963**

The land reform bills enacted by the Shah during 1959-1963 not only provided another opportunity for the *ulama* actively participate in an event with political and economic ramifications, but it also afforded a catalyst to finally unite the *ulama* – momentum gained during this period would carry on until the Islamic Revolution in 1979. While the social and economic changes – such as strengthening of the central government, build up of military forces and marginalization of the *ulama* – occurring during this period were similar to those created since the Pahlavis took power, when the government encroached into the *ulama*'s economic livelihood – their religious

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<sup>153</sup> Mansoor Moaddel, "The Shi'i *Ulama* and the State in Iran," *Theory and Society* 15, No. 4, (July 1986): 537.

<sup>154</sup> Vali Nasr, *A Shia Revival*, 124.

<sup>155</sup> Mansoor Moaddel, "The Shi'i *Ulama* and the State in Iran," *Theory and Society* 15, No. 4, (July 1986): 538.

<sup>156</sup> Mansoor Moaddel, "The Shi'i *Ulama* and the State in Iran," *Theory and Society* 15, No. 4, (July 1986): 539.

endowment (*waqf*) – and imposed regulations on those lands did the *ulama* respond,<sup>157</sup> as “this provided favorable conditions for the growth in *ulama* power in their opposition to the state.”<sup>158</sup> The *ulama*’s response included organized protests and workers’ strikes designed to demonstrate to the state who exactly controlled the people.

Although Grand Ayatollah Boroujerdi maintained a favorable relationship with the Shah, the land reform bill of 1959 changed the nature of that relationship, as the reforms “violated the law of Islam.”<sup>159</sup> This declaration provided a basis to unify the *ulama* as “Shi’ism would take a leading role in the social and political struggles of the day,”<sup>160</sup> and “perhaps for the first time in their history, the *ulama* unanimously turned against the state.”<sup>161</sup> Ayatollahs Behbehani and Milani also spoke out against the Shah over the issues of land reform. However, the *ulama*’s unity against the state was not without its own internal differences. There was still a conservative element in the Qom establishment under Boroujerdi until his death in 1961, and a radical block under Ayatollah Khomeini which would keep this division between quietists and radicals in synchronization until the Islamic Revolution.

## 5. Islamic Revolution of 1978-1979

Until the Islamic Revolution the *ulama* did not stand united against the Shah’s despotism and corruption. They viewed his economic, political and social reforms as tools which not only aimed to increase his central authority, but also to marginalize the influence of Iran’s religious leaders. In these previous events, “the *ulama*’s failure to combine their efforts suggests that their opposition (to the state) was not aimed at radical change,” although the events which unfolded in 1978-1979, suggest “all opposition

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<sup>157</sup> Nikki R. Keddie, “The Iranian Power Structure and Social Change, 1800-1969,” *International Journal of Middle East Studies* 11, No. 4, (July 1980): 12.

<sup>158</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 541.

<sup>159</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 542.

<sup>160</sup> Vali Nasr, *The Shia Revival*, 124.124.

<sup>161</sup> Mansoor Moaddel, “The Shi’i *Ulama* and the State in Iran,” *Theory and Society* 15, No. 4, (July 1986): 542.

forces worked together and cooperated, because their interests were parallel,”<sup>162</sup> and the *ulama*, once again, became the focus of leading popular opposition to the state through established networks of mosques and connections with the merchant, bazaar and working classes of Iranian society. Under the charismatic leadership of Ayatollah Khomeini, conservative, quietist and radical elements came together against the state, as Iran was “to be led by the *ulama* whose knowledge of Islamic law, whose just conduct qualify them for leadership and whose position as such is sanctified by the Qur’an and Prophetic traditions.”<sup>163</sup>

Only the Revolution against the Shah could keep the historically fractioned *ulama* together though, as afterwards, “not all Shi’a *ulama* were persuaded by Khomeini argument,” promoting the theory of Islamic government under the guardianship of the jurist (*velayat-e faqih*), and “no one among Khomeini’s peers was more vocal in his criticism than Grand Ayatollah Abol-Qasem al-Khoi, who saw no support in Shi’a theology or law for the *velayat-e faqih*.”<sup>164</sup> Despite his objections and those of his *taqlid*, Khomeini’s vision of Islamic government was put into practice in Iran after the ratification of the new Constitution which contained articles pertaining to the rule of the jurist and set in motions the makings of a new political economy.

## **B. EVOLUTION OF A POST REVOLUTIONARY ECONOMY**

From the beginning of the Islamic Revolution, Ayatollah Khomeini’s famous quote, “Economics is for donkeys,”<sup>165</sup> best surmises his disdain for the fundamental understanding of the intricacies of economics. This pervasive attitude toward economics resonated with the post-revolutionary leaders, constitutional architects, members of the religious establishment and future parliamentarians. Branded as a western tool of subversion, economics had no place in the construct of an ideal Islamic state:

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<sup>162</sup> Willem M. Floor, “The Revolutionary Character of the Iranian *Ulama*,” *International Journal of Middle East Studies* 12, No. 4, (December 1980): 516.

<sup>163</sup> Amir H. Ferdows, “Khomeini and Fadayan’s Society and Politics,” *International Journal of Middle East Studies* 15, No. 2, (May 1983): 243.

<sup>164</sup> Vali Nasr, *The Shia Revival*, 125.

<sup>165</sup> Robert Tait, “Economics is for Donkeys,” *Newstatesman*, September 11, 2008, <http://www.newstatesman.com>, (accessed September 30, 2008).

The revolution of 1979 reversed the Shah's modernization and set in motion a process of Islamicization of Iranian society. Islamicization was meant to cleanse the country of decadent Western culture which had infected its body and soul. To the revolutionaries who toppled him, the Shah was a symbol of this Western decadence and cultural imperialism.<sup>166</sup>

However, throughout the rest of the world a new economic phenomenon called globalization began to take shape. From 1972 to 1997 less developed countries saw increased trade and net capital flows as the direct result of democratic expansion.<sup>167</sup> The *ulama* viewed globalization as a threat to their newly established social order which not only kept them at the top of society, but now placed them at the head of all governmental institutions. Closing Iran's borders, limiting foreign involvement and adopting new protective measures only served to increase their isolationism. Globalization presented a direct challenge to their sphere of influence as it would only "unravel elite cohesiveness as the degree of control over economic policymaking and performance becomes significantly constrained, and nations are confronted with higher levels of uncertainty, indeterminacy, and hence, social instability."<sup>168</sup>

### **1. A Radical Beginning from 1979-1988**

The framers of Iran's radical beginning reflected upon a history which "instilled a deep trust of foreign investment."<sup>169</sup> Newly established bureaucratic institutions designed to not only keep the *ulama* at key positions of power through all levels of government, but also enabled them to determine the budding Islamic Republic's economic agenda. Working in the government, the *ulama* were in a position to directly limit the influence of outside actors. To the revolutionaries, "foreign powers were only interested in Iran's

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<sup>166</sup> Ali Akbar Mahdi, "Iranian Women: Between Islamicization and Globalization," in *Iran Encountering Globalization*, 47.

<sup>167</sup> Nita Rudra, "Globalization and the Strengthening of Democracy in the Developing World," *American Journal of Political Science* 49, No. 4, (October 2005): 704.

<sup>168</sup> Nita Rudra, "Globalization and the Strengthening of Democracy in the Developing World," *American Journal of Political Science* 49, No. 4, (October 2005): 705.

<sup>169</sup> Keith Crane, Rollie Lal and Jeffrey Martini, *Iran's Political, Demographic, and Economic Vulnerabilities*, (Santa Monica: RAND Corporation, 2008), 7.

wealth,”<sup>170</sup> and had no interest in developing that wealth in accordance with Islamic principles. The new government, under the leadership of Ayatollah Khomeini, “institutionalized the role of the religious establishment to ensure that the state complied with Islamic precepts.”<sup>171</sup>

The spending habits of the Shah, the intrusion of Western companies and their capitalist proclivities proved what could happen to the economy if left in the hands of those not familiar with the teachings of Islam. His disdain for these policies echo from his words:

Huge amounts of capital are being swallowed up; our public funds are being embezzled; our oil is being plundered; and our country is being turned into a market for expensive, unnecessary goods by the representatives of foreign companies, which make it possible for foreign capitalists and their local agents to pocket the people's money.<sup>172</sup>

In 1979, the Revolutionary Committee for Economic Policy published a nine-point program to guide the economy in post-revolutionary Iran. The program stressed godliness over prosperity; minimum outputs of oil; involvement of religious education as a vital part of development; self-sufficiency in agriculture and industry; adjustment of development strategy to match spiritual needs and that all citizens should have equal claims on financial resources.<sup>173</sup> This program followed Khomeini’s vision of Iran’s economy: a self-sufficient state, free from foreign competition and markets, utilizing natural resources to provide for the social welfare of its people. The processes leading towards any type of globalization are noticeably absent in this plan.

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<sup>170</sup> Keith Crane, Rollie Lal and Jeffrey Martini, *Iran’s Political, Demographic, and Economic Vulnerabilities*, (Santa Monica: RAND Corporation, 2008), 8.

<sup>171</sup> Keith Crane, Rollie Lal and Jeffrey Martini, *Iran’s Political, Demographic, and Economic Vulnerabilities*, (Santa Monica: RAND Corporation, 2008), 9.

<sup>172</sup> Ruhollah Khomeini and Hamid Algar. *Islamic Government: Governance of the Jurist*. (Tehran: Institute for Compilation and Publication of Imam Khomeini’s Work, 2002), 102.

<sup>173</sup> Abbas Alnasrawi, “Economic Consequences of the Iraq-Iran War,” *Third World Quarterly* 8, No. 3, (July 1986): 871.



Instead, nationalization of private companies, controlled prices, import restrictions, government-sponsored subsidies and opposition to foreign investment marked Iran's new economic landscape. Although initially dismissive of socialist tendencies, some in the *ulama* joined in the leftist debates in envisioning a radical new economic system that was neither capitalist nor socialist. Ayatollah Mahmoud Taleqani defended his shared worldview of a new Iran where "Islam was just as progressive and revolutionary as Marxism."<sup>174</sup> In comparing the two systems:

...the ideas of absolute, free ownership (capitalism) and its rival, the absolute negation of private ownership (collectivism and socialism), are the special products of the century of abrupt industrial development...free ownership causes subjugation, emergence of privileged capitalists, and the deprivation of workers...the negation of private ownership limits individual freedom and, in turn requires the dictatorship of a special class.<sup>175</sup>

The constitution of the new Islamic Republic reflects these ideas.

Khomeini's constitutional architects included articles concerning the economy and financial affairs which emphasize economic independence, the role state, cooperative and private sectors all within the guidelines of Islamic law. Article 43 specifies nine criteria the Iranian economy must achieve:

1. The provision of basic necessities for all citizens: housing, food, clothing, hygiene, medical treatment, education, and the necessary facilities for the establishment of a family;
2. Ensuring conditions and opportunities of employment for everyone, with a view to attaining full employment; placing the means of work at the disposal of everyone who is able to work but lacks the means, in the form of cooperatives, through granting interest-free loans or recourse to any other legitimate means that neither results in the concentration or circulation of wealth in the hands of a few individuals or groups, nor turns the government into a major absolute employer. These steps must be taken with due regard for the requirements governing the general economic planning of the country at each stage of its growth;

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<sup>174</sup> Vali Nasr, *The Shi'a Revival*, 127.

<sup>175</sup> Mahmoud Taleqani as quoted by Tahir Amin, "Iran: Political Economy of an Islamic State," *The American Journal of Islamic Social Science*, <http://www.financeinislam.com>, (accessed October 15, 2008).

3. The plan for the national economy, must be structured in such a manner that the form, content, and hours of work of every individual will allow him sufficient leisure and energy to engage, beyond his professional endeavor, in intellectual, political, and social activities leading to all-round development of his self, to take active part in leading the affairs of the country, improve his skills, and to make full use of his creativity;
4. Respect for the right to choose freely one's occupation; refraining from compelling anyone to engage in a particular job; and preventing the exploitation of another's labor;
5. The prohibition of infliction of harm and loss upon others, monopoly, hoarding, usury, and other illegitimate and evil practices;
6. The prohibition of extravagance and wastefulness in all matters related to the economy, including consumption, investment, production, distribution, and services;
7. The utilization of science and technology, and the training of skilled personnel in accordance with the developmental needs of the country's economy;
8. Prevention of foreign economic domination over the country's economy;
9. Emphasis on increase of agricultural, livestock, and industrial production in order to satisfy public needs and to make the country self-sufficient and free from dependence.<sup>176</sup>

From its inception, isolationism, namely the rejection of foreign involvement, remains firmly entrenched in the building blocks of Iran's key economic institutions. At the same time Article 44 of the constitution authorizes the state ownership of all major industries and resources:

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. The state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the

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<sup>176</sup> Constitution of the Islamic Republic of Iran, "Economy and Financial Affairs," *Iranian Government Constitution*, <http://www.iranonline.com> (accessed October 15, 2008).

State. The cooperative sector is to include cooperative companies and enterprises concerned with production and distribution, in urban and rural areas, in accordance with Islamic criteria. The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors. Ownership in each of these three sectors is protected by the laws of the Islamic Republic, in so far as this ownership is in conformity with the other articles of this chapter, does not go beyond the bounds of Islamic law, contributes to the economic growth and progress of the country, and does not harm society.<sup>177</sup>

As a result, “all private banks, insurance companies and the private industry owned by 51 industrialists were nationalized by the government in 1979.”<sup>178</sup> The consequences of which would materialize during the implementation of several Five Year Plans for economic growth and development.

The Constitution placed further restrictions on the enablers of a global economy, namely foreign direct investment, by expanding the powers of the Islamic Consultative Assembly under Article 81:

The granting of concessions to foreigners for the formation of companies or institutions dealing with commerce, industry, agriculture, services or mineral extraction, is absolutely forbidden.<sup>179</sup>

From the beginning, the religious establishment laid the groundwork for an isolated Islamic Republic destined to withdraw from an emerging global economy and a nearly decade long war with Iraq left Iran’s economic infrastructure in shambles. The death of Ayatollah Khomeini and the selection<sup>180</sup> of Ali Khamenei to Supreme leader coupled with the election of fellow cleric Ali-Akbar Hashemi Rafsanjani as president of

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<sup>177</sup> Constitution of the Islamic Republic of Iran, “Economy and Financial Affairs,” *Iranian Government Constitution*, <http://www.iranonline.com> (accessed October 15, 2008).

<sup>178</sup> Tahir Amin, “Iran: Political Economy of an Islamic State,” *The American Journal of Islamic Social Science*, <http://www.financeinislam.com>, (accessed October 15, 2008).

<sup>179</sup> Constitution of the Islamic Republic of Iran, “Economy and Financial Affairs,” *Iranian Government Constitution*, <http://www.iranonline.com> (accessed October 15, 2008).

<sup>180</sup> The Assembly of Experts “approved of Khamenei’s succession by a vote of 60-14. Khamenei’s status was elevated overnight from *Hojjat ol-Islam* (a clerical title of middle rank) to the prestigious rank of Ayatollah.” Karim Sadjadpour, *Reading Khamenei: The World View of Iran’s Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 6.

the Islamic Republic signaled the beginning of an Iranian thermidor, “the closing phase of a revolution wherein hard-line revolutionaries are increasingly challenged by reformists and revisionists as a result of backlash to revolutionary policies.”<sup>181</sup>

## 2. The Rise of the Pragmatists from 1989-1996

The pragmatist platform in Iran centered around economic growth, government accountability, improved standards of living and better foreign relations with an emphasis on nationalism, development, reconstruction and state building. The promotion of these fundamentals would be essential in bringing Iran back from “a war-ravaged country with an equally moribund economy,”<sup>182</sup> however the constitution, as written in 1979, created a structure that Khamenei described as “an ineffective system of accountability because it was impossible to know whom to blame.”<sup>183</sup> Constitutional reforms in 1989 took “a weak and divided executive branch headed by a president with more ceremonial powers,” to create an office that “has at his helm a powerful president.” For the next eight years this position would be held by a member of the *ulama*, *Hojjat ol-Islam* Rafsanjani.

To bring the state-controlled Iranian economy suffering from high inflation and unemployment, an overreliance of subsidies, and decreased productivity in the energy and industrial sectors back from its disastrous state, Rafsanjani began his Five Year Plan of economic reform. As the leader of the pragmatists, he believed “that without a cautious rapprochement with the West, and without some degree of privatization of the major industries, Iran’s effort to rebuild its war-ravaged economy would fail,”<sup>184</sup> yet his policies did not fully embrace the free market:

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<sup>181</sup> Matthew C. Wells, “Thermidor in the Islamic Republic of Iran: The Rise of Muhammad Khatami.” *British Journal of Middle Eastern Studies* 2, No. 1, (May 1999): 27.

<sup>182</sup> Karim Sadjadpour, *Reading Khamenei: The World View of Iran’s Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 7.

<sup>183</sup> Mohsen M. Milani, “The Evolution of the Iranian Presidency: From Bani Sadr to Rafsanjani,” *British Journal of Middle Eastern Studies* 20, No. 1, (1993): 94.

<sup>184</sup> Mohsen M. Milani, “The Evolution of the Iranian Presidency: From Bani Sadr to Rafsanjani,” *British Journal of Middle Eastern Studies* 20, No. 1, (1993): 93.

...our economic approach is a mixed one; (it is) a pure Islamic economy. This economic approach has certain features in common with both the Western and Eastern economic systems; however, its principles are based on neither;<sup>185</sup>

or fall directly in line with the processes necessary to bring about a globalized economy:

...our economy is independent and original and was designed fourteen hundred years ago by our religion. We do not care how cooperatives have operated in the world. We adapt them to our religious goals and to Imam Khomeini's ideals;<sup>186</sup>

despite a call from organizations outside of Iran to help reinvigorate the Iranian economy:

...given the fact that Iran has a dependent and weak economy, the success of reconstruction depends on a policy of cooperation with the industrial world and the international economic institutions which have the required technological and financial means.<sup>187</sup>

While Rafsanjani's domestic agenda has been supported by the new Supreme Leader, Khamenei "has rarely missed an opportunity to emphasize that he is the ultimate source of political authority in the Islamic Republic,"<sup>188</sup> especially in foreign affairs pertaining to Iran's political economy.

Opposition from other members of the *ulama* mounted to the pragmatic approach to economic liberalization through "unification of the foreign exchange system, decontrolling of prices, elimination of subsidies, emphasis on privatization and reduction of government controls over market forces."<sup>189</sup> Rafsanjani's center-right coalition met resistance from the left-wing *ulama* led by Ayatollahs Mehdi Karrubi and Abdol Karim

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<sup>185</sup> Ali-Akbar Rafsanjani as quoted by Siavoshi, Sussan in "Factionalism and Iranian Politics: The Post-Khomeini Experience," *Iranian Studies* 25, No. 3/4, (1992): 34.

<sup>186</sup> Ali-Akbar Rafsanjani as quoted by Siavoshi, Sussan in "Factionalism and Iranian Politics: The Post-Khomeini Experience," *Iranian Studies* 25, No. 3/4, (1992): 34.

<sup>187</sup> Ali-Akbar Rafsanjani as quoted by Siavoshi, Sussan in "Factionalism and Iranian Politics: The Post-Khomeini Experience," *Iranian Studies* 25, No. 3/4, (1992): 33-34.

<sup>188</sup> Mohsen M. Milani, "Power Shifts in Revolutionary Iran," *Iranian Studies* 26, No. 3/4, (Summer/Autumn, 1993): 370.

<sup>189</sup> Sohrab Behdad, "Revolutionary Surge and Quiet Demise of Islamic Economic in Iran," (paper presented at talk sponsored by the University of California, Los Angeles, Center for Near Eastern Studies on October 4, 2005.)

Ardablili who advocated Khomeini's "statist policies of nationalization and continued Islamization of the economy, regulation of foreign trade and opposed any type of relation with the U.S. and the West."<sup>190</sup> Conservative elements of the Tehran Militant Clergy Association, led by Ayatollah Mohammed Reza Mahdavi-e Kani placed "social justice over development, imports over industrialization and business (the merchants) over development."<sup>191</sup>

A reconciliation of the hard-line approach to the Iranian economy advocated by Khamenei by the more pragmatic methodology championed by Rafsanjani is met by the latter's "inability or unwillingness to curtail the immense economic power of the ulama-dominated institutional foundations, whose jurisdictions lie outside the governmental domain."<sup>192</sup> This would be challenged by the reform movement under the presidency of Mohammed Khatami, also a member of the ulama.

### **3. The Reform Movement from 1997-2004**

The reform movement in Iran centered on "the rule of law, increased freedoms of political expression and an Islamically guided economic transition towards modernity and globalization."<sup>193</sup> The movement began as a response to the failure of the pragmatists' inability to achieve structural changes in the economy due the reluctance of the conservative elements lead by Khamenei. The reformists placed social justice after economic independence and viewed a mixed economy as the key to development and self-sufficiency while "recognizing the inefficiencies of the bazaar economy."<sup>194</sup> With this approach, Khamenei's objection to the election of Mohammad Khatami as president and subsequent re-election four years later becomes immediately apparent. A fellow

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<sup>190</sup> Matthew C. Wells, "Thermidor in the Islamic Republic of Iran: The Rise of Muhammad Khatami." *British Journal of Middle Eastern Studies* 2, No. 1, (May 1999): 29.

<sup>191</sup> Ali Mohammadi, "The Sixth Majles Election and the Prospects for Democracy in Iran," in *Iran Encountering Globalization*, 234.

<sup>192</sup> Mohsen M. Milani, "Power Shifts in Revolutionary Iran," *Iranian Studies* 26, No. 3/4, (Summer/Autumn, 1993): 372.

<sup>193</sup> Robert E. Looney, "The Re-Emergence of Iranian Petro-Populism," *Gulf Research Center, Gulf Yearbook 2006/2007*, (Dubai: GRC, 2007), 419.

<sup>194</sup> Ali Mohammadi, "The Sixth Majles Election and the Prospects for Democracy in Iran," in *Iran Encountering Globalization*, 236.

member of the religious establishment was now in a position to directly challenge conservative elements. These elements sought to maintain the ideals of the revolution as they saw Khatami's policies as threatening to the benefits they had received from playing "an active role in political decision making and economic activity."<sup>195</sup>

President Khatami's economic reforms targeting globalization, liberalization, corruption, government subsidies and trade regulations were met with resistance by conservative elements whose isolationist tendencies dominated Iran's political institutions. According to the *Economist*, "between 2000 and early 2004, the Guardian Council blocked about 100 bills proposed by the reformist-dominated parliament."<sup>196</sup> The coalition which brought Khatami to power could not compete with a religiously dominated, conservative government body designed to limit the influence of the nationally elected president. In an effort to level the playing field, "two bills proposed by Khatami in late 2002 that would have strengthened the powers of the presidency at the expense of the Guardian Council and the conservative (and highly politicized) judiciary were repeatedly blocked."<sup>197</sup>

Khatami's tenure denoted a real fracture amongst the *ulama* in Iranian politics, despite the relative powerlessness of the presidency, as the economic reforms set in motion during this time will prove difficult for the current conservative block to reverse.<sup>198</sup> While the price of oil remained high during this period, "the poor performance of the economy and adverse effect of the pattern of economic liberalization on the less privileged segments of society brought economics to the forefront of political discourse."<sup>199</sup> Only the new alliance between secular conservatives and the religious

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<sup>195</sup> Karim Sadjadpour, *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 8.

<sup>196</sup> Economist Intelligence Unit, *Country Profile 2007: Iran*, (London: Economist Intelligence Unit Limited, 2007), 6.

<sup>197</sup> Economist Intelligence Unit, *Country Profile 2007: Iran*, (London: Economist Intelligence Unit Limited, 2007), 6.

<sup>198</sup> Scott Field, statement from notes obtained at seminar attended by author, Monterey, CA, September 19, 2008.

<sup>199</sup> Sohrab Behdad, "Revolutionary Surge and Quiet Demise of Islamic Economic in Iran," (paper presented at talk sponsored by the University of California, Los Angeles, Center for Near Eastern Studies on October 4, 2005.)

establishment, including the Revolutionary Guard Corps, established by the election of President Mahmoud Ahmadinejad in 2005, could enact economic policies to further isolate Iran from the global economy.

#### 4. A Return to the Hard Line from 2005-present

The Islamic Republic of Iran's constitution created the office of the president, however, not until the elections of 2005, did the people of Iran elect a president who did not come from the religious clergy. At that time a vote for Mahmoud Ahmadinejad may have been a vote against the religious establishment, however, his source of emulation (*taqlid*), or the member of the Shi'a *ulama* he must follow is Ayatollah Mesbah-Yazdi, a hard-line cleric with visions of succeeding Ayatollah Ali Khamenei as Supreme Leader of the Islamic Republic. With this election, the *ulama*, as keepers of power in Iran, "marked the culmination of the clergy's gradual domination of the electoral process."<sup>200</sup>

The administration's hard-line platform focuses on the distribution of wealth obtained through oil revenues, a continuation of state subsidies, rent-sharing and socialization of crucial resources and opposition to the corruptive forces of capitalism. It also seeks to put Iran back on a path away from the liberal economic reforms enacted by previous administrations, especially from Rafsanjani and Khatami, through "expansionary fiscal and monetary policies aimed at reducing poverty and creating jobs."<sup>201</sup>

Despite this objective, the IMF found these policies produced inflationary pressures and a labor market unable to keep up with supply resulting in unemployment in addition to "economic distortions caused by extensive administrative controls on prices and rates of return (interest rates), as well as large subsidies, particularly those on energy products."<sup>202</sup> In an attempt at fiscal reform, government policies to reduce subsidies and

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<sup>200</sup> Abbas Milani, "Iran's Peculiar Election: A Historical Perspective," *Journal of Democracy* 16, No. 4, (October 2005): 32.

<sup>201</sup> Shayerah Ilias, "Iran's Economy," *CRS Report for Congress*, RL34525, (June 12, 2008): 7.

<sup>202</sup> International Monetary Fund, "Islamic Republic of Iran: 2006 Article IV Consultation," *IMF Country Report No. 07/100*, (March 2007), <http://www.imf.org> (accessed November 2, 2008).



increase revenue through a value added tax on the bazaari transactions had an adverse reaction amongst the population causing riots in the streets and strikes in the marketplace.

Clerical support for President Mahmoud Ahmadinejad for his re-election attempt in June 2009 remains bitterly divided. Seeking clerical approval and loyalty for his policies is a direct result of being “unable to manipulate the laws of economics to support his domestic agenda.”<sup>203</sup> Despite receiving an apparent endorsement from Supreme Leader Ayatollah Khamenei during a speech in August 2008:

...do not think that this year is your final year. No. Work as if you will stay in charge for five years. In other words, imagine that in addition to this year, another four years will be under your management and plan and act accordingly.<sup>204</sup>

and from the chairman of the Council of Guardians, Ayatollah Jannati, on the letter Ahmadinejad purportedly sent to President Bush, when he states, “it is spectacular...an inspiration from God...it should be read at schools and universities, and repeatedly broadcast from the country's radio and TV networks,”<sup>205</sup> others have been sharply critical. None more so than former president, current Expediency Council and Assembly of Experts Chairman and Ahmadinejad’s chief opponent in 2005, Ali Akbar Rafsanjani.

Just after Khamenei gave his endorsement, Rafsanjani followed with, “the honorable leader asked us to endure this government for a while, therefore during these three years we tolerated the executive branch but we can now say that this period has come to an end...now, we can say it’s over.”<sup>206</sup> Other members of the Assembly of Experts, including Ayatollah Mohammad-Reza Mahdavi Kani, advised his fellow *ulama* not to take responsibility over Ahmadinejad’s policies:

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<sup>203</sup> Ali Alfoneh, “Ahmadinejad versus the Technocrats,” *American Enterprise Institute for Public Policy Research*, No 4, (May 2003). <http://www.aei.org> (accessed November 1, 2008).

<sup>204</sup> STRATFOR, “Iran: Khamenei's Message-Laden Endorsement,” August 25, 2008, <http://www.stratfor.com> (accessed August 27, 2008).

<sup>205</sup> IRNA, “Ahmadinejad Inspired by God in Writing Letter to Bush,” May 12, 2006, <http://www.irna.ir> (accessed August 27, 2008).

<sup>206</sup> STRATFOR, “Iran: Khamenei's Message-Laden Endorsement,” August 25, 2008, <http://www.stratfor.com> (accessed August 27, 2008).

...not to fear a single man and say the truth for the sake of God...we are not allowed to blame others for the ills of the society...I have told Mr. Ahmadinejad not to consider us (the clergy) as an instrument...we are not the preachers of the Sultans of the past, and that he should not expect praise from our side.<sup>207</sup>

Even Ayatollahs without the protection of belonging to Iranian political institutions have found fault with Ahmadinejad's economic policies, as Ayatollah Sanjani remarked, "Ahmadinejad is not complying with the will of the people...this is a major threat, a big danger."<sup>208</sup>

The question remains if the reformist elements that "were ill equipped (in 2005) to succeed in a changed political landscape that was no longer dominated by a head-to-head contests between hard-line conservatives and prodemocracy forces,"<sup>209</sup> can compete against these same hard-liners or if the pragmatic-conservatives, lead by Rafsanjani can re-establish themselves as populists more concerned with economic and social reforms, rather than political restructuring which doomed them in 2005.

### C. FROM POLITICAL ECONOMIC ACTIVISM TO GLOBALISM

Throughout the history of Iran, the *ulama* have showcased their willingness and ability to affect the political economy of their country taking Iran on a trajectory of greater isolation while reducing foreign pressure. Whether opposing the monarchy against tobacco concessions, increasing their influence over their constituency during the Constitutional Revolution, or flexing their collective power during the Islamic Revolution, the *ulama* do not hesitate to showcase these capabilities. Their actions during coup d'état and while the Shah attempted to implement land reforms also demonstrate the resolve of the *ulama* to act decisively to protect their own interests – a characteristic they continued to display during the post-revolutionary period.

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<sup>207</sup> Ayatollah Kani as quoted by Ali Alfoneh, "Ahmadinejad versus the Technocrats," *American Enterprise Institute for Public Policy Research*, No 4, (May 2003). <http://www.aei.org> (accessed November 1, 2008).

<sup>208</sup> Madeline Chambers, "Iranian Cleric Reportedly Criticizes Ahmadinejad," Reuters, August 26, 2008, <http://www.uk.reuters.com> (accessed August 27, 2008).

<sup>209</sup> Vali Nasr, "Iran's Peculiar Election: The Conservative Wave Rolls On," *Journal of Democracy* 16, No. 4, (October 2005): 15.

In an attempt to resurrect an economy disrupted by a revolution and shattered by a nearly decade long war with Iraq, the religious establishment brought Iran into further isolation through their new constitution, granting ultimate power over economic institutions to the Supreme Leader and his loyal supporters. Although a period of pragmatism began after the death of Khomeini and a reform-minded cleric attempted economic liberalization, these efforts were largely undone by a return to power of hard-line elements within the *ulama*. With the ascendancy of this faction, Iran would find itself further cut off from the forces driving globalization.

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#### IV. BEYOND THE MARKET: FORCES BEHIND GLOBALIZATION

The complex economic interdependency created through globalization can overshadow and eventually overcome the *ulama's* grip on Iranian power over government institutions controlling the political economy. In an effort to bring Iran to the forefront of the regional stage, previous pragmatic and reform-minded leaders attempted to institute economic reform policies. Hard-line elements within the government provide opposition to these policies and as a result, Iran does not experience high levels of economic growth and development – instead unemployment, inflation and economic stagnation persist. Iran struggles to integrate in the global economy because “the leadership of the Islamic government has no comprehension of the globalization process, in particular the powerful role of international financial institutions and the brain drain of those who possess a more comprehensive grasp of the global economy.”<sup>210</sup> From its inception, Ayatollah Khomeini’s constitutional architects that created the institutions which shape the political economy of the Islamic Republic of Iran sheltered themselves from the global marketplace.

The market has yet to fully integrate and expand into Iran, therefore money and capital from foreign direct investment does not pour into the Iranian economy – leaving it highly dependent on the price of oil, where according to the McKinsey Global Institute Energy Demand Model, Iran’s threshold oil price per barrel must remain above 35.50 U.S. dollars, or else revenue will be insufficient for domestic expenditures.<sup>211</sup> As a result, critical oil infrastructure is crumbling; while new industries and market expansion for manufacturing, textiles, technology and agriculture remain non-existent. Economic sanctions do make a convenient scapegoat either as their effects diminish significantly over the long run.<sup>212</sup>

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<sup>210</sup> Ali Mohammadi, *Iran Encountering Globalization*, 5.

<sup>211</sup> McKinsey Global Institute, *The New Powerbrokers: How Oil, Asia, Hedge Funds, and Private Equity are Shaping Global Capital Markets*, (McKinsey and Company, October 2007), 163.

<sup>212</sup> Akbar E. Torbat, “Impacts of the U.S. Trade and Financial Sanctions on Iran,” *World Economy* 28, No. 3, (March 2005): 427.

The process of globalization creates a marketplace where intra-governmental institutions, non-governmental organizations and multi-national corporations have an opportunity to create interdependencies which according to Keohane and Nye should reduce the possibility for conflict and increase stability in the region.<sup>213</sup>

Foreign companies do not see Iran as a viable market to improve their own competitiveness. Iran with its large population and employment pool, and relative concentration of cheap labor in urban areas make it a favorable arena for investment. However, the religious establishment enforces policies which keep Iran's participation in international institutions at bay, negatively affecting their participation in the growing world economy. Leading studies on economic liberalization and indexes on globalization not only place Iran at or near the bottom of their respective lists, but also have unfavorable conclusions on Iran's future prospects of integration into the global economy.

#### **A. COMPLEX ECONOMIC INTERDEPENDENCIES**

A cohesive international system which cultivates complex interdependencies consisting of international institutions, multinational corporations, economic trade blocks and non-governmental organizations create the normative economic, political, social and humanitarian frameworks which shape today's world.<sup>214</sup> Under this structure the impact of Iran's diminished role in the international system of the early twenty-first century can be explained and their impact predicted. As a nation submits to these interdependencies it can reap the benefits of free trade and expect their role in the international system to expand, unless the religious establishment holds them back.

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<sup>213</sup> Robert O. Keohane and Joseph S. Nye, "Power and Interdependence," in *Conflict After the Cold War: Arguments on Causes of War and Peace*, ed. Richard K. Betts, (New York: Pearson Education, Inc., 2008): 161.

<sup>214</sup> Robert O. Keohane and Joseph S. Nye, "Power and Interdependence," in *Conflict After the Cold War: Arguments on Causes of War and Peace*, ed. Richard K. Betts, (New York: Pearson Education, Inc., 2008): 161-163.

The significance of developing economic interdependencies centers around and emphasizes the importance of how international and domestic economies are related especially when the former constrains and directs the latter in an uncertain world of increasing global interdependence.<sup>215</sup> The economics of international political economy are presented as five basic tasks:

1. A clear sense of why trade takes place among nations and the theory of free trade;
2. Comprehension of how to measure the movement of goods and services across borders through the balance of payments;
3. An understanding of the tools of economic management by governments – namely fiscal and monetary policy;
4. Insight into currency exchanges for international transactions and the relationships between these rates and the prices and demand for exports and imports;
5. An explanation into the dynamics of how everything is brought together (monetary and fiscal policy, interest rates, exchange rates, financial markets and the balance of payments).<sup>216</sup>

Using the operational definition of free trade as the flow of goods and services between nations without government restrictions, such as tariffs, quotas or regulations, production will take place where it is most efficiently done, benefiting all nations. This highlights Adam Smith's liberal argument for free trade. Individuals acting within a market, rather than statesmen, can better decide what and where to produce.<sup>217</sup> Taken on a grander scale, if a foreign country can supply a product cheaper than it can be produced domestically, then it should be bought from them from produce made domestically in which there is some advantage. Advantages in trade can be achieved through new

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<sup>215</sup> Thomas D. Lairson and David Skidmore, *International Political Economy: The Struggle for Power and Wealth*, (Fort Worth, Tx.: Harcourt Brace College Publishers, 1997), 13-14.

<sup>216</sup> Thomas D. Lairson and David Skidmore, *International Political Economy: The Struggle for Power and Wealth*, (Fort Worth, Tx.: Harcourt Brace College Publishers, 1997), 14-33.

<sup>217</sup> Adam Smith and Andrew S. Skinner, *The Wealth of Nations*, (Harmondsworth: Penguin, 1970), 3-4.

technology, skill and innovation. However, when government institutions limit the process through control, regulation and expanded religious discourse, then market integration and expansion suffer the consequences.

International institutions guarantee the flow of natural resources to countries which demand them through integrated global markets. The expansion of these markets “entails more specialized producers and labors, contract enforcement, security of property rights, increased capital and technological growth.”<sup>218</sup> As Iran’s economic growth is dependent on the availability and distributions of fossil fuels, the less it does to disrupt this market driven flow the better as “the more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be.”<sup>219</sup> The complex interdependence brought through globalization allows these market forces to thrive.

## **B. RANKING IRAN IN THE GLOBAL ECONOMY**

The process of creating accurate measures to assess how integrated a country is in the global economy is a difficult endeavor. Commissioned studies rely on various factors and metrics of globalization and apply different weighted values to each of the measures. While encompassing more than just an economic component, these studies also report on the political, social and informational elements of globalization. However, no matter the methodology utilized by these studies, they all reach the same conclusion – each year Iran constantly finds itself at or near the bottom of every ranking (see Table 1).

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<sup>218</sup> Douglas C. North, “Institutions,” *Journal of Economic Perspectives* 5, No. 1, (Winter, 1991), 100-101.

<sup>219</sup> Thomas Friedman, *The Lexus and the Olive Tree Understanding Globalization*. (New York: Farrar, Straus and Giroux, 2000), 8.



Table 1. Summary of Iran's Globalization Rankings.

<b>Index Name</b>	<b>Year</b>	<b>Ranking of Iran</b>	<b>Number of Countries Measured</b>
A.T. Kearny / Foreign Policy	2003	62	62
KOF Globalization Index	2003	105	122
Index of Economic Freedom	2003	75	127
A.T. Kearny / Foreign Policy	2004	62	62
KOF Globalization Index	2004	114	122
Index of Economic Freedom	2004	78	130
A.T. Kearny / Foreign Policy	2005	62	62
KOF Globalization Index	2005	113	122
Index of Economic Freedom	2005	92	141
A.T. Kearny / Foreign Policy	2006	62	62
KOF Globalization Index	2006	65	122
Index of Economic Freedom	2006	80	141
A.T. Kearny / Foreign Policy	2007	72	72
KOF Globalization Index	2007	115	122
KOF Globalization Index	2008	112	122
Index of Economic Freedom	2008	151	162

The indicators of globalization demonstrate not only Iran's lack of economic integration through trade and foreign direct investment, but also note its political disengagement in international organizations as well as its isolationist tendencies of personal contact through international trade and tourism. These indicators aside, Iran shows promise on the technology front with increased number of internet connections,

users and bloggers bringing Farsi to forth among all languages used online in blogs.<sup>220</sup> The following survey of the three major globalization indexes demonstrate Iran's difficult journey to become integrated into the world's global economy.

### **1. A.T. Kearney/Foreign Policy Globalization Index**

Since 2001, consulting firm A.T. Kearney has partnered with *Foreign Policy* to publish an annual index that measures globalization. The globalization index initially ranked 62 countries comprising 85 percent of the world's gross domestic product, however, in 2007, expanded to 72 countries covering 97 percent of the world's GDP. The methodology analyzes four components of global integration across economic, political, personal and technological dimensions. Each dimension incorporates specific indicators such as trade and foreign direct investment, international organizations and treaties, telephone, travel and remittances, and internet usage to determine each country's final score.

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<sup>220</sup> According to the National Institute for Technology and Liberal Education's Blog Census, Farsi is the fourth most widely used language among blogs worldwide. <http://www.foreignpolicy.com> (accessed October 22, 2008).

Table 2. The Numbers Behind Iran's Disintegration<sup>221</sup>

Indicator	Number	Iran's Rank (out of 72)
Gross Domestic Product	\$188,479 mil.	32
Total Trade (share of GDP)	56.6%	55
Government Transfers (share of GDP)	0%	72
Foreign Direct Investment (share of GDP)	0.06%	72
Remittances (share of GDP)	0.26%	71
Treaties Ratified	5	68
International Arrivals	1.78 mil.	54
Minutes of International Phone Usage (per capita)	5.33	66
Secure Internet Servers (per capita)	0.0000003	63
Number of Internet Users	7 mil.	25
Peacekeeping Contributions (share of GDP)	0.0005783%	57
Membership in International Organizations	8	66

Iran finds itself at the bottom of this index each and every year; hurt by low scores in each of the four dimensions (see Table 2). The index cites a lack of foreign direct investment as a result of diminishing investor confidence and ongoing U.S. imposed sanctions for its struggling economy.<sup>222</sup> It also faults the regime for frequent internet crackdowns, and censorship resulting in “the fewest secure servers per capita than any

<sup>221</sup> Summary of Iran's last place ranking on A.T. Kearney/Foreign Policy's 2007 Globalization Index, <http://www.atkearney.com> (accessed May 1, 2008).

<sup>222</sup> “Measuring Globalization,” *Foreign Policy*, (May/June 2005), <http://www.atkearney.com> (accessed May 1, 2008.)

other country measured except for Bangladesh.”<sup>223</sup> In the political arena, the transition from “a conciliatory Mohammad Khatami for a more isolationist president, Mahmoud Ahmadinejad,”<sup>224</sup> continues to keep Iran one of the least globalized countries in the world. Instead of taking steps forward to integrate the economy through international trade, growing at a rate of 9 percent per year,<sup>225</sup> the regime continues to keep its grip on power by limiting Iran’s involvement in an increasingly globalized world.

## 2. KOF Index of Globalization

Since 2002, KOF, a Swiss consulting firm based in Zurich, publishes an annual index of globalization that ranks 122 countries. This index measures globalization in terms of three dimensions: economic, social and political. To determine an operational definition of globalization, this index combines several scholarly definitions:

...globalization is the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence.<sup>226</sup>

The economic measures of globalization include long distance flows of capital, goods and services, “as well as information and perceptions that accompany market exchanges.”<sup>227</sup> An important conclusion reached by the KOF index states, “the results show that globalization promotes growth, however not on a large scale. The dimensions

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<sup>223</sup> “Measuring Globalization,” *Foreign Policy*, (May/June 2005), <http://www.atkearney.com> (accessed May 1, 2008.)

<sup>224</sup> “The Globalization Index 2007,” *Foreign Policy*, (November/December 2007), <http://www.atkearney.com> (accessed May 1, 2008).

<sup>225</sup> “The Globalization Index 2006,” *Foreign Policy*, (November/December 2006), <http://www.atkearney.com> (accessed May 1, 2008).

<sup>226</sup> Axel Dreher, “Does Globalization Affect Growth? Evidence from a new Index of Globalization,” *Applied Economics* 38, No. 10, (2006): 1091-1110, Updated in Dreher, Axel, Noel Gaston and Pim Martens, *Measuring Globalization – Gauging its Consequences* (New York: Springer, 2008), <http://globalization.kof.ethz.ch> (accessed October 28, 2008).

<sup>227</sup> Axel Dreher, “Does Globalization Affect Growth? Evidence from a new Index of Globalization,” *Applied Economics* 38, No. 10, (2006): 1091-1110, Updated in Dreher, Axel, Noel Gaston and Pim Martens, *Measuring Globalization – Gauging its Consequences* (New York: Springer, 2008), <http://globalization.kof.ethz.ch> (accessed October 28, 2008).

most robustly related with growth refer to actual economic flows and restrictions in developed countries.”<sup>228</sup> This is significant in determining Iran’s perpetual bottom ranking.

The government restrictions placed upon the economy by the regime effectively limits its ability to participate in the global economy. Poor data scores under economic integration include decreases in actual flows, such as trade, foreign direct investment and portfolio investment coupled with increased restrictions over import barriers, tariffs, taxes and capital account restrictions earned Iran a rank of 112 out of 122 countries in 2008. As the religious establishment continues to enforce economic regulations designed to confine Iran, growth is negatively impacted.

### **3. Heritage Foundation Index of Economic Freedom**

Taking a broader look at measuring globalization is the Heritage Foundation and Wall Street Journal’s Index of Economic Freedom. Since 1995, this index ranks countries in terms of economic freedom spread across ten dimensions of freedom. These dimensions, “each of which is vital to the development of personal and national prosperity,”<sup>229</sup> include business freedom, trade freedom, fiscal freedom, monetary freedom, government size, investment freedom, financial freedom, property rights, freedom from corruption and labor freedom. Based on these components, the authors arrive at their operational definition of economic freedom as:

...that part of freedom that is concerned with the material autonomy of the individual in relation to the state and other organized groups. An individual is economically free who can fully control his or her labor and property. This economic component of human liberty is related to—and perhaps a necessary condition for—political freedom, but it is also valuable as an end in itself,<sup>230</sup>

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<sup>228</sup> Axel Dreher, “Does Globalization Affect Growth? Evidence from a new Index of Globalization,” *Applied Economics* 38, No. 10, (2006): 1091-1110, Updated in Dreher, Axel, Noel Gaston and Pim Martens, *Measuring Globalization – Gauging its Consequences* (New York: Springer, 2008), <http://globalization.kof.ethz.ch> (accessed October 28, 2008).

<sup>229</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O’Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 39.

<sup>230</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O’Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 39.

where,

the highest form of economic freedom provides an absolute right of property ownership; fully realized freedoms of movement for labor, capital, and goods; and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself.<sup>231</sup>

From this definition, the ranking of Iran near the bottom of this index becomes apparent.

In 2008, Iran ranked 151 out of 162 globally and 17 of 18 in the Middle East and North Africa ahead of only Libya.<sup>232</sup> A combination of decreased economic and political liberalism caused a slip in over seventy positions over the course of one year. The index cites Iran's government as not only weak and inefficient, but also despondent in pursuing an economic policy of "self-defeating statism where protectionism and price controls have led to double-digit tariffs and double-digit inflation."<sup>233</sup> The table below reflects the translation of ineffective, restrictive economic policies which keeps tariff rates high, imposes non-tariff barriers impeding trade and foreign investment alike while promoting rampant corruption and limiting the fair adjudication of property rights.<sup>234</sup>

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<sup>231</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 40.

<sup>232</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 68.

<sup>233</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 215

<sup>234</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 215

Table 3. Numbers Behind Iran’s Limited Economic Freedom.<sup>235</sup>

Economic Freedom	44% <sup>236</sup>
GDP Growth (2005)	4.4%
Unemployment (2005)	11.6%
Inflation of Consumer Price Index (2005)	12.1%
Net Flow of Foreign Direct Investment (2005)	-\$46.0 million
External Debt (2005)	\$21.3 billion
Exports (2004)	\$18.2 billion
Imports (2004)	\$14.9 billion
Weighted Tariff Rate (2004)	13.8%

Iran’s backwards slide in the economic freedom is likely to continue as long as the regime continues the trend of reversing of Khatami’s efforts to reform the state dominated economy. From 2005 to mid 2008, revenues from soaring oil prices helped mask a struggling economy, however if oil prices dip, the regime will have to look to other forms of revenue to stimulate growth, or the religious establishment will have a political economy that “remains burdened by high unemployment, inflation, corruption, costly subsidies, and a public sector that is both bloated and inefficient.”<sup>237</sup>

### C. INSTRUMENTS RESPONSIBLE FOR LINKING ECONOMIES

Though a resistance to modernization through the process of globalization exists within the conservative leadership of the religious ranks, market forces and pressures

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<sup>235</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O’Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 215

<sup>236</sup> The average regional economic freedom score = 58.7 percent, while the world average = 60.3 percent.

<sup>237</sup> Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O’Grady, *2008 Index of Economic Freedom*, (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), 215

from the global economy exerted upon Iran will transcend the traditional ideologies and usher in a new era of economic growth within the Islamic Republic. Signs declaring “Iran Open for Business” illustrate the promise that lies in an economy supported by 11.5 percent of the world’s proven oil reserves along with 14.9 percent of natural gas reserves.<sup>238</sup> Despite being flush with petrodollars, the energy sector covers less than a third of Iran’s economy. Present are other, more ominous indicators of an isolated, struggling economy.

These indicators of the instruments responsible for linking economies include an environment that encourages foreign direct investment and seeks trading partners and agreements. In Iran, however, the decline in trade amongst its largest trading partners as well as the imposition of both unilateral and multilateral economic sanctions has not only negatively affected the principle driver of an integrated global economy, FDI, but also hampered its ability to enter into free trade agreements and gain membership in international institutions.

## **1. Foreign Direct Investment**

Despite limitations placed on foreign direct investment by the Iranian Constitution and the insistence of the Supreme Leader to keep Iran sovereign and free from foreign intervention, acts promoting foreign direct investment have made their way into law. The most significant of which is the Foreign Investment Promotion and Protection Act (FIPPA) of 2002,<sup>239</sup> “designed to encourage foreign investment into the non-oil sector, while providing a firmer framework for the operations of international oil companies.”<sup>240</sup> This law super ceded the Law for the Attraction and Protection of Foreign Investments (LAPFI) of 1955 which established the legal framework of Iran’s acceptance of foreign investment under the Shah. Only two years removed from the coup d’état that expelled

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<sup>238</sup> Sunita Sue Leng, “Iran is Open for Business,” Asia INC, (November/December 2006): 87-88.

<sup>239</sup> Full English text available at <http://www.atiehassociates.com/law/FIPPA.pdf> (accessed October 31, 2008).

<sup>240</sup> Economist Intelligence Unit, Country Profile 2007: Iran, (London: Economist Intelligence Unit Limited, 2007), 29.



the nationalist prime minister Mohammed Mosaddeq from office, the LAPFI created an environment in Iran much more conducive to foreign investment – one that Ayatollah Khomeini sought to eliminate after the revolution.

Although the Islamic Revolution effectively ended the provisions for foreign investment under LAPFI, a new law specifically addressing foreign direct investment had not yet been drafted. Along with the economic reforms introduced by President Mohammad Khatami, the parliament wrote an initial draft for a law detailing the promotion of foreign investment. As with most laws regarding the expansion of Iran's role in the global economy, arguments over the extent of the law developed between the *Majlis* and the religiously controlled Council of Guardians. The *ulama* on the Council rejected two initial drafts of the new law citing its incompatibility with not only the Constitution, but also with Islamic law. Their objections included the definitions of foreign entities, restrictions on the acquisition of entire industries, limitations on the number of shares a foreigner could own, and insurances that there is no possibility of foreign domination and intrusion to public interest.<sup>241</sup> Due to these differences, the Expediency Council acted as a mediator before the final version passed and became implemented as law.

The Supreme Leader, Ayatollah Khamenei, took a cautious approach to a law seeking to open Iran to “foreign investment in all areas of economic activities by foreign persons including real persons as well as juridical entities.”<sup>242</sup> To him, the state should remain in control of economic activity:

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241 Babak Namazi, “2nd Rejection of the Foreign Investment Law by the GC,” January 17, 2002, <http://www.iranmania.com>, (accessed October 31, 2008).

242 Organization for Investment, Economic and Technical Assistance of Iran, “Investment Laws,” <http://www.investiniran.com> (accessed October 31, 2008).

In order to attain independence and achieve national sovereignty and honor, any nation will have to pay a certain price. But nations should incur such expenses and make every effort to achieve the above objectives. They should be hopeful of the valuable results of their endeavors, despite all the attempts that are being made by the enemies to undermine their hopes and aspirations.<sup>243</sup>

Foreign intervention on the Iranian economy during the Pahlavi regime not only had a negative connotation, but also helped provide a basis of support during the revolution; one not likely to be repeated during Khamenei's lifetime. The source of his power remained in the control of state-run economic institutions and resources and loss of that control translates to a loss of power.<sup>244</sup>

One of these institutions designed to maintain a firm grip on power over foreign direct investment is the Trade Promotion Organization of Iran (TPOI) formed in 2004. As a part of the Forth Five Year Plan (2005-2009), the stated core functions of the TPOI include implementing trade policy, trade promotion, and trade facilitation by achieving foreign trade development, creating export markets for Iranian goods and services, providing assistance to Iranian subject matter experts, fostering competitiveness and market development with an emphasis on social justice.<sup>245</sup>

As a fundamental principle of an Islamic economic system, upholding social justice remains paramount. Any organization, whether governmental or non-governmental, established to improve Iran's economic development by attempting to increase its stake in international trade while promoting interaction with the global economy by encouraging competition and reducing anti-trust policies must do so under the strict supervision of the Supreme Leader. Khamenei has made clear that:

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<sup>243</sup> Ayatollah Ali Khamenei, as quoted by Karim Sadjadpour in *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 11-12.

<sup>244</sup> Karim Sadjadpour, *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 7.

<sup>245</sup> Trade Promotion Organization of Iran, "Aims and Objectives of the TPOI," 2007, <http://217.11.31.132/> (accessed October 31, 2008).

Islam disapproves of the Western model of economic development, which brings about economic growth and increases the wealth of certain levels of society at the cost of impoverishing and lowering the living standards of other social strata. What Islam pursues is economic development and prosperity for all social strata based on social justice.<sup>246</sup>

Finding trade partners outside of the Islamic world willing to submit to the regulations imposed by the *ulama* through law may limit Iran's move to enhance their position in the global economy.

## 2. Trading Partners and Agreements

As a result of the Islamic Revolution, the severing of all economic and well as diplomatic ties between the United States and Iran forces the Islamic Republic to look elsewhere for its trading partners. Iran has found foreign markets for its goods and services in China, Germany, Italy, Japan, Russia, South Korea and Turkey. Despite isolationist policies aimed at the West some attempts to reach out to regional neighbors exist as evidenced by a potential trade agreement between Iran and the countries of the Gulf Cooperation Council (GCC),<sup>247</sup> as, "Iran's ambassador to Bahrain, Hussain Amir Abdullahian, said in 2007 that his country had entered into negotiations with the GCC on forming a free trade area with Iran,"<sup>248</sup> however a formalized agreement has yet to come to fruition.

Meanwhile, Iran's free trade zone, established in 1999, on Kish Island in order to "provide good conditions and atmospheres for dialogue between foreign investors and Iranian authorities,"<sup>249</sup> houses its International Oil Bourse. This commodity exchange opened in early 2008, seeks to rival the existing international mercantile exchanges in Dubai, London and New York in an attempt to shift world markets away from

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<sup>246</sup> Ayatollah Ali Khamenei, as quoted by Karim Sadjadpour in *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 9.

<sup>247</sup> Bahrain, Kuwait, Oman, Qatar, Saudi Arabia the United Arab Emirates (UAE).

<sup>248</sup> STRATFOR, "Iran: A Free Trade Zone in the Gulf?" September 13, 2007, <http://www.stratfor.com> (accessed November 1, 2008).

<sup>249</sup> The Embassy of The Islamic Republic of Iran, "Iran's Free Trade Zones," 1998, <http://www.salamiran.org> (accessed November 1, 2008).

petrodollars to some other currency as a method to destabilize the U.S. dollar.<sup>250</sup> In an attempt to liberalize foreign trade with Iran, other free trade zones have been established on Qeshm Island and Chabahar.

The results of Iran's efforts to liberalize trade through participation in international organizations have been mixed. Iran's attempt to join the World Trade Organization (WTO) began in 1995, when it was granted observer status; however the United States blocked subsequent applications for full membership obtained through the accession process up until 2005, when it dropped its objection. The response from the religious establishment moves along ideological lines with positive reactions from the reformist camp, while "traditionalists, conservatives and labor-related sectors have expressed caution or hostility to the prospects of integration into the global free market."<sup>251</sup> The reformers see membership in the WTO "as an opportunity to transform the state-dominated economy and boost exports," while conservatives "express fears of foreign exploitation and the destruction of Iranian jobs."<sup>252</sup>

While accession to the WTO "is anathema to the Islamic Republic's state-dominated and highly politicized economic system,"<sup>253</sup> there are members of the *ulama*, such as Ayatollah Jaleddin Taheri – a former leader of Friday prayers in Tehran – who see this as an opportunity to reduce the influence of religious hard-liners that he finds incompetent and corrupt. Leaders in Iranian manufacturing and agriculture claim these industries do not fear the free market as "WTO membership will make Iran more prosperous, like India and China," and more importantly, "force structural reforms to

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<sup>250</sup> See, for example, Robert Looney, "Petro-Euros: A Threat to U.S. Interests in the Gulf?" *Middle East Policy* XI, No. 1, (Spring, 2004), 26-37; and F. William Engdahl, "Why Iran's Oil Bourse Can't Break the Buck," *Asia Times*, May 10, 2006.

<sup>251</sup> Vahid Sepehri, "Technocrats and Reformists Square Off Against Conservatives and Labor Over WTO Membership," *Radio Free Europe / Radio Liberty* 8, No. 26, (July 7, 2005), <http://www.globalsecurity.org> (accessed October 31, 2008).

<sup>252</sup> Vahid Sepehri, "Technocrats and Reformists Square Off Against Conservatives and Labor Over WTO Membership," *Radio Free Europe / Radio Liberty* 8, No. 26, (July 7, 2005), <http://www.globalsecurity.org> (accessed October 31, 2008).

<sup>253</sup> Jahangir Amuzegar, "Iran's Crumbling Revolution," *Foreign Affairs*, (January/February, 2003), <http://www.foreignaffairs.org> (accessed November 1, 2008).

compel services, banking and manufacturing to become more competitive.”<sup>254</sup> To achieve the economic liberalization necessary to gain membership, these reforms will be “met with severe resistance from vested interests,”<sup>255</sup> by conservative elements in the *ulama* that see inclusion in the global market as an avenue for foreign interests to destroy the Iranian economy. To protect Iran, the traditional *ulama* do not seek exposure to global marketplace, instead opting for informal bilateral trade arrangements.

No formal trade agreement exists between Iran and its largest trading partner the European Union (EU) and “although the relationship has significant growth potential, its development has been severely hampered by Iran’s ongoing international problems causing at 10 percent decline in EU exports to Iran over the past two years.”<sup>256</sup> The European Commission reports, “negotiations for a Trade and Cooperation Agreement (TCA) initiated in 2002 have been on hold since August 2005, when Iran resumed its nuclear program.”<sup>257</sup> Iran’s nuclear ambitions are not likely to diminish in the near future, as Ayatollah Khamenei sees a clear link between technological advancement and economic independence:

They (in the West) are opposed to the progress and development of the Iranian nation...they do not want an Islamic and independent country to achieve scientific progress and possess advanced technology...they are worried about anything that can help the regional nations to achieve independence, self-reliance and self-sufficiency...it is hard for the global arrogance to accept that the talented Iranian nation has been able to take great strides in the field of science and technology, especially in the field

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<sup>254</sup> Vahid Sepehri, “Technocrats and Reformists Square Off Against Conservatives and Labor Over WTO Membership,” *Radio Free Europe / Radio Liberty* 8, No. 26, (July 7, 2005), <http://www.globalsecurity.org> (accessed October 31, 2008).

<sup>255</sup> Jahangir Amuzegar, “Iran’s Crumbling Revolution,” *Foreign Affairs*, (January/February, 2003), <http://www.foreignaffairs.org> (accessed November 1, 2008).

<sup>256</sup> European Commission, “Iran: External Trade and Trade Issues,” September 15, 2008, <http://ec.europa.eu/trade> (accessed October 20, 2008).

<sup>257</sup> European Commission, “Iran: External Trade and Trade Issues,” September 15, 2008, <http://ec.europa.eu/trade> (accessed October 20, 2008).

of nuclear technology. They want Iran's energy to be always dependent on oil, since oil is vulnerable to the economic policies of world powers. They aim to control other nations with invisible ropes.<sup>258</sup>

Iran's insistence on continuing its nuclear program, despite international punishment through economic sanctions will keep them disconnected from the global economy.

### **3. Economic Sanctions**

Multilateral sanctions imposed by the United Nations (UN) over Iran's reluctance to give up its ongoing nuclear program as well as unilateral sanctions imposed by the United States since the 1980s ostensibly hampers Iran's place as a symbol of influence in the Middle East and to a larger extent in the international environment. The sanctions, in effect, inevitably limit Iran from participating fully in the global economy, yet globalization weakens the potential impact of sanctions "by increasing the number of ways that sanctions can be circumvented,"<sup>259</sup> as evidenced by the nearly forty percent of Iran's trade with both the European Union and China combined. Therefore, despite economic sanctions levied by the UN and U.S., these alone do not limit Iran's participation in the global economy, stop their budding nuclear program nor curb their support to international terrorism. The Supreme Leader dismissed their effectiveness and utilizes them as a means to reinforce Iran's self reliance:<sup>260</sup>

When those countries imposed sanctions on the Islamic Republic, the late Imam Khomeini expressed happiness in this regard and welcomed their action. The late Imam's reaction was quite meaningful, since because of those sanctions the Iranian people turned to their own resources and stood on their own feet...today also those countries are threatening to impose

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258 Ayatollah Ali Khamenei, as quoted by Karim Sadjadpour in *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 23.

259 Lance Davis and Stanley Engerman, "History Lessons: Sanctions: Neither War nor Peace," *Journal of Economic Perspectives* 17, no. 2, (Spring 2003): 196.

260 Karim Sadjadpour, *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 11.

sanctions on the Islamic Republic. The situation is still the same, and sanctions are not going to have any adverse effect on our country and nation.<sup>261</sup>

The history of U.S. imposed sanctions on Iran date back to 1979, nine months after the Islamic Revolution (see Table 4). President Carter issued Proclamation 4702 which placed a ban on all Iranian oil imports to the United States. Additional executive orders (EO) followed which cut off access to Iranian state owned property inside the United States and extended the embargo to all commercial imports from Iran. Following the release of the 53 US diplomats held hostage following the seizure of the U.S. Embassy in Tehran, President Reagan revoked the embargos, but kept the restriction on U.S. property. This restriction is still in effect today. The Export Administration Act of 1984 added Iran to the state sponsor of terrorism list and as part of OPERATION Earnest Will, Reagan re-instituted the ban on all Iranian commercial imports, including oil and gas.

The Clinton administration did not shy away from the use of economic sanctions towards Iran, as he imposed several additional sanctions as well as strengthened existing ones – culminating in the Iran-Libya Sanctions Act of 1996, which eventually became the Iran Sanctions Act, and is now on the books as the Iran Freedom Support Act. Finally, in an attempt to give the sanctions some teeth internationally, Congress passed the Iran Nonproliferation Act in 2000.

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<sup>261</sup> Ayatollah Ali Khamenei, as quoted by Karim Sadjadpour in *Reading Khamenei: The World View of Iran's Most Powerful Leader*, (Washington D.C.: Carnegie Endowment for International Peace, 2008), 11.

Table 4. History of U.S. Sanctions on Iran.

<b>Date</b>	<b>Sanction</b>	<b>Description</b>
<b>Carter Administration</b>		
November 1979	Proclamation 4702	Banned all Iranian oil imports to U.S.
November 1979	EO 12170	Blocked all Iranian state-owned property in the United States.
April 1980	EO 12205	Placed an embargo on all U.S. exports to Iran.
April 1980	EO 12211	Banned all imports from Iran, travel to Iran and all financial transactions with Iran.
<b>Reagan Administration</b>		
January 1981	EO 12282	Revoked all previous proclamations and Executive Orders.
January 1984	Export Administration Act	Added Iran to state sponsor of terrorism, banned US financial assistance and arms sales to Iran and imposed multilateral lending restrictions.
October 1987	EO 12613	Banned all Iranian commercial imports to US including oil and gas.
<b>Clinton Administration</b>		
March 1995	EO 12957	barred US citizens and companies from financing, supervising and managing oil development projects in Iran.
April 1995	EO 12959	Expanded previous EO to a total trade and investment embargo with Iran.
July 1996	Iran-Libya Sanctions Act	Codified EOs and penalized companies which violated the provision. Congress renewed the act in 2001.
March 2000	Iran Nonproliferation Act	Authorized the imposing of sanctions on countries assisting Iran.
<b>Bush Administration</b>		
September 2006	Iran Freedom Support Act	Codified existing US sanctions on Iran while providing flexibility to tailor those sanctions in appropriate circumstances and impose additional sanctions.



U.S. policy towards Iran centers on three main principles. The first keeps existing unilateral sanctions in place with the President's annual renewal of the declaration of the National Emergency with Respect to Iran (March 2008), the signature of the Iran Freedom Act into law, the blocking of Iran's membership application to the WTO and its denial of access to the U.S. financial system. The second principle seeks additional multilateral sanctions applied through the United Nations. The approval of UN Security Council Resolutions 1696, 1737, 1747 and 1803 continue to block key Iranian banks and individuals from participating in the international financial system.

Finally, U.S. policy towards Iran pressures our allies and the international community to confront Iran by restricting import and export credits, emphasizing the financial and reputational risks of doing business with Iran and by limiting foreign direct investment in Iran's oil and gas sector. Although in the global arena the unintended consequences of economic sanctions may be a challenge to assess. In 2007, the Government Accountability Office issued a report on the impact of sanctions on Iran which concluded they were difficult to determine citing the growth in Iran's economy and global trade from 1987 to the present.<sup>262</sup>

#### **D. THROWING AWAY THE KEYS TO A GLOBALIZED POLITICAL ECONOMY**

The *ulama* seem to recognize Keohane and Nye's theory of neoliberal institutionalism can negatively affect their control over Iran's political economy. According to that theory complex economic interdependency created through the process of globalization collide with the *ulama's* vision the Islamic Republic. Their efforts effectively limit foreign market integration and expansion into the Iranian economy. Despite laws created to encourage foreign direct investment and available institutions to promote trade and development, Iran ranks near the bottom of every major index measuring participation in the global economy.

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<sup>262</sup> For full report see, Government Accountability Office, "Iran Sanctions: Impact in Furthering U.S. Objectives Is Unclear and Should Be Reviewed," GAO-08-58, (December 18, 2007), <http://www.gao.gov>, (accessed May 1, 2008).

Patterns of progressive economic decline exist despite increasing oil revenues through increased oil prices and “while (Iran’s) economic performance has improved over the last several years, there has been little progress made in alleviating poverty or unemployment.”<sup>263</sup> Other economic factors which contribute to a state unable to define its role in a global world economy include high inflation, small business failures, decreased trade revenue, capital flight and limited direct foreign investments. Neither the enforcement of multilateral economic sanctions by the United Nations nor bilateral sanctions by the United States alone limit Iran’s willingness to partake in the benefits a fully integrated economy. Instead the effect of the *ulama*’s “ideological policies of economic independence which detach Iran from the globalization process and act as an obstacle to the transfer of capital, technology and know-how are much to be blamed for Iran’s economic ills.”<sup>264</sup>

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<sup>263</sup> Robert E. Looney, “The Re-Emergence of Iranian Petro-Populism,” *Gulf Research Center, Gulf Yearbook 2006/2007*, (Dubai: GRC, 2007), 417.

<sup>264</sup> Akbar E. Torbat, “Impacts of the U.S. Trade and Financial Sanctions on Iran,” *World Economy* 28, No. 3. (March 2005): 428.

## V. CONCLUSION

The *ulama* present themselves as Iran's principle obstacle as it struggles to cope with the pressures placed upon it through the globalization process. Those that find themselves at the top of Iranian political and economic institutions cannot hide behind the confines of Islam under an established religious discourse. The benefits of a globalized Iranian economy are found in Islamic economic thought that encourages cooperation through trade, understands comparative advantage, protects free markets, creates financial markets, supports for profit-seeking ventures and diverse investment opportunities within an Islamic paradigm. Partaking in the world's global economy improves the prospect for furthering social justice. However, when these prospects that highlight the economic mismanagement of the revolution come at the expense of a dominant social class – to which the *ulama* belong, they become suppressed through the various mechanism and institutions put in place by those in power.

The Shi'a *ulama* of Iran must also balance a perceived loss of authority over the very community they seek to control. Events occurring outside their sphere of influence, especially those in Iraq, are likely to cause the Iranian religious establishment to seek additional measures of control to secure their place of legitimacy. Ayatollah Khomeini established religious foundations (*bonyads*) and the Islamic Revolutionary Guard Corps (IRGC) as the most important of these measures after the fall of the Shah.

### A. IMPACT OF THE 2003 IRAQ INVASION

Following the fall of its most principle regional threat of Saddam Hussein in March 2003, the *ulama* of Iran must compete directly with the *ulama* of a free Iraq to become the leading figures of the Shi'a Islam worldwide. Although in 2007, Foreign Policy named Iran the biggest winner following the 2003 U.S. lead invasion in Iraq, prompting Vali Nasr to state, "Iran's Shiite rulers have the war to thank for their newfound power."<sup>265</sup>

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<sup>265</sup> Vali Nasr, "Who Wins in Iraq? Iran," *Foreign Policy*, (March/April, 2007): 40.

For the *ulama*, the removal of Saddam Hussein from power propped open a door to gain entry into Iraq's shattered bureaucracy, budding political and security apparatuses and enduring tribal establishments. However, the most significant impact is the shift in the balance of Shi'a religious power from Iran back to Iraq. The return to prominence for the Shi'a seminary (*hawza*) in Najaf, Iraq reinforces the central role Iraq's four grand ayatollahs, including Ayatollah Ali al-Sistani, play in defining Shi'a Islamic doctrine – a position the *ulama* of Iran covet to preserve their model of an Islamic state.

If *U.S. News and World Report* included the top seminaries to study traditional Shi'a Islamic doctrine and promotion of current Shi'a thought in its annual rankings, Najaf would be at the top of the list, with Qom finishing second. For centuries the hawza of Najaf had been the center of Shi'a Islamic studies, though, under Saddam's secular Sunni Ba'athist rule, the preeminent center shifted to Qom, Iran. With a virtual gag order on Najaf lifted after the invasion, quietist Shi'a religious authorities have begun to voice opposition to the principle of the rule of the jurist. A contemporary of Ayatollah al-Sistani, Ayatollah Muhammad Eshak Al-Fayyadh issued a *fatwa*, "calling for a separation of religion and state, saying that politics was based largely on 'trickery, falsehood, and narrow personal interests' and that the source of authority could not conceivably be simultaneously religious and political."<sup>266</sup> These messages are not lost upon the million of Iranians making pilgrimages to holy Shi'a shrines from Baghdad to Basra that had once been closed off to them under Saddam.

Following the U.S. invasion of Iraq, the *ulama* face mounting demographic pressures deriving from patterns that affect common human activity such as travel, social interaction and religious worship as well as unemployment through lack of economic productivity. The Failed State Index found widespread persecution of religious minorities in Iran that has deprived millions of faithful the freedom to follow their beliefs.<sup>267</sup> Other social pressures that the *ulama* must face in order to keep their firm grip

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<sup>266</sup> MEMRI, "Najaf Shi'ite Religious Authority Calls For Separation Of Religion And State," *Al-Quds Al-Arabi*, London, July 15, 2008, [http://www.thememriblog.org/blog\\_personal/en/8540.htm](http://www.thememriblog.org/blog_personal/en/8540.htm) (accessed August 24, 2008).

<sup>267</sup> Fund for Peace, "Iran Country Profile," Failed State Index, 2007, <http://www.fundforpeace.org>, (accessed August 26, 2008).

on power originate from skewed population distributions, such as a "youth or age bulge," and from divergent rates of population growth among competing communal groups. In Iran the median age of the population is 20 or below. A RAND Corporation study found, "this is worrisome in itself, for several reasons, as 'the one generalization demographers are willing to make is that youth bulges disrupt the social equilibrium' and are frequently associated with political turmoil and social unrest."<sup>268</sup> Increased social problems affecting youth are likely to lead to a lifestyle of rebellion and intellectual and political protest,<sup>269</sup> which as one Iranian dissident argues are the building blocks of effective tactics to attain the goal of true democratic transition against the sultanistic Iranian dictatorship.<sup>270</sup>

## **B. MEANS OF PROTECTING THE ESTABLISHMENT**

For those *ulama* that set the political agenda for Iran, upholding the ideals of the Islamic Revolution remains the single most important objective. This is mainly accomplished through propagating religious discourse, however, if that fails through the use of internal security apparatuses.

### **1. Religious Discourse and Its Effect on the Political Economy**

From the revolutionary principles which bore the modern day republic comes the preservation of an Ayatollah Khomeini's vision of an Islamic state where in the absence of God's legitimate rule a jurisprudent carries out God's command in accordance with *Shari'a* law.<sup>271</sup> Not only can the *ulama* evoke this principle in their vision of Shi'a Islam to keep their firm grip on power while the twelfth Imam remains in occultation, but also to control all elements of society through the use of religious discourse.

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<sup>268</sup> RAND Corporation, "Iranian Youth: Measures of Merit in the Islamic Republic," [http://www.rand.org/international\\_programs/cmep/imey/projects/students.html](http://www.rand.org/international_programs/cmep/imey/projects/students.html), (accessed August 25, 2008).

<sup>269</sup> Ibid.

<sup>270</sup> Akbar Ganji, "Iran's Peculiar Election: The Struggle Against Sultanism," *Journal of Democracy* 16, No. 4, (October 2005): 51.

<sup>271</sup> Baqer Moin, "Khomeini's Search for Perfection: Theory and Reality," in *Pioneers of Islamic Revival*, ed. Ali Rahnema, (London: Zed Books Ltd., 1994), 80,95.

By writing commentaries and issuing *fatwas* the *ulama* seek to control this discourse. While the former can be accomplished through published volumes of written opinions, the latter reaches the masses verbally through traditional Friday prayers. In Tehran, various influential ayatollahs from the Supreme Leader to the head of the judiciary, Ayatollah Jannati deliver these prayers, “(as) a means whereby political messages could be conveyed to the people and political influence brought to bear.”<sup>272</sup> Vast networks of clerics carry their messages to mosques across the country achieving an appearance of unity of thought.

The methods the *ulama* use to obtain stated objectives extend beyond the mosque, but remain entrenched in post-revolutionary Shi’a Islam. Religious foundations (*bonyads*) established by the *ulama* following the seizure of the Iranian national assets and enterprises abdicated by the deposition of the Shah now account for 10 percent to 20 percent of the nation's GDP to a total of 115 billion U.S. dollars in 2003.<sup>273</sup> The original intent of *ulama* for the *bonyads* sought “to redistribute to the impoverished masses the ‘illegitimate’ wealth accumulated before the revolution by ‘apostates and ‘blood-sucking capitalists,’”<sup>274</sup> through local community and social programs, however those clerics in charge of administering these foundations have “have increasingly forsaken their social welfare functions for straightforward commercial activities.”<sup>275</sup> As a result, clerics such as Ayatollah Vaez-Tabasi and Ali Akbar Rafsanjani are considered some of the richest men in Iran.

The money acquired through *bonyads*, as well as through alms (*zakat*) – where in Shi’a Islam, those who can afford to do so are required to give twenty percent of disposable income to their sources of emulation – finds its way into domestic politics. Cited by human rights groups and Freedom Watch, corruption remains a vital issue in

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<sup>272</sup> Norman Calder, “Friday Prayer and the Juristic Theory of Government,” *Bulletin of the School of Oriental and African Studies, University of London* 49, No. 1, (1986): 41.

<sup>273</sup> Paul Klebnikov, “Millionaire Mullahs,” *Forbes*, July 21, 2003, <http://www.forbes.com/> (accessed August 23, 2008).

<sup>274</sup> Paul Klebnikov, “Millionaire Mullahs,” *Forbes*, July 21, 2003, <http://www.forbes.com/> (accessed August 23, 2008).

<sup>275</sup> Paul Klebnikov, “Millionaire Mullahs,” *Forbes*, July 21, 2003, <http://www.forbes.com/> (accessed August 23, 2008).

Iranian clerical political maneuvering. Despite new political methods new methods “openly borrowed from the West,”<sup>276</sup> the prospects for transparent democracy remain thin when politicians, especially at the local levels, are openly financed by the religious establishment.

## 2. Internal Security Apparatuses

The manipulation of the political process by the religious establishment is not limited to finance. The political-military implications of a state influences the populace through other means reflects its illegitimacy, poor governance, willingness to suspend the rule of law, and a rise in fractionalization of elites through increased security apparatus operations. The source of non-democratic perceptions stems from the Islamic Republic’s Council of Guardians together with its Supreme Leader that selects which candidates can and cannot run in every election. The real power of the state lies in unelected Islamic clerics, not the “elected” president. In a study on the quality of governance conducted by the World Bank, “Iran placed in the bottom quartile and did not score above average in any category.”<sup>277</sup> These categories included voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption.

Inside Iran exists a number of institutions with significant political and military power that “operate largely outside of normal state authority,”<sup>278</sup> including the Islamic Revolutionary Guard Corps (IRGC) and the *Basij* (people’s militia). The IRGC is a paramilitary organization complete with its own command and control over army, navy, air and special forces. These independent forces work directly for the Supreme Leader and are not subordinate to Iran’s regular military forces and have earned a reputation for aggressive tactics following more hard-line politics including training and support to

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<sup>276</sup> Vali Nasr, “Iran’s Peculiar Election: The Conservative Wave Rolls On,” *Journal of Democracy* 16, No. 4, (October 2005): 10.

<sup>277</sup> Robert Looney, “The Iranian Economy: Crony Capitalism in Islamic Garb,” *The Milken Institute Review*, (First Quarter 2006): 30.

<sup>278</sup> Patrick H. O’Neil, *Cases in Comparative Politics*, 330.

Hezbollah in Lebanon's Bekaa Valley<sup>279</sup> and recent run-in with U.S. Navy warships.<sup>280</sup> The *Basij* grew out of the IRGC as a volunteer militia consisting of over 1 million people. However, its role has shifted from the significant military force during the Iran-Iraq War to that of "domestic repression" evidenced by Supreme Leader Ayatollah Khamenei's appointment of its commander as chief of Iran's national police force in order to more easily "repress against political and social freedoms."<sup>281</sup>

### C. GLOBALIZATION AND ITS DISCONTENTS

Iran claims the West exploits the geopolitical conditions of globalization in order to subvert developing countries. They argue the political economy of a particular nation may not lend itself to free trade, as not all trading benefits are equal, and not all nations always gain what they need. Mercantilists claim this is especially true for developing nations. Developing domestic industries which would fuel the struggling Iranian economy would have to be protected from well-established foreign industries or run the risk of being destroyed by their inherent inefficiencies and high prices. Only through tariffs, import restrictions and subsidies could he assure the success of domestic industries to compete not only at home, but eventually abroad. The revenue received from tariffs and subsidies properly re-invested in manufacturing would be the best course of action for economic growth. This can be likened this to the import substitution industrialization policies which characterized the Asian tigers in the 1970s and 1980s as they applied protectionist measures to bolster domestically produced products before unleashing them into the world market.

Countries can use protectionism to strike a political balance between a commitment to freer trade and the economic damage it can have on inefficient domestic producers. Political organization for protection is easier than for free trade as it allows the costs of protection to be spread across many consumers. After all, free trade is a hard

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<sup>279</sup> Robert Baer, *See No Evil*, (New York: Three Rivers Press, 2002), 250.

<sup>280</sup> For example, see January 6, 2008 confrontation between IRGC Navy and US Navy in the Strait of Hormuz.

<sup>281</sup> Patrick H. O'Neil, *Cases in Comparative Politics*, 331.



sell in a depressed world economy. The continuing expansion of international trade lead to a growing interdependence of national economies which meant shared economic fluctuations, however, the benefits derived during periods of growth can shelter an economy during periods of recession. For Iran, not participating in the global economy has meant the revenues collected while the price of oil was high have not been reinvested in infrastructure or capital improvements, but instead wasted on subsidies and inefficient government programs.

#### **D. FINAL THOUGHTS**

Iran is caught in a precarious position as the forces of globalization move throughout the world. While the merits of globalization and free trade bring about economic growth and development, it carries a stigma of vulnerability which includes cultural change, uncertainty and political instability. With globalization comes a mixing of markets, culture and nations to create a new social order – in direct conflict with the one established and maintained since 1979.

In a country that does not particularly respond well to change, globalization is likely to make certain members of the *ulama* uncomfortable. To accept globalization would be to abandon their traditional social and economic values. U.S. economic policy towards Iran plays squarely into the hands of the religious establishment. A policy that isolates Iran through economic sanctions is exactly complimentary to the Supreme Leader's strategy of keeping Iran isolated. For the West to openly challenge the *ulama* by exposing Iran to the forces of globalization has the potential to not only integrate Iran to the global economy, but also acts as a check on the *ulama's* power by perhaps increasing its prospects for greater political liberalization.

In the face of massive and unrelenting changes in the modern world, insight in to the decision processes of the traditionally educated *ulama* remains vitally important and of great interest to anyone seriously interested in understanding contemporary Muslim societies. Through this understanding can questions pertaining to the future of Iran's position in a globalizing world economy and international system can be answered.

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