

ALTERNATIVE FORMS OF INTERNATIONALIZATION: THE CASE OF IRAN

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ABSTRACT

ALTERNATIVE FORMS OF INTERNATIONALIZATION: THE CASE OF IRAN

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This thesis analyzes different forms of internationalizations by concentranting on the theoretical discussions on the internationalization of capital and the state. With the examination of the political economic structures in the Islamic Republic of Iran and the development of alternative mechanisms in different moments of its integration into the international capitalist system, the study analyzes the triggers that generate varieties in the forms of integration. The research on the political and economic structures in Iran, with an emphasis on various accumulation strategies adapted by different dominant fractions, tends to reveal capacity of the agents to shape the degree of internationalization of their national states and economies. In this context, the study contextualizes internationalization process of the economy and state of the Islamic Republic of Iran and puts forth the dialectical relation between the domestic and international in the age of internationalization.

Keywords: Globalization, Structure-Agency, Internationalization of State, Iran, bonyads

ÖZ

ALTERNATİF ULUSLARARASILAŞMA BİÇİMLERİ: İRAN ÖRNEĞİ

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Bu tez, sermayenin ve devletin uluslararasılaşması üzerine yapılmış kuramsal tartışmalarına odaklanarak, uluslararasılaşmanın farklı biçimlerini incelemektedir. İran İslami Cumhuriyeti'nin ekonomik/politik yapılarını ve uluslararası kapitalist sisteme eklemlenme sürecinde ortaya çıkardığı alternatif mekanizmaları mercek altına alan bu çalışma, ulus devletlerin küresel kapitalist sisteme eklemlenme biçimlerinde ortaya çıkan çeşitliliğin tetikleyici unsurlarını araştırmaktadır. Egemen sınıf fraksiyonlarının geliştirmiş oldukları farklı birikim stratejilerine vurgu yapılarak İran'daki politik ve ekonomik yapıların analizi, egemen toplumsal sınıfların kendi ulus devletlerinin ve ekonomilerinin uluslararasılaşma sürecini biçimlendirme kapasitelerini ortaya koymaktadır. Bu kapsamda, bu çalışma İran İslami Cumhuriyet'nin ekonomisinin ve devletin uluslararasılaşması süreçlerini kavramsallaştırmakta ve uluslararasılaşma sürecinde yerel ile uluslararasıının dialektik ilişkisini göstermektedir.

Anahtar Kelimeler: Küreselleşme, Yapı-Fail, Devletin Uluslararasılaşması, İran, Bonyadlar

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CHAPTER 1

INTRODUCTION

In the last days of the year 2017, in the northern city of Mashad, one of the largest displays of discontent in the history of the Islamic Republic has broken out. The protests instantly spread to the other segments of the society and turned into widespread demonstrations against stunted economy, low wages, chronic unemployment, rising fuel and food prices and corruption. Even though the roots of these protests are embedded in the political and economic structures of Iran, the Rouhani administration had been able to postpone the mass anger against the economic predicament by attributing the situation to the international isolation that the Islamic Republic of Iran has been subjected since its establishment. By taking the mass discontent of the 2009 protestors behind his back, he was able to present the nuclear policy maintained by Ahmadinejad administration and the hostile relations with the West as the main cause of the economic predicament. This discourse was based on a simple equation. The radical policies pursued by Ahmadinejad and the following nuclear crisis has prevented Iran's access to international capital and this created adverse impacts on the Iranian economy such as unemployment. Therefore, the solution was to sit at negotiations table with the U.S. and to end Iran's everlasting isolation from the international economy. As a result of this strategy, Rouhani was elected to the presidency of the Islamic Republic in 2013 and signed the Joint Comprehensive Plan of Action with P5+1 and the EU on July 14, 2015 to end the international sanctions. However, in the last two years since the agreement was signed, there has been no serious development in the chronic economic problems of Iran and this has transformed the dissatisfaction of the poor areas into a mass political movement. In this sense, the end of sanctions has not integrated Iran into the global economy in the way that it was expected, or at least as it was projected by the policy

makers. Therefore, it is misleading to view the international sanctions as the only parameter behind what is perceived as the isolation of the Iranian economy.

Attributing the economic predicament of the Islamic Republic to the international sanctions necessarily brings along the presupposition that the Iranian economy is under isolation. The studies analyzing the international economy of Iran through such a perspective concentrate on sanctions, as well as the lack of foreign direct investment, insufficient financialization, the inability to liberalize the trade regime or the economy controlled by the Islamic Revolutionary Guard Corps as the indicators of the isolation of the Iranian economy. However, it is almost impossible to situate the large amount of foreign capital invested mainly by China in Iran into this framework. It is even more difficult to explain the role and integration of Iran into the global economy as a producer and supplier of the energy resources that it crucial for the international capitalist accumulation. Moreover, the existence of quasi-legal trade networks that enable the circuit of all sorts of goods in Iranian domestic markets challenges the discourse that Iranian trade regime is under isolation. Furthermore, under this perspective it is hard to understand the international business activities and international investment conducted by the para-governmental organizations of Iran. Defining the Islamic and revolutionary institutions of the Iranian state as isolationists and the main beneficiaries of the isolated economy faces problems in explaining the international business partnerships established between these institutions and the foreign capitalists. In this sense, it is misleading to concentrate solely on liberalization as the determinant of internationalization of an economy. In other words, perceiving neoliberalism as the single form of internationalization process ignores the alternative methods developed by different countries for integration into the global capital accumulation. Moreover, attributing a single form to the process inevitably formulates the cases such as Iran as 'exceptions' or 'abnormalities'. In fact, a scientific theoretical approach should explain the variations in the forms of internationalization, instead of labeling them as odd cases.

The existence of variations in the forms of integration not only challenges the discourse of a horizontally integrated world in the age of globalization but also brings the capacities of the nation states to shape the process into question. The development of alternative mechanisms to the neoliberal globalization in the process of Iran's integration into the global economy, as it is analyzed later in detail, necessitates revealing the elements that generates variations in the forms of states' integrations. These alternative mechanisms, which were developed by the Islamic Republic to integrate its economy to the international capital accumulation, has commonly presented as the product of the efforts to bypass the impact of sanctions. However, the analysis of the international political economy of Iran in depth demonstrates that these mechanisms are functioning in the other segments of the Iranian economy as well. Moreover, the end of the international sanctions has not terminated the functioning of these alternative mechanisms in Iran. In this context, it is not only the international dynamics, such as sanctions, that shape the economic structures of Iran and its internationalization process. Therefore, in order to understand the process and existence of variations in the forms of integration, not only the international but also the domestic social forces and their dialectical relations must be put forth. In this sense, understanding the dominant actors in Iran, such as the para-governmental organizations, and situating them into wider international structure with a political economic perspective is necessary to capture the form of its integration.

In this context, this study endeavors to develop a theoretical understanding of the process of internationalization that explains the variations in state integrations and domestic/international triggers of these variations. In this regard, the case of Iran offers valuable insights for the scientific inquiry for several reasons. Firstly, the integration of the Iranian state and economy into the international capitalist system has interrupted in 1979, when the globalization process was visibly intensified. After this interruption, since the domestic political and economic structures of the state have been radically transformed, Iranian state developed new mechanisms and strategies for integration into the global economy. Therefore, by concentrating on the emergence of the new structures

and social relations, the Iranian case provides elements that may enable the social scientists to build connections between the domestic transformations and the forms of integration into the global economic system.

Secondly, the Islamic Republic of Iran has been presented as one of those “odd” cases in the literature. It is generally claimed that the new Iranian state interiorized an isolationist stand. The international sanctions against the Islamic state have further strengthened the volume of these discussions as they limited Iran’s access to the global economy. Within this perspective, the Islamic institutions and power groups that form the core of the political structures in Iran are presented as isolationists. Furthermore, the rogue state literature developed prior to the invasion of Iraq by the USA, has further contributed to this understanding. In this setting, the Joint Comprehensive Plan of Action is perceived as the victory of the internationalist reformist movement over the so-called isolationist conservative power centers. In fact, regarding the state structure of Iranian state, - composed of plurality of the veto powers- without the consent of the ‘conservative’ power centers, no transformative decisions can be taken. Therefore, an in-depth analysis of the internal structures of the Islamic Republic also provides the tools to analyze how the policies developed by different groups on the issue of integration into the international economy shapes globalization strategies of the states.

Lastly, the efforts to create an Islamic economy and political structure in Iran after the revolution have given this social formation an original and peculiar characteristic. After the Islamic revolution, religious and revolutionary institutions, with strong economic power and political immunity have been established in Iran. During the course of the new republic, those institutions have been located at the center of the political and economic structure and have developed specific accumulation strategies, which in the long-run have affected the process of Iran’s integration into the global economy. The analysis of those institutions and their internationalization strategies seems significant as it demonstrates how domestic classes and local power centers try to shape the process of internationalization. Moreover, explaining those domestic peculiarities and their impacts

on the globalization policies through overall and universal theoretical tools may enable the study to develop a theoretical perspective that formulates the variations in the integrations of states into a single global system.

With this aim in the mind, the first chapter of the study focuses on the theoretical discussion. The chapter targets to clarify the ambiguities in the globalization studies by concentrating on the various dimensions of the process of internationalization. For this purpose, it makes a categorical separation between the two different moments of the same process. While the first section of the chapter examines the process of internationalization of the economy, the second one centered around the discussion of the internationalization of the state.

The first chapter begins with an evaluation of the main elements in the internationalization of capital and economy. With this aim, the first section tries to find the right term to describe the process of economic integration. It is followed by the historical analysis of the internationalization of capital with a certain focus on the main themes of the process, such as internationalization of production, trade, finance and emergence of international capitalist classes. Lastly, the chapter puts forth the determinants of an internationalized economy and capital in order to evaluate the internationalization of the Iranian economy according to these criteria in the upcoming section.

Nation states have also been subjected to radical transformations during the process of globalization which created a literature on the “internationalization of state”. In order to flash those structural changes, the second section of the chapter not only concentrates on the relationship between globalization and the nation state but also summarizes the different interpretations and trajectories on the internationalization of state developed by the distinguished scholars. The study develops a different understanding of the state than the ones produced by those scholars. Within this understanding the state is approached as a social relation embedded in a wider social totality. By concentrating on the premises of this new theoretical understanding, the section makes an effort to put forth the

determinants of an internationalized state in order to evaluate the Iranian state accordingly in the following chapters.

The existing literature on the issue of internationalization mostly locates Western capitalisms at the center of inquiry. However, especially after the 1990s, countries such as Russia, India and China have started to become influential actors of the international political economic structures. The structural transformations taking place in those countries and their integration into the circuits of the global capitalist accumulation made them significant components of the internationalized economic structure. The examination of these cases and their integration process seem crucial for the evaluation of Iran as they are all late capitalisms; and finding common patterns in their integration processes is believed to provide the scientific inquiry with the necessary theoretical tools for explaining the late internationalizations. With this target the theoretical chapter also discusses the state structure and forms of integration of the BRICs.

As it is mentioned, it is a common tendency to view Iranian economy as an isolated one that has not been integrated into the circuits of global capital accumulation by concentrating on the lack of foreign direct investment into the country, the dominance of the para-governmental organization in a closed economic system, the lack of transparency, insufficient trade and financial liberalization. Rightfully these are the main elements of Western neoliberal internationalization. However, separating the ontological unit of the study into the pieces and analyzing the external relationship between those pieces is misleading as it dismisses that the pieces are immanent into a social totality. Therefore, the second chapter of the study takes the Iranian economy in its totality and evaluates its integration into the global economy according to the findings of the first section of the first chapter, as it reveals the determinants of an internationalized capital and economy. As it is analyzed in detail in the second chapter, this overall analysis demonstrates that contrary to the allegations of isolation the Iranian capital is internationalized and developed alternative mechanisms in her process of integration into the circuits of global capitalist accumulation.

In order to show this alternative form of integration, the second chapter limits the scope of the analysis with the post-1990s period. Firstly, this was the period when capitalist internationalization widened and deepened with the collapse of the communist bloc and integration of the post-Soviet states. Secondly, the first decade of the Islamic Republic was a lost decade for the formation and the consolidation of the economic structures due to the revolutionary turmoil and the war with Iraq. However, in the beginning of the second decade, with the end of eight years long war, the Iranian capital and economy has started to internationalize with the formation of the new hegemonic classes. Since Rafsanjani's first five-year development plan was the embodied form of these early stages of internationalization of Iranian economy, the chapter mainly concentrates on its analysis. The policies initiated by the first plan are evaluated according to the findings of the first chapter in order to examine their contribution to the internationalization process of Iran.

Following the analysis of the Plan as a threshold of internationalization, the study concentrates on the transformation of the trade regime of the Islamic Republic. The examination of the trade regime not only aims to demonstrate the internationalization of this segment of economy but also tries to analyze its mode of integration. In this sense, the section takes the development of free trade zones and their effective instrumentalization in the development of quasi-legal international trade networks at the center of the study. The section concentrates especially on the domestic elements as a source of the internationalization of the trade regime through quasi-legal activities. In this context, the concentration on the domestic structures and their dialectical relationship with the international structures targets to reveal the specific and original integration of Iran into the internationalized trade regime. The section puts forth the fallacy of taking the liberalization as the single basis of the internationalization of the trading regime, as Iranian trade system find ways to internationalize without liberalizing.

Iran, as a producer and exporter of natural resources, has been integrated into the international economic structure into a certain extent. However, the internationalization

of the economic sphere does not only mean the international exchange of the materials or products, but also the transfer of the capital. In this sense, the following section of the second chapter, with a certain focus on the international production and investment into the oil industry, aims to find out if the biggest dynamo of the Iranian economy has been internationalized. An in-depth analysis of the industry tries to reveal the modes developed in the Islamic Republic to make its oil industry more effective and the impacts of these efforts on the internationalization of the Iranian economy. The domestic and international dynamics, and their dialectical relation, are specifically focused in order to underline their role in shaping the form of the internationalization of Iranian oil industry. In this context, the specific forms of contracts developed by the Iranian policy makers to attract foreign investment in the industry deserve a special attention in the section. The examination of the specific forms of contracts, including the change in the direction of the oil exports to the alternative geographies and sources are especially concentrated in order to reveal the commonalities and differences of the Iranian case from the liberal modes of internationalization.

Without any doubt the international sanctions, imposed on the Islamic Republic since its establishment, have been one of the most effective elements forming the internationalization process of the Islamic Republic. There have been various studies, analysis, reports produced on the impacts of the international sanctions on the Iranian economy. However, most of those studies failed to locate the sanctions into the wider social structures of the Islamic Republic. This study, on the other hand, takes the sanctions as the main international dynamic contributing to the development of the alternative mechanisms and the transformation of the geographical location of internationalization of Iranian capital.

The second chapter of the study, in this sense, has two grand objectives. The first one is to demonstrate the internationalization of Iranian economy and the capital; and the second one is to reveal the form of this internationalization. The findings of the chapter are mostly based on the empirical data and it aims to contribute more to the studies

produced on the process of internationalization of the Iranian economy and capital. Even though the facts about the process are valuable to clarify the ambiguities on the integration of Iranian capital into the global capitalist accumulation, they are not sufficient to develop theoretical tools that enable the scientific inquiry to go beyond the case. In order to develop a theory of internationalization that may explain other cases as well, the examination of the unobservable but real structures that emerge out of social relations deserves special attention to connect the empirical data with the social reality. In this sense, the study structured around the following questions: what are the main triggers of the development of these alternative mechanisms; who are the social actors trying to shape the process into these alternative directions and what are their motivations in developing those mechanisms?

The last chapter of the study takes the Iranian political structures at the center of examination in order to reveal the domestic triggers and motivations of this original and specific integration. The categorical separation between the internationalization of economy and internationalization of the state developed in the theoretical chapter is to be employed in this section. The political structures in Iran are analyzed according to their impact on the internationalization of the Iranian economy and state. In this sense, the chapter not only tends to examine the internationalization of the Iranian state but also concentrates on the impact of the degree of its internationalization on the development of alternative mechanisms portrayed in the previous chapter.

With this aim, the first section of the chapter focuses on a theoretical and institutional examination of the Iranian state structure. Firstly, the state structure of Iran is analyzed according to the theoretical conceptualization of state presented in the first chapter, which takes state as a social relation. The aim of this examination is to set forth the commonalities and differences of the Iranian state with its other capitalist counterparts in diverse geographies. Even though capitalism adapts to every social formation differently, it creates common mechanisms as the main roots of the system is protected. In this sense, the first section evaluates whether Iranian state is a capitalist one or not.

Secondly, the chapter analyzes the institutional structure of the Islamic Republic in order to further elaborate in the next sections whether this mechanism has the capacity to internationalize.

The following section of the chapter analyzes the complex relationship between Islam, revolutionary ideology and economic structures in Iran. During the course of the revolutionary turmoil in Iran, two sorts of incompatible ideologies have come to forefront and won the status of hegemony. The first one was, of course, the Islamic ideology. Based on the discussions and efforts spent by the ideologues of the new republic to create an Islamic economic system, the first part tries to reveal the originalities, if any, of the Islamic economy developed in Iran. The second one was the socialist elements as the working class had composed a significant portion of the revolutionary movement. The part tries to demonstrate especially the impact of the discourses of “anti-imperialism” and “oppression” on the development of the political and economic structures of Iran.

These two elements have deeply affected and given an original and peculiar characteristic to the political economic structures in Iran. This originality is a matter of the following section of the chapter as it specifically concentrates on the emergence of the para-governmental organizations within these political economic structures. Especially the *bonyads* (foundations) and the Islamic Revolutionary Guard Corps (IRGC) within these para-governmental organizations, with their political, economic and ideological functions, are at the center of the inquiry. After the revolutionary period, the efforts to create an Islamic economy deployed huge amounts of capital into the hands of these organizations, which transformed them into large monopolies. This transformation made these organization significant actors in the process of internationalization, as it is stated before; therefore, elaborating their accumulation strategies seems vital for analyzing how they try to shape the internationalization process of Iran. Furthermore, in order to fulfill the revolutionary promises given to the masses, i.e. the socialist elements of the revolutionary process, the para-governmental organizations are equipped with

certain welfare functions that are vital for the survival of the Islamic character of the regime.

In order to locate these organizations rightly into the political and economic structures of the Islamic Republic portrayed in the previous sections, the third part of the last chapter begins with a short analysis of the historical development and institutional structure of the bonyads. This is followed by an examination of the commercialization and internationalization of these organizations, especially in the second decade of the Islamic Republic. Even though the IRGC was designed differently than the bonyads, its emergence as a new economic actor that benefits from the existing political and economic structures makes it a subject matter of the section. Following that, the study concentrates on the complex and compact relationship between the para-governmental organizations and the survival of the Islamic regime. The impact of this interdependency is crucial for the internationalization of the Iranian state since the most powerful economic actors of the state are strongly dependent on the survival of the existing political structures.

Beyond any dispute, the para-governmental organizations are not the only bloc that is strongly tracking and shaping the internationalization process of the economic and political structures of the Islamic Republic. Conflicting and competing interests exist altogether within a social formation; and state, as a social relation, is a sphere where different sets of interests find representation. At certain historical moments, some of these interests create a power bloc that transforms the interest of a limited group into a state policy. At different moments, each interest is being represented by different institutions; this enforces the state to find a compromise in between these conflicting interests in order to sustain the overall reproduction of its social entity. Especially in Iran, the factional politics is more visible as highly fragmented state structure enables the holders of the interests to use different state institutions to find a representation within the political mechanism. In Iran, these different factions try to canalize the internationalization process into different directions as their accumulation strategies are

being affected differently from the internationalization process. Therefore, defining the factions that struggle over the internationalization of the Iranian state is vital to understand how different groups try to shape the process differently.

With this purpose, the last section of the study begins with an analysis of Iranian political landscape by taking factions as its basis. Rather than approaching to the factions of Iran with the classical categories, such as conservatives or reformists, the section tries to classify them according to their accumulation strategies. Therefore, the second part of the sections defines three distinct factions with different accumulation strategies: state-dependent, regime-dependent and independent accumulation strategies. Based on this categorization, and the alliances and competition of the different factions, the study determines two different internationalization strategies which is represented in the state mechanism and supported by those different factions. While specific groups try to internationalize the economy together with the state, others in the process of internationalization of the economy struggle for keeping the state structure intact as their accumulation strategies are directly attached to the existing political economic structures. The last part of the section tries to reveal the employment of the institutions by different factions in order to undermine rival internationalization agendas. In other words, it aims to demonstrate how different institutions are being used by different factions to transform their internationalization strategies into a state policy. The concluding part of the chapter evaluates the whole political structure portrayed during the chapter according to the determinants of an internationalized state. It is to be demonstrated that how the accumulation strategy adapted by the hegemonic bloc in Iran prevents internationalization of the state, despite of the internationalization of economy through alternative mechanism.

Overall the study aims to: structurally theorize the process of internationalization with a certain focus to its two different moments (economy and state); discuss the capacities and transformations of the nation-state in the process of internationalization; put forth the impacts of the actors and agents within the process; examine the domestic and

international aspects of the process and establish a bridge in between the two dimensions; explain states' different levels of integration into a single global unit; and describe the triggers and motivations of such different integrations. In doing that, internationalization map of Iran is to be drawn functionally in order to find out if the globalization is really an inevitable process. The internationalization of the Iranian economy is focused to discuss whether globalization has only a singular form. The examination on the internationalization of the state of the Islamic Republic, on the other hand, is conducted to elaborate the capacities of the domestic agents in shaping the process and determining the triggers and motivations of the efforts to shape it.

The findings of this study are based on the analysis of the relevant literature, reports, policy papers, newspapers and first hand resources. In November and December 2015, a field research has been conducted in Iran, mostly in Tehran, for two months. Within the scope of this field research, interviews have been made with academics, policy-makers, journalists, businessmen conducting international business activities, locals and university students. Moreover, a substantial part of this study has been carried out at the Harvard University, Center for Middle Eastern Studies, where I have been accepted as a visiting fellow from September 2016 to July 2017. The vast library resources of the Harvard University and the discussions conducted with the distinguished scholars had a great role in shaping the scope of the study.

A scientific realist approach is embraced within this study. In this sense, the examination is taking the social reality in its totality. Therefore, rather than separating the objects of its study into pieces and analyzing their external relation, the units of analysis are regarded to be immanent to each other. In the analysis of its object, without ignoring the importance of the empirical data and observance, the study also acknowledges that the facts do not interpret themselves. In this sense, the unobservable but real structures as emerged out of social relations will be focused in order to bridge the empirical data with the social reality. The mutual and dialectical relationship between the structure and agent is to be demonstrated. A critical political economy approach will be embraced since it

facilitates the explanations of the relation between the states and economy, which composes two different moments of internationalization within the scope of this study. Furthermore, historical materialist methodology will be employed to demonstrate how the historical developments in the material re-production of the social life transform the existing social structures.

CHAPTER 2

THE CONCEPT OF INTERNATIONALIZATION

While these lines were being written, the first Presidential debate between Hillary Clinton and Donald Trump was being held. Interestingly, the first 15 minutes of their debate were devoted to the discussion on the internationalization process. Trump was attributing the predicament of the US economy to the flight of capital to the areas with lower taxes and cheaper labor supply such as China and Mexico. He was suggesting not only cutting the taxes on the capital to attract them back to their homeland but also increasing the taxes on trade so that the American companies cannot move their production facilities to the places abroad and import their outputs back to the USA without any taxes. For the increasing rate of unemployment, he was accusing international agreements such as NAFTA and other international treaties promoting trade liberalizations. Therefore, he was asking for a renegotiation of trade deals. Clinton, on the other hand, was underlying the importance of the international trade and said that the USA composes 5% of the world population which inevitably forces it to trade with the remaining 95%. However, she was also calling “the state back in” by suggesting more public investment on education and human capital. For a solution to the increasing unemployment rate in the USA (which has been a severe problem in Western capitalisms) she asked for free education and development of new industries such as clean energy. Simply, she was asking state to take a role in the creation of new profitable accumulation areas for the capital so that capitalists will invest in these sectors and the unemployment rate will decrease in the end.

Even though the words of the politicians should be skeptically incorporated into the scientific inquiry, discourses are the products of the material; and the concrete reality is

the main matter of the social science. Therefore, their ideas reflect certain elements of the real in concrete. Obviously, both were talking on the behalf of different capitalist fractions which have distinctive but not contradictory accumulation strategies. However, more significant for the scope of this study, the debate was spotting light to the fact that internationalization is one of the vital issues affecting domestic economic and political structures with visible consequences on the daily life of inhabitants; which in the end forces the political leaders to touch upon internationalization in order to legitimize their policies. Let's say that the USA is an exception since she is the global power. What about the previous hegemon where the decision to leave the EU with the victory of the Brexit movement resulted in the resignation of the Prime Minister; or Iran which is the antipodean as the policies of integration with the international system ensued the election and re-election of the reformist candidate Hassan Rouhani to the presidency?

Apart from the importance of the level of international, the other fact is that there is a huge ambiguity in defining the term and the process. This part of the thesis aims to clarify the concept and the process of internationalization. While doing that, it makes a categorical distinction between the internationalization of the capital and the state; even though, both are the products of the same process. As Andres Bieler mentions, "they (state and market) are ultimately only two different forms of the same underlying configuration of social class forces."¹ The aim for such a distinction is to put forth the main determinants of the internationalized capital and economy and internationalized state, since in the upcoming chapters Iranian economy and state are to be evaluated through these determinants. Therefore, the first part of the chapter analyzes the internationalization of capital and the second concentrates on the internationalization of the state. The last part of the chapter analyzes the integration of the late capitalisms into the international capitalist structure. Since the integration of Iran into the global capitalism accommodates resemblances with the integration of BRICs, the aim of last

¹ Andreas Bieler, "Class Struggle in times of Crisis: Conceptualizing Agency of Resistance", *Spectrum Journal of Global Studies*, Vol. 7, Issue 1, 2015, p.20

section is to demonstrate the commonalities between these states and to show in the upcoming chapters to what extent Iran departs from BRICs.

2.1. Internationalization of Capital

This section aims to clarify the ambiguities on the internationalization of capital by discussing the conceptualization of the process first. Through a concentration on the terms of globalization, transnationalization and internationalization, the first section of the chapter targets to demonstrate the strength and weakness of each term. The following section examines the historical development of the process of internationalization since 1945. The next section tries to reveal the main themes in the process of internationalization. This seems crucial as putting forth the main determinants of internationalized capital may enable us to evaluate the internationalization of Iranian capital through these criteria in the upcoming chapters. Therefore, the concluding part of this section, by evaluating the findings of these themes, tries to reveal the main determinants of an internationalized capital and economy.

2.1.1. Internationalization, Globalization or Transnationalization

As it is indicated in the introductory section, discourse is a product of the material. However, it is a product that accommodates the power to transform its creator. Discourse may bring specific elements of the concrete reality into the front and hide certain segments of it. Similarly, the different adjectives and theoretical perspectives employed to define the process of internationalization are covering and flashing distinctive parts of the reality. Therefore, this section concentrates on three different names given to the current international state of affairs: Globalization, Transnationalization and Internationalization. It is aimed to solve the conceptual ambiguity by displaying their positions in reflecting the concrete reality.

Globalization, transnationalization and internationalization are widely regarded as synonyms and are used interchangeably. For example, Berberoglu defines what he termed the globalization of capital as,

“...the accumulation of capital from the national to international level, where the worldwide operations of transnational corporations have led to the rise of vast capitalist empires across the world.”²

As it can be seen in this definition the terms globalization, international and transnational are used unconsciously without paying attention to the different realities that they characterize. Beginning with globalization, the term attributes a benevolent connotation to the process. It explains a process in which national cultures, national economies and even the national borders are being dissolved. The process is defined as the integration of each member of the international community into the same global system in which, as Hirsh and Thompson³ put, the local strategies of national economic management are claimed to lose their validity. Within this perspective, globalization refers to the widening and deepening of the international flow of trade, capital, technology and information within a single integrated market.⁴

Immanent to this narrative the tendency to formulate globalization as a process of homogenization: Homogenized markets, economies, states, countries, cultures etc. However, such an understanding faces problems in explaining the economies that are not totally integrated into the global economic system, such as Iran. Since they are unable to explain the spatial dissimilarities, they have no option but to portray the states that are not fully integrated to the system as exceptions, or abnormalities. This theoretical stand

² Berch Berberoglu, *Globalization of Capital and the Imperial State: Global Capitalism in Crisis*, in Berch Berberoglu (eds.) *Globalization and Change: The Transformation of Global Capitalism*, Lexington Books, Maryland, 2005, p.65.

³ Paul Q. Hirst, and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996.

⁴ James Petras and Henry Veltmeyer, *Globalization Unmasked: The Dynamics and Contradictions of global capitalism*, in Berch Berberoglu (eds.) *Globalization and Change: The Transformation of Global Capitalism*, Lexington Books, Maryland, 2005, p.49.

enables the emergence of perspectives which formulate these states as the irregular members of international community. These perspectives labels these exceptions with the terms failed states or rogue states that should be forced to comply with the universal standards. This, in turn, transforms these theories into ideological discourses legitimizing certain policies against the “rogues” or “failed”.⁵

As Şebnem Oğuz argues, the contradictions immanent to the process are mystified under the rubric of the term globalization.⁶ Therefore, instead of the homogenization narrative of the globalization literature, a theoretical approach reflecting the contradictions and spatial differences in the process is necessary.

The term transnationalization, on the other hand, concentrates on the emergence of the forces above the nation states or transcending nation state-based international structure. The term mostly owes its existence to the study of Michael Hardt and Antonio Negri.⁷ Keohane and Nye in early 1970s have used the term transnational;⁸ however, their analysis concentrated on the emergence of transnational actors and networks (such as international regimes) rather than a power structure above the states. In other words, they conceptualized the nation states as the basic units of action in the international system. Hardt and Negri, on the other hand, refer to structural transformation with the term transnationalization. They claim that the functions of the nation state, which once used to execute the capitalist globalization through its activities on the accumulation process, are replaced with a network of the transnational companies. In this way, the localities which used to be governed by isolated nation states are removed. Similar to the homogenization discourse of the globalization, transnationalization also suggests the

⁵ Engin Sune, “Defining the Different: A Critical Analysis of the Rentier, Failed and Rogue State Theories”, Middle East Technical University Institute of Social Science, Unpublished Master Thesis, Ankara, July 2012.

⁶ Şebnem Oğuz, Rethinking Globalization as Internationalization of Capital: Implications for Understanding State Restructuring, *Science & Society*, Vol. 79, No. 3, July 2015, p. 337.

⁷ Michael Hardt, Antonio Negri, *Empire*, Cambridge, Harvard University Press, 2000.

⁸ Robert O. Keohane, Joseph S. Nye (eds.), *Transnational Relations and World Politics*, Cambridge, Harvard University Press, 1972.

emergence of homogenized units; not through their modification or integration into the global system but with the creation of forces transcending the sovereignty of the state.

The transnationalization perspective in recent years is more associated with the works of William Robinson.⁹ However, contrary to the post-modernist view of Hardt and Negri, Robinson clings more onto the classical Marxist works. Robinson claims that capitalism has entered into a new transnational stage as the rise of transnational capital integrated every country into the global production and financial system. He asserts that this created a new transnational class which concentrates on the global market and accumulation rather than national markets and circuits. He maintains that this resulted in the transformation of the relations between space and power which cannot be understood with a nation-state centric perspective. According to this perspective, transnational capitalist classes have established themselves as a class group without a national identity and in competition with national based capitals.¹⁰ However, as Bryan points out, internationalization has a meaning that accommodates the extension beyond national units but this does not necessarily mean transcending the national categories.¹¹

Contrary to the transnationalization literature, the term internationalization, which is also the preferred term to define the process within the scope of this study, implies that national spaces are still relevant and international accumulation cannot be succeeded without the nation states. Contrary to the globalization literature, it also implies that there are contradictions within the process rather than a harmonious homogenization. These are mostly the products of the contradiction between the internationality of accumulation and the national regulation of the conditions of accumulation. As Bryan suggests, “the nation state is attempting to regulate the conditions of accumulation in a

⁹ William I. Robinson, *A Theory of Global Capitalism: Production, Class, and State in a Transnational World*, Baltimore: Johns Hopkins University Press, 2004.

¹⁰ William I. Robinson, *Beyond the Theory of Imperialism: Global Capitalism and the Transnational State, Societies Without Borders*, 2, 2007, p. 8.

¹¹ Dick Bryan, *The Chase Across the Globe: International Accumulation and the Contradictions for Nation States*, Oxford: Westview Press, 1995, p.9.

(national) space which is but a fraction of the space in which accumulation itself occurs (the global integration of production and circulation of capital. ”¹² In this sense, since accumulation is organized by the nation state while capital is circulating on a global scale, the term internationalization reflects the spatial contradictions within the system.¹³ The term internationalization strongly accepts the spatial differences within process. As Poulantzas maintains, internationalization can be understood only in relation to its own location, which is the reproduction of the capitalist mode of production in the forms specific to each social formation.¹⁴ The analysis of Iran in this study embraces this view and aims to find out how capitalist internationalization takes different forms in each social formation. This inevitably necessitates revealing the elements which shape each social formation differently. In order to do that, the conceptual tools allowing the demonstration of the contradictions and the unequal integrations embedded in the process are fundamental. In this sense, internationalization, as it does not refer to the homogenous integration of every unit into the same system, is a more appropriate term to define the current process.

The term internationalization underlines a process of capital mobility that has integrated the accumulation globally. But the globe is perceived as a system of nation states even though the literature also attributes certain transformations to the function and content of the state (this may be evaluated in the internationalization of state section). As Robert Cox asserts, internationalization can be identified with the processes of: 1) the formation of consensus on the global needs of capitalism, 2) the participation of states to this consensus hierarchically, 3) the adjustment of internal structures in order to serve for the global accumulation.¹⁵ Therefore, while internationalization defines the integration of

¹² Dick Bryan, The Internationalization of capital and Marxian value theory, *Cambridge Journal of Economics*, 19, 1995, p.422.

¹³ Bryan, *The Chase Across Globe*, p.51.

¹⁴ Nicos Poulantzas, *Classes in Contemporary Capitalism*, London, NLB, 1976, p.50.

¹⁵ Robert Cox, *Production, Power, and World Order: Social Forces in the Making of History*, New York, Columbia University Press, 1987, p.254.

national markets into the international ones, it elaborates the hierarchical relations, instead of portraying a horizontal integration in the process of globalization.

This hierarchical integration explores the imperialistic character of the process. It is the “reproduction of the capitalist mode of production of the metropolises within the dependent and dominated formations, that is, in the new historic conditions of its reproduction.”¹⁶ Based on this argument, some scholars claim that the current process is the highest stage of capitalist imperialism which is facilitated by the international capital with the intensification of capitalist expansion throughout the world.¹⁷ In another study, we associated the process with the formation of a collective imperialist bloc.¹⁸ Supporting the same arguments, the upcoming sections in this study refers to the process as internationalization.

2.1.2. The Historical Development of the Internationalization of Capitalism

Without any doubt, the history of the internationalization of capitalism should start from the birth of capitalism. As early as 1848, Marx and Engels manifested that

“The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere.”¹⁹

This tendency of expansion has become more apparent and visible at the end of the century; since then classical imperialism theorists, dependency and world system schools and other various schools of thought have been studying the internationalization

¹⁶ Poulantzas, *Classes in Contemporary Capitalism*, p.43-50.

¹⁷ Berch Berberoglu, *Globalization of Capital and Nation State: Imperialism, Class Struggle, and the State in the Age of Global Capitalism*, Maryland: Rowman and Littlefield Publishing, 2003, p.2.

¹⁸ Ali Murat Özdemir (ed.), *Kolektif Emperyalizm: Magripen Maşrika Dönüşümün Ekonomi Politigi*, Ankara, İmge Yayınları, 2014.

¹⁹ Karl Marx and Friedrich Engels, *Communist Manifesto*, New York, Signet Classics, 1998, p. 54.

of capital. However, as Polanyi points out, capital has always been international to a certain degree.²⁰ Regarding the scope of the study, this section only concentrates on the historical developments since the Second World War; as it is believed that the main pillars of the current international structures were established in that period. In other words, what is new about the current internationalization is embedded in the Post-World War II structures.

There were mainly three breaking points in the history of the internationalization of the 20th century which formed the current structure. The first one is the Post-War reconstruction period and the establishment of the institutional mechanisms. The second breaking point is the transformation of the accumulation strategies with the implementation of what is called as the Washington Consensus. The third one is the demise of the Soviet Union which resulted in the expansion of capitalism to the Second and Third World.

The first wave of internationalization in the world scene has taken place between the 15th-18th centuries as the mercantile capital enforced an internationalization wave based on trade. While the late 18th to mid-19th century witnessed a period of isolation, the phase continued in the late 19th century with externally generated growth. What was striking about 1945 that differentiates it from these previous waves of internationalization is the gradual increase in the international flows of capital and commodity trade.²¹ This increase is a product of the process started in the end of the 20th century, when monopolies started to rise in the central capitalist countries. From 1890s to the outbreak of the First World War, there have been horizontal mergers in which big corporations in an industry were absorbing the small ones working in the same industry. The concentration and centralization of capital in the hand of these big corporations, in the late 19th century, resulted in an international competition that ended up with the

²⁰ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed. Boston: Beacon Press, 2001.

²¹ Petras and Veltmeyer, 'Globalization Unmasked', p.52.

outbreak of the war. However, since 1920s there emerged vertical merges in which giant corporations absorbed their suppliers and the firms to which they sell their products.²² As Cox points out, “Pax-Americana created a world hegemonic order in which a world economy of international production emerged”.²³ The Fordist regime of accumulation and emergence of the US hegemony based on the Breton Woods system has further contributed to this process.²⁴

The role of the USA is obviously crucial in the 20th century internationalization. The Second World War was effective in the rise of the US hegemony and dominance of a Western liberal economic order. The USA was the only country which ameliorated its economy during the war years. The debts that America has borrowed to its European allies for the increasing war costs have put an end to the economic depression in the USA.²⁵ This process was going hand in hand with the decline of the British Empire and rival European economies.²⁶ The Marshall Plan further contributed to this process. Through the aids to reconstruct the war-torn economies of its allies, USA invested huge amounts of money in the Western Europe.²⁷ Since then there has been a dramatic increase in the USA’s Foreign Direct Investments (FDI) in the Western Europe. While the American FDI was \$1.7 billion in 1950s, it increased to \$6.6 billion in 1960s and to \$649 billion in the 2000s.²⁸ This process has opened up vast areas for the economic expansion of the US capital. As Poulantzas points out, ever since the Second World War, the proportion of American capital within the overall volume of foreign capital

²² Howard J. Sherman, *The Rise of Global Capitalism: The Concentration and Centralization of Capital on a World Scale*, in Berch Berberoglu (eds.) *Globalization and Change: The Transformation of Global Capitalism*, Lexington Books, Maryland, 2005, 7-8.

²³ Cox, *Production, Power and World Order*, p.244.

²⁴ Petras and Veltmeyer, ‘Globalization Unmasked’, p.53.

²⁵ Robert O’Brien and Marc Williams, *Global Political Economy: Evolution and Dynamics* (2nd Edition), NY: Palgrave Macmillan, 2007, p.109.

²⁶ Berch Berberoglu, *Globalization of Capital and Nation State*, p. 58.

²⁷ Berch Berberoglu, *The Internationalization of Capital: Imperialism and Capitalist Development on a World Scale*, New York: Praeger, 1987, p. 29.

²⁸ Berberoglu, *Globalization of Capital and Nation State*, p. 59.

investment increased continuously.²⁹ This is also an indicator of the rapid increase in the cross-border capital movements especially within the industrialized states. Since the World War II, the integration of capital markets has been far more rapid and complete among the industrialized countries.³⁰ The investments of the American capital within Europe not only resulted in the enormous level of concentration and centralization of capital in the hands of the largest corporations in the US today³¹, but also with the institutions of Bretton Woods, such as International Bank for Reconstruction and Development and International Monetary Fund, all industrialized capitalist countries harmonized their national policies.³² This issue is later to be discussed in the internationalization of state section.

Based on the principles of Bretton Woods, as David Harvey maintains, USA sought to construct an open international order for trade and economic development and rapid capital accumulation along capitalistic lines.³³ After the war, through the means of Bretton Woods and its financial power, the U.S. established an international trade regime based on the principles of non-discrimination, reciprocity, transparency and multilateralism. Since then, the international trade has increased fourfold.³⁴ However, this was a gradual process which reached its peak in the 1990s with the Uruguay Round, NAFTA and establishment of World Trade Organization (WTO).

The last pillar of the internationalized economy was constructed with the establishment of NATO after the World War II. The impact of the establishment of a collective security tool does not only spot light to the fact that it provides permanent military

²⁹ Poulantzas, *Classes in Contemporary Capitalism*, p.50.

³⁰ A. Beth, Simmons, *The Internationalization of Capital*, in Kitschelt, H. Lange, P. Marks, G. Stephens D. (ed.), *Continuity and Change in Contemporary Capitalism*, Cambridge: Cambridge University Press, p.36.

³¹ Berberoglu, *Globalization of Capital and Nation State*, p. 62.

³² Cox, *Production, Power and World Order*, p.255.

³³ David Harvey, *The New Imperialism*, New York: Oxford University Press, 2003, p. 54.

³⁴ O'Brien and Williams, *Global Political Economy*, p. 148.

presence to the U.S. capital, which invest hugely to other geographies.³⁵ What is striking about the establishment of this organization is that it has united the previously competing and clashing national armies of the capitalist countries under the same roof. This created a huge harmony of interest between the capitalist countries.³⁶ As a result, the intensity of the inter-imperialist rivalry has appeased.³⁷ This enabled the bourgeoisie to establish international alliances through the organizations such as IMF, World Bank, GATT, later WTO, and United Nations.

Even though after the World War II the capitalist mode of production has started to be expanded, the internationalization of capital and the drastic transformations it brought has intensified only after 1970s and accelerated in the 1990s.³⁸ There has been an over-accumulation problem pervading the whole capitalist system since 1970s. In 1960s, the Western capitalisms were suffering from stagnant production and intensified class conflict.³⁹ The Bretton Woods system, which was based on the exchange of the U.S. dollar with a fixed gold standard, had started to create economic problems in the USA and exporting countries. In 1970s, the high productivity based accumulation strategies in the core countries has pressed in upon its limits. This brought a new crisis of over-accumulation.⁴⁰ As Harvey mentioned, this over-accumulated capital tried to be absorbed with the spatial displacement of capital through opening up new markets, new production capacities and new resources, social and labor possibilities elsewhere.⁴¹

In the end, the crisis has come to an end by a new deal based on the internationalization of the production. Production chains started to move globally and shifted to the

³⁵ Berberoglu, *Globalization of Capital and Nation State*, p.59.

³⁶ Harvey, *The New Imperialism*, p.53.

³⁷ Özgür Öztürk, “Emperyalizm Kuramları ve Sermayenin Uluslararasılaşması”, *Praksis*, Sayı: 15, 2006, p.284.

³⁸ Ibid. p.284.

³⁹ Petras and Veltmeyer, ‘Globalization Unmasked’, p.54.

⁴⁰ Ibid. p.291.

⁴¹ Harvey, *The New Imperialism*, p.108.

geographies with cheaper labor. Production structure in itself has drastically transformed from Fordism to post-Fordism which is based on flexible and high skill labor. This is what Cox calls as the transformation of social structure of accumulations.⁴² Cox maintains that in the 1970s, with Thatcherism and Reaganism, a hyperliberal form of state is established which was a product of the change in the modes of the social relations of production. He maintains that these mutations in the social structure were triggered with the development of technology, which contributed to the development of post-Fordist mode of innovative and capital-intensive production. As a result, the spatial dynamics of production as the production facilities were started to be removed from core to peripheries; and policies making the labor power flexible and decentralized were implemented.⁴³ With concrete changes in the labor rights, the international production chains have been consolidated.⁴⁴ This also resulted in the shifts of geographical direction of FDI from developed capitalism to the Third World to super exploit the labor.

Moreover, the trade regime, which tried to be established in the years following the World War II, is consolidated in the 1970s. First of all, a new trade regime based on liberalism, legalism and multilateralism has started to be imposed to the other countries through the debts and structural adjustment policies. Going hand in hand with the internationalization of production, there has been a rapid increase in the intra-industry and intra-firm trade. China's decision to decollectivize the agriculture and to open the economy for the foreign investment further intensified the internationalization of trade.⁴⁵ However, the current international regime mostly institutionalized with the Uruguay Round in the late 1980s-early 1990s and the establishment of World Trade Organization.

Another important development in the 1970s was the formation of international financial mechanisms. As Bryan points out, the monetary integration, which has been associated

⁴² Cox, *Production, Power and World Order*, p.286.

⁴³ Ibid. p. 309.

⁴⁴ Öztürk, "Emperyalizm Kuramları ve Sermayenin Uluslararasılaşması", p. 291.

⁴⁵ O'Brien and Williams, *Global Political Economy*, p.117-153.

with the volatility of international monetary system, is the most distinctive characteristic of the 1970s.⁴⁶ As capital controls are relieved and international investment activities increased in the 1970s, there has been a growth in the private international financial activity, which started to challenge the fixed exchange rate regime.⁴⁷ This process has brought the end of the Bretton Woods system and implementation of the floating exchange rates.

Another interrelated issue is the rise of the foreign borrowing procedures. As the international production and investment facilities developed, there emerged a need to finance these economic activities. These resulted in the development of new international financial tools. As a result, with the increase in the cross-national trade and investment, the international credit system has developed in the 1970s and 1980s.⁴⁸ More significantly, in 1970s the IMF has started lending to the Third World countries relentlessly.⁴⁹ This created a huge debt crisis in the 1980s in the Third World countries as they were not able to pay their debts back. Interestingly, the crisis brought further integration as it forced the debtor countries to reorganize their internal social relations of production in the way that it enables penetration of international capital easily. This made, what Harvey called as, the accumulation by dispossession strategies a more central feature of international economy.⁵⁰

Based on the transformations taken place in the 1970s and the 1980s, 1990s have witnessed a capital launched attack on the labor in terms of wages, conditions and benefits, as well as its capacity to organize and negotiate contracts. The growth and intensification of international production strategies in these years resulted in the creation of an integrated production regime based on international corporations and the

⁴⁶ Bryan, *The Chase Across Globe*, p.23.

⁴⁷ Beth, 'The Internationalization of Capital', p.40.

⁴⁸ Bryan, *The Chase Across Globe*, p.13.

⁴⁹ Cox, *Production, Power and World Order*, p.301.

⁵⁰ Harvey, *The New Imperialism*, p.67.

new international division of labor. Through the debts and structural transformations, a process of capitalist development and free international trade is established under the provision of the IMF and World Bank.⁵¹

One of the significant developments during the 1990s is the Uruguay Rounds, which have fulfilled the task of Post-World War II consensus on creating an international trade regime with the establishment of the World Trade Organization. Uruguay Rounds generally aimed at the deepening of international trade regimes by expanding world trading system to embrace services, intellectual property rights, investment, environment, labor standards and domestic policies. This was a crucial development as the establishment of WTO signifies further internationalization as it transforms the international trade regime from trade liberalization based on tariff concessions to discussion of domestic policies, institutional practices and regulations.⁵²

However, the most striking development of the 1990s, which played the most crucial role in the intensification of internationalization and expansion of capitalist mode of production, was the demise of the Soviet Union. The end of the Cold War terminated the threat to the terrain of global capital accumulation.⁵³ The collapse of the communist bloc has mainly three consequences for the internationalization process. First of all, capitalism has gained the opportunity to spread to the Second World. The existence of the Soviet Union prevented capitalism to geographically expand to the places where different production relations are dominant. Secondly, the end of the Cold War has created another wave of expansion of capitalism geographically, as the states in the Third World countries, which find themselves a lebensraum taking advantage of the two super powers' competition, started to be integrated into the capitalist camp swiftly.⁵⁴ Lastly, the end of the Cold War enabled the capitalist powers to have a monopoly on the

⁵¹ Petras and Veltmeyer, 'Globalization Unmasked', p.55.

⁵² O'Brien and Williams, *Global Political Economy*, p. 156.

⁵³ Harvey, *The New Imperialism*, p.68.

⁵⁴ Özdemir, *Kolektif Emperyalizm*.

international law and gave them the ability to shape it easily.⁵⁵ This is crucial as it provided the USA and her allies to legitimize their imperialistic policies. As a result, concepts such as democracy, human rights and free market are presented as the universal values and the states that violate them were easily labelled as failed or rogue states. As a result, certain policies such as humanitarian or preventive intervention have started to be the new realities and strategies to transform these.⁵⁶ However, this was a dialectical development as it created counter tendencies. As Panitch and Gindin mentions, the biggest success of the new imperialism was its ability to appear as it is not imperialistic since the interventions are conducted through the mechanisms of the NATO, the UN or a group of “civilized” nations.⁵⁷

The last crucial development taken place in the 1990s is the shift from Washington Consensus to Post-Washington Consensus. In the 1997, as a financial crisis erupted in the East Asian countries, Washington consensus, which proposes financial liberalization through deregulation for efficiency and productivity, has been subjected to strong criticisms. In response to these, the IMF has argued that the lack of important preconditions in the regional countries for a successful liberalization, together with the lack of transparency, has brought corruption and crisis.⁵⁸ As a result, the new principles based on transparency, good governance and competition are imposed to the states. This was a significant for the internationalization of capital as it is one of the moments that require states to make necessary domestic transformation in order to comply with the international reproduction of the capital.

⁵⁵ Ali Murat Özdemir, *Güç, Buyruk, Düzen*, Ankara, İmge, 2011.

⁵⁶ Rajagopal Balakrishnan, *International Law from Below: Development, Social Movements, and Third World Resistance*, Cambridge, Cambridge University Press, 2003, p.138.

⁵⁷ Leo Panitch ve Sam Gindin, “Theorizing American Empire”, Bartholomew, A. (der.), *Empire’s Law: The American Imperial Project and the War to Remake the World*, Londra, Pluto Press, 2006, p.21.

⁵⁸ Pınar, Bedirhanoğlu, “The Neoliberal Discourse on Corruption as a Means of Consent Building: Reflections from Post-Crisis Turkey”, *Third World Quarterly*, Vol. 28, No. 7, 2007, p. 1240.

2.1.3. Main Themes in the Internationalization of Capital

This section of the chapter focuses on the main themes in the internationalization of capital. It seems crucial in this point to find out the determinants of internationalized capital as it may enable us to approach to the internationalization of Iranian capital within these criteria. Most of these themes are mentioned in the historical development of internationalization section superfluously. In this part, expansion of capitalism, internationalization of production, internationalization of trade, internationalization of finance and lastly internationalization of corporations/class is analyzed shortly as they are being viewed as the main motives that come into prominence in the study of internationalization of capital.

2.1.3.1. Expansion of Capitalism

Internationalization of capital is itself a process of accelerated and pervasive phase of advanced monopoly of capitalism on a world-wide scale which reflects expansion of the capital throughout the world.⁵⁹ Therefore, in order to understand the dynamics of the internationalization of capital, expansion of capitalism into other geographies as a theme should be the first to be analyzed.

The roots of capitalist expansion can be found in the first volume of the capital.⁶⁰ Marx analyzes capitalism as a surplus extraction process. Through what he calls as primitive accumulation, Marx mentions the spatial expansion of capitalist class relations within non-capitalist social formations.⁶¹ As later it is underlined by Rosa Luxemburg, “the capital accumulated in the old country find elsewhere new opportunities to beget and realize surplus value so that accumulation can proceed.” For her, the non-capitalist

⁵⁹ Berberoglu, *Globalization of Capital and Nation State*, p. 2.

⁶⁰ Karl Marx, *Capital: A Critique of Political Economy*, Volume 1, Moscow, Progress Publisher, 1887.

⁶¹ Ibid. p.506.

countries were the appropriate places for that.⁶² However, this is only related with the geographical expansion of the capitalism, while the current phase also signifies deepening of the capitalist relations.

In the second volume, Marx analyzes the circuit of the social capital between the forms of money, production and commodities.⁶³ As capital moves between these forms a surplus value is extracted and in this sense internationalization is perceived as a spatial reconfiguration which relocates the surplus value creating process.⁶⁴ In other words, internationalization phase signifies the internationalization of the circuit of the social capital. While the moment of capital in the form of production is conducted in a different place, it transforms into money or commodity in other places.

Even though capitalism accommodates characteristics that force it to internationalize, there is a qualitative difference in the recent expansion of capitalism. In the current internationalization wave, as capital expanded to all geographies it changed the whole concept of space.⁶⁵ At the one level, it created waves of integration and at the other level nation states' different integration strategies determinate the mobility of the capital. However, this dialectical condition is taken to the extreme levels, by some scholars, such as Giovanni Arrighi,⁶⁶ David Harvey,⁶⁷ and Alex Callinicos,⁶⁸ who fall in the trap of a "necessarily realist moment".⁶⁹ These scholars attribute two distinct logics to the territory and capital and claim that while capital looks for profit, state managers protect

⁶² Rosa Luxemburg, *The Accumulation of Capital*, London, Routledge; 1951.

⁶³ Karl Marx, *Capital: A Critique of Political Economy, Volume 2*, Chicago: Charles H. Kerr and Co., 1910.

⁶⁴ Bryan, 'The Internationalization of capital and Marxian value theory', p.427.

⁶⁵ Bryan, *The Chase Across the Globe*, p.2.

⁶⁶ Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-First Century*, London, Verso, 2007.

⁶⁷ Harvey, *New Imperialism*.

⁶⁸ Alex Callinicos, 'Does Capitalism Need the State System', *Cambridge Review of International Affairs*, 20: 4, 2007, pp. 533-49.

⁶⁹ This is why Harvey gives reference to one of the fathers of the Realist school, Paul Kennedy. See. Harvey, *New Imperialism*, p.35.

the interest of the state. This is because while the capitalists operate in continuous space and time, the politicians operate in a territorialized space. This perception is unable to capture the reality in its totality as it fails to portrait the dialectical relation between the space and state, which transforms both in the end.

In this sense, while one of the dynamics of internationalization is the spatial extension of capital, another one is the concentration and centralization of capital.⁷⁰ As Harvey maintains, if surpluses of labor and capital power exist within a given territory and cannot be absorbed internally then they must be sent elsewhere to find a fresh terrain for their profitable realization. This surplus can be absorbed by international trade but the importing country should possess the money necessary for the transaction. This can be done only by credit or aid. The other solution is to export the capital but this has long-term effects.⁷¹ What he meant by the long-term effects is a reflection of the spatio-temporal fixes. As capital started to spread to every sphere of social formations with the new international production and investment patterns, there emerged a need for long term infrastructural projects as the distant geographies has cheap labors but lack material capacities. Although new developments decreased the costs of technology transfers, it still takes many years for these projects to return their through the productive activity they support.⁷² Therefore, in order to protect those investments internationalized capital needs nation states to take responsibility for the international reproduction of the capital. This creates a huge web of interconnectedness between different actors, agents and spaces.

⁷⁰ Vladimir Il'ich Lenin, *Imperialism, the highest stage of capitalism: a popular outline*, New York: International Publishers, 1939.

⁷¹ Harvey, *The New Imperialism*, p.115-119.

⁷² Ibid. p.88.

This whole process also signifies that one of the driving forces of the internationalization is the desire for more profit with the exploitation of labor throughout the world.⁷³ In this sense, internationalization of capital, as a long-term tendency, has been directly connected with the phenomenon of imperialism.⁷⁴ Driven by the same logic of profit maximization of the earlier centuries, the current expansion of capital is a consequence of the efforts of concentrated and centralized capital to increase surplus value.

In this context, in order to remedy the tendency for the rate of profit to fall, internationalization of capital is a movement towards raising the rate of exploitation.⁷⁵ Therefore, internationalization of capital is a product of a global change in the accumulation strategies. It is a process of global integration of the circuits of accumulation. One of the targets of this study is also to demonstrate how international movement of capital and integration of markets are situated within the process of accumulation and class relation.

Lastly, apart from geographical expansion (horizontal), the recent wave of internationalization also signifies vertical expansion (deepening) of capitalism. Neoliberal policies were vital in this process. The new accumulation strategy ranged a huge attack against the spheres of economy that have not been subjected to the accumulation previously, such as water, health, education, electricity and intellectual property.⁷⁶

⁷³ Berch Berberoglu, Globalization of Capital and the Imperial State: Global Capitalism in Crisis, in Berch Berberoglu (eds.) *Globalization and Change: The Transformation of Global Capitalism*, Lexington Books, Maryland, 2005, p.68.

⁷⁴ Jim Glassman, "State Power Beyond the Territorial trap: the internationalization of the state", *Political Geography*, 18, 1999, p.675.

⁷⁵ Poulantzas, *Classes in Contemporary Capitalism*, p.62.

⁷⁶ Ali Murat Özdemir, 'Uluslararası Hukukun Nesnesi ve Tarihi Üzerine Deneme', in A. M. Özdemir (ed.), *Emperyalizm'in Hayaletleri: Küresel Düzenlenemin Bugünü*, Ankara, İmge Yayınları, 2013.

2.1.3.2. Internationalization of Production

As it is touched upon in the previous sections, international production is an inextricable part of the internationalization of capital. Perhaps it is the most important element of the process as it enables the global penetration of international capital more than international trade or finance can do.⁷⁷ However, it should be underlined that the production processes of distant geographies can only be integrated via the movement of money and commodities. Therefore, internationalization process is a product of both internationalizations of trade and finance, as well as it is a product of international production.

In fact, similar to the expansion of the capitalist relations, international production is not totally a new phenomenon. Integrated capitalist production has existed long before the current wave of internationalization.⁷⁸ As it is indicated above, Marx himself mentioned about the global spread of international production and this view is later followed by the classical Marxists.⁷⁹ What is new about the international production is its transformation into the dominant form of capitalist accumulation. Since 1970s, a process started, in which surplus extraction through production for a particular capital or a combination of several capitals is being realized in a number of different countries. The new production techniques allowed firms to locate individual elements of their production process where the greatest surplus value can be extracted.

Stimulated by the tendency of the rate of profit to fall and the new technological developments, capitalists shift the location of production to the places with less tax and cheap labor. As a result, there has been a move from local to international markets and from national to international production.⁸⁰ This process went in hand with the change in

⁷⁷ Clyde W. Barrow, *The Return of the State: Globalization, State theory and the New Imperialism*, *New Political Science*, 22: 2, 2005, p. 135.

⁷⁸ Berberoglu, *The Internationalization of Capital*, p.28.

⁷⁹ Bryan, *The internationalisation of capital and Marxian value theory*, p. 421.

⁸⁰ O'Brien and Williams, *Global Political Economy*, p. 156.

the underlying principles of the organization of production and key features of the global production system. Shifts from Fordism to post-Fordism and from welfare policies to neoliberal restructuring are the triggers of these changes. As a consequence of this, national production is now located within world production system and corporate decisions are made on the basis of international production strategies.

International production also created a new division of labor. Under the USA hegemony, manufacturing industry expanded at an unprecedented scale into previously pre-capitalist, peripheral areas of the global economy. Within this process (reminding Harvey's point on the necessity of huge infrastructural projects) developed capitalist countries poured massive amounts of capital into the selected areas of the Third World.

The merger of the companies is one of the important components of the internationalized production. Contrary to the horizontal mergers of the late 19th century, in which big corporations absorbed other corporations, and contrary to the vertical mergers of 1920s, in which giant corporations absorbed their suppliers and the firms to which they sell their products, the current international production is facilitated with the international mergers as the companies in the developed countries built their international production facilities by buying the shares of the domestic companies. With the activities such as subcontracting and joint ventures, international production has been further intensified.⁸¹ As Poulantzas puts forth, there has been a pronounced tendency towards combination by capitals coming from several different countries.⁸² This is one of the elements contributed to the formation of international companies.

Lastly, foreign investments are integral into the process of internationalization of production. The internationalization process has increased the investments of the international companies outside of their homeland. This is maintained under two forms: Foreign Direct Investment and portfolio investment. FDI is a new tool for accumulation by dispossession as it signifies the investments made outside the home country of the

⁸¹ Ibid. p.248.

⁸² Poulantzas, *Classes in Contemporary Capitalism*, p.60.

investing company, in which control over the resources that are transferred remains in the hands of the investor. Portfolio investments or indirect foreign investment, on the other hand, represent specific assets and intermediate products which are separately transferred between two independent economic agents through the modality of market.⁸³ Since 1970s, there has been a huge increase especially in the FDI. First of all, China's decision to open its doors to the international capital and later integration of the previous Soviet countries to the international system was influential in this increase. Since then, attracting FDI has become one of the central issues for the underdeveloped world. Dozens of studies were conducted on the effect of FDI on the national economies. States started to compete more to attract FDI and try to stabilize their monetary policies. Financial and legal reforms in countries were initiated for establishing stable and standardized legal and economic procedures similar to the international ones. However, it should be indicated that the USA's investment in the EU is still three times higher than the ones in all of Asia.⁸⁴

2.1.3.3. International Trade

Trade as a means of commodity exchange has existed long before the internationalization of capital or even capitalism. However, as internationalization underlines a systemic change, it also created dramatic transformations within the trading regime itself. There are mainly three structural transformations in the trading regime that is possible to associate with the internationalization of trade. First of all, there has been a drastic increase in the volume of international trade which is further stimulated by the growing international production. Second, a policy harmonization in the trade regime is adapted by different states in order to restructure their local policies to contribute to the

⁸³ O'Brien and Williams, *Global Political Economy*, p. 176.

⁸⁴ European Commission, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>, accessed October 13, 2016.

free movement of goods and services. Lastly, new areas are opened to trade especially with the rapid commodification implemented by the neoliberal regime.

Since the end of the World War II, there has been a rapid rise in international trade. While in 1948, the total amount of world merchandise exports was 59 billion dollars, it has increased to 18,494 billion in 2014.⁸⁵ China's decision to decollectivize the agriculture and to open the economy for foreign investment intensified the internationalization of trade.⁸⁶ Both the USA and EU make the majority of their imports from China (19.9% and 16.6 % respectively).⁸⁷ Since 1990s the international world trade has entered a phase of excessive increase (more than fivefold from 1993 to 2014) as Soviet Union demised and new countries has integrated into the capitalist bloc.⁸⁸ However, the main stimulant of the increase was the internationalization of production and trade liberalization. International production intertwined with international trade as the new production patterns enforces the domestic production to be organized according to its ability to compete with the international products.⁸⁹ As the products produced by the international capitals are more competable in the international platform, there has been a huge increase in the trade numbers between the developed countries (see figure 1.)

⁸⁵ WTO, International Trade Statistics 2015, https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf, accessed October 13, 2016.

⁸⁶ O'Brien and Williams, *Global Political Economy*, p.117-153.

⁸⁷ WTO, <http://stat.wto.org/>, 2015.

⁸⁸ O'Brien and Williams, *Global Political Economy*, p.153.

⁸⁹ Özdemir, *Kolektif Emperyalizm*.

TABLE 1.⁹⁰

	<i>Share in World Total Exports</i>	<i>Share in World Total Imports</i>
<i>USA</i>	8.53	12.64
<i>EU</i>	14.98	14.70
<i>China</i>	12.33	10.26
<i>Japan</i>	3.6	4.3
<i>Russia</i>	2.62	1.61
<i>Canada</i>	2.50	2.49
<i>South Korea</i>	3.01	2.75
<i>Total</i>	47.57	48.75

As it can be observed the main industrialized countries control approximately half of the world trade. This increase also triggered by the increase in the intra-industry or intra-firm trade.⁹¹ As the international corporations moved some segments of their production basis to the places with less taxes and cheaper labor, they keep importing finished or semi-finished products back to their countries; either to sell them in their local markets or to complete the product and sell it in domestic and international markets. For example, according to the numbers of WTO, the USA's biggest exporting market (followed by EU with 17.1%) is Canada as it exports 19.3% of its products to this country in 2014. The case of Canada is more interesting as the destination of 76.7 % of its exports was the USA and as it made 54.3% of its imports from the USA in 2014. The share of the U.S. market in the exports of the EU is the largest, as it exports 16.4 % of its

⁹⁰ WTO, <http://stat.wto.org/>, 2015.

⁹¹ Bryan, *The Chase Across the Globe*, p.15.

products to United States. Geographical and cultural proximity may be perceived as the main motive of the huge trading numbers; however, the internationalization of production with the international companies opening sub-branches or moving certain segments of their production facilities to other geographies were the real stimulators.

The increase in trade numbers especially between the industrialized capitalist countries also stimulated by their ability to adapt trade liberalization policies successfully. Even though, these policies have been enforced to the other geographies with structural transformation policies and membership to the WTO, the Western bloc is the most eager group of countries which implemented trade liberalization policies easily. This created a policy of harmonization in trade-related policies within these countries. This is a policy tried to be applied since the end of the World War II. The target of GATT was to abolish the quotas and reduction of tariffs. It aimed to institutionalize the trade regime through the principles of non-discrimination, reciprocity, transparency and multilateralism; however, the institutionalization of this process has been realized in the 1995 with the establishment of WTO, which is the main institutional mechanism of the international trade. Membership to the Organization is based on the effective implementation of policy harmonization in the areas of subsidies, trade related investment measures and the services. As a result of these policies, within the contemporary global economy, international trade has started to touch many societies and communities through direct and indirect effects.⁹²

Lastly, internationalization of trade brought the opening of the new areas into the international trade regime. This is especially a product of the Uruguay Rounds, which has opened new spheres of the economy into the trade. Trade in services and trade in agricultural products without any tariff protection was the new subjects of the international trade. Non-tariff barriers that are applied to the industrial products in order

⁹² O'Brien and Williams, *Global Political Economy*, p.139.

to protect the sector have successfully been removed.⁹³ Stimulated with the neo-liberal policies' governance principle, land has started to be a commodity that can circulate with the international trade.⁹⁴ Countries such as Iran, which were not able to commodify the land, opened special and free economic zones which allowed 100% foreign ownership of the land.⁹⁵ Intellectual property rights were another area that has been commoditized. As technology developed and competitiveness of products started to be based on innovation, strong regimes were established to protect intellectual property rights.

2.1.3.4. International Finance

As the previous lines have demonstrated, expansion of capital, internationalization of production and internationalization of trade are the main pillars of internationalization of capital; however, they are also highly interdependent that developments in one of these areas trigger transformations in the others. International finance, as another pillar, is not a new phenomenon as well. In the beginning of the 20th century, Rudolph Hilferding⁹⁶ was defining the finance capital as the unification of the bank capital with the industrial capital and claimed that the roots of geographical expansion of capitalism and imperialist policies are to be found in the formation of these monopolies. However, as one century has passed, the international financial structures have modified since then. With the removal of institutional barriers, the flow of capital and the growing correlation

⁹³ Will Martin and L. Alan Winters, "The Uruguay Round a Milestone for the Developing Countries", in W. Martin and A. Winters (ed.), *The Uruguay Round and Developing Countries*, Cambridge, Cambridge University Press, 1996, p.1-30.

⁹⁴ Özdemir, *Kolektif Emperyalizm*.

⁹⁵ See. Arang Keshavarzian, "The Geopolitics and the Genealogy of Free Trade Zones in the Persian Gulf", *Geopolitics*, 15: 2, 2010, pp.263-289.

⁹⁶ Rudolph Hilferding, *Finance Capital: A Study in the Latest Phase of Capitalist Development*, Londra, Taylor & Francis & Routledge, 2007.

of interest rate change across the national markets, financial markets are more integrated now than they have been at any point since the nineteenth century.⁹⁷

With the establishment of international production chains and the intensification in the trading activities, there has been a dramatic need and increase in the international movement of capital. In reality, after the World War II, capital controls are maintained in the beginning, but they are started to be disassembled gradually in the following decades. Starting from the United States in 1974, followed by Britain in 1974 and the most of the Europe in 1992, restrictions, used for capital controls, have been lifted and, as a result, the assets of domestic banks have become highly internationalized.⁹⁸

How has this process transformed the international financial regime? First of all, internationalization of banking activities created the need to harmonize the policies and regulations related with the banking sector. This is further stimulated with the increase in the international transactions as international production and international trade have turned out to be the new dynamos of capital accumulation. Such developments also necessitated stable monetary policy. This did not mean a return to the fixed exchange rate system; on the contrary, it enforces market mechanisms as the only determinant of exchange rates. One of the most crucial policies to succeed this goal is to impose the independence of the central banks. The independence of central banks from the political decision making procedures aimed to cut the relation between the domestic political developments and monetary policies. Instead, international market and the needs of international accumulation started to be the determinants of domestic monetary policies; and the value of any currency is calculated according to the competitiveness of the domestic economies in the international market. As a result, international economic

⁹⁷ Beth, *The Internationalization of Capital*, p. 62.

⁹⁸ *Ibid.*

structures which are based on finance have led to the increasing interdependence and closer ties between countries.⁹⁹

Another related issue is the fact that increasing volumes of trade and costly investments brought the need for new financial resources and instruments. This resulted in the emergence of large international markets for credit.¹⁰⁰ While the change in the scope of the accumulation from domestic markets to international ones created a qualitative change in the credit market, the integration of capital markets has brought new tendencies for the accumulation strategies.¹⁰¹ First of all, for their international investment activities international companies have resorted to international and national financial institutions for credits. Secondly, the trading regime, as it is discussed in the previous sections, was uneven extremely, which forced the underdeveloped world to apply to the international financial institutions in order to finance their imports from the industrialized developed nations. Since the absorption of the production surpluses was vital for the reproduction of the accumulation strategies of the international capitalists in the core states, there emerged international institutions such as World Bank and IMF, which barrowed to the Third World countries in return for their adaptation of structural adjustments, such as trade and financial liberalization.

Lastly, finance is internationalized with the technological developments in the financial tools. Through financial harmonization, increased economic activities within distant geographies and technological breakthroughs, instant transfer of money capital is facilitated. Stock markets have become new tools for international mergers as it provided the capitalists of different nations the capability to hold the shares of companies in other countries. This opened new waves of the internationalization of companies as their share-holders started to be diversified nationally. It also created a pressure on the Third World countries in a direction to liberalize their financial sectors

⁹⁹ O'Brien and Williams, *Global Political Economy*, p.184.

¹⁰⁰ Bryan, *The Chase Across the Globe*, p. 16.

¹⁰¹ Ibid. p.26.

in order to harmonize their policies with the international standards and to contribute to the reproduction of international accumulation with the opening of new areas to commodification (like the procedures related with energy extraction).

2.1.3.5. Internationalization of Corporations/Class

The emergence of an international capitalist class and especially international firms is one of the elements of the internationalization period, which was analyzed by the scholars from different schools of thought. The common tendency in these studies is to identify the internationalization only with the growth of international companies/classes. Some scholars equate internationalization of capital directly with the internationalization of classes in the capitalist societies,¹⁰² while the others concentrate on the global reign of multinational corporations.¹⁰³

However, international corporations are addressing only the international relocation of the productive capital.¹⁰⁴ Thus, those firms only demonstrate a particular form of internationalization in which individual capitalists with productive capital spread into multiple states. In fact, capital is internationalizing due to the capital movements across national boundaries, it is not a product of the rise of international companies. Even though the development of international firms and classes are crucial especially since 1970s, the process of internationalization of capital is more a product of international movement of commodities and global integration of capitalist markets. As Poulantzas mentions, international firms are only one effect of the internationalization in the present phase.¹⁰⁵

¹⁰² See. Glassman, "State Power Beyond the Territorial trap: the internationalization of the state, p. 675.

¹⁰³ See. Michael Hardt, Antonio Negri, *Empire*, Cambridge, Harvard University Press, 2000.

¹⁰⁴ Ibid. p.34.

¹⁰⁵ Poulantzas, *Classes in Contemporary Capitalism*, p.60.

The emergence of an international horizon for the accumulation process created flexibility for firms to integrate their productive capacities by producing components and assembling them where the costs are the cheapest. It also encouraged capitalists to shift their financial assets in the places which are more profitable.¹⁰⁶ The motive for such expansion is to export the capital and reproduce it abroad to gain more wealth. As a result, a certain fraction of capitalist classes emerged who accumulate and reproduce capital in the international level. Even though these internationalized capitalist classes have a certain consensus on the issue of opening all the spheres of the globe to capital accumulation, they have a contradictory interest as they compete with each other for sharing the surplus value. As Berberoglu mentions, internationalization is a system based on the social classes and class struggles and is a product of the global capitalist system based on the exploitation of labor worldwide.¹⁰⁷

However, internationalization of class and corporations is not a mere economic phenomenon as it implies a set of social transformations. As reproduction of capitalist social relations or expansion of them to the other geographies does not happen automatically, a need for a complex web of institutions is emerged to find appropriate modes of regulation for an increasingly internationalized process of accumulation. The IMF and World Bank created the necessary means for the global governance of the international capitalism and with the mechanisms of other institutions, such as G8, platforms are created for the international capitalists to negotiate and develop international policies on capital movements.¹⁰⁸

Lastly, with the internationalization of classes and corporations, the nationality of capitals started to be lost. As one international company started to produce in distant geographies and merge with the firms in other countries, the original nationality of the capital lost its meaning. This has mainly two consequences: first, a new path of

¹⁰⁶ Bryan, *The Chase Across the Globe*, p. 34.

¹⁰⁷ Berberoglu, *Globalization of Capital and the Imperial State*, p.69.

¹⁰⁸ Paul Cammack, "The Governance of Global Capitalism: A New Materialist Perspective", *Historical Materialism*, 11:2, 2003, p.37-59.

dependence emerged between nation states and capitalists of different nations; second there emerged a need to harmonize state policies through legal and monetary mechanism.

As capital and firms internationalized, the interest of the giant conglomerates of Fortune 500 bound to the political and economic developments on the other geographies. Therefore, the internationalized capitalists and their corporations for the expansion and reproduction of their capital accumulation started to be dependent on the other nation states apart from their own. Similarly, any nation state for its material reproduction developed a dependence on the capitalists having origins in the other nations. This forced nation states to treat international capital and their domestic allies no different than its national capital. Rather than voluntarily taking side in the conflicting relationship between the international and national capital, material conditions force nation states to take into consideration the reproduction of global capitalism, since reproduction of its own system based on this. This issue is further elaborated in the internationalization of state section. For the moment, underlying that international capital in the process of internationalization was able to find representation in the decision-making mechanisms of nation states other than their own nation states seems sufficient.

The second related development is that as capitalist classes and firms started to increase their activities all around the world, they demanded to be subjected to similar legal and economic procedures. This enforced the nation-states to make necessary domestic amendments to enable the penetration of international capital into the domestic markets. The debts given to peripheries and structural transformations are crucial in the enforcement of these policies into wider geographies. One of those is the independence of the central banks as it is mentioned above. Another example may be increasing the powers of executive bodies in the developing world. This is a crucial step as organizing the national economy in the way that it contributes to the global accumulation strategy

necessitates instant decision making procedures which is being solved with the empowerment of the executive body.

2.1.4. Determinants of an Internationalized Capital and Economy

In this part, the study tries to deduce the main determinants of an internationalized capital and economy by taking the discussion above as a base. This may enable the study to approach Iranian economy and internationalization of its capital through the criteria deducted here. As it is indicated in the introduction, one of the reasons of choosing Iran as the case of this study is that it presents an odd case in the process of internationalization. Therefore, from the beginning it should be noted down that Iran does not accommodate all the characteristics of an internationalized economy and capital as they are demonstrated below. However, certain segment of the Iranian economy and capital are internationalized and in order to show the degree of their internationalization these criteria seem crucial.

As it is seen in the previous sections, one of the dynamics of the internationalization is the spatial expansion of the capital. Therefore, in order to evaluate if a capital is internationalized or not, one of the criteria that needs to be depicted is whether the domestic capital has expanded to the other geographies or not. In other words, the internationalization of a capital may be measured by analyzing the moves from national to international market accumulation.

Another criterion to evaluate the internationalization of capital is to concentrate on the mergers of the companies. As internationalization of production turned out to be the new and the dominant reality of production, mergers between companies having origins in the other nations is started to become widespread. Therefore, concentrating on the international mergers with a special focus on the subcontracting and joint ventures is an important part of the story. Another interrelated criterion is the international investment, either through FDI or portfolio investment. As it can be concluded from the lines above

the internationalization process made companies to invest outside of their homelands. Evaluating these firms, concentrating on whether they open sub-branches or move certain segments of their production facilities to the other geographies, is crucial in putting forth if an economy or capital is internationalized or not.

Regarding the internationalized trade, there are mainly three developments that may enable us to evaluate the degree of internationalization of a capital. Firstly, internationalized trade has brought intra-firm or intra-industry trade as a common pattern in the international trading activities. In evaluating the internationalization of capital and economy in Iran, it will be seen that there is an originality regarding the importance of Dubai in this type of trade. Secondly, internationalization of trade made it necessary to harmonize trade-related policies of the different countries. Despite the changes in its trading regime it will be wrong to claim that Iranian economy is internationalized regarding this criterion; instead, as it is going to be seen in the upcoming sections, it found alternative ways to internationalize without harmonizing its trading regime. Lastly, opening of new areas for commodification, therefore for trade, is another criterion to measure the internationalization of trade within a given social formation. In this sense, the involvement of international capital into the various spheres of the Iranian economy, especially into the energy sector with buy-back contracts is analyzed in the upcoming sections.

The internationalization of finance is another determinant of the internationalization of capital. Regarding the banking activities, there is a need to harmonize the policies and regulations related with the banking sector as capitalists started to have investments in different states. Another interrelated issue in the internationalization of capital is the independence of central banks as market mechanisms are ought to be the only determinant of the exchange rate. The last issue related with the internationalization of finance is the development of the stock markets. Therefore, the degree of liberalization of the financial sector and the creation of stock markets in which shares of companies

are to be sold easily is another determinant of the internationalization of capital and economy.

Lastly, the emergence of the international capitalist classes and firms, which accumulate and reproduce capital at the international level, should be viewed as a determinant of the internationalization. It may be seen from the Iranian case that not only individual capitalists but also the para-governmental state institutions are internationalized according to this criterion.

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2.2. Internationalization of State

This part of the study analyzes the concept of the “internationalization of state”. In reality, the transformations taking place in the state form and within the state system are just different ‘moments’ of the same historical process which also led the way to the internationalization of capital. As Bryan articulates, internationalization of capital and the nation state are inseparable aspects of accumulation.¹⁰⁹ Therefore, internationalization of state cannot be scientifically captured by concentrating only on the object itself. However, this study makes a categorical distinction between these two moments in order to further elaborate on the Iran case. The detailed examination of the transformations within the international system in the previous sections is believed to guide that this separation is not beyond analytical and categorical purposes.

¹⁰⁹ Bryan, *The Chase Across the Globe*, p.11

Keeping this in mind, this part starts with a small introduction on the concept of the state itself. The following section concentrates on one of the most debated issues in the internationalization studies, which circled around the relevance of state as an actor and unit of analysis of the international relations. The next section analyzes five different scholars who studied the concept of internationalization of state. After critically evaluating the works produced by these social scientists, the study aims to fill in the blanks in their theories and develop a different perspective on the internationalized state form. The concluding part tries to reveal the determinants of the internationalized state, as these criteria are to be employed later to analyze the Iranian state.

2.2.1. State Theory

State has always been an object of scientific inquiry; therefore, there is a huge literature on the examination of the concept and its content from the Ancient Greece to the modern times. The aim of this part is not to unearth all these discussions. Beyond the shadow of a doubt, such an effort is valuable to develop an in-dept understanding of the state. However, regarding the scope of this study, it is believed that the outcome of such an effort will not go beyond the reproduction of the previous studies. Thus, this part only explains the theoretical understanding of the state embraced in this piece, as this may reveal what the concept of state implies within the scope of this study.

The general tendency in the social sciences is to refer its apparatus and cadre when the state is mentioned. Obviously, this makes sense as the institutionalized power of the state constitutes the political structures.¹¹⁰ However, majority of these studies are suffering from reductions and reification of the state as they tend to disassociate the object from the social environment that it rests in. They treat state as a social entity that

¹¹⁰ Nicos Poulantzas, *Political Power and Social Classes*, Verso, 1978, p.42

resolves problems and embodies the general will.¹¹¹ This results in an atomistic understanding of the ontological unit, as it isolates the state from the other social structures. In fact, we must locate the specific place and function of the political structures inside a social formation since “the only thing which really exists is a historically determined social formation, i.e. a social whole, in the widest sense at a given moment in its historical existence.”¹¹²

Therefore, this study embraces a conceptualization of the state not as a thing, but as a specific social relation existing within larger social structures that may take different institutional forms. In this sense, state is not a unitary or homogenous entity but an ensemble of different institutions. Quoting Jessop, “the state is no specific institutional ensemble with multiple boundaries, no institutional fixity and no pre-given formal or substantive unity.”¹¹³

On the other hand, the form of these institutions, so the state, is shaped through the forces acting in and through the state.¹¹⁴ These forces are composed of state managers, class forces, gender groups, regional interest groups and outside powers. In this regard, Jessop’s strategic relational approach to the state is embraced within this study, as it demonstrates how at the level of the state the outcomes and forms are determined through the strategic activities of specific classes and class fractions engaged in social conflict and collaboration.¹¹⁵

Within this scope, since state internalizes struggles within the broader society with its fractiousness, it is also a site of different classes’ struggle and contradictions. Under these struggles and contradictions, the task of the state is to maintain the unity and

¹¹¹ Markus Wissen and Ulrich Brand, “Approaching the Internationalization of State: An Instruction”, *Antipode*, Vol. 43, No.1, 2011, p.3

¹¹² Poulantzas, *Political Power and Social Classes*, p.15

¹¹³ Bob Jessop, *State theory: putting the Capitalist state in its place*, Pennsylvania, Pennsylvania Univeristy Press, 1990, p.267

¹¹⁴ Ibid. p.269

¹¹⁵ Ibid. p. 262-269

cohesion of the social formation.¹¹⁶ The state has a particular function of constituting the factor of cohesion between the levels of a social formation. In this sense, as Poulantzas mentions, the state is the structure in which the contradictions of these levels are condensed.¹¹⁷

This implies that state has a function of preventing the classes and society from consuming themselves, as it has a function of order in the class conflict. This cohesive factor also contains a global role as it sustains global order through the political, economic and ideological functions. In this sense, it is the social classes and groups acting in and out of the state as collective historical agents who give the state its form and functions.¹¹⁸

Regarding these, in this study, nation states are not regarded as coherent organisms that are capable of doing anything. Instead, it is the human agency acting within the states that result in the creation of certain forms and policies. As Robinson mentions, social classes and groups are the historical agents and state apparatuses are those instruments that enforce and reproduce class and social group relations and practices that result from such collective agency.¹¹⁹

2.2.2. Internationalization vs the Nation State

The discussions on the relevance and importance of the nation states in the age of internationalization are circled around three different perspectives. The first one is mainly developed by the neoliberals and some neo-Weberians claiming that with the

¹¹⁶ Poulantzas, *Classes in Contemporary Capitalism*, p.78

¹¹⁷ Poulantzas, *Political Power and Social Classes*, p.44-53

¹¹⁸ William Robinson, "Social Theory and Globalization: The rise of a transnational state", *Theory and Society*, 30, 2001, pp. 164

¹¹⁹ William I. Robinson, 'The Pitfalls of Realist Analysis of Global Capitalism: A Critique of Ellen Meiksins Wood's Empire of Capital', *Historical Materialism*, 15, 2007, p.84

internationalization the state power has diminished.¹²⁰ This is mostly the perspective of the globalization literature mentioned in the first chapter. However, some studies in the transnationalization literature may also be added into this perspective as they claim that power is shifting from nation states to global market, transnational corporations and institutions.¹²¹

The second branch of thinking underlines the persistence of the nation state. Paul Cammack for example, criticizes the theories claiming the demise of the nation state.¹²² Supporting this, Ellen Meiksins Wood argues that the political form of globalization is not a global state but a global system of multiple states.¹²³ Similarly she claims that the national organization of the capitalist economies has remained stubbornly persistent.¹²⁴ She asserts that the main character of the capitalist imperialism is the predominance of economy as a distinct form from the direct extra economic coercion. In other words, she mentions that world-wide capitalist development requires political, military and judicial coercion, which are to be applied by the nation-state.¹²⁵ Therefore, she believes that the world today is more than ever a world of nation states. Global capitalism, according to the scholar, is nationally organized and irreducibly dependent on national states. The logic behind this formulation is that the existence and reproduction of capitalism on a global scale cannot be guaranteed without the intervention of the state which must penetrate civil society and restructure its norms through laws, coercion and inducements to provide the general political and material conditions of capital accumulation. Sol Picciotto,¹²⁶ on the other hand, claims that transnational corporations, which are said to

¹²⁰ Glassman, *State Power Beyond the Territorial trap*, p.670

¹²¹ Clyde W. Barrow, *The Return of the State*, p.124

¹²² Paul Cammack, "Forget the Transnational State," *Geopolitics, History and International Relations*, 1: 2, 2009, pp. 85-98

¹²³ Ellen Meiksins Wood, *Empire of Capital*, London, Verso, 2003, p.5

¹²⁴ *Ibid.* p. 4

¹²⁵ *Ibid.* p.23

¹²⁶ Sol Picciotto, "The internationalization of State", *Review of Radical Political Economies*, 22 (1), 1990, p.28

be the dominant vector of internationalization, are supporting the national states since they are able to take the advantage of the regulatory differences and loopholes. He claims that these corporations with their ability of exploiting the national differences are against the emergence of a global state.¹²⁷

The third perspective accepts the special role of the nation states for the capitalist accumulation but underlines its transformation. The main starting point for the works within this branch is the non-coincidence between the economic (internationalized market) and political (nation state) structures.¹²⁸ In other words, these theoretical studies underline the disjuncture between a globalizing economy and a nation state based system of political authority. The state in the international era within this perspective is to be captured in concert with the restructuring of world capitalism.

This third perspective is also the one embraced in this study. However, there are different interpretations on the degree of the transformation of the nation state in the age of internationalization. For example, against the argument of Teschke and Lancher,¹²⁹ who claimed that any attempt to develop a theory of IR in capitalist period needs to start from the recognition of spatio-temporally differentiated territorial state formations and emergence of capitalism, Robinson¹³⁰ claims that the new era cannot be understood with the nation-state centric paradigms that concentrate on interactions among the nation states. The nation-state centrism, which is defined by Robinson as the belief that world capitalism is made up of national classes and national states in competition and cooperation with each other, is claimed to come to an end with the supersession of the nation states as the organizing principle of the global capitalism.¹³¹ In this context, what

¹²⁷ Ibid. p.30

¹²⁸ W. Ziemann & M. Lanzerdorfer, The State in Peripheral Societies, *Socialist Register*, 1977, p.160

¹²⁹ Benno Teschke and Hannes Lacher, "The Changing Logics of Capitalist Competition", Alexander Anievas (ed.), *Marxism and World Politics: Contesting Global Capitalism*, London, Routledge, 2010, pp.27-41

¹³⁰ William I. Robinson, *Global Capitalism and the Crisis of Humanity*, Cambridge University Press, New York, 2014, p.3

¹³¹ Ibid. p.9-10

Robinson underlines is the supersession of the material conditions that gave rise to the nation state by globalization. He mentions that nation states, which were supposed to set the local economic policies, property rights, infrastructure, social contract and ideological reproduction, are ill equipped to organize the supra-national unification of macroeconomic policies, to create a unified field for the operations of transnational capital, to impose transnational trade regimes, and so forth.¹³² However, he adds that this does not mean the end of the nation state; instead, it is the interstate system which is no longer the organizing principle of the capitalist development, or the primary institutional framework that shapes social and political dynamics. In this sense, he underlines the existence of the nation state, contrary to the globalization literature, but mentions the transformation of its nature and meaning:

“...space is not becoming irrelevant under globalization. Instead, the social configuration of space can no longer be conceived in nation-state terms but rather in processes of uneven development denoted primarily by social group rather than territorial differentiation.”¹³³

Therefore, what he suggests is to go beyond global-national dualism by developing the concept of transnational state, which is to be discussed in the upcoming chapters.

The relation between the internationalization process and the nation-state embraced in this study may be situated in this third category as it accepts the transformations taking place within the nation state; however, it departs from this perspective as it develops a different portrait of this transformation. The study also accepts the continuation of the centrality of nation states in the internationalization period. In this sense, it confirms Bryan's perspective, who claims that the national state must be central to an understanding of the internationalization of capital.¹³⁴ In the process of

¹³² William I. Robinson, “Global Capitalism Theory and the Emergence of Transnational Elites”, *Critical Sociology*, 38: 3, 2011, p.358

¹³³ Robinson, “Social Theory and Globalization”, P.159-60

¹³⁴ Bryan, *The Chase Across the Globe*, p.39

internationalization, states play a critical role in mediating the contradiction stemming between the international accumulation and national processes of class relations and state regulation. In this sense, nation states keep playing their role in securing the process of global accumulation through securing the supply of labor, protecting the money system and mediating contradictory interests of capital in accumulation. Therefore, nation states are still the principle actors of internationalization and guarantors of political and material conditions necessary for global capital accumulation. As Poulantzas mentions, the arguments that nation state is losing its power as economic power increases and concentrates in the international corporations is to fail to understand the fact that state intervenes decisively in this very concentration.¹³⁵ Thus, it is believed that within the new economic structure, nation state had a responsibility to manage the contradictory pressures of global accumulation and national legitimation. These contradictions are managed by the restructuring of the capitalist state form. As Barrow mentions, many scholars incorrectly identify this restructuring as the decline of nation state.¹³⁶

Therefore, in this study it is claimed that the nation states are not fading away but transforming through adding their responsibilities.¹³⁷ As strategic activities of specific classes and class fractions have experienced a huge transformation since the Second World War, state -as the condensed sphere of social relations- through the institutional and structural transformations has changed its form too. However, it neither ceased to be a state nor lost its national character. The international system is still an inter-national state system. However, the content of the state is transformed to handle the new modes of social relations. Thus, the nature of the relations between these actors has changed. This is to be discussed in the next section.

¹³⁵ Poulantzas, *Classes in Contemporary Capitalism*, p.80

¹³⁶ Clyde W. Barrow, "The Return of the State", p.125

¹³⁷ Leo Panitch and Sam Gindin, *Global Capitalism and American Empire*, London, Merlin Press, 2004, p.48

2.2.3. Different Trajectories on Internationalization of State

This part critically evaluates the works of five distinguished scholars who try to develop a deep understanding of the concept of internationalization of state. Through examining their main premises, this part aims to take advantage of the theoretical insights of these studies. However, by critically analyzing them, it also targets to go beyond them and develop a theoretical understanding of the internationalization of state that is consistent with the developments examined in the previous sections.

2.2.3.1. Nicos Poulantzas: Internationalization of the Western States

Nicos Poulantzas, as earlier as 1976, wrote about the recent process and labeled it as the internationalization of state in his book *Classes in Contemporary Capitalism*.¹³⁸ The phase of the internationalization process was extremely premature when the book was written; and Poulantzas did not have the chance to develop his work as he passed away three years after the book was published. However, Poulantzas' arguments are extremely well-structured as his methodology enabled him to capture the process from its beginning. Furthermore, limiting the analysis with the European states, where the earliest phases of state transformations were taking place, made his findings more accurate.

According to him, the transformations in the international system created dependent relations among social formations having relatively external relations. As a result, the global accumulation started to reproduce itself within the dominated social formations, and in a way specific to each of them. However, the main commonality in all these social formations is their attachment to the imperialist metropolises.¹³⁹ In this sense,

¹³⁸ Poulantzas, *Classes in Contemporary Capitalism*

¹³⁹ Ibid. p.43

internationalization of the state is associated with the reproduction of the international capital in the other social formations.

“This phase corresponds to modifications in the relation between the metropolises and the dominated formations. Metropolitan mode of production reproduces itself, in a specific form, within the dominated and dependent formations themselves.”¹⁴⁰

In this context, Poulantzas underlines the induction of reproduction of the capitalist mode of production in other social formations. He says that this process results in modifications in the state’s ideological forms and apparatuses.¹⁴¹ Therefore, Poulantzas concentrates on the internal transformations of the nation states. The new international forms, he says, were not added on to the national states but are the expression of the internalized transformations.¹⁴² These transformations do not only involve the economic interventions of the national state, but also the repressive and ideological aspects by which these interventions are accomplished. The internalized transformations of the nation states are aiming to take charge of the public functions that is necessary for the accumulation of international capital.

Poulantzas rejects both the suppression of nation state or replacement of it with a super-state, which is emerged out of a peaceful integration of various states. He maintains that the international reproduction of capital is supported by various states which contribute to the creation and reproduction of this process. Furthermore, he underlines that nation states have not delegated their economic functions to a supranational state apparatus; instead, it is the coordination of the different states that gave rise to the internationalization policies.¹⁴³

In this context, internationalization is viewed as a process that deeply affects the politics and institutional forms of the nation states by including them in a system of

¹⁴⁰ Ibid. p.46

¹⁴¹ Ibid.

¹⁴² Ibid. p. 82

¹⁴³ Ibid. p.81

interconnections. In this interconnection, nation states themselves started to take the charge of maintaining the interest of the dominant formation.¹⁴⁴ In this sense, Poulantzas views state as a mediator between the international capital and domestic bourgeoisie forces. Therefore, he emphasizes that the separation between the domestic and international capital is blurred. This is a consequence of the process in which the imperialist states started to take the charge of the interest of not only their domestic bourgeoisies, but also the interests of the dominant imperialist capital.¹⁴⁵

In short, for Poulantzas, internationalization of state defines the process of state transformations which target to give it the capability of performing the political, economic and ideological functions that are necessary for the reproduction of international capital. These are two important contributions of Poulantzas to the concept of internationalization of state. First, it signifies that internationalization of state is a process of internal transformations of state; and second, it emphasizes the coordination of different states for the management of the international system. Therefore, he defines the process as ‘internationalization’. Apart from these, Poulantzas’ emphasis on the integration of states into the internationalized system in a way specific to each of them seems crucial as it reveals the heterogeneities within the process. However, Poulantzas’ study was limited with the case of Europe and he has not seen the integration of the Second and the Third World to the international capitalist system after the demise of the Soviet Union. Therefore, even though he mentions the specific integration of each political organization, he did not examine the possible forms of this specificity and their potential effects on the process of internationalization. Lastly, Poulantzas’ argument that imperialist states take charge of the interest of not only their domestic bourgeoisies but also all international capital deserves attention. This view is to be developed in the later parts of this chapter. However, for the moment it should be mentioned that Poulantzas has never shown how and with which mechanisms, the nation states has become capable of representing the interest of the capitalists of different states.

¹⁴⁴ Ibid. p.74

¹⁴⁵ Ibid. p.75

2.2.3.2. Robin Murray: Alternatives to the State Functions

Robin Murray, even before Poulantzas, analyzed the transformations of the nation state triggered by the internationalization, in his famous essay written in 1971.¹⁴⁶ The starting point for Murray is the growing non-coincidence between the extending capital and jurisdiction of the domestic state, as it was mentioned in the previous sections. He targets to find out if the territorial expansion of capitalist production necessarily requires extension of state functions through the annexation of weaker nations or the formation of a supranational state. His response to this question is simply “negative” as he believes that there are other mechanisms that may perform the functions necessary for the global accumulation.

Murray defines six economic functions that are maintained by the state.¹⁴⁷ These are guaranteeing the property rights; maintaining economic liberalization through abolition of restrictions on the movement of goods, money and standardization of currency, economic law etc.; providing the conditions for economic orchestration by regulating business cycles and economic planning; providing the availability of certain inputs such as labor, land, capital, technology and economic infrastructure; intervention for the creation of social consensus; and lastly, management of the external capitalist relations.

The scholar claims that territorial expansion of the capitalist system necessitates the expansion of states’ economic functions. He asserts that capital requires the primary functions of the state for its extended operations. However, he adds that the mechanism for these should not be necessarily the state.¹⁴⁸ Therefore, he defines five possible executors of state function for the operation of the extended capital.¹⁴⁹ The first one is the nation state itself, which can perform this function directly by colonialism or the

¹⁴⁶ Robin Murray, "The Internationalization of Capital and the Nation State", *New Left Review*, 67, May-June 1971, pp.84-109.

¹⁴⁷ Ibid. p. 88-91

¹⁴⁸ Ibid. p.87

¹⁴⁹ Ibid. p. 96-99

extension of its own boundaries through annexation. The second potential executor is labeled as the foreign state structures, through which certain arrangements may perform the necessary functions. Even though, Murray himself does not mention it, this may refer to the role of the American state in the current epoch. The third potential executor for the author is the extended capital itself. The fourth one is the states of other nations. The state, in the process of protecting the interest of the internationalized section of its own capitalists, will create mechanisms which will serve for the overall interest of internationalized capital. Lastly, he mentions certain state bodies and institutions as the potential actors taking the responsibility of performing those functions. Murray concludes that the extensive territorial non-coincidence between the domestic state and the extended capitals, does not necessarily mean that the system of nation states is outdated since the gap emerged out this non-coincidence is filled by those alternatives.¹⁵⁰

Furthermore, Murray defines two types of class-state relations within the process: the capital that is primarily concerned with the performance of international state functions and the capital that needs the support of its national state for its trans-frontier operations. He mentions that both groups have a strong interest in international liberalization but the latter one firmly bound to their domestic state for expanding their activities abroad. However, in the end both capitals need the performance of the international state.¹⁵¹ The scholar concludes that this performance cannot be done solely by the national states as they are unable to control the instability emerged out of the economic internationalization.¹⁵² This task is accomplished by the development of new mechanisms that perform the international state function.

Murray's work is crucial as it is one of the first attempts to capture the relation between the internationalization and the state. One of the most important contributions of the

¹⁵⁰ Ibid. p.102

¹⁵¹ Ibid. p.105

¹⁵² Ibid. p.107

author is his detection that nation states started implement policies that protect the interest of the overall international capital, instead of securing the conditions of accumulation only for their own domestic capitalists. However, the immaturity of the process during the period that the study was conducted is reflected on the study itself. First of all, the author does not explain the mechanisms that enforce the state and give it the capability to represent the interest of the international capital. For him, the only precipitating force for this representation is the regulations that states implement for supporting their own national capitals. Secondly, instead of concentrating on the internal transformations of the state, in a way that it accommodates the international reproduction of capital, he treats the nation state as a fixed entity that is not subjected to any transformation. This is why he claims that atomistic nation state system prevails.¹⁵³ For him, state remained intact and other mechanisms developed to solve the problem of the non-coincidence between the space of capital and political rule.

2.2.3.3. Robert Cox: Internationalization of State as a Social Formation

The first well-structured study analyzing the overall process of internationalization of state is produced by Robert Cox in 1987.¹⁵⁴ In his study, Cox mentions two types of state which emerged since the end of World War II. On the one hand, there is the neoliberal form of state that was a product of the transformations taking place in the welfare nationalist state, which was used to be adapted by the highly developed productive countries. On the other hand, a neomercantilist developmentalist form of state has emerged in the late developing peripheral economies, which initiated capitalist development as a passive revolution within an authoritarian framework under the state leadership due to the lack of any established bourgeois hegemony.¹⁵⁵

¹⁵³ Ibid. p.102

¹⁵⁴ Cox, *Production, Power and World Order*

¹⁵⁵ Ibid. p. 217-218

In this sense, Cox defines the process of internationalization as configurations of these different forms of states in a way that they play the common role of adjusting their national economic policies to the dynamics of the world economy.¹⁵⁶ Therefore, it can be said that both state forms turned to be transmission belts from global to national economy.¹⁵⁷ Internationalization of state, for Cox, is a product of the emergence of a world economy from the ashes of an international economy, where state acted as a buffer between the external economic environment and the domestic economy. Instead, the state in the world economy tries to facilitate adaptation rather than protecting existing positions. It seeks to establish a stable alliance system in which national economy is adjusted to the growth of the world economy.¹⁵⁸ Cox, maintains that through this process nation state becomes part of a larger and complex political structure which is a component of the international production. He defines a combination of external pressures and realignments of internal power relations among domestic social groups as the dynamo of this state reshaping.¹⁵⁹

In this context, Cox mentions three processes in the internationalization of state: interstate consensus formation regarding the needs of the world economy, participation in this consensus formation in a hierarchically structured way, adjustment of the internal structures so that each state can best transform the global consensus into a national policy.¹⁶⁰ He also labels three linked levels which describe internationalization of state structure. On the top level, major advanced capitalist countries form a consensus through the agencies of the World Bank, IMF and other institutions of coordination. The second level comprises the links between the redistributive systems of socialist countries and the world economy. Obviously, the second level has disappeared with the demise of the

¹⁵⁶ Ibid. p.217

¹⁵⁷ Clyde W. Barrow, *The Return of the State: Globalization, State theory and the New Imperialism*, *New Political Science*, 22: 2, 2005, p.128

¹⁵⁸ Cox, *Production, Power and World Order*, p.219

¹⁵⁹ Ibid. p. 253

¹⁶⁰ Ibid. p.254

Soviet Union. At the third level, there is a stricter regime applied to the Third World states.¹⁶¹ Despite all these levels, Cox maintains that competitive pressures enforce all states in such a way to encourage the adoption of similar forms of state capitalist development.¹⁶²

One of the most important contributions of Cox to the literature of internationalization of state was his ability to associate the process with neoliberalism; and therefore, his success in demonstrating how the process of internationalization works in practice. As he believes that state transformed into a link between the world economy and national economy through internationalization, he tries to show how certain institutions and ministries come to the forefront in this period in order to establish that link. For example, he mentions the increasing importance and role of the finance ministries and treasuries as well as foreign trade and investment agencies functioning in coordination with the offices of president and prime minister.¹⁶³ These institutions take the responsibility of implementing the international policies into the national ones instantly. Furthermore, they are vital for the international coordination of the global capitalist system.

In short, Cox associates the changes in the form of the state with the transformations in the social structure of accumulation and the structure of the world order.¹⁶⁴ As he perceives transformation of state as a consequence of the internationalization of production, he views the tendency towards internationalization of state as a continuous process accommodating the potential to create counter tendencies. Therefore, Cox's approach is valuable in the sense that it demonstrates the potential sources of transformation within the process:

¹⁶¹ Ibid. p.259

¹⁶² Ibid. p.299

¹⁶³ Ibid. p.228

¹⁶⁴ Ibid. p.298

“...the further it (internationalization of state) advances, the more it provokes countertendencies sustained by the domestic social groups that have been disadvantaged or excluded in the new domestic realignments. The countertendencies could prove capable of reversing the internationalizing tendency, especially if the balance tips simultaneously in a number of key countries.”¹⁶⁵

Even though Cox's approach points to counter tendencies, it cannot show the different degrees of internationalization. For example, he claims that the internationalization of production enforces the states to adapt similar forms. Despite the correctness of the statement, he does not explain the sources of the different degrees of internationalization, which creates heterogeneities in the system. Instead, he only underlines homogeneities such as the common role of the state in adjusting their national economies to the world economy. This is mainly the product of the ontological weakness in his understanding of the state.

The same weakness is reflected in another point where Cox rightfully mentions the state's mediating role between the world economy and domestic economy. However, this has always been a function of the state under the capitalist economy. What was new in the internationalized state is the representation of the interest of the international capital inside the national state through legal and institutional mechanisms. If the definition of the state in this study is to be remembered, as a condensed sphere of social relations, the transformations in the global class practices are to be condensed in the new state structure. Rather than the mediation between the world economy and domestic economy, what is new in the internationalized state is the incorporation of the world economy into the domestic power structures. In fact, Cox himself underlines this as he defines the process as the adjustment of internal structures so that each state can best transform the global consensus into national policy. However, apart from pointing to the external pressures and realignments of internal power relations among domestic social groups, he does not explain the process in a comprehensive way.

¹⁶⁵ Ibid. p.253

2.2.3.4. William I. Robinson: Transnationalization of State

Internationalization of state, or in his own words *transnationalization*, has been the main subject of various studies produced by William Robinson.¹⁶⁶ In all of these, Robinson underlines the transformations taking place within the capitalist system. He mainly concentrates on four interrelated changes that are new in the capitalist system.¹⁶⁷ Firstly, similar to Cox, he identifies a move from the world economy to a global one, in which all states are linked through the chains of finance and circuits of capital accumulation. Secondly, he claims the emergence of transnational capitalist classes as a global ruling class. Thirdly, a transnational state apparatus has developed to organize the conditions for transnational accumulation. Lastly, there is an increase in the inequality, domination and exploitation in the global society. This part of the study concentrates on the third element, which is the rise of the transnational state.

Robinson claims that with the transnationalization of capital, there has been a shift in the role of nation states to promote the interest of global over the local accumulation processes. With the new transformations, the capitalist state has become dependent on the reproduction of global capital as its own reproduction depends on the survival of the capitalist production relations. In this sense, states have started to take the responsibility to secure the conditions that allow capital to move freely across all territories.¹⁶⁸ Robinson claims that the only functions that nation states can perform for the transnational accumulation are to set the local economic policies, provisions of property laws, infrastructural investments and ideological reproduction of the transnational capital. However, the transnational capital needs more functions, such as the supranational unification of macroeconomic policies, the creation of a unified field for transnational capital to operate, the imposition of transnational trade regimes, the

¹⁶⁶ William I. Robinson, *Global Capitalism and the Crisis of Humanity*; “Social Theory and Globalization: The rise of a transnational state”; “Global Capitalism Theory and the Emergence of Transnational Elites”; “Beyond the theory of imperialism: Global Capitalism and Transnational State”.

¹⁶⁷ Robinson, *Global Capitalism and the Crisis of Humanity*, p.2

¹⁶⁸ Ibid. p.68-71

supranational transparency and so forth. Therefore, he asserts that a Transnational State (TNS) apparatus emerged within the system of nation states to perform these functions.¹⁶⁹

In this context, Robinson defines the TNS apparatus as a loose network comprised of inter- and supranational political economic institutions together with national state apparatuses that have been penetrated and transformed by transnational forces.¹⁷⁰ As nation states secure the general conditions for accumulation at the national level, TNS secures accumulation at the global level through mechanisms, such as lifting the national restrictions on the cross-border circulation of capital, imposing new labor laws, privatizing state and public assets, freeing the trade... Therefore, TNS represents the general interest of the transnational capital. Quoting Robinson,

“TNS is a particular constellation of class forces and relations bound up with capitalist globalization and rise of a Transnational Capitalist Class, embodied in a diverse set of political institutions... State as a class relation is becoming transnationalized. The class practices of a new global ruling class are becoming condensed, to use Poulantzas’ imagery, in an emergent TNS... The rise of transnational state entails the reorganization of the state in each nation and it involves the rise of truly supranational economic and political institutions.”¹⁷¹

Therefore, for Robinson, the transnationalization forces the state managers to promote these circuits locally through providing the necessary conditions for the circulation of the transnational capital. As a result, the institutional apparatus of the nation states leaked into a transnational institutional web.

In this sense, transnationalization of state is the absorption of nation state into a larger structure of TNS, which functions as the collective authority for a global ruling class. The TNS, rather than a single entity, embodies a diverse set of political institutions that

¹⁶⁹ Robinson, “The Pitfalls of Realist Analysis of Global Capitalism”, p.82-83

¹⁷⁰ Robinson, *Global Capitalism and the Crisis of Humanity*, p.67

¹⁷¹ Robinson, *A Theory of Global Capitalism*, p. 99-100

maintain the hegemony and accumulation project of a global capitalist bloc. Therefore, for Robinson, TNS describes a web composed of transformed and externally integrated nation states together with international economic and political institutions. He defines the TNS as the process in which national states networked into larger international forums such as UN agencies, the G-20, the IMF and the World Bank. He also underlines that the nation state has not been replaced by the supranational institutions. Instead, these bodies are working together with the nation states to articulate labor relations, financial institutions and circuits of production into a system of global accumulation. In short, for Robinson with the transnationalization, the nation state has transformed into a component of a transnational state apparatus.

Robinson also emphasizes that TNS is not a global government. Instead, it signifies a global coordination imposing capitalist domination beyond the national borders. In this sense, TNS, with its decentralized institutional framework, has no systemic unity that gives it the characteristics of a global state accommodating enforcement mechanism and institutional cohesion. Robinson says that the state of the U.S. is the closest thing to a center in the TNS. Within this decentralized structure, he claims that competitive states emerge, which try to promote the most favorable conditions for the transnational capital. This results in the localization of transnational power structures in each nation state, which appear as austerities, deregulation, de-unionization etc. Therefore, transnationalization signifies internal transformation within a nation state as well.

Robinson's study is valuable in the sense that he devoted all the discussion on the transformations taking place within the international structure and the nation state. The insightful premises in his studies rightly put forth the formation of 'transnational' capital and the transformations within the international system. However, he does not explain why the internal transformations in the states cannot provide the necessary functions for international capital accumulation as he stresses excessively on the international organizations. In fact, the functions of the international organizations cannot be undertaken by the nation states; however, this does not mean that these institutions are

more than coordination and decision taking mechanisms. However, Robinson defines the TNS as a structure composed of these institutions, plus the transformed nation states. The scholar employs Poulantzas' state theory in his study but neglects the concept of the structure developed by the same philosopher. In this sense, Robinson neglects the role of the ideological and political structures.

This neglect is more apparent in the analysis of the internal transformations taking place at the structure of the nation states. For Robinson, what signifies the shift in the role of the state is its promotion of the interest of global over the local capital. Even though the premise is right, this is not a voluntary process. States do not choose in between different interests. In fact, states do not do anything. It is the human agency and the social forces acting within the states and state institutions that give shape to the policies. Therefore, Robinson's perspective cannot to explain the heterogeneities within the system, since he has not established the relation between the structure and agency correctly.

Lastly, as it is discussed in the beginning of the chapter, Robinson consciously chooses the term transnationalization (in between internationalization or globalization) since he portrays the formation of a new apparatus above the nation states. Even though he mentions the network of nation states and international institutions as the composers of TNS, it is not clear why these mechanisms are called as a state. In fact, internationalization of state defines the internal transformations of the nation state and a new mode of relationship between the nation states and the international structure. International institutions are only a reflection of this new relationship. In this sense, contrary to Robinson's claim, states have not been absorbed into a larger structure. However, the state structure has been extremely transformed that we need a new term, such as welfare, nation or international state, to define it.

2.2.3.5. Panitch and Gindin: The Informal Empire

Unlike Robinson, Leo Panitch and Sam Gindin do not concentrate mainly on the transformation of the state. Instead, they try to define the emergence of an American informal empire as the new hegemonic structure, and within this effort, they target to develop a state theory by applying to the concept of internationalization of state. They believe that understanding the informal empire necessitates to formulate how the American state has developed the capacity to incorporate its capitalist rivals and oversee and police globalization.¹⁷²

According to the scholars, after the World War II, the U.S. adapted domestically-interventionist goals. In doing that, not only the American state but also all the states at the core of the old inter-imperial rivalry are reconstructed. This process established imperial networks and institutional linkages between the U.S. and the other major capitalist states. In the previous epoch, the same pattern used to run the relations between the imperial countries and their colonies.¹⁷³ The formation of the American state and its extension through the transformation of other states created an informal empire. This informal empire embodied in the American state, as the other states come together under its aegis.

Panitch and Gindin suggest distinguishing between the expansive tendency of capitalism and its actual history, in such a way that capitalism is seen more than a derivative abstract of the economic laws.¹⁷⁴ In this sense, with the internationalization of capital, multinational firms started to penetrate the hosting social formations. However, international capital does not arrive as an abstract entity, but as a concrete transformative social force. Based on this, scholars claim that the interaction of foreign capital with the domestic capital leads to the dissolution of the national bourgeoisie as a coherent

¹⁷² Panitch and Gindin, *Global Capitalism and American Empire*, p.12

¹⁷³ Ibid. p.32

¹⁷⁴ Ibid. p.15

concentration of class interest. Within this context, the host states have become responsible for taking charge of the complex relations of the international capital and the domestic bourgeoisie.¹⁷⁵

As the role of state is critical in the imperialist expansion of capitalism, scholars suggest an extension of the theory of capitalist state. By that, they try to demonstrate the penetration of former rivals as well as other countries by one imperial state. They claim that only in this way the relation between capitalist expansion and the formation of the American Empire can be understood.¹⁷⁶ In this sense, the empire is informal as it does not underline a direct control. However, it still is an empire as it succeeded in integrating all the other capitalist powers into an effective system of coordination under its aegis. As they claim,

“...the dynamism of American capitalism and its worldwide appeal combined with the universalistic language of American liberal democratic ideology to underpin a capacity for informal empire, by spawning the modern multinational corporation, with foreign direct investment in production and services, the American informal empire was to prove much more penetrative of other social formations.”¹⁷⁷

Based on this penetration, the internationalization of state meant the involvement of all nation states into the American Empire by accepting the responsibility to create the necessary internal conditions for sustained international accumulation, such as stable prices, constraints on labor militancy, national treatment of foreign investment and no restrictions on capital outflows. In other words, internationalization of state, as a critical element of the preservation and extension of capitalism, entails nation state's acceptance of the responsibility to coordinate its management of domestic capitalism in order to contribute to the management of the international capitalist order.¹⁷⁸ In this context,

¹⁷⁵ Ibid. p.136

¹⁷⁶ Ibid. p.18

¹⁷⁷ Ibid. p.25

¹⁷⁸ Panitch and Gindin, “Theorizing American Empire”, p.21

scholars claim that internationalization is a development not external to the states, but internal to them. The nation states and national classes play an active role in creating liberal and global financial and trade regimes with the international organization.¹⁷⁹

The perspective developed by these scholars perceives internationalization of state as a process of restructuring, rather than transformation. It is a product of the effort to refashion all the states so they become at least minimally adequate for the administration of global order.¹⁸⁰ Similar to the arguments developed by Cox and Robinson, these scholars view the internationalized state as a mediator between the externally established policy priorities and the internal social forces. In this sense, with internationalization, the nation state has started to act not only on behalf of its own capitalist classes but also of the extension and reproduction of global capitalism.¹⁸¹ In a similar way, the American empire acts on behalf of the international capitalists of the other countries, apart from its own capital.

Panitch and Gindin's approach is informative in understanding the relationship between imperialism and internationalization of state. However, it should be noted that their perspective is over deterministic as they see the expansion of the informal American empire as the mere cause of the internationalization of state. In fact, the existence of USA has accelerated the process of the internationalization of state, but it is not the only facilitator. Scholars take the claim even into the extreme levels, causing their theoretical formulations to appear as a conspiracy imperialism theory. For example, they claim that the American state had learned the lessons of its post-World War I, incapacity to combine liberal internationalist rhetoric with an institutional commitment to manage an international capitalist order. This narrative gives the impression that a group of state managers are sitting on a round table and deciding the internationalization of the state. Furthermore, they claim that globalization is not simply the unfolding of capitalist

¹⁷⁹ Panitch and Gindin, *Global Capitalism and American Empire*, p.139

¹⁸⁰ Ibid. p.70

¹⁸¹ Panitch and Gindin, "Theorizing American Empire", p.42

tendencies but a historically distinct project. Labeling globalization as a project means all the internationalizations taken place are a result of a consciousness production, instead of a product of the historical developments. As it is mentioned before, states do not do anything by themselves. Instead, they reflect the social relations in which they are situated. In short, even though these scholars mentioned the contradictions within the process, they were not able to incorporate it into their studies because of their reified state theory and deterministic perspectives.

2.2.4. Internationalization of State as a Social Relation

This part tries to develop a modified understanding on the concept of the internationalization of state. The perspective embraced in this study does not totally reject the theorizations produced by the scholars mentioned above. However, both the existence of variety of different meanings attributed to the term and the weaknesses in the perspectives analyzed above encourages the efforts to clarify what it is meant by the term in this study. This also seems crucial, as putting forth the determinants of an internationalized state may enable the study to further elaborate on the case of the Iranian state.

First of all, this study accepts that the need of the internationalization of the state stemmed from the fact that “when any capital extends beyond its national boundary, the historical link binds it to its particular domestic state no longer holds.”¹⁸² In other words, the association of the international fractions of the capital with one particular state does not hold anymore. As a result, the extended capital requires performance of the primary public functions for its extended operations. Thus, the main issue is to determine how this complicated function is to be carried on. As the previous part has shown, there is a variety of different responses to this question from the formation of a TNS to the emergence of an informal empire.

¹⁸² Murray, "The Internationalization of Capital and the Nation State", p.96

However, the perspective embraced in this study, views the internationalization of state as a set of internal transformations taking place within the nation state. In this sense, it accepts Poulantzas' claim that the new international forms are the expression of the internalized transformations; and internally transformed nation states are taking the charge of the public functions that is necessary for the accumulation of the international capital.¹⁸³ Of course, the formation of international institutions and their functions are vital for the maintenance of the system. However, they do not form a state structure as they only serve for the coordination of the capitalist system. As Bryan mentions, despite the dramatic increase in the integration of the individual capitals, the society is still organized internationally through a system of nations.¹⁸⁴ Therefore, nation states are still central and defining the process. However, their structural transformation necessitates new contextual tools to understand the process. In this sense, internationalization of state points out the adaptation of necessary measures by the nation state for the internal reproduction of the international capital. In this sense, as Cox suggested, all nation states adapted the role of adjusting their national economic policies to the dynamics of the world economy.

As social forces and social reproduction internationalized, local policies have become more dependent on the external developments. In other words, with the development of the productive forces, the reproduction of the economic system in one social formation has become dependent on reproduction of other national capital as well.¹⁸⁵ Similarly, the capital, which has been dependent on the scope of its nation state for its expansive policies, has established dependence on the scope of the other nation states. This mutual interdependence resulted in the representation of the interest of the international capitalists in the state structures of several different nations through various mechanisms. In this sense, modifying Poulantzas' definition of the imperial state, the

¹⁸³ Poulantzas, *Classes in Contemporary Capitalism*, p. 82

¹⁸⁴ Bryan, *The Chase Across the Globe*, p.42

¹⁸⁵ Markus Wissen and Ulrich Brand, Approaching the Internationalization of State: An Instruction, *Antipode*, Vol. 43, No.1, 2011, p.6

international states *take charge of not only the interest of their domestic bourgeoisies but all international capital*. Therefore, it is crucial to demonstrate how the state is transformed in order to represent the international capital.

At this very point, the examination moves from abstract to concrete, since unlike the abstraction of the representation of international capital, the material transformations within the states are material and observable. There are mainly two spheres and an interrelated third sphere in which these transformations can be sustained. These are the changes related with money and law, as these are the regulative forces in the capitalist state.¹⁸⁶ Since state is an ensemble of institutions, which are the material surrogates of the abstract social relations, the third change is tracked in the institutional transformations.

First of all, the money related transformations involve establishment of stable money and currency policies to ease the international movement of the capital. As Murray pointed, these are related with the state function as a provider of the conditions for economic orchestration by regulating business cycles and economic planning. For example, the national currency should be kept low enough to decrease the cost of the labor to attract the foreign capital. Another crucial element of this transformation is the independence of the central banks. The freedom of central banks from the political decision making procedures has turned these institutions into vital for international capitalist accumulation. Moreover, the trade liberalizations for the free movement of goods and the financial markets liberalizations for easy transfer of the ownership of the surplus, contributed to this process.

The legal transformations within the state have also accelerated the liberalizations and independence of the central banks. However, changes in the legal system are mostly related with the policies of nondiscrimination against the foreign capital. This is sustained through the national treatment of foreign capital by enabling them to bid into

¹⁸⁶ Simon Clarke, *Keynesianism, Monetarism and the Crisis of the State*, Edward Elgar Publishing, 1988, p.8

the contracts. In order to sustain this, de-politicization of the economic sphere is crucial. Governments are adapting new legal codes enabling the foreign ownership of the domestic properties and production facilities. Through similar legal amendments, foreign capital got constitutional protection by different nation states. Furthermore, especially the main capitalist states standardized their legal procedures at a minimal level, which enables international capital to move easily within different social formations. Furthermore, the legal transformations target to impose a new labor law and privatization of state and public assets for new profitable investment opportunities for the international capital. Remembering the assertion of Robinson mentioned above, these policies are the localizations of international power structures.

Lastly, there is the institutional change which restructured the state in the way that it became capable of representing the interest of the international capital. As Jessop mentions, state is not a homogeneous entity but an ensemble of institutions each represent particular sections within the state apparatus.¹⁸⁷ In this sense, with internationalization, some of these institutions started to represent the interest of the international accumulation. For example, agencies like the ministries of finance and prime ministry has been pulled more tightly within the jurisdiction of international capital. This was crucial as centralization of political decision making is an essential element of internationalization since the process necessitates instant transformations.¹⁸⁸ Similarly, the needs of international capital, as Picciotto mentions, increased the subordination of nationally-oriented state agencies (ministers of industry, labor, planning) to others, which are the “key positions in the adjustment of domestic economic policy to the international” (ministries of finance and prime ministers’ offices).¹⁸⁹

¹⁸⁷ Jessop, *State theory*, p.267

¹⁸⁸ Petras and Veltmeyer, ‘Globalization Unmasked’, p. 58

¹⁸⁹ Picciotto, “The internationalization of State”, p.29

However, the transformations taken place within the nation state in the direction of internationalization are not only a product of the external pressures or the needs of international capital. It is rather a product of the structural transformations. As the production patterns are internationalized, the internal reproduction of the domestic bound upon to the external reproduction of the capital. As a result, the internationalized sections of the domestic capital or the domestic capitalist fractions started to be more dependent on the international markets. Of course, there are rival accumulation strategies trying to create adverse tendencies.¹⁹⁰ As it is indicated before, the state is a factor of cohesion between the different levels of a social formation. Thus, state takes shape in the way that it compromises the classes in a struggle within their social formation. Since internationalization is so powerful that imposes itself on every social formation, states take similar forms and functions. However, these state structures are not identical in the sense that they are shaped by the domestic political, economic and ideological structures and struggles, as well as the international ones.

In this sense, the study accepts Poulantzas' view that global accumulation started to reproduce itself within the dominated social formations in a way specific to each of them. Therefore, it claims that understanding the different degrees and forms of internationalization of the class fractions, which compete through the means of different institutions, is crucial for revealing the heterogeneities within the process. As Glassman mentions, internationalization of the state is not a teleological process with a predetermined outcome, such as increased dominance of international finance capital. Rather, it is a process linked to the tendencies of internationalization in the various circuits of capital and mediated by the vagaries of class struggles and broader social and political struggles.¹⁹¹ Therefore, with the concept of internationalization of state, this study aims to explore how the change in the global whole is manifested in particular

¹⁹⁰Murray, "The Internationalization of Capital and the Nation State", p.101

¹⁹¹ Glassman, "State Power Beyond the Territorial trap", p.687; William I Robinson, *Transnational Conflicts: Central America and Global Change*, London, Verso, 2003, p.55

countries with different degrees of internationalization and condensation of different relations within the state structure.

In short, within the scope of this study, the internationalization of state refers to a set of transformations taking place in the legal, monetary and institutional mechanisms of nation states in order to give them the capability to secure the minimalist principles of free movement of capital, international capital accumulation and the national treatment for foreign capital. Even though, these transformations are a product of the change in the pattern of global accumulation, they are steered into different directions by the class fractions with different degrees of internationalization. In this context, as Cox mentions, internationalization of the state is never complete and it has always the potential to create counter tendencies.¹⁹²

2.2.5. The Determinants of Internationalization of State

It is always risky to make categorizations in the analysis of the social reality, since it is a complex whole that cannot be separated into its pieces. Therefore, the internationalization of state cannot be defined with listing the determinants. However, the whole examination conducted in the previous two sections is believed to provide the contextual framework within which the international state arises. Keeping this in mind, this part tries to put forth the main determinants of the internationalization of state, as this may facilitate the evaluation of the internationalization of the Iranian state in the coming chapters.

As it is discussed above, internationalization of state refers to a process of internal transformations of nation states in a direction that give them the responsibility to set the internal conditions for global accumulation by developing the capability of the representing the international capital as well as their own national capital. However,

¹⁹² Cox, *Production, Power and World Order*, p.253

since the induction of the interest of the international capital into the nation state cannot be observed, the determinants of the internationalization of state concentrate more on the reflections of the development of this representation.

National treatment of the foreign capital is the most crucial reflection of this representation. As it is mentioned in the article 1102/1 of the NAFTA agreement, parties are obliged to treat the investors of other nations no less favorable than it accords to its own investors. Therefore, an internationalized state is expected to create the internal conditions that enable the international capital to penetrate the internal market easily. While liberalization of trade and finance are the first steps for this, it should go beyond these by allowing international firms to purchase properties and establish production facilities. Furthermore, an internationalized state is supposed to encourage international investment by providing stable prices, constraining labor militancy through new labor laws, privatizing state and public assets. This is necessary for creating internal conditions for sustained international accumulation.

However, this is not sufficient as there are two more functions that internationalized state performs to represent the international capital. The first one is the constitutional protection provided to the international capital. As Harvey mentioned, the international capital needs to make costly investments in distant geographies in order to sustain their economic activities abroad. Therefore, without any constitutional protection, these firms hesitate to invest in the infrastructure as any political development may damage those investments. The second function, interrelatedly, is the independence of the economic procedures from the political decision making mechanisms. This is crucial as it prevents unfair competition between the international and domestic capital by hindering any crony capitalist fraction to take advantage of its political position to get contracts in the bids.

Lastly, states in the internationalization period are expected to experience institutional transformations that may serve the aims indicated above. Most crucial step in process is guaranteeing the independence of central banks for the depoliticization of the policies

related with money and interest rate. Similarly, the strengthening and centralization of the executive mechanisms for instant implementation of international consensus into the national policy is an inseparable part of this process.

It should be noted that these are the characteristics of an ideal type internationalized state. However, due to the existence of variety of states internationalized in different degrees, all of these traits may not be observed in a social formation. In the same vein, some of these functions may be transferred to other mechanisms or omitted totally from the social formation. One of the aims of this study is to demonstrate the extent of such differentiations.

2.3. State Structure and Integration in Late Capitalisms: BRICs

Current international tensions and especially their materialization as a Great Power proxy conflict in Syria, rekindled the debates on the inter-imperial rivalry, with a certain focus on the challenges triggered by the political structures and economic policies of BRICs. Regarding the scope of the study, it is not possible to develop a deep understanding of these countries; thereof, this part merely targets to put forth the main characteristics of the state form in the late integrated capitalisms. Since BRICs are the incarnated forms of these late capitalisms, which also have integrated into the international system in a specific way to their social formations, they appear as important sources for the analysis of the state structures in late capitalisms. Moreover, Iranian state and economic structures accommodate common political and economic traits with BRICs. Therefore, in order to reveal these similarities, as well as divergences, it seems crucial to examine the case of the late capitalisms and their form of integration into the global capitalism.

With this purpose, this part concentrates firstly on the state formation in late capitalisms. With a special focus on the countries which were lately capitalized but not peripheralized, the first section aims to demonstrate the development of capitalism and

the role of the state in these social formations. It is followed by an analysis of the institutional and political structures in BRICs. The last section tries to reveal whether the BRICs pose a systemic threat to the international system or they do contribute to the reproduction of it.

2.3.1. The State in Late Capitalisms

After the Second World War, capitalism has expanded in the Western core countries and integrated these states' ruling class as a bloc. Since this capitalist fraction has become the hegemonic and dominant in the world economy, the late developing industries in the countries outside of this bloc face the reality of an already established system controlled by the core. Thereof, they faced an extreme external competition. This was a mere reflection of the contradiction between the capital's expansionist tendencies and the limitation of the state jurisdiction. In fact, this is not beyond recidivism, regarding that two Great Wars were mainly triggered by the expansionist demands of the late industrialized countries and the protectionist strategies of an already expanded bloc. Even though the systemic challenge created by these states has captured more space in the academic inquiry, the transformation of this challenge with the internationalization is highly neglected. Moreover, the impact of the external competition on the state structures of the late capitalisms requires a special attention to examine the differentiations within the internationalization process.

With the internationalization, the development of the structures in the late capitalisms is extremely influenced by the international structures, whose rules have already been set by the USA. The early expansion of the production patterns from the U.S. to Europe and unification of their structures with the internationalization of state resulted in the emergence of, what Van der Pijl labels as, the Lockean heartland.¹⁹³ Pijl views heartland as a configuration in which states internalize the transnational space. In this sense, for

¹⁹³ Kees van der Pijl, *Global Rivalries From the Cold War to Iraq*, London, Pluto Press, 2006, p.13

him heartland is composed of a number of states and a regulatory infrastructure. This heartland established the cornerstones of the capitalist arrangements and shaped the internationalist concept of its management. In consistent with the theoretical understanding of the state and international structure in this study, we preferred to label this international capitalist fraction as the “collective imperialist bloc” in another study.¹⁹⁴ This term seems more appropriate regarding that it refers both the collectivization of national states in the Atlantic and the imperialist character of it.

In this process, Pijl claims, states in the heartland are subjected to restructuring on some shared notions such as the separation of politics from economics, individual freedom under the law etc.¹⁹⁵ Obviously, concepts such as civil society, self-regulating market and internationalization have started to define these social formations. Pijl mainly attributes five characteristics to these states: the first one is the liberal constitutionalism based on the notion of individual; the second is the protection of private property for capital accumulation; third one is the inevitable globalization as stimulated by the creation of spaces for capital accumulation; forth is the principle of use of force as a means of redistributing the sphere of influence; and lastly the territoriality with its nationality.¹⁹⁶ Cox also comes up with a similar definition while he analyzes the transition of the Western states from rival imperialisms to a hegemonic world order. He also observes the emergence of a ‘neoliberal state’ which searches for stable alliances and economic development, adjusts the national economy, and mediates between world market and internal market.¹⁹⁷

Against this bloc of the international capital, there are the countries which lately industrialized but also resisted peripheralization. These are labelled with different titles

¹⁹⁴ See. A. M. Özdemir (ed.), *Kolektif Emperyalizm*.

¹⁹⁵ Kees van der Pijl, *Transnational Classes and International Relations*, London, Routledge, 2005, p. 71

¹⁹⁶ Kees van der Pijl, ‘Western hegemony and transnational capital: a dialectical’ perspective, in Alexandre Anievas (ed.) *Marxism and World Politics: Contesting Global Capitalism*, London, Routledge, 2010, pp.42-61

¹⁹⁷ Cox, *Production, Power and World Order*, p.219-228

such as Hobbesian heartland,¹⁹⁸ contender states¹⁹⁹ or neomercantilist developmentalist form of state.²⁰⁰ What demarcates the structures of these states is the existence of a more advanced state/society complexes²⁰¹ -which by their expansion has already occupied the international terrain politically, economically and ideologically. Therefore, contrary to the heartland, the catch-up efforts are influential in the adjustment of social structures in these late capitalisms. As a result, the late capitalists have built a modified apparatus of wealth creation within their separate jurisdictions. It is not wrong to claim that while in the heartland capitalism developed naturally, the awareness of their backwardness forced states in the late capitalisms to develop through planned action in shaping the human and the nature. Pijl claims that the state-society relations are different in these social formations, since the difference between a social ruling class and a governing class of state managers is suspended.²⁰² As these formations lacked the established bourgeoisie hegemony, state took the leadership under an authoritarian framework. Therefore, there emerges a concentric development, mostly based on a revolutionary ideology mobilizing its social base. In these formations, as social basis is organized above by the state, the capitalists remained dependent on the state for their survival. These are mostly the crony capitalists created through the centralized administration. Furthermore, the protection of national state is necessary for both internal and external expansion of the capital in these social formations. Thus, a foreign policy backing up the claim of sovereign equality by a powerful military is one another characteristics of these states. The domestic structures,

¹⁹⁸ Pijl, *Transnational Classes and International Relations*, p.61

¹⁹⁹ Pijl, *Global Rivalries From the Cold War to Iraq*, p.17

²⁰⁰ Cox, *Production, Power and World Order*, p.218

²⁰¹ It should be noted that the impact of the developed social formations on the developing ones has been studied with different theoretical tools. One of the most important of these works is produced by the theorists of Uneven and Combined Development. (See. Alex Callinicos and Justin Rosenberg, 'Uneven and Combined Development: The Social-Relational Substratum of the International, an Exchange of Letter' in Alexandre Anievas (ed.) *Marxism and World Politics: Contesting Global Capitalism*, London, Routledge, 2010, pp. 149-182)

²⁰² Pijl, *Global Rivalries From the Cold War to Iraq*, p.6

in this sense, are established by both the penetration of foreign economic powers and the local responses of social and political forces in the late capitalisms.

Despite the fact that the state and capitalist development have taken different forms in those societies, the heartland/contender cleavage developed by Pijl is ahistorical. He tends to view the main dynamic of the international political economy as the expansion of the Lockean heartland and the challenge created by the successive Hobbesian contender states. In other words, he views the history of the contention between the heartland/contender structures as the dynamo of the history of the international relations. For example, in *Transnational Classes and International Relations*,²⁰³ he claims that while Britain and the U.S. are the Lockean heartland, Bonapartist State of France is the contender of the 18th and 19th century. Similarly, he defines Britain welfare nationalist state as Lockean and corporate state of Axis powers as the contenders in the beginning of the 20th century. He claims that in the mid 20th century the Lockean heartland turned into USA and NATO, while Soviet Union was the contender. Lastly, in the late 20th century, with Thatcher and Reagan the hyperliberal state has become the Lockean while the neomercantilist developmentalis state in the Third World is seen as the contender. Therefore, Pijl falls into the error of tempo-centrism, labeled by Hobson as a way of thinking which perceives a regular tempo in history that beats the same rhythm with the present.²⁰⁴

2.3.2. The Economic and Political Structures in the BRICs

The social formations in BRICs corroborate the development of the structures in late capitalisms mentioned above. The BRICs capitalisms exhibit a greater role for state

²⁰³ Pijl, *Transnational Classes and International Relations*, p.86

²⁰⁴ John M., Hobson, 'What is at stake in bringing historical sociology back into international relations? Transcending chronofetishism and tempocentrism in international relations' in S. Hobden and J. M. Hobson (eds.), *Historical Sociology of International Relations*, Cambridge, Cambridge University Press, 2002, p.9

regulation and public sector. As Robinson mentions, state regulation of industrial policy, state-controlled banks, family owned business conglomerates, party-state capitalism and relative protectionism are the defining characteristics of these social formations.²⁰⁵ Contrary to the Western capitalisms, it is not the autonomous bourgeoisie but the state who guided the formation of structures in BRICs. Thereof, the structures of BRICs differ from the liberal West in the sense that: the state intervenes in the economy; national champion enterprises are favored and protected; sovereign wealth funds are created for internationalization purposes; and the finance sector is subordinated to industrial policy goals through state controlled banks.²⁰⁶

In this context, it can be claimed that the institutional structure of the capitalism in BRICs, the variety of capitalism, contradicts with the principles of the Washington consensus. The term of variety of capitalism refers mainly to national differences as capitalism is organized in a space under the jurisdiction of different political formations, even though it accepts that capitalism is a global system.²⁰⁷ This creates varieties in the degree of the market coordination in regulating the economy and the integration with the international circuits of global capitalism.²⁰⁸ While the latter point is to be examined later, the regulation of market by the state in the BRICs creates huge contradictions with the principles of Washington Consensus. For example, the BRICs have a stronger emphasis on the concept of sovereignty. Moreover, state's role in the capitalist development creates tendencies for patrimonialism and clientelism as a shortcut of the long bureaucratic procedures. However, more crucially this condition prevents not only the free competition but also the national treatment of foreign capital which is one of the criteria for the internationalization of the state. This is to be further elaborated later.

²⁰⁵ William I Robinson, "The Transnational State and the BRICS: a Global capitalism perspective", *Third World Quarterly*, 36: 1, 2015, p.17

²⁰⁶ Matthew Stephen, *Rising Powers, Global Capitalism and Liberal Global Governance: A historical materialist account of the BRICs Challenge*, *EJIR*, 2014, Vol. 20 (4), p.925

²⁰⁷ Bob Hancke (ed.), *Debating Varieties of Capitalism: A Reader*, New York, Oxford University Press 2009

²⁰⁸ Stephen, 'Rising Powers, Global Capitalism and Liberal Global Governance', p.919

A superfluous examination of the social formations of the BRICs demonstrates the accommodation of the characteristics mentioned above within these states. In both China and Russia, the capitalist fraction, labeled as the “state class”, is created by the state for the mobilization and accumulation of the capital. The economies of both states are associated with the interpersonal relationships over the economy and legal codes.²⁰⁹ In China, the economic growth is sustained through state owned enterprises. Privatizations in the mainland went hand in hand with the development of party cadres, who use their party cards to set up themselves as the new capitalists. In this context, Pijl calls Chinese state as the new contender state.²¹⁰ The Sino capitalism with its liberal and statist elements, turned into a capitalism based on clientelism and patrimonialism.²¹¹ Similarly, the markets in China, India and Russia are highly regulated too.²¹² However, the different degree in their liberalizations indicates the role of domestic class struggles in shaping the domestic structures. For example, while Brazil and India are more liberalized, in China capitalism existed in its liberal form together with the other forms. Russia, on the other hand, is de-liberalized.²¹³ Especially under Putin, the state is re-centralized by taking the control of the firms in the strategic sectors and transforming the military and security service elites into the new oligarchs.²¹⁴

The formation of these state affiliated classes in aforementioned political formations encouraged the Weberian narratives, including Pijl, to portray the bureaucracy as a class.

²⁰⁹ Ibid. p. 926

²¹⁰ Pijl, *Global Rivalries From the Cold War to Iraq*, p.297

²¹¹ Christopher A McNally, ‘The Evolution and Contemporary Manifestations of Sino-Capitalism’, in Uwe Becker (ed.) *The BRICs and Emerging Economies in Comparative Perspective: Political Economy, Liberalization and Institutional Change*, London, Routledge, 2014, pp. 53-78

²¹² Uwe Becker (ed.) *The BRICs and Emerging Economies in Comparative Perspective: Political Economy, Liberalization and Institutional Change*, London, Routledge, 2014, p.20

²¹³ Uwe Becker, ‘Institutional Change in the BRICs, Eastern Europe, South Africa and Turkey, 1998-2008’, in Uwe Becker (ed.) *The BRICs and Emerging Economies in Comparative Perspective: Political Economy, Liberalization and Institutional Change*, London, Routledge, 2014, p. 40-41

²¹⁴ Alexandra Vasileva, ‘Continuity and Change in Russian Capitalism’, in Uwe Becker (ed.) *The BRICs and Emerging Economies in Comparative Perspective: Political Economy, Liberalization and Institutional Change*, London, Routledge, 2014, pp. 100-122

It is true that the state bureaucratic elites are forming the crony capitalists in these countries. However, the class influence originated out of bureaucracy is not a product of the bureaucrats' class affiliation. Instead, the characteristic of the state bureaucracy is shaped by its instrumentalization in the process of societal reproduction.²¹⁵ Therefore, in the praxis, the function of bureaucracy depends on the state as an ensemble of formation which is constantly being shaped by various classes and fractions. The role of bureaucratic elite in these political formations is also functional to the social forces.

Regarding the second issue in the varieties of capitalism thesis, which concentrates on the different degrees of internationalizations, it should be mentioned that despite of all their peculiarities, BRICs are totally integrated into the international capitalist system. It has been widely argued that the structural context of internationalization has directed BRICs to open and internationalize their economies. Furthermore, the classes with concentrated capital, as domestic forces, were influential in the pressurizing the economy to internationalize. Integration, together with the existence of strong state classes, has resulted in the birth of terminologies such as 'integrated state capitalism'. For example, Stephen uses this label for BRICs, in order to underline the combination of an internationally integrated capitalism but substantially less liberal than that of the Western core.²¹⁶ Similarly, Robinson uses the term 'transnational state capitalism' in order to define the protected national and regional economies which integrated into transnational corporate circuits with their state corporations.²¹⁷

However, verifying the theoretical studies on the late capitalisms, the integration through the guidance of strong state affiliated classes prevents the co-option of these political formations into the liberal governance mechanisms of the West. Even though, these countries are integrated into the global economy, the interests of the crony capitalists in BRICs are not represented in the Western established international capitalist networks.

²¹⁵ W. Ziemann and M. Lanzerdorfer, "The State in Peripheral Societies", *Socialist Register*, Vol. 14., 1977, p.152

²¹⁶ Stephen, 'Rising Powers, Global Capitalism and Liberal Global Governance', p.925

²¹⁷ Robinson, *Global Capitalism and the Crisis of Humanity*, p.41

These international institutions are mostly functioning for the liberal content of the international governance. Therefore, the representation of the accumulation strategies (based on the role of state in the economy) of BRICs within these international mechanisms may contradict with these international organizations' purpose of existence. For example, despite their deep integration into world trade, BRICs' levels of trade protection are between twice and three times more than those of the established powers- a policy totally contradicting with the purpose of WTO.²¹⁸ The representation of international capital within these political formations is limited to the extent of the internationalization of their own national capitals. Whether this integration into the international capitalist system -with an opposition to the liberal governance of it- creates a systemic challenge or not is the matter of the following section.

2.3.3. BRICs: A Systemic Challenge to Internationalization?

There are different interpretations on the effects and challenges of the lately integrated capitalist countries on the process of internationalization. The views on the subject are swaying between two polls; one refusing the existence of any concrete challenge, the other is overemphasizing the degree of that challenge. As Stephen points,²¹⁹ one of the main arguments is that the rising powers have integrated into the structures of global capitalism, which made them dependent on the existing institutional frameworks; therefore, traditional sources of great powers conflict are removed. Some scholars view BRICs even as a sub-imperialist bloc contributing to the maintenance of the neoliberal internationalization.²²⁰ On the other side of the extreme, there is a stress on the extent of the state sector in these political formations and their differences with G7 counterparts as the source of cleavage with the neoliberal internationalization. Within this group, while

²¹⁸ Stephen, 'Rising Powers, Global Capitalism and Liberal Global Governance', p.926

²¹⁹ Ibid. p. 912

²²⁰ See. Patrick Bond, "BRICS and the Tendency to Sub-imperialism", *Pambazuka News*, April, 2014

some scholars claim that the failure of integration into the international capitalist structures creates heartland-contender cleavage, the others view BRICs as a collective semi-peripheral challenge to the core hegemony and the international capital. This part of the study targets to mention these different perspectives on the integration of late capitalisms narrowly and re-evaluates the issue through the lenses of internationalization of capital and state.

Regarding the first view, it is perceived that the integration of BRICs into the international production and financial structures encouraged these countries to strengthen their national and regional staging platforms for the ongoing global integration.²²¹ In this sense, it is not wrong to claim that the BRICs national economic strategy is structured around the global integration. Despite the existence of powerful state sector, as Harris argues,²²² these corporations undertook a wave of investment in the emerging market equities and investments abroad, instead of establishing protected national and regional economies through inward expansion strategies. In this process, it is claimed that the statist and private sector capitalists developed collective interests as both have been internationalized. Thereof, they assert that the existence of state sector in BRICs does not indicate a challenge for the international system.

Similarly, Robinson suggests that the capitalist state classes of the BRICs are not seeking a withdrawal from the international economic structures; instead, they try to reach greater integration into the global capitalism.²²³ For example, at the BRICs summit, countries discussed generating incentives for foreign investment, infrastructural projects, trade integration and recapitalizing the international financial institutions. In this sense, for him BRICs contribute to the stabilization of international capital by further internationalizing it. However, the scholar underlines that the only possible

²²¹ Robinson, "The Transnational State and the BRICS", p.3

²²² Jerry Harris, "Statist Globalization in China, Russia and the Gulf States", *Science and Society*, 73:1, 2009, p.13

²²³ Robinson, "The Transnational State and the BRICS", p.5

source of contention may be the demand of these countries for a more expansive and balanced global capitalism.²²⁴ As he mentions in a study,

“What appear as international struggles for global hegemony or struggles of the South against the North are better seen as struggles by emerging transnational capitalists and elites outside the original transatlantic and trilateral core to break into the rank of the global elite and develop a capacity to influence global policy formation, manage global crises, and participation in ongoing global restructuring. The BRICS’s national economic strategy is structured around global integration.”²²⁵

In this context, it is accepted that the capitalists in the newly capitalized countries need state protection for their accumulation policies which is in variance with the neoliberal spread of international capital. However, for Robinson, the discourse of nationalism coming along with the development of the crony capitalists in these formations is not beyond a strategy for seeking space in the global capitalist order.

The scholars on the other poll of the argument take the demand of BRICs for a more balanced international capitalism to the extreme and perceive it as a source of cleavage. For instance, Stephen defines the BRICs as rising powers, which pose a within system challenge to the global governance, since they challenge its most liberal content, while becoming dependent on its existing institutional structures.²²⁶ This view is mostly based on Pijl’s perception that international political economy is a process of uneven expansion of the Lockean heartland by absorbing new states and the challenges of the successive generations of the Hobbesian contender states.²²⁷ Stephen adopts this view and claims that this rising power challenge to the global economy can only be understood by concentrating on the nature of global capitalism, the nature of state-society relations within the rising powers and the role of transnational class structures.

²²⁴ Ibid.

²²⁵ Robinson, *Global Capitalism and the Crisis of Humanity*, p.38

²²⁶ Stephen, ‘Rising Powers, Global Capitalism and Liberal Global Governance’, p.914

²²⁷ Pijl, *Global Rivalries From the Cold War to Iraq*, p.84

Therefore, he claims that the new challenge should be found in the management of the global economy, since contrary to the previous periods, when economic expansion was dependent on territorial gain, the current structure is revolved around the accommodation of economic expansion within a liberal world economy.²²⁸ Within this liberal world economy, which is based on liberal commitments, multilateral openness and rule-guided collaboration, it is claimed that the kind of state-society relations characterizing rising states indicates the compatibility of their development models with the existing rules and norms of global governance.

However, the real incompatibility, for these scholars, emerges as integration into the international structures of production modifies the class basis of the state-society complexes. Despite the integration of rising powers into international structures of production, they view a strong cleavage between the liberal varieties of capitalism in the Western heartland and the forms of capitalism prevalent amongst the BRICs. The scholars in this camp claim that the varieties of capitalism developed by these countries challenge the market coordination of existing global institutions. For example, Stephen claims that the domestic structures of these countries put them at odds with the liberal policy content of Western-sponsored institutions.²²⁹ The existence of the commending role reserved for the state and quasi state entities in organizing the economies in these countries encourage them to challenge the form and content of the global governance. The establishment of G20, the demands for better representation in World Bank and IMF, the criticisms on the status of dollar as a world reserve is the reflections on these challenges on the form and content of global governance.²³⁰ Similarly, Pijl himself views BRICs as a challenge to the neoliberal concept of control developed by the hyperliberal state of Thatcher and Reagan. He claims that Brazil and South Korea are

²²⁸ Stephen, 'Rising Powers, Global Capitalism and Liberal Global Governance', p.913

²²⁹ Ibid. p.914

²³⁰ Becker, *The BRICs and Emerging Economies in Comparative Perspective*, p.9-10

challenging this system with their 'state capitalist' path.²³¹ However, he maintains that as long as the Atlantic ruling class ensures no catch-up strategy will leave key resources or industrial assets in the hands of an unreformed contender state class, the challenge may not turn into a conflict.²³²

Regarding the internationalization of capital and state thesis developed in the previous chapters, this study embraces a middle ground approach that is in between these extremes. As it is discussed, with the internationalization of capital, the Western internationalized states do not organize the economic structures in the way that it excludes the capitals of the other nationalities. In this sense, even though the incompatibility of the state sector structured economies of the BRICs with the neoliberal internationalization is a fact, the potentiality of this circumstance to create an international conflict depends on the extent of the exclusion of any accumulation strategy by the rival one. In other words, as long as Western capitalism pursues the policies of opening up new areas for international capital accumulation regardless of their nationalities, and as long as it does not force the rising powers in the way that it disciplines the Third World countries, no serious challenge by BRICs seems to exist for the international economic structures.

The existence and degree of the challenge also depends on the representation of the interest of the international capital within the state mechanisms of the lately integrated capitalism. As it is mentioned in the internationalization of state section, within the new international political structure, the state has started to represent not only the interest of its own national capital but also the capitalists of other nations. Therefore, non-existence of a systemic international economic challenge is also due to the representation of the interest of international capital by the states of BRIC. In fact, as it is indicated in the previous section, the existence of state affiliated classes prevents not only free competition but also national treatment of the foreign capital, which is one of the criteria

²³¹ Pijl, *Global Rivalries From the Cold War to Iraq*, p.87

²³² Ibid. p.14

of internationalization of the state. However, despite of the non-internationalization of the BRICs states, the interest of the Western capital is represented in these political formations since their own state capitalists are internationalized. In this context, it is not wrong to claim that this compromise is highly fragile; since in any case that the interest of BRICs capital does not comply with the internationalization, the Western international capital may not be represented in their state structures.

2.3.4. What BRICs tell us?

In this concluding part, it seems crucial to underline the main elements in the late capitalisms, as this may enable us to elaborate the similarities and differences of Iran case in the upcoming parts. First of all, it should be noted that the newly integrated states are entering into an international platform whose pillars are set by the Western capitalism; therefore, the development of structures in these political formations are shaped accordingly. In this sense, internationalization has an inevitable effect on the domestic political and economic structures.

Secondly, with their catch-up efforts, these states followed a concentric development based on the role of the state in economy through the crony capitalists. This creates a powerful domestic force which is supported and protected by the state. Therefore, there emerges a class fraction that is capable of shaping the direction of the inevitable internationalization of the domestic realm. The structures, in this sense, are established by both the penetration of foreign economic powers and the local responses of social and political forces in the late capitalisms.

Thirdly, and related with the other points, the existence of patrimonial and clientele types of relations between the economic and political structures in these countries prevents the internationalization of their states, despite their full integration into the global economy. However, the interest of the international capital is represented in the political mechanism by the domestic capital of these countries as they are also

internationalized. Therefore, the degree of internationalization of the domestic capital, the extent of state's representation of the international capital, the ability of the international powers to shape the local structures and the power of local classes to influence the state policies are all influential in the integration of these states into the international system.

The upcoming part aims to demonstrate how the Iranian capital and economy is similarly shaped around the whip of internationalization. In this sense, it is to be seen that while Iranian economy is internationalizing in the same way as BRICs do, the hegemonic bloc composed mostly by the para-governmental organizations directs the political structure into different channels, as their degree of internationalization and their ideological function for the regime varies.

CHAPTER 3

INTERNATIONALIZATION OF IRANIAN ECONOMY THROUGH ALTERNATIVE MECHANISMS

This part of the study concentrates on the different moments of the internationalization of Iranian capital and economy. By focusing on several issues related with the subject matter, the chapter analyzes the form of the internationalization of the Iranian capital since 1990s. The first section of the chapter explains why the scope of the study is especially constrained with the post-1990s period, by focusing on the formation of the new class relations with President Rafsanjani's reconstruction policies and the first Five Year Development Plan (FYDP). The second one demonstrates the internationalization of Iranian trade regime through the alternative mechanisms developed by the Free Trade Zones and 'quasi-legal' trade networks. The third section examines the internationalization of the biggest dynamo of the Iranian economy, the oil industry, with a specific focus on the foreign investment, trade, oil stabilization fund and sovereign wealth funds. The last section analyzes the international economic sanctions imposed on Iran and their impact on the internationalization of the Iranian economy.

The evaluation of all these four subjects is to be based on the findings of the first chapter. Each moment of internationalization and issues related are to be examined according to their roles in the internationalization of the Iranian economy. Apart from that, the common tendencies in the internationalization of these different spheres of Iranian economy are targeted to be put forth. This seems crucial in order to demonstrate the originalities of integration of Iran into the international capitalist system. As it is shown in the following sections and will be discussed in the concluding part, what is peculiar to the process of Iran's integration is the emergence of quasi-legal, or

alternative mechanism in each different moment of integration. These mechanisms were employed either to circumvent the domestic obstacles or bypass the international pressure of liberalizations. The existence of these mechanisms is not only vital for the internationalization of Iranian economy, but also for the scientific inquiry since they prove that there is not one singular form of integration into the international economy.

3.1. Integration with a New Class Formation: Reconstruction and First FYDP

This part is constructed around the discussion of three main arguments. The first argument refutes the common belief that Khomeini was the source of the political stability and with his death elite cleavages re-emerged. Instead, the first section views 1980s in Iran as the period of class cleavages and elimination of the alternative political projects. On the other hand, within the scope of this study the post-Khomeini period is perceived as the consolidation of the post-revolutionary class formations; therefore, the first section briefly explains the changes in the political and economic structures of Iran between 1980 and 1990. The main aim with this effort is to put forth the motivations of starting the analysis of the internationalization of Iranian economy from 1990s. The second argument is that this consolidated capitalist classes targeted to integrate the Iranian economy into the international capitalism in 1990s. In the second section, Rafsanjani's reconstruction effort is approached within this understanding. The third argument is that the first FYDP is the physical appearance of the efforts of integrating Iran into the international economy with its new class dynamics. Therefore, the third section critically evaluates the objectives and consequences of the first FYDP.

3.1.1. War and Class Struggle in the 1980s

There are mainly two dynamics shaping the social structures in the early years of the Islamic Republic of Iran. First, the eight-years war with Iraq resulted in, what Hunter

calls,²³³ the lost decade in terms of the formation and development of economic structures. Iraq's invasion of Iran in September 22, 1980, has deeply affected the country's political formations and economic infra-structure which had already been destroyed with the revolution. During this period, all the economic, human and infrastructural sources were used to finance the war. In this sense, the Iranian economy in the 1980s can be characterized as a managed war economy rather than a centrally-planned command economy.²³⁴ Moreover, the economy is established in an embedded way, not only in the war conditions but also in the revolutionary values. The war administration try to sweep the pre-revolutionary-affiliated classes away, abolish the revolutionary fractions and pave the way to the rise of the new revolutionary economic elites.²³⁵ This is the second dynamic shaping the political and economic structures during 1980s.

As indicated above, it is a general tendency to believe that after the death of Khomeini the class cleavages emerged in Iran.²³⁶ In fact, especially after the revolution there was no consensus on an appropriate economic plan. Instead, there were profound differences in the new accumulation projects between various groups in and out of bazaar, and radical reformers in and out of the religious circles.²³⁷ To limit the number of irreconcilable trajectories on the political and economic structures, all the communist alternatives were eliminated during the 1980s.²³⁸ This resulted in the disappearance of the leftist interpretations of the 1979 revolution. Moreover, there were cleavages

²³³ Shireen T. Hunter, *Iran after Khomeini*, New York, Praeger, 1992, p. 72

²³⁴ Massoud Karshenas and M. Hashem Pesaran, "Economic Reform and The Reconstruction of the Iranian Economy", *Middle East Journal*, Vol. 49, No. 1, Winter 1995, p. 97

²³⁵ Mohammad Majloo, "Three placement modes of the Economy in Post-revolutionary Iranian Society", in E. Hooglund and L. Stenberg (eds.), *Navigating contemporary Iran: challenging economic, social and political perceptions*, London, Routledge, 2011

²³⁶ See, Eva Patricia Rakel, *Power, Islam and Political Elite in Iran: A Study on the Iranian Political Elite from Khomeini to Ahmadinejad*, Leiden, Brill, 2009, p. XXIV

²³⁷ J. Amuzegar, *Iran's Economy under the Islamic Republic*, I. B. Tauris, London, 1993, p.310

²³⁸ See. Engin Sune and Göksu Uğurlu, 'İran Devrimi'nde "Çarşı" ve Hegemonyanın Yeniden İnşasında Dinin Rolü Üzerine', *Praksis*, Issue 41, 2016

between the liberals and Islamists. For example, Mehdi Bazargan, the first Prime Minister of the Islamic Republic, was in favor of the continuation of Shah's economic policies, including good relations with the West. On the other hand, the first President of the Islamic Republic, Abolhassan Banisadr, was criticizing the concentration of power and decision making in the hands of the Supreme Leader.²³⁹ Both liberal figures were eliminated from the political scene as Bazargan had no option but to resign after the hostage crisis and Banisadr was forced to abdicate after his critical statements. Their exclusion from the political system signifies the elimination of the liberal interpretations of the revolution too.

In short, discussions on the content of the Islamic Republic during the first half of the 1980s were mostly shaped by the war and elimination of the different interpretations of the revolution. In the second half of the decade, only the Islamist interpretations of the revolution succeed in surviving. Their ideology was embodied under the Islamic Republican Party (IRP). Therefore, the essentials and building blocks of the Islamic Republic were settled in the late 1980s. However, there was no consensus on the course of the new state even in between the IRP members. This was mostly because, as Chehabi mentions,²⁴⁰ Islamic jurisprudence (fiqh) does not address the issues that fall into the realm of public policy, since it concentrates mostly on the private law. Therefore, on the majority of the rules and regulations, there was a vacuum for several interpretations. This, in the end, created disagreements among the Islamists. As Rakel mentions, the different interpretations of Islam among the Iranian political elites have prevented the development of a coherent ideology on which the Islamic Republic could be based.²⁴¹ As a result, the IRP was dissolved in 1987. Therefore, what is mistakenly being labeled as a class cleavage after the death of Khomeini is just a split in between the conservative power centers. The scope of this split is too narrow since the alternative interpretations

²³⁹ Rakel, *Power, Islam and Political Elite in Iran*, p.50

²⁴⁰ Houchang, E. Chehabi, "The Political Regime of the Islamic Republic of Iran in Comparative Perspective", *Government and Opposition*, 36, 1, 2001, p.56

²⁴¹ Rakel, *Power, Islam and Political Elite in Iran*, p.4

of the revolution have already been eliminated from the political scene. What characterizes the entire new political fractions in Iran is the reality that they all are the remnants of the IRP. These political forces set the basis of the structures in modern Iran with the end of the Iran-Iraq war. The remnants from IRP were labeled as the traditional conservatives and pragmatists, and both favored private property and free market.²⁴² Since 2005, a new group emerged out of this group, the so-called neo-radicals, who also have no problem with private property but maintains more state interventionist interpretation of Islamic economy.

The 1990s in Iran was spotting not only the end of the war with Iraq and elimination of the leftist and liberal interpretations of the Islamic economy, but also the emergence of a new hegemonic bloc. As Rakel mentions, the cease-fire on August 20, 1988 and the dissolution of IRP created new discussions on how to reconstruct the national economy and those areas of the country that has been affected by the war.²⁴³ In other words, it is only after 1988 that Iranian class fractions have started to establish the structure of the Iranian economy. During this time, the fundamental changes in the composition of the class structures in Iran were completed with the replacement of secular oriented dominant classes with clergies, bazaaris and religious laypersons. In this period, a group around Hashemi Rafsanjani, who has always been considered in the same camp with the Conservative faction until the mid 1980s, formed their own faction called as the Servant of Construction, *Kargozaran-e Sazandegi*.²⁴⁴ The election of Rafsanjani and appointment of Khamenei as the new leader created a phase in which the basis of the political and economic structures in the modern Iran were set. The next sub-section tries to explain the formation of these new structures under Rafsanjani and consolidation of the classes. It shows how this process resulted in the policies targeting to re-integrate Iran into the international economy, such as market based rapid economic reform and non-isolationist foreign policy.

²⁴² Bayram Sinkaya, *The Revolutionary Guards in Iranian Politics*, London, Routledge, 2016, p. 136

²⁴³ Rakel, *Power, Islam and Political Elite in Iran*, p.53

²⁴⁴ Ibid. p. 51

3.1.2. Rafsanjani and Formation of the New Hegemonic Classes

Akbar Hashemi Rafsanjani was one of the most important figures of the Islamic Revolution. He was awarded favorably in the post-revolutionary structures as he served as the speaker of parliament and Khomeini's right hand in the 1980s, President of the Islamic Republic from 1989 to 1997, later as the Chairman of the Expediency Discernment Council, that resolves legislative issues between the Majlis and the Council of Guardians, and as the Chairman of the Assembly of Experts since 2007. These years also have turned Rafsanjani's clan into commercial pashas.²⁴⁵ According to Klebnikov, one brother of Rafsanjani headed the country's largest copper mine; another took the control of the state-owned TV network; a brother-in-law became governor of Kerman province, while a cousin runs an outfit that dominates Iran's -400 million dollar pistachio export business; a nephew and one of Rafsanjani's sons took key positions in the Ministry of Oil; another son heads Tehran Metro construction project. He adds that operating through various foundations and front companies, the family is also believed to control one of Iran's biggest oil engineering companies, a plant assembling Daewoo automobiles, and Iran's best private airline.²⁴⁶

Even though it is not important whether Rafsanjani himself is a capitalist or not, his election to the presidency in 1989 points to the reconstruction of the capitalist mode of relations in Iran. His wealth is a mere consequence of this reconstruction and re-integration into the global circuits of capital with the new class structures. This was the turning point, when the revolutionary discourse on the masses is abandoned and the new structures in the country are established on the capitalistic lines. As it is mentioned by Ehteshami,²⁴⁷ Rafsanjani renounced the populist discourses of the post-revolutionary period and opted tighter integration into the world capitalist system. He aimed to

²⁴⁵ Paul Klebnikov, 'Millionaire Mullahs', *Forbes*, 07.21.2003, <http://www.forbes.com/global/2003/0721/024.html>, accessed December 13, 2016

²⁴⁶ Ibid.

²⁴⁷ Anoushiravan Ehteshami, *After Khomeini: The Iranian Second Republic*, London, Routledge, 1995, p.101

reconstruct the revolution and war-torn economy with greater private domestic and foreign participation. Speaking at the Friday prayers on September 1989, Rafsanjani said that

“...as the enemy cannot resume the war and we are a peaceful nation, the chance of a return to a war situation is very slight. That’s why we must concentrate all out efforts on reconstruction and solving an economic situation which is difficult and intolerable.”²⁴⁸

This was the milestone which set the modern structures of Iran in the way that it complies with the international capitalism. This is why Ehteshami says that if there has ever been an Islamic model of development in revolutionary Iran, it was shelved after 1989, since Rafsanjani preferred to pursue economic restructuring policies in consistent with those of the capitalist Western and Third World countries.²⁴⁹

Obviously, Rafsanjani was not initiating all these policies by himself. There was a political coalition, composed of the new crony capitalists, old state classes, the technocracy and bureaucracy of the monarchy, which transformed the redistributive state of 1980s into a neo-liberal state capitalism by integrating various revolutionary institutions into the state bureaucracy.²⁵⁰ This class fraction, labeled as Pragmatists, was able to find representation within the Iranian state under the presidency of Rafsanjani (1989-97) and the guidance of technocrats.²⁵¹ This fraction, with the slogans of economic structural adjustment (*Ta’dil Eghtesadi*) and development (*Towse’eh*), has taken the economic development, the end isolation and political reform into the center of their agendas.

²⁴⁸ Safa Haeri, Rafsanjani and Iran’s Economy, *Middle East International*, no. 360, October 1989, pp.13-15

²⁴⁹ Ehteshami, *After Khomeini*, p.100

²⁵⁰ Kaveh Ehsani, ‘Survival Through Dispossession, Privatization of Public Goods in the Islamic Republic’, *MERIP*, <http://www.merip.org/mer/mer250/survival-through-dispossession>, accessed, December 13, 2016

²⁵¹ Kevan Harris, ‘Vectors of Iranian Capitalism: Privatization Politics in the Islamic Republic’, in S. Hertog, G. Luciani and M. Valeri (eds.) *Business Politics in the Middle East*, London, Hurst and Company, 2013, p. 219

The change in the revolutionary rhetoric and economic prospects necessitated a new social contract with the populace. The grounds of this contract were set by the Ayatollah Ali Khamenei- Rafsanjani alliance, which reflected itself with the new institutional configurations and constitutional amendments.²⁵² These changes in the legal and institutional structures directed some scholars to divide the analysis of the Islamic Republic into two periods: The First Constitutional Order (1979-89) and the Second Constitutional Order (1989-).²⁵³ The first constitution was drafted by the Assembly of Experts for the Constitution and was popularly approved following the revolution. In 1989, a new body called Assembly for Reappraisal of the Constitution, whose all members were appointed by Khomeini, was formed to revise the constitution.

According to the new constitution, one of the changes is the elimination of the position of the Prime Minister and his executive functions. Instead, the office of Presidency was equipped with the collective powers to control Planning and Budget Organization, appoint the head of the Central Bank and the chair of the National Security Council. The Presidency, headed by Rafsanjani, has become the new institution in charge of the ministers. As it is said in the first part of the study, the empowerment of the executive body through the concentration of power in one institution has been a crucial step in organizing the national economy in the way that it contributes to the global accumulation regime as it ensures instant decision making procedures, which facilitates implementation of international consensus as a national policy. Another solution to the difficulties in the decision-making structures in Iran, which were mostly produced by the existence of multiple veto powers and checks and balances, was to establish the Expediency Council as a mediator between the parliament (*Majles*), the body that takes the decisions, and the Council of Guardians, the main veto power. The institution was designed to mediate the disagreements between these two bodies, which in return

²⁵² Mehran Kamrava and Houchang Hassan-Yari, "Suspended Equilibrium in Iran's Political System", *The Muslim World*, Vol. 94, October 2004, p.500

²⁵³ See. Payam Mohseni, *Guardian politics in Iran: A comparative inquiry into the dynamics of regime survival* A Dissertation submitted to the Faculty of the Graduate School of Arts and Sciences of Georgetown University, Unpublished PhD Dissertation, 2012

targeted to facilitate the implementation of new policies. After Rafsanjani served as the president, he became the head of the Expediency Council in 1997.

Furthermore, during the 1980s, Khomeini himself was the main decision maker in terms of foreign policy issues. However, since 1989, the role and power of the president in the formulation of foreign policy has also been increased. Rafsanjani and his office have become the main foreign policy makers in accordance with the Supreme Leader.²⁵⁴ As the office of Presidency gained more decision-making power, Rafsanjani comfortably concentrated on the economic development and post-war reconstruction through the policies of liberalization and internationalization. The rise of the new capitalist fractions, representation of their interests by the Rafsanjani government and their policies towards integrating Iran into the international capitalist system with its new class dynamics, came into existence with the formation of the first FYDP. As it is mentioned by Ehteshami,²⁵⁵ the emergence of a united leadership around the Rafsanjani-Khamenei axis, allowed the exploration and implementation of a radical economic strategy by the new government which replaced the spasmodic economic liberalisms of the last decade with a policy of economic liberalization, privatization and deregulation. The strategy was also to include private and public bilateral and multilateral foreign participation, which is to be discussed in the next section.

3.1.3. The First FYDP and Internationalization of Iranian Economy

In fact, the first post-revolutionary plan of Iran was formulated in 1983. The aim of the plan was to expand education, secure economic independence, provide social security and eliminate unemployment; however, beyond these general objectives it did not

²⁵⁴ Rakel, Power, Islam and Political Elite in Iran, p. 150

²⁵⁵ Ehteshami, *After Khomeini*, p.104

indicate how the government was to achieve these goals.²⁵⁶ Therefore, rather than an economic plan, it was more like a political manifesto. Rafsanjani's first Five Year Development Plan (*Siyasatha-ye Ta'dil-e Iqtisadi*) was also a kind of a manifesto for the reconstruction of the Iranian Economy.²⁵⁷ The Plan was negotiated for years and, in the end, it was agreed on 1989. Since it was the end of Iran-Iraq war, the plan concentrated on the reconstruction of war-ravaged areas and economy through structural adjustment policies.²⁵⁸

The strategy of the plan was to liberalize economy through privatizations, exchange unifications, currency devaluations and elimination of subsidies. As Pesaran mentions, Rafsanjani administration argued that foreign capital is necessary for the structural adjustment policies, and gradually opened Iranian economy to the outside world.²⁵⁹ The targets of the plan were identified as: fostering economic growth, controlling population, managing the budget and inflation, adopting import substitution and export promotion policies, optimizing resource exploitation and completing the existing projects.²⁶⁰

The strategy developed over the plan was to render economic decision making gradually more responsive to the international market forces and domestic economic conditions. Analyzing the elements of the economic reforms demonstrates that all the policies were targeting to integrate Iranian economy into global capitalism:²⁶¹ 1) Privatization of industry, mines and other industrial and non-industrial productive activities; 2) Deregulation of economic activity and of banking and financial services; 3) Activation,

²⁵⁶ Hunter, *Iran after Khomeini*, p.65

²⁵⁷ Karshenas and Pesaran, "Economic Reform and The Reconstruction of the Iranian Economy", p. 89

²⁵⁸ Hooshang Amirahmadi, 'Iran's Development: An Evaluation and Challenges', *Third World Quarterly*, Vol. 17, No.1, 1996, p.123

²⁵⁹ Evaleila Pesaran, 'Ideals, Interests, and Economic Liberalization in the Islamic Republic of Iran', in E. Hooglund and L. Stenberg (eds.), *Navigating Contemporary Iran - Challenging Economic, Social and Political Perceptions*, London, Routledge, 2012, p. 19

²⁶⁰ Hooshang Amirahmadi, *Revolution and the Economic Transition: The Iranian Experience*, State University of New York Press, 1990, p. 123-124

²⁶¹ Ehteshami, *After Khomeini*, p.104

expansion and modernization of the Tehran stock exchange; 4) Encouragement of inward direct foreign investment; 5) Foreign borrowing; 6) Establishment of Free Trade Zones; 7) Devaluation of Riyal; 8) Gradual reduction of subsidies; 9) Liberalization of trade and returning it to the private sector; 10) Freeing prices; 11) Return of the exiled capital expertise.

Apart from these elements, the first FYDP is examined below critically by concentrating on its contribution to the internationalization of trade, international investment and merger of domestic firms with international ones, international finance, formation of international classes and integration into the international institutions. In other words, the upcoming lines evaluate FYDP according to the theoretical analysis of the internationalization of capital developed within this study.

3.1.3.1. FYDP and Internationalization of Trade

In the end of 1980s, the Iranian economy, which was devastated by the war and an earthquake, was in need of large volumes of material.²⁶² Therefore, one of the priorities of the plan was to provide these materials through the liberalization of the foreign trade. The import substitution policies were tried to be changed with the export promotion ones. The industries were dictated to be self-sufficient; therefore, the plan targeted to lift the controls on the imports in order to increase the volume of production. Rafsanjani tried to improve economy's international competitiveness and ease foreign trade with the private sector. Therefore, through lifting the trade controls, the plan has targeted to develop domestic competition and provide the raw materials necessary for the expansion of Iranian manufacturing and industrial productive capabilities. With the plan, the

²⁶² Hunter, *Iran after Khomeini*, p.76

imports of goods and services rose from 13.5 billion dollars in 1989/90 to around 25 billion dollars in 1991/2.²⁶³

Rafsanjani has tried to end Iran's international isolation by establishing trade relations with Soviet Union, China, Saudi Arabia and the UAE.²⁶⁴ In 1989, Rafsanjani went to Baku to sign an economic and trade agreement with the Soviet Union on the export of natural gas from Iran to Soviet Union for 10 years.²⁶⁵ After the dissolution of the communist bloc, Iran has tried to find new profitable areas by establishing good relations with the Eurasian countries.²⁶⁶ Moreover, the President initiated critical dialogue with the EU in 1992. New agreements for the cooperation in the economic field were reached with Australia, Bahrain, Belgium, Canada, France, Germany, Great Britain, Italy, India, Japan, Libya, Malaysia, The Netherlands, New Zealand, Romania, South Korea and Sweden.²⁶⁷

Furthermore, according to Article 19 of the Plan, three Free Trade Zones, Kish, Qeshm and Chahbahar, were established at the Persian Gulf. Rafsanjani himself labeled these zones as the bridges between the domestic and foreign industries.²⁶⁸ Even though these are to be examined in the next section, at this point it is useful to mention that these zones were designed to attract Iranian and foreign investment both on the industrial and non-industrial activities. As the first experiment with control-free offshore economic activities, the zones offered tax exemptions, customs duties holidays for 20 years, subsidies towards residents' utility bills, and expenses for transport and other public facilities.²⁶⁹ Lastly, a new export promotion bank was established in 1991 to provide facilities for foreign buyers of Iran's commodities and to use the expertise of

²⁶³ Karshenas and Pesaran, "Economic Reform and The Reconstruction of the Iranian Economy", p. 90

²⁶⁴ Klebnikov, 'Millionaire Mullahs'

²⁶⁵ Rakel, *Power, Islam and Political Elite in Iran*, p. 160

²⁶⁶ Ibid, p 169

²⁶⁷ Ibid. p.84

²⁶⁸ Ehteshami, *After Khomeini*, p. 111

²⁶⁹ Ibid.

international banking consultants to advise Iranian exports on ways of improving their products. In short, the internationalization of Iran's trade with the outside world is tried to be sustained with the first FYDP.

3.1.3.2. FYDP and International Investment and Merger

Apart from international trade, the economy's international competitiveness was tried to be sustained through attracting foreign investment into the economy. In fact, the article 81 of the constitution forbids any "concessions to foreigners or the formation of foreign companies" in Iranian economy. Despite of this, the government was determined to change Iran's foreign investment law and attitude towards foreign capital. This policy was legitimized with the claims that the shortages of domestic capital and the absence of essential technology have created a need for foreign capital, as stated by Sayed Khamoushi in 1991, who has served as the president of the Iran Chamber of Commerce, Industries and Mines.²⁷⁰ Furthermore, policy makers developed new arguments that the law does not limit foreign investment. Instead, they claimed that the limits are set by the Supreme Council, not by the parliament or the constitution.

As a result, according to the foreign investment law adopted by the plan, restrictions in investment in the key sectors were lifted and government protection was guaranteed to the firms, which registered to the foreign investment office at the Ministry of Economics and Finance. However, the foreign companies, apart from those which established their businesses in the Free Trade Zones, were obliged to hand over 51 per cent of the holding to an Iranian partner.²⁷¹ The plan targeted to raise 27 billion dollars in foreign finance and investment, including \$3 billion of foreign investment in the heavy industries during the plan period.²⁷² For this target, Rafsanjani has tried to establish good relations with

²⁷⁰ Ibid.

²⁷¹ Ibid.

²⁷² Ibid. p. 110

neighbors, especially with the Arab countries. In November 1991, he suggested a joint regional market for economic and technical cooperation between GCC countries and Iran.²⁷³ On the agriculture, cooperation was established with Japanese International Cooperation Agency.²⁷⁴ Iranian diaspora was invited to take part in the privatization of public enterprises.²⁷⁵

Another interrelated issue is the merging of Iranian companies with the international ones. There was an obvious encouragement within this direction. The Heavy Industries Minister supported Iranian capital to involve in the international tenders. The Iranian capital was also encouraged to participate in joint ventures with the foreign firms engaged in projects under the Five-Year Development Plan.²⁷⁶ As a result, Japanese firms have participated in the projects of steel production and cooperation has started between the French, Italian and British companies over the automotive industries. For example, Peugeot reached a 10-year agreement to produce cars, buses, minibuses, and vans. Negotiations were being held with Renault and Italy's Fiat. Brazil and Finland has become partners in the cement, sugar and paper industries.²⁷⁷

3.1.3.3. FYDP and International Finance

There are two policies in Rafsanjani's reconstruction and FYDP that have contributed to the internationalization of capital: the formation of the stock exchange and the monetary reform. As it is discussed in the first chapter, both were the elements of internationalization of finance.

²⁷³ Rakel, *Power, Islam and Political Elite in Iran*, p. 165

²⁷⁴ Hunter, *Iran after Khomeini*, p.91

²⁷⁵ Harris, 'Vectors of Iranian Capitalism', p.220

²⁷⁶ Ehteshami, *After Khomeini*, p. 110

²⁷⁷ Hunter, *Iran after Khomeini*, p.90

Post-revolutionary Iran has not accommodated a stock market, where the shares of the companies are sold freely. The Rafsanjani administration reinvigorated Tehran Stock Exchange for the first time after the revolution. This was one of the main components of the liberalization strategy since it aims to increase the investment capital that is necessary for the reconstruction efforts. As a result, companies were allowed to register the stock exchange under a directive in 1988.²⁷⁸

Monetary reform was an inseparable part of the integration into the global capitalism. In a similar vein, as Ehteshami mentions, with the reforms in exchange rates and money policies, the aim of the Rafsanjani government was to improve Iran's international competitiveness.²⁷⁹ In Iran, there was a multi-tiered exchange rate system. In other words, there were two different values for the foreign exchange rates: the official (also known as the floating rate) used in bank transactions and the free market rate, used for the transactions outside the banking system. During 1980s, the official exchange rate was overvalued. At the same time, government affiliated firms, which were enjoying favorable foreign exchange rates, tended to sell the raw materials that they had imported at the lower official exchange rate in the free market. By this way, government subsidies to production and services provided at a rate lower than the market rate.²⁸⁰ Multi-tiered exchange system has created huge disequilibrium in the foreign market and resulted in price distortions during this period, as the difference between controlled official exchange rate and the black-market rate has been increasing. As it has been discussed in the first chapter, the monetary integration, which has been associated with the volatility of international monetary system, is the most distinctive characteristics of the internationalization of capital. Therefore, the creation of a single exchange rate was later added to the plan for further internationalization of the Iranian Economy.²⁸¹

²⁷⁸ Ehteshami, *After Khomeini*, p. 105

²⁷⁹ Ibid. p. 108

²⁸⁰ Amirahmadi, 'Iran's Development', p. 135

²⁸¹ Ibid. p. 126

3.1.3.4. FYDP and Formation of International Capital and Classes

Two strategies embraced by the Rafsanjani government have contributed to the internationalization of Iranian capital and formation of international classes. The first one was the re-introduction of the remnants of the capital of the pre-revolutionary regime. After the Islamic Revolution, the capital associated with Shah and his affiliates were appropriated and channeled to the Islamic institutions. Fear of appropriation resulted in the flow of Iranian capital out of the country during the revolution. Therefore, Rafsanjani's first strategy was based on encouraging return of this capital to the country. As Ehteshami points out, the first post-Khomeini government has envisaged the return of former comprador bourgeoisie and its technocratic facilitators.²⁸² Furthermore, the state guaranteed return of their appropriated assets when they undertake to invest in the economic reconstruction. This was indicating the Islamic Republic's compromise with the capitalistic elements of the Shah's state.

The second strategy was based on circulation of the accumulated capital, which was in the hands of state, through privatizations. Even though these had a slight impact on the internationalization of Iranian capital during Rafsanjani's presidency, in the long-run their effect was enormous. In late 1989, Rafsanjani called the private investors to invest in the development programs and he mentioned his readiness to privatize state owned companies.²⁸³ As a result, a wave of privatization has started in 1991-92. For example, in May 1991, National Iranian Industries Organizations announced the privatization of an amount of its shares. Moreover, a number of large industrial projects initiated by the public sector were announced to be handed over the private sector upon completion.²⁸⁴ Rafsanjani, similar to Shah's state structure, created a bureaucratic apparatus based on technocracy for these privatization policies.

²⁸² Ehteshami, *After Khomeini*, p.114

²⁸³ Haeri, 'Rafsanjani and Iran's Economy', p.14

²⁸⁴ Ehteshami, *After Khomeini*, p.107

The sale of the state-owned enterprises, however, occurred through direct negotiations with the interested buyers, instead of public auctions. Therefore, they were mostly dominated by the semi-public enterprises. The procurement departments in the ministries started to function as companies as they were selling materials acquired with the ministries' funds back to the ministries for profit.²⁸⁵ As a result, those who controlled the process started to make huge profits. This contributed to the concentration of capital and emergence of new capitalist classes in Iran. As Kevan Harris mentions, this process created a new "aghazadeh"-sons of elite.²⁸⁶ As this created a huge wave of corruption, the parliament banned privatizations through negotiated transfers in 1994. According to the new law, transaction houses were established for selling the state-owned companies and para-governmental institutions were encouraged to involve into the process. As it will be discussed in detailed in the upcoming sections, this process resulted in the internationalization of the Iranian capital in the long-run as the para-governmental organizations have emerged as the biggest monopolies within the process. Harris describes this as a pseudo-privatization and maintains that between 1989 and 1994, 331 companies were fully or partially privatized and half of the shares went to these para-governmental organizations.²⁸⁷ The Martyrs' Foundation and the Foundation of the Oppressed and Disabled were the main religious foundations that have started to buy these state enterprises. However, the process of privatization of state owned companies through para-governmental organizations and internationalization of Iranian capital through them has reached its peak during the presidency of Mahmoud Ahmadinejad with further involvement of the Revolutionary Guards affiliated firms into the economy.

²⁸⁵ Bijan Khajepour, "Domestic Political Reforms and Private Sector Activity in Iran", *Social Research*, 67: 2, Summer, 2000, pp.577-598

²⁸⁶ Harris, 'Vectors of Iranian Capitalism', p.221

²⁸⁷ Ibid.

3.1.3.5. FYDP and International Institutions

The post-revolutionary government demonstrated its willingness to contribute to the global capitalism by reviewing its relations with the international organizations, which are the coordination mechanisms. In 1989, the new finance minister of the Islamic Republic, Dr. Nourbaksh, participated in the World Bank and IMF meetings in Washington, where he declared that his country is ready to pay its unpaid contributions by playing a more active role in the institutions.²⁸⁸

As a result, during 1990-91, there were several visits by the World Bank and IMF experts to Iran. In one of these meetings in November 1991, President Rafsanjani announced to the representatives of 128 developing countries from United Nations Conference on Trade and Development that Iran will remove government controls on the investment and production, deregulate banking and foreign trade, open a stock exchange, and vastly expand private ownership.²⁸⁹ These were exactly the principles of IMF structural adjustment programs. Ironically, there was a great reluctance to borrow from IMF for the reconstruction of economy because of the rules of conditionality.²⁹⁰ However, in 1991 the World Bank guaranteed 250 million dollars' emergency loan to Iran for the reconstruction of the earthquake. Moreover, the government declared its willingness to borrow from the World Bank for its infrastructural projects.²⁹¹

Despite of these efforts to liberalize the economy and trade, the first official application to the World Trade Organization was made on July 19, 1996.²⁹² However, the USA prevented the application to be brought up with the support of EU and some informal consultations. These contacts with the international organizations created a positive

²⁸⁸ Haeri, 'Rafsanjani and Iran's Economy', p.15

²⁸⁹ Hunter, *Iran after Khomeini*, p.81-83

²⁹⁰ Ibid. p.77

²⁹¹ Ibid.

²⁹² Danial Arjomady, Iranian Membership in the World Trade Organization: An Unclear Future, *Iranian Studies*, 47: 6, p.939

reaction for the international capital. As a result, financial relations developed between French, Japanese and Canadian firms. For example, a group of French bankers raised 1.5 million dollars for a number of petrochemical projects.²⁹³

3.1.3.6. FYDP: A Failure?

It is a common argument that the first FYDP of Iran was a total failure. As mentioned by Khajehpour,²⁹⁴ Rafsanjani's reconstruction neither established the neoliberal structures nor integrated Iran fully into the global capitalism. He claims four reasons for the failure: 1) absence of a competitive environment; 2) lack of legal stability; 3) absence of institutions representing the private sector in the Ministry of Commerce; 4) distorted market structures.²⁹⁵ In this sense, the first FYDP is claimed to be turned into a public-sector led reconstruction.²⁹⁶ The intention of the plan was to reduce sector by 8 percent but in the early 1990s it grew by 3 percent. As it is discussed above, the process of privatization was dominated by corruption. Economy started to suffer from the substantial deterioration of country's currency value. This had two consequences: on the one hand, the country was not able to pay its short-term debts, on the other, the imports, on which the new economic development model was based, started to fall.²⁹⁷ The substantial loans borrowed from the World Bank created a need for foreign currency to pay them back. However, the need for imports was creating further incentives to access foreign currency. The process was further accompanied by the oil price collapse in 1993-94. The export promotion model also failed and Free Trade Zones, which were expected to provide the need of country's foreign currency by attracting foreign

²⁹³ Hunter, *Iran after Khomeini*, p.88

²⁹⁴ Khajehpour, "Domestic Political Reforms and Private Sector Activity in Iran"

²⁹⁵ Ibid. p. 583.586

²⁹⁶ Hassan Hakimian, "Institutional Change, Policy Challenges and Macro-Economic Performance, 1979-2004", *Commission on Growth and Development Working Paper*, No.26.

²⁹⁷ Karshenas and Pesaran, "Economic Reform and The Reconstruction of the Iranian Economy", p.90

investment, turned into channels of imports of consumer goods.²⁹⁸ The currency devaluation, together with the cuts in tariffs, started to create street protests and strikes in the industrial centers in 1992-94.²⁹⁹ Furthermore, Rafsanjani's policies started to be accused of capitulating the economy to Western capitalism. There was a suspicion by the revolutionary power centers on the relations with the World Bank and IMF, which were perceived as the imperialist power centers.

Due to the reasons explained above, it is claimed in the literature that Rafsanjani's *Perestroika* was short-lived.³⁰⁰ However, within the scope of this study, it is claimed that despite of its short-term failures, the first FYDP had a huge success in integrating a revolutionary and post-war economy into the circuits of global capitalism in the long run. First of all, it set the basis of the capitalist social relations in Iran as it enabled the accumulation and centralization of the Iranian capital. As the state bureaucracy within the ministries gained a central role in the economy, a capitalist class, which enjoys state protection from foreign industries and access to oil revenues in the form of subsidized foreign currency and cheap loans, started to be formed. This resulted in the emergence of what is called as the neoliberalism with the Iranian characteristics.³⁰¹ Secondly, the plan paved the way for the future privatizations in the Iranian economy, which had reached its peak during the Ahmadinejad's presidency (this is to be discussed in detail later) with the involvement of the Bonyads and Revolutionary Guards in the privatization process. This process resulted in the formation of Iranian international capitalist classes in the following decade of the first FYDP. Lastly, even though the first FYDP covered the years between 1989-94, the economic policies of Rafsanjani were maintained by the following government as his technocrats stayed in power during Mohammad Khatami's presidency. Therefore, the policies, which were unsuccessful within the scope of the first FYDP were later completed by the same fraction. For

²⁹⁸ Amirahmadi, 'Iran's Development: An Evaluation and Challenges', p.127

²⁹⁹ Rakel, Power, *Islam and Political Elite in Iran*, p.86

³⁰⁰ Harris, 'Vectors of Iranian Capitalism', p.220

³⁰¹ Khajehpour, "Domestic Political Reforms and Private Sector Activity in Iran"

example, the financial reforms were finalized by the Khatami's government. The banking reform was concluded with the second FYDP and the unification of the exchange rates was succeeded in 2002. All these policies were initiated by Rafsanjani's first FYDP. Furthermore, the third FYDP were also prepared by the Rafsanjani's technocratic elite.³⁰² In short, all these developments, taken place in the following decade, directed this study to evaluate Rafsanjani's restructuring and harmonizing the Iranian economy according to the dynamics of global capitalism as a successful initiative. The next chapters of the part may further demonstrate how this restructuring created a butterfly effect for further internationalization of Iranian capital and economy.

3.2. Internationalization of Trade: Free Trade Zones and 'Quasi-Legal' Trade Networks

This part analyzes the internationalization of Iranian trade system with a certain focus on the establishment of the Free Trade Zones (FTZ) in Iran in the early 1990s. By focusing on their role and selective employment in the functioning of large-scale 'quasi-legal' trade networks, the section targets to demonstrate how Iranian capital and economy is being internationalized through these alternative mechanisms. In fact, the existence of FTZ itself challenges the arguments that Iranian economy is an isolated one. Avoiding this type of superfluous discussions, the part develops a deep analysis of the contribution of these zones and newly established trade networks to the internationalization of Iranian economy.

With this aim, the section starts with a theoretical analysis of the FTZ with a certain focus on the dynamics that led their creation and their functions in the international economy. Later, it concentrates on the establishment of formal (FTZ) and informal (quasi-legal) trading networks in the Islamic Republic since 1990s; as they set the basis of the internationalization of Iranian trade regime through alternative mechanism. By focusing on them, it is aimed to demonstrate how these two factors influenced the

³⁰² Harris, 'Vectors of Iranian Capitalism', p.220

international trade and investment issues and internationalization of the Iranian capital and class, as they are inextricable components of the internationalization process.

3.2.1. FTZ in theory: Pilot Schemes for an Internationalized Economy

In the 1970s, the international system has entered into a stage of internationalization process that transformed the capitalist mode of production to a truly global system. However, at these early stages of capitalist internationalization, the conditions which enforce nation states to treat international capital in the same way that they do to their domestic capital have not evolved yet. Hence, the strong notion of national sovereignty and worker class' relative gains were preventing country-wide liberalizations. On the other hand, there was the case of Hong Kong, whose transformation into a global city for international capital produced huge capital surpluses. As a result, states find a solution to solidify ruling coalitions, which demand internationalization and creation of new modes for capital accumulation, without disrupting the existing socio-political hierarchies and class relations. Since 1970s, it has started to become a common policy for the nation states to re-regulate certain piece of the land under their jurisdictions. In other words, states have started to create separate zones in their own land with different names (export processing, enterprise, special economic, free trade etc.) and different targets (promoting export, attracting foreign capital, contributing domestic investment etc.). These zones were substitutes for complete liberalization and they share the general goal of improving economic performance and enhancing growth through integration into the global economy. As it is mentioned by the World Bank, these zones are useful weapons where countrywide reforms are difficult to implement.³⁰³

As a result, even though their roots go back to Europe and West in the 1940s, the FTZ have started to become worldwide in the late 1970s. In the 1970s, Republic of Korea

³⁰³ Hassan Hakimian, Iran's Free Trade and Special Economic Zones: Challenges and Opportunities, Paper presented at "Conference on Iranian Economy at a Crossroads: Domestic and Global Challenges", 2009

established an export processing zones imitating the Taiwan case. The first Anglo-American FTZ was established in the UK with the “Freeport Solution” speech to the 1977 Royal Town Planning Institute Annual Conference. Similarly, China established its first four special economic zones in 1979 as a component of the broad liberalizations through the Open Policy of Deng Xiaoping.³⁰⁴ However, with the establishment of the WTO and its trade regime, the global popularity of the zones has started to demise.

FTZ, in this sense, are the liberalized sectors of an economy. They are created through the re-regulation of certain segments of land by the national governments; they are a form of re-territorialization, as mentioned by Keshavarzian.³⁰⁵ When a company or citizen enters a free trade zone, it is as if the existing laws of that country are suspended, even though the juridical sovereignty of the state remains intact apart from these exceptional locations. Keshavarzian also asserts that FTZ are created as mechanisms allowing land to flow; since land is fixed and immobile, contrary to the capital which is mobile and in motion.³⁰⁶ In this sense, FTZ are the integration of certain amount of land into global accumulation process through the creation of internationalized locales. They have the characteristics of a bonded area in which the application of pertinent laws and regulations concerning imports and exports made less stringent. For instance, freedom from import and export duties is one of the incentives that governments offer in the FTZ.³⁰⁷ Moreover, through the FTZ, states target to attract international investment. In order to sustain that, they create conditions that reduce the operational costs of management and sunk costs of setting up. Therefore, another common denominator of FTZ all around the world is a heavy reliance on tax holidays as an important investment incentive. Firms have been offered tax exemptions for a number of years, and many of them have permanent exemptions. Similarly, the labor in the zones is regulated

³⁰⁴ Barbara Emadi-Coffin, *Rethinking International Organizations: Deregulation and Global Governance*, New York, Routledge, 2002, p.94-106

³⁰⁵ Arang Keshavarzian, “The Geopolitics and the Genealogy of Free Trade Zones in the Persian Gulf”, *Geopolitics*, 15: 2, 2012, 263-289

³⁰⁶ Ibid. p. 265

³⁰⁷ Emadi-Coffin, *Rethinking International Organizations*, p.83

differently than the mainland: the labor rights are limited, wages are low and mostly low skilled workers are employed.³⁰⁸ All the FTZ in the world have the common purpose to attract foreign investment, increase employment, contribute economic development and transfer technology.

Despite these similarities, the overall function of the FTZ in different countries varies. Based on this fact, Keshavarian, using Harvey's separation between capitalist logic and state logic, claims that strategic decisions by the state rulers are effective in the establishment of FTZ. By comparing the differences between Dubai's Jebel Ali and Iran's Kish FTZ, he claims that the establishment of FTZ in Iran demonstrates that they are more associated with the logic of state formation under specific geostrategic conditions.³⁰⁹ However, this is misleading as the separate logics do not reflect the dialectical relationship between the economic and political structures. In fact, in order to explain the different motivations in the establishment of the FTZ, the contradictory relationship between the international and domestic should be put forth. In this context, FTZ may be defined as a mere product of neither the international pressures nor the domestic geo-strategic decisions. In fact, what create the differences in the nature of FTZ are the domestic class struggles over the international pressures. As Keshavarzian himself says, states are neither absent from the process of internationalization nor respond passively to it.³¹⁰ However, his separation of social reality into two separate logics makes him to conclude that Iranian FTZ are not a product of capitalist demands but a decision of state elite and cross-border traders.³¹¹ In fact, the creation of FTZ are influenced both by the international pressures and desire of the domestic class coalitions (including cross-border traders) to engage in the world economy in particular ways that blend specific political concerns and economic objectives. In this sense, FTZ are

³⁰⁸ Ibid. p.80

³⁰⁹ Keshavarzian, "The Geopolitics and the Genealogy of Free Trade Zones, p.265

³¹⁰ Ibid. p.263

³¹¹ Ibid. p. 282

samples of local strategies, in accordance with the internationalization processes of integration into the circuits of global capital accumulation.

Within this perspective, the evaluation of Iranian FTZ is conducted with a certain focus on the spatial and temporal dynamics. In fact, the analysis of the Iranian FTZ demonstrates how internationalization process and the mechanisms used for integration into the global economy are constantly being shaped and reformulated by the changes in the domestic hegemonic class compositions. As it may be seen in the upcoming part, even though the establishment of FTZ in Iran has targeted to encourage industrialization and job creation by promoting foreign investment, export-oriented production, and the transfer of skills in the first instance, the balance of power between the hegemonic class fractions turned them into smuggling ports. In other words, while the FTZ in Iran were designed as the backdoors of the international economy, they have become a tool for the ‘quasi-legal’ mechanisms used for the international connections of the Iranian capital. In this sense, while FTZ in Iran were established as the mechanisms for absorbing the internal and international pressures of internationalization, they have transformed into the instruments of internationalizing the economy without internationalizing the state. Therefore, FTZ were instrumentalized differently in accordance with the integration of Iran into the global economy in a peculiar way.

3.2.2. Analysis of the FTZ Experience of Iran

Similar to the other countries, Iranian policy makers have tried to take their first baby steps towards internationalizing the economic sphere with the establishment of typical zones. As it is mentioned in the previous chapter, the first FTZ in Iran were a product of the first FYDP. According to the article 19 of the plan, three free trade zones were established on discrete places of the Persian Gulf. Based on the plan, in 1992 a High Council was appointed to regulate, manage and take the operational responsibilities of the zones. The Council, in order to fulfill its first task, started to formulate and ratify the

laws and regulations related with the operations of FTZ. The Law on the Administration of Free Trade-Industrial Zones of the Islamic Republic of Iran was completed in 1993, with the establishment of free trade zones at Kish, Qeshm and Chahbahar.³¹² Law of FTZ, which was amended in 1999, set the basis of the rules governing the zones. According to the Law, establishment of the new zones were subjected to the proposal of government and ratification of the Islamic Consultative Assembly. Zones are administered by an authority organized as a company and their management is given to a Board of Directors, appointed by the Board of Ministers. The High Council, which was established to coordinate the activities of the zones, was chaired by the President and its members are composed of the Ministers of Economic Affairs and Finance, Commerce, Interior, Labor and Social Affairs, Industries and Mines, Roads and Transportation, Petroleum, Energy, Housing and Urban Development, Culture and Islamic Guidance, the Head of Management and Plan Organization, the Governor of the Central Bank of Islamic Republic of Iran, head of the Environment Protection Organization and the Secretary of the High Council of Free Trade-Industrial Zones.³¹³

The rules governing the FTZ of Iran are similar to their counterparts in the other geographies. The legal procedures of the Iranian FTZ are: 100 % foreign ownership is allowed; full protection and guarantees are offered to foreign investment; there is no currency restriction; 100 % repatriation of capital to other countries is allowed; the land is sold/leased for Iranians and leased for non-Iranians; stream-lined bureaucracy (or ‘one stop’ bureaucracy where all the necessary permits may be obtained without much delay from a single government authority) is provided; there is no entry visa requirement for the foreign nationals; 15 years tax exemption for the operators is provided and no taxes are imposed on the re-export and exported goods from the zones to the mainland.³¹⁴ Furthermore, labor regulations are simplified in the zones as the labor market is flexible,

³¹² Law on the Administration of Free Trade-Industrial Zones of the Islamic Republic of Iran, URL: <http://www.iran-investment.org/Law%20on%20the%20Administration%20of%20Free%20Trade.pdf> accessed January 14, 2016

³¹³ Ibid.

³¹⁴ Ibid.

allowing for termination of employment contracts and labor unions are strictly forbidden (in fact no independent unions are recognized or allowed in Iranian labor code).

Rafsanjani government has perceived these zones as a solution to endemic economic problems of Iran such as capital shortages, low productivity and limited non-oil exports. As mentioned by Hakimian, Iranian officials established these zones as gateways to wider international economy.³¹⁵ There were also unstated objectives, such as reducing anti-export bias and the isolation, promoting domestic investment and running away overall economic liberalization. In accordance with these aims, the location of FTZ was also chosen strategically in the major waterways and key regional markets. Kish and Qeshm FTZ were established in the Persian Gulf, close to the GCC countries. Similarly, Chahbahar FTZ was established in the Southeast region close to Pakistan, Oman and other Gulf countries. There were mainly two other motivations behind their establishment in the geographical locations close to the GCC countries. First of all, the Iranian capital, which flew to GCC -especially to Dubai- after the revolution and the international sanctions, created an Iranian international capitalist class across the Strait of Hormuz. Second, as it is mentioned by Adam Hanieh,³¹⁶ the Gulf Countries had an impact on the internationalization of the region as they have turned into import hubs of the products to be re-exported to the other countries in the region. These two dynamics, together with the other reasons mentioned above, influenced the geographical location of the FTZ. Keshavarzian adds the security concerns in protecting the Persian Gulf and oil economy as a variable influencing the location of the zones.³¹⁷ In early 2000s, when Khatami government announced the establishment of three more FTZ, a new zone was added to the ones in the Persian Gulf. The first two zones during the presidency of Khatami, Aras and Anzali FTZ, were established in the north, in the Azerbaijan border and Caucasus respectively, in 2003. However, in 2004 the third one, Arvand FTZ was

³¹⁵ Hassan Hakimian, "Iran's Free Trade Zones: Back Doors to International Economy", in P. Alizadeh and H. Hakimian (eds.) *Iran and Global Economy: Petro-Populism, Islam and Economic Sanctions*, NY, Routledge, 2013, p. 106

³¹⁶ Adam Hanieh, *Capitalism and Class in the Gulf Arab States*, US, Palgrave Macmillan, 2011

³¹⁷ Keshavarzian, "The Geopolitics and the Genealogy of Free Trade Zones, p.280

established again in the southwest, close to GCC. Lastly, in 2013, Iran's Customs Administration Director Abbas Memarnejad announced the establishment of Maku free zone close to Turkish border.³¹⁸

Table 2.

	Established	Location	Nearby Countries	International Borders
1. Kish	1989	Persian Gulf	GCC	Gulf Waterways
2. Qeshm	1990	Strait of Hormuz	GCC	Gulf Waterways
3. Chahbahar	1991	Southeast	Pakistan, Oman, GCC	Oman Sea Waterways
4. Aras	2003	Northwest	Azerbaijan, Armenia	Nakhchivan
5. Arvand	2004	Southwest	GCC	Iraq, Kuwait
6. Anzali	2003	North (Caspian Sea)	CIS, Caucasus	-
7. Maku	2013	Northwest	Turkey	Turkey

The literature on the Iranian FTZ perceives them as a failure in terms of achieving their targets.³¹⁹ However, within the scope of this study, the zones are evaluated according to their contribution to the internationalization of Iranian economy. In this sense, as it is to be discussed below, they have created an alternative mechanism for integration of Iran

³¹⁸ Financial Tribune, 'Maku Free Zone to Make Its Mark', <http://financialtribune.com/archive/2016/01/13/articles/business-and-markets/3944/maku-free-zone-make-its-mark>, November 5, 2014, accessed January 18, 2017

³¹⁹ See. Hakimian, "Iran's Free Trade Zones", and Keshavarzian, "The Geopolitics and the Genealogy of Free Trade Zones"

into the global economy. In fact, the studies are right to claim that the Iranian FTZ failed to attract FDI, develop the manufacturing sector and create jobs. The export promoting strategy has also failed, since the zones are transformed into import platforms.³²⁰ The chart below shows the inequality between the numbers of imports and exports traded in the three biggest FTZ.

Table 3.³²¹

In million (\$)

	Kish		Qeshm		Chahbahar		Total	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1993-2001							2,494	56.9
2001	136.6	4	247.8	9.5	100	0.06	484.4	13.6
2002	135.2	3	445.3	11.5	102.3	0.3	682.8	14.8
2003	82	4	194.5	114	73.8	0.2	350.3	118.2
2004	68.2	6.3	162.4	40.5	105.3	0.2	335.9	47.0
2001-04	422	17.3	1050	175.5	381.4	0.76	1,853.4	193.6

Furthermore, it is said by the chairman of the Majlis Economic Commission that since 2007, FTZ has attracted only \$350 million in foreign investment, which is equal to \$38.8 million a year on average.³²²

The disparity between the shares of imports and exports in the FTZ and their inability to attract FDI is attributed to the factors such as the design, management, and operation of

³²⁰ Hakimian, "Iran's Free Trade Zones", p.112

³²¹ Hakimian, 'Iran's Free Trade and Special Economic Zones'

³²² Financial Tribune, 'Debate Rages on Role of Free Trade Zones', <https://financialtribune.com/articles/economy-domestic-economy/47803/debate-rages-on-role-of-free-trade-zones>, August 17, 2016, accessed January 16, 2017

zones or the general business climate dominated by the para-governmental organizations in overall country.³²³ Other scholars blame the poor financial position of the authorities and the lack of government investment in infrastructure for the transformation of zones into import hubs.³²⁴ In fact, the triggers of the transformation of the FTZ are embedded in the political economic structures of Iran and its position within the international structure. As it will be discussed below, the trade policy of the Islamic regime, the relationship between the economic classes and the state, international sanctions and Iran's idiosyncratic relations with the international accumulation regime created the main motivations of the deviation of the zones from the purpose of their establishment.

3.2.3. Internationalization with Quasi-Legal Trade Mechanisms

The studies on the political economy of Iran tend to emphasize the existence of dual mechanisms in both political and economic structures. In other words, in their analysis of Iranian state structure and economy, they observe two different mechanisms. For example, Wilfried Buchta³²⁵ says that,

“To analyze the power structures in Iran one has to look both to formal and informal power structures. Formal power structures are based on the constitution and governmental regulations and manifest itself in state institutions and offices, as well as individuals according to their position in these institutions. But informal personal networks within the Iranian political elite are also effective.”

Similarly, Mehran Kamrawa and Houchang Hassan-Yari emphasize the existence of official and informal sets of relations in the Islamic Republic. Similar to Buchta, they describe the official relations as the ones outlined in the constitution. The informal ones, on the other hand, are the relations between the groups and powerful individuals and

³²³ Hakimian, ‘Iran’s Free Trade Zones’, p. 103-117

³²⁴ Keshavarzian, “The Geopolitics and the Genealogy of Free Trade Zones”, p.271

³²⁵ Wilfried Buchta, *Who Rules Iran- The Structure of Power in the Islamic Republic*, Washington, Washington Institute of Near East Policy, 2000, p.7

institutions.³²⁶ Narges Erami and Arang Keshavarzian, on the other hand, underline the significance of the examination of the ‘quasi-formal’ economy in understanding the political economic structures in Iran.³²⁷ In this context, if the FTZ are the legal aspect of the internationalization of trade, the smuggling networks are the quasi-formal side of the same coin.

Rather than perceiving the smuggling networks as an abnormality or parasites in the maintenance of economic system in Iran, this study views them as embedded in the political and economic structures. Therefore, it accepts Keshavarzian’s claim that the operations of smuggling in Iran should be viewed as ‘legal smuggling’ (*qachaq-e qanuni*) as it operates in the shadow, and as a byproduct, of official legal structures and takes advantage of legal loopholes to maneuver around and transcend trade restrictions.³²⁸ In this sense, these smuggling networks do not conduct illegal activities since they use legal mechanisms for their international capital activities. In other words, even though the consequence of the activities violates the intent of policies, the process is formal in that at various key stages it functions with a legal immunity. Therefore, instead of smuggling, the term ‘quasi-legal’ is preferred to define the process within the scope of this study.

In this context, this section will concentrate on the trade regime of the Islamic Republic of Iran, which triggered the establishment of the ‘quasi-legal’ trade networks by taking advantage of the FTZ. Following that, the mechanisms developed for these networks and the role of the para-governmental organizations in these mechanisms are to be discussed. The analysis of the ‘quasi-legal’ trade networks may prove that the Iranian economy has been integrating into the international accumulation regime in specific way.

³²⁶ Kamrava and Hassan-Yari, ‘Suspended Equilibrium in Iran’s Political System’, p.495

³²⁷ Narges Erami and Arang Keshavarzian, “When ties don’t bind: smuggling effects, bazaars and regulatory regimes in postrevolutionary Iran”, *Economy and Strategy*, 44:1, 2015, p.110

³²⁸ Arang Keshavarzian, *Bazaar and State in Iran: The Politics of the Tehran Marketplace*, Cambridge: Cambridge University Press, 2007, p. 172

3.2.3.1. Trade Regime as the source of ‘Quasi-legal’ Trade

The main motivation behind the development of ‘quasi-legal’ trade networks in the Islamic Republic was the trade regime. After the revolution, state became the main trading body, primary purchaser and the wholesaler.³²⁹ The export and import procedures were under strict regulation of the legal bodies. This was a product of the post-revolutionary policy of protecting local manufacturers through reducing the imports with non-tariff barriers, such as banning imports of certain goods or enforcing licensing requirements. The Ministries of Industry, Agriculture, Mines and Commerce were listing the goods that could be legally imported.³³⁰ Similarly, strict controls, such as pricing the goods by the customs officials, enforcing export licenses, were applied over the exports.

This highly regulated trade regime, under the monopoly of certain state institutions, created significant impact on the process of the re-integration of Iranian economy into the world capitalism. First of all, as exports and imports necessitated strict processes of licensing, the practices of corruption, nepotism and patronage have become very common in Iran. For the officials of the regime, including those who controlled nationalized enterprises and para-governmental organizations, the rent-seeking opportunities turned to be a profitable practice.³³¹ This created a consolidated group composed of the managers of state procurement boards, religious trusts and relatives of senior officials who enjoy their privileged positions. According to the World Governance Indicators by the World Bank, corruption is very widespread in Iran: the best instance in corruption was said to be in 2002 (Khatami government with a score of -

³²⁹ Ibid. p.107

³³⁰ Erami and Keshavarzian, ‘When ties don’t bind’, p. 122

³³¹ Majloo, “Three placement modes of the Economy in Post-revolutionary Iranian Society”, p.34

0.2), and the worst is observed in 2008 (Ahmadinejad government with a score of -0.8) and 1996 (Rafsanjani government with a score of -0.9).³³²

Secondly, the state affiliates, such as the managers of the religious charities and other para-governmental organizations, have become monopolies in the large-scale trade, due to the special licenses of trade (*mojavvez-e moredi*) they hold. They also benefit from various subsidies such as subsidized foreign currency and tax exemptions. Therefore, these foundations can import, export, and sell goods below market prices. In this sense, the trade bans and duties do not bind para-governmental organizations and trade units in ministries. Their access to trade licenses has allowed these organs to bypass trade regulations easily.³³³

As a result of this, the independent capitalists, who have no contacts among state agents, cannot compete with these state-affiliated establishments, which are exempted from paying duties, receive foreign exchange and bypass the time-consuming bureaucracy. According to Keshavarzian, in 2001, one bazaar estimates his cost of import is four times higher than these state-affiliated businesses.³³⁴ Similarly, during my interviews in November 2015 in Tehran, one of the businessmen, who owns a company in Arvand FTZ, told that if he tries to produce what he has been importing (illegally), his costs will be tripled due to the high taxes. He added that government's protectionist trade policies are meaningless since domestic industry is not able to compete with the import industry due to higher taxes, huge costs of import and tighter labor policies.

These dynamics enforce the importers to apply to the grey and black markets in order to bypass import restrictions and the other disadvantages stemming from the trade related policies. As it is mentioned by Farzanegan, 'Tariff and non-tariff barriers, strict control of foreign exchange transactions, pervasive corruption and high price disparities

³³² Mohammed Reza Farzanegan, 'Dark Side of Trade in Iran: Evidence from a Structural Equation Model', in C. C. Storti and P. de Grauwe (eds.) *Illicit Trade and Global Economy*, The MIT Press, 2012, p.76

³³³ Keshavarzian, *Bazaar & State in Iran*, p.168

³³⁴ Ibid.

between Iran and her neighbors are the main causes of smuggling.³³⁵ Therefore, it may not be wrong to claim that the informal practices of commerce are a product of the discord between the internationalization pressures coming from the domestic capitalist classes, who have no personal or institutional connections in the decision making institutions of the Islamic Republic, and the state structure, which serves the interest of the cronies.

Furthermore, the trade liberalization policies operated by Rafsanjani government and followed by the other liberal governments, instead of decreasing the magnitude of the smuggling, created new modes of it. As it may be seen below, the introduction of FTZ in the Iranian economy in the early 1990s created a border market which employed to contravene commercial regulations. Therefore, the political and economic structures of Iran created incentives of finding alternative mechanisms for international capital activities.

3.2.3.2. The Operation of ‘Quasi-legal’ Trade

There are different networks of ‘quasi-legal’ trade in Iranian international trade activities, divided according to the scale of the smuggling. Small-scale smuggling networks are organized for the local-level consumption in the cities close to the border, which is a common pattern in the other countries of the Middle East region. These networks do not necessitate long-term commercial partnership and dealings.³³⁶ The medium scale smuggling networks, on the other hand, were products of the revolutionary period itself, when the industrial and commercial units were paralyzed by the strikes. In this period, the Iranians having connections with the neighboring countries

³³⁵ Mohammad Reza Farzanegan, “Illegal Trade in the Iranian Economy: Evidence form a Structural Model”, *European Journal of Political Economy*, 25, 2009, pp.491

³³⁶ Keshavarzian, *Bazaar & State in Iran*, p. 172

operated the smuggling activities.³³⁷ These smugglers have begun to act as the agents of either Iranian businessmen, who had moved to the Arab shores of the Persian Gulf, or the importers and wholesalers in the Tehran Bazaar. This made Gulf countries, and especially Dubai, as the motherland of Iranian international trade activity. Apart from Gulf's function as the distributor of the re-exports to the region, there is a Dubai-based Iranian community, which established 132 firms in the Jebel Ali port in Dubai and around 3000 in total in the UAE.³³⁸ These groups form the basis of the Iranian trade and smuggling nexus. As Erami and Keshavarzian mentions, "...Dubai has been functioning as the initial, legal and infrastructural stepping-stone for much of Iran's smuggling operations. Dubai is to Iran as Hong Kong has been to East Asia."³³⁹ This was also one of the motivations of the establishment of FTZ in the Persian Gulf.

Moreover, large scale highly organized 'quasi-legal' trade networks are established when unaccountable, politically powerful figures and organizations provide protection to those activities. In fact, these are the state affiliates and para-governmental organizations that are able to bypass the trading regime by staying within the legal system. Their activities are mostly unsupervised by the institutions and critics generally call them as the commercial mafia.³⁴⁰ In fact, instead of terming them as a mafia, it should be noted that their power is only a product of the institutional structure of the Iranian political landscape. However, it is also a fact that there are individualistic ties between the groups which control the institutions with the economic power (para-governmental organizations or effective bureaucratic positions) and those holding the political power. For example, Rafsanjani family controls huge swaths of waterfront in Iran's free economic zones on the Persian Gulf. The family of Habibollah Asgaroladi Mosalman, who was the Minister of Commerce in between 1980-84, is shown as one of the

³³⁷ Erami and Keshavarzian, 'When ties don't bind', p. 121

³³⁸ Ibid. p.122

³³⁹ Klebnikov, 'Millionaire Mullahs'

³⁴⁰ Keshavarzian, *Bazaar & State in Iran*, p.171

wealthiest families in Iran.³⁴¹ Mosalman, later served as the representative of the Supreme Leader in Imam Relief Fund Committee and member of the central council of the 15th Khordad Foundation, which are powerful para-governmental organizations in Iran.³⁴² Another example is Ayatollah Abbas Vaez Tabasi who was at the head of the one of the richest para-governmental organization, Astan Quds Razavi, until his death in 2016. The organization spent huge amount of money in the establishment of a special economic zone close to Turkmenistan and funded a rail link between Iran and Turkmenistan. Ayatollah Tabasi's son was in charge of that zone until he was dismissed in 2001 and arrested with fraud charges in connection with a Dubai-based company called Al-Makasib.³⁴³

In order to understand how the institutional set up enables their rulers to create wealth, the relationship between the FTZ and 'quasi-legal' trade networks, and the transformation of this relationship as a result of the domestic class struggles and international dynamics should be examined. As it is discussed in the previous section, the aim of the zones was to integrate Iranian capital into international economy without destroying the existing power structures. However, in time, the existing trade policies and sanctions enforced the Iranian capital to transform these spheres into import smuggling hubs. The financial independency of the FTZ as stated in the Law of Administration of Free Trade Zones made these spheres unaccountable. Ministry of Economic Affairs and Finance and the Organization of Management and Planning do not supervise them. In other words, since the commercial activities of the zones are not integrated into the countrywide economic regimes, these zones transformed into what Keshavarzian called as the articulation between formal and informal economies.³⁴⁴

³⁴¹ Klebnikov, 'Millionaire Mullahs'

³⁴² Arang Keshavarzian, 'Regime Loyalty and Bazari Representation under the Islamic Republic of Iran: Dilemmas of the Society of Islamic Coalition', *International Journal of Middle East Studies*, Vol. 41, No.2 May, 2009, p.232

³⁴³ Ibid.

³⁴⁴ Keshavarzian, *Bazaar & State in Iran*, p.174

In this sense, FTZ are instrumentally used for the ‘quasi-legal’ trading activities: The legal companies in Dubai sent the goods to Kish, Qeshm and Chahbahar FTZ; traders arrange for the piecemeal transfer of goods from the FTZ to Iran via individual travelers from the local region who have a tax-free allowance for personal use or who are immune from the trading regime; with the major transportation systems, these products are either transferred to Central Asia, Pakistan and Afghanistan or to the wholesalers and middlemen in major Iranian cities.³⁴⁵ Keshavarzian claims that most of the goods sold in the bazaar are arrived illegally or quasi illegally, which is a sign of bazaaris’ participation into the smuggling networks.³⁴⁶

As it can be seen, the ‘quasi-legal’ trade operations accommodate interactions among bazaar members, new commercial actors, international agents, international capitalist classes and state officials, who control the trade related fields. As Erami and Keshavarzian mention, these created a set of relation that neither the official regulatory system of the state nor the capitalists were able or willing to confront the smuggling networks.³⁴⁷ More important than all of these is the role of the para-governmental organizations and especially of the Revolutionary Guards in the ‘quasi-legal’ trade networks. The ‘quasi-legal’ trade networks and instrumental use of FTZ enable these monopolies to internationalize their capital activities without transforming the state structure to which they owe their economic and institutional power.

As it is discussed before, the para-governmental religious organizations (bonyads), which will be discussed in the next chapter in detail, have always been active in the ‘quasi-legal’ trade. For example, in 1995 a court found several key figures of the *Bonyad-e Mostazafen* guilty of embezzlement.³⁴⁸ Furthermore, when Rafsanjani initiated the idea of involving government organizations in business transactions as a way to

³⁴⁵ Ibid. p.173-75

³⁴⁶ Ibid. p.170

³⁴⁷ Erami and Keshavarzian, ‘When ties don’t bind’, p. 113

³⁴⁸ Keshavarzian, *Bazaar & State in Iran*, p.168

generate independent income in 1993-94, Revolutionary Guards participated in this ‘quasi-legal’ trade too. The lack of financial transparency³⁴⁹ or the lack of government inspection³⁵⁰ is generally presented as the main triggers of the participation of the IRGC into these operations. However, sanctions and the conservative coalition established with Mahmoud Ahmadinejad’s election motivated IRGC to further intervene in these activities. As the sanctions prevented all the ways for the legitimate business, they opened a space for IRGC, which was able to engage large scale of quasi-legal trade due to its vast networks and mechanisms unsupervised by the government. For example, Martyr Rajai Port Complex at Hormuzgan province was used by the IRGC for exporting state subsidized gasoline.³⁵¹ Moreover, Payam international airport in the northwest of Tehran, which is state-owned and operated by the IRGC, is used for smuggling too.³⁵²

However, especially after conservatives has taken the control of the government with the election of Ahmadinejad, the capacities of IRGC started to be instrumentalized for the functioning of the ‘quasi-legal’ trade networks. This was the period when the sanctions are intensified. This enabled the conservative government to legitimize these quasi-legal practices. Babak Morteza Zanjani’s case proves how these networks are effectively used to bypass sanctions and internationalize Iranian capital. Zanjani had close connections with the IRGC and Ahmadinejad administration as he was participating in some meetings of the cabinet. Due to the election of Hassan Rouhani to the presidency and the nuclear agreement of Joint Comprehensive Plan of Action, these smuggling cases have become more public now. As it is mentioned by Erami and Keshavarzian, the political

³⁴⁹ Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi and S. R. Bohandy, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran’s Islamic Revolutionary Guards Corps*, Rand Corporation, 2009, p.70-71

³⁵⁰ Sinkaya, *The Revolutionary Guards in Iranian Politics*, p. 187

³⁵¹ Wehrey and Others, *The Rise of the Pasdaran*, p. 64

³⁵² Farzanegan, ‘Illegal Trade in the Iranian Economy’, p. 491

conflict within Iran's political establishment, led to even more frequent discussion and media coverage of corruption, smuggling and economic mismanagement.³⁵³

According to the judiciary investigation and testimonies,³⁵⁴ Zanjani and others who have close relations with the conservative power circles established new international companies and bought the transportation firms through them. At the same time, the IRGC enabled the transportation of oil to Malesia and from there it is sold to Singapore, South Korea and India. The dollar earned from this sale is transformed into gold and this gold was released to the market through several banks, especially the Islamic Bank of Malesia. Zanjani claimed that with the transportation networks he owns, he was carrying the gold to Turkey and from there, by registering them on different names in the custom, he passed them to Dubai. In Dubai, the gold bar is said to be transformed into jewelry and sent to Iran. After they come to the homeland, they are re-transformed into gold bar. Zanjani said he was distributing 20-25 percent of the money as commission (bribe) to the other countries or officials.³⁵⁵ This is only one method used to bypass sanctions and conduct international commercial activities by the Iranian officials. In fact, it is believed that IRGC makes 200-300 percent profits on such illegal sales.³⁵⁶ The head of Iran's Custom Office claimed that \$1.5 to \$2 billion of the goods were smuggled into the country annually at the turn of the millennium; the magazine published by the Institute for the Study and Analysis of Commerce, a research center affiliated with the Ministry of Commerce, said the total volume of smuggling is between \$2 and \$4 billion; in 2002, Bonyan, a pro-reform newspaper, estimated that \$3.5 billion worth of goods were imported illegally;³⁵⁷ in my interview with a Professor of Economics from Azzahra University in November 2015 in Tehran, he predicted the volume of informal trade as

³⁵³ Erami and Keshavarzian, 'When ties don't bind', p. 120

³⁵⁴ See, Nokta Dergisi, "Reza'nin Miami Seyahati için Sekiz Bucuk Milyar Sebep", April 2016

³⁵⁵ Cumhuriyet Newspaper, Zencani'den idam öncesi itiraf, April 6, 2016, http://www.cumhuriyet.com.tr/haber/turkiye/511094/Zencani_den_idam_onesi_itiraf_Turkiye_de_8_5_milyar_dolar_rusvet_dagittim.html, accessed January 18, 2016

³⁵⁶ Wehrey and Others, *The Rise of the Pasdaran*, p. 65

³⁵⁷ Erami and Keshavarzian, 'When ties don't bind', p. 120

\$25 billion per year. Even though, the numbers are not concrete and changing due to the lack of reliable sources on these quasi-formal activities, it is obvious that smuggling is systemic. In fact, even before Ahmadinejad, the reformist policy makers were complaining about the smuggling. For example, in summer 2004 Khatami was stating that financial and economic corruption and smuggling have become systemic in Iran. During his presidency, lots of smuggling cases are brought to the court (See the table below).

Table 4. ³⁵⁸ Number of total investigated cases at the judiciary system

2000	46,675
2001	37,547
2002	57,716
2003 (first 7 months)	45,416
2004 (first 6 months)	38,973
2005 (first 6 months)	34,170

By calculating the total value of the smuggled products and the total value brought to the court, Farzanegan claims that only about 6 percent of the smuggled goods are investigated.³⁵⁹ In other words, rate of success in the smuggling business is about 95 %. If the smugglers are getting caught, they pay a tax around 3,000 \$ or 4,000\$ fee but their goods are not confiscated.³⁶⁰

³⁵⁸ Farzanegan, 'Dark Side of Trade in Iran', p.75

³⁵⁹ Ibid.p.76

³⁶⁰ Babek Dehghanpisheh, "Smugglers for the State", *Newsweek*, 156: 3, 2010

3.2.4. Domestic Class Struggles and Internationalization of Trade

The establishment of FTZ and their metamorphosis into ‘quasi-legal’ trade platforms is a product of domestic class struggles trying to shape the internationalization of Iranian economy into different directions. The FTZ themselves failed in satisfying the internationalization demands of the Iranian capitalist classes. In fact, it is the imposition of the ‘quasi-legal’ trading activities that gave a meaning to the existence of FTZ in Iran. In other words, if FTZ have not been used effectively by the ‘quasi-legal’ trade networks, they would not have any impact on the internationalization of the Iranian economy. However, more important than that, this metamorphosis proves how the hegemonic classes in Iran are able to manipulate the mechanisms that are established to satisfy the demands of different class fractions. This point deserves further elaboration.

Since these FTZ were part of Rafsanjani’s first FYDP for liberalization, they were designed to satisfy the demands of the mercantile capital. In fact, this capitalist fraction was incorporated into the economic structures of the Islamic Republic. They were mostly composed of the bazaaris and merchants who engage in the general business of importing and exporting, buying and selling. However, they demanded further liberalization in trade regime since under the existing procedures they were unable to compete with the state organs or para-governmental organizations. Therefore, FTZ and Rafsanjani’s further liberalizations were the signs of mercantile elite’s ability in finding representation within the ruling mechanisms.

On the other hand, the transformation of the zones into ‘quasi-legal’ trade networks show that the state-affiliated capital and para-governmental organizations had the ability to manipulate the system in a direction to serve their political and economic interests, which is conflicting with the interest of the mercantile capital to a certain extent. These organizations possess both political and economic power to keep the system intact. The role of para-governmental organizations in the Islamic regime, Islamic economy and Iranian state structure is to be discussed in detail in the next part. For the moment, it should be noted that these organizations, through their privileged positions, are able to

manipulate the political and economic structures. The core political centers in the Islamic Republic also have strong incentives to support their interests.

However, these organizations with the upper hand, instead of eliminating these zones, used the same mechanism for an alternative type of internationalization, which excludes liberalization. Thereof, the interest of the mercantile capital again is not totally excluded from the accumulation strategies by opening room for ‘quasi-legal’ activities. As Pesaran mentions, these two camps have not always been opposed to each other: technocrats and policy-makers at times have pushed for alternative visions of the Iranian economy, causing mercantile and statist elites to join ranks for the protection of mutual interests.³⁶¹ Therefore, the use of FTZ by the para-governmental organizations demonstrates that internationalization is one of these mutual interests. Regarding the definition of the internationalized economy, both FTZ and ‘quasi-legal’ trade networks are contributing the internationalization by enabling: a) intensification of the international trade through legal and quasi legal means; b) expansion of Iranian capital to the other geographies; c) the merger of Iranian domestic companies with international ones; d) the emergence of Iranian international capitalist classes and firms.

The source of conflict is on the form of this internationalization. This is why it is said before in this chapter that the differences between the FTZ stems from the domestic class struggles over the international pressures. This is how the FTZ are established and transformed into a form serving the internationalization vision of the dominant classes in Iran. The literature on the internationalization of Iran generally misinterprets this point by claiming that para-governmental organizations are against internationalization and they are trying to keep Iranian economy closed off.³⁶² In fact, as the FTZ experience of Iran proves, it is not internationalization but its liberal or illiberal forms, which also necessitates the transformation of the political regime that creates the source of contention. This argument will be further developed in later chapter.

³⁶¹ Pesaran, “Ideals, Interests and Economic liberalization in the Islamic Republic of Iran”, p.17

³⁶² See. Wehrey and Others, *The Rise of the Pasdaran*, p. 70-71

3.3. Internationalization of the Iranian Oil Industry

This section analyzes the internationalization of the biggest industry of the Iranian economy. Especially by concentrating on the international trade of oil, international investment to the oil industry and investment of oil revenues into the international markets, the part aims to demonstrate the integration of Iranian economy into the circuits of international capital accumulation. It tries to elaborate both the domestic and international obstacles in the internationalization of the oil industry and the alternative mechanisms developed by the Iranian capital to bypass these obstacles; therefore, the impact of sanctions on trade of the oil and investment in the industry also deserve special attention in this part.

With this aim, the section begins with an overall examination of the oil industry in Iran. It evaluates the relative values of oil and gas resources in Iran and the policies developed to regulate the industry over years. Following this, internationalization of Iranian economy through the inevitable trade of the oil and changes in this trade regime with the sanctions are evaluated. Later, the part analyzes the internationalization of oil industry through the development of alternative means for the international investment, despite of the domestic legal limitations and sanctions. Lastly, the integration of the oil revenues into the circuits of the international capital accumulation through the establishment of investment funds is analyzed.

3.3.1. An Overview of the Oil Industry: The Inevitable Integration

Iran holds world's fourth-largest proven oil reserves (after Saudi Arabia, Kuwait and UAE) and the second-largest gas reserves (after Russia). According to the numbers provided by Iran Energy and Data Analysis Report 2015 of the U.S. Energy Information Administration, it is estimated that Iran has 158 billion barrels of proved crude oil reserves, representing almost 10% of the world's crude oil reserves and 13% of reserves

held by the Organization of the Petroleum Exporting Countries (OPEC).³⁶³ Moreover, Iran holds 17% of the world's proved natural gas reserves and more than one-third of OPEC's reserves.³⁶⁴ Apart from that Iran also ranks among the World top 10 oil producers and top 5 natural gas producers. Iran produced almost 3.4 million barrels per day of petroleum and other liquids in 2014 and an estimated 5.7 trillion cubic feet of natural gas in 2013.³⁶⁵ However, within the scope of this study, the natural gas sector is not analyzed in detail, since compared to oil it has a slight impact on the internationalization of the Iranian economy. Iran accounts for less than 1% of global natural gas trade and is not a significant natural gas exporter. The gas is mostly consumed in the domestic market. In the early 2000s, 44% of the Iran's energy consumption was provided by the natural gas.³⁶⁶ Moreover, unlike oil, transporting natural gas is difficult and expensive since it can be transferred only either with pipelines or as LNG. It has less of an international market and more sensitive to the regional changes. Therefore, the impact of natural gas sector on the internationalization of Iranian economy is to be evaluated only in terms of the foreign investment in the sector.

Iran's possession of these huge amounts of raw materials, which are vital for the global economy, creates a mutual dependence between Iran and other countries; and inevitably integrates it to the global economy to a certain extent. First of all, as the recipient of significant foreign exchange through the sale of crude oil, the Iranian state inescapably tied to the international economy. Oil forms around 80 % of total export earnings, 50 % of the government budget and 20 % of the GDP of the country.³⁶⁷ Therefore, as it is

³⁶³ US Energy Information Administration, *Iran Energy and Data Analysis Report 2015*, http://www.eia.gov/beta/international/analysis_includes/countries_long/Iran/iran.pdf, accessed January 23, 2017

³⁶⁴ Ibid.

³⁶⁵ Ibid.

³⁶⁶ Gawdat Bahgat, *American Oil Diplomacy in the Persian Gulf and the Caspian Sea*, University Press of Florida, FL, 2003, p.110

³⁶⁷ Reza Molavi, *Oil and Gas Privatization in Iran*, Reading, Ithaka Press, 2009, p.142

mentioned by Molavi, even though the post-revolutionary government desires to isolate itself from the international capitalist system, it cannot do it because of its dependence on the oil revenues.³⁶⁸ Furthermore, regarding the amount of the natural resources that Iran holds, the international markets are highly dependent on the supply of Iranian oil. As it is mentioned by Roger Howard, there would be an overall global shortfall if Iran's supply is seriously disrupted; a shortfall that would cause the price of oil to increase dramatically and affect every country in the world, whether directly importing Iranian oil or not.³⁶⁹ This is why in 2003, Hassan Rouhani said that sanctioning of the Iranian oil totally will cause first Europe and the U.S. to suffer and create problems for the regional energy markets.³⁷⁰ Furthermore, the Strait of Hormuz in the southeastern coast of Iran is an important route for oil exports from Iran and other Persian Gulf countries, which makes Iran even more crucial for the global supply of oil. Lastly, there is the sub-industry of the oil sector, from plastic to tires, whose impact on Iranian markets deserves a separate study.

As a result, Iran has always been a critical actor for the international market. Hence, oil fields in Iran are the oldest in the region. In this sense, since the first discovery of the oil by William Knox D'arcy in 1901, oil influenced the relations of Iran with the outside world. This has become more obvious as the nationalization of oil industry by Mohammed Mossaddeq in 1951 resulted in a CIA-sponsored coup in Iran. This event influenced the policies on the oil industry after the Islamic Revolution, as the Iranian constitution strictly prohibits foreign ownership of natural resources in the country. As a result, the state-owned National Iranian Oil Company (NIOC) was established, as it was done by Mossaddeq, as the responsible body for all oil and natural gas projects. The overall energy sector, on the other hand, is overseen by the Supreme Energy Council that is established in 2001. The council is chaired by the President and composed of the

³⁶⁸ Ibid. p.92

³⁶⁹ Roger Howard, *Iran Oil: The New Middle East Challenge to America*, New York, I.B. Tauris, 2007, p.6

³⁷⁰ Ibid. p.30

Ministers of Petroleum, Economy, Trade, Agriculture, and Mines and Industry.³⁷¹ Under the supervision of the Ministry of Petroleum, oil and gas sector, along with the petrochemical industry, is dominated by the state-owned enterprises such as National Iranian Oil Company, the National Iranian Gas Company (NIGC), and the National Petrochemical Company (NPC).

3.3.2. International Trade of Oil and Sanctions

As it is demonstrated above, regarding the nature of the oil, it has always been an international good circulating in the international markets. Therefore, while the internationalization of oil industry is to be analyzed according to the level of foreign investment and investment of oil revenues in the upcoming sections, this part concentrates on the trade of oil and impact of sanctions on its trade. However, it should be kept in mind that the overall impact of the sanctions on the internationalization of Iranian economy is discussed in the next section.

The Western sanctions target to restructure the Iranian political and economic structures with the means of economic coercion; therefore, the biggest dynamo of the Iranian economy was at the center of their target. Since its beginning, sanctions aim to limit Iran's petroleum exports and imports, prohibit largescale investment in the country's oil and gas sector, and cut off Iran's access to European and the U.S. sources for financial transactions. The US State Department³⁷² declared that it sanctions selling, leasing, or providing Iran support, goods, services, technology above certain monetary thresholds that could directly and significantly contribute to Iran's ability to: 1) import refined petroleum products; 2) develop petroleum resources located in Iran; 3) maintain or expand its domestic production of refined petroleum products, including a range of

³⁷¹ US Energy Information Administration, *Iran Energy and Data Analysis Report 2015*.

³⁷²US Department of State. (2014, July 24). Overview of U.S. sanctions on Iran pertaining to activities and transactions by non-U.S. individuals and entities, <http://www.state.gov/documents/organization/229817.pdf>, accessed January 27, 2017, p.8-9

activities associated with petroleum refineries or the delivery of refined petroleum products; 4) making an investment or combination of investments above certain monetary thresholds that directly and significantly contributes to Iran's ability to develop petroleum resources; 5) participating in joint ventures to develop petroleum resources outside of Iran if it is established on or after 1 January 2012, and either the government of Iran is a substantial partner or investor, or Iran could receive technological knowledge or equipment from the joint venture not previously available to Iran that could directly and significantly enhance its ability to develop its petroleum resources in Iran.

In fact, until 2006, these US sanctions were unilateral.³⁷³ The first sanctions regime was initiated by the Bill Clinton Administration in 1996, which is the Iran-Libya Sanctions Act. It targeted to prevent the transfer of advanced technologies by Iran via restricting its oil revenues. In 2006, UN Security Council issued further sanctions on Iran regarding its Uranium enrichment suspicions. This was the period when President Ahmadinejad took the office, and as it is discussed in the previous section, IRGC started to get a more active role in the oil trade. However, as the sanctions regime is tightened with the involvement of the EU in the early 2012, Germany, France and UK have not only banned the trade of Iranian crude oil but also imposed further sanctions targeting the Central Bank of Iran. They also banned European Protection and Indemnity Clubs (P&I Clubs) from providing Iranian oil tankers with insurance and reinsurance.³⁷⁴ Virtually all western companies have halted their activities in Iran.

All the sanctions had an impact on the geographical direction of the oil and oil-related products, as will be discussed below in detail. Moreover, insufficient amount of capital for retrofitting the production equipment and the oil fields created reduction in the production. For example, according to a report by the U.S. Energy Information Administration (EIA), Iran's crude oil production fell dramatically from nearly 3.7

³⁷³ Mehdi Majidpour, "The Unintended Consequences of US-led Sanctions on Iranian Industries," *Iranian Studies*, 46: 1, 2013, p. 5

³⁷⁴ US Energy Information Administration, *Iran Energy and Data Analysis Report 2015*.

million b/d in 2011 to 2.7 million b/d in 2013 due to the sanctions.³⁷⁵ The implementation of the U.S.-EU initiated sanctions of 2011-12, resulted in nearly 1.0 million barrels per day drop in the crude oil and condensate exports in 2012 compared with the previous year.³⁷⁶ The same report also mentions that international sanctions have stymied progress across Iran's energy sector, especially affecting upstream investment in both oil and natural gas projects. Lastly, financial sanctions caused problems for Iranian energy industries in their international transactions.³⁷⁷

As it is mentioned above, regarding the significance of the oil and the amount of resources owned by Iran, it is not possible to isolate this industry from the international accumulation regime. Apart from that, the analysis of the oil trade shows that the sanctions created a transformation in the direction of the trade, instead of totally vanishing it. In other words, Iranian policy makers and capitalists were able to create alternative mechanisms to internationalize the Iranian oil. During 1979-2005, when the U.S. sanctions were unilateral, Iranian oil industry was aided especially by the Europeans.³⁷⁸ Over the years of the sanctions, the market of Iran's crude oil started to shift from USA and Western Europe to Asia and the Pacific and some parts of the Europe such as Italy, Spain and Greece. Moreover, four countries out of the five biggest importers of Iranian oil became the Asian ones.³⁷⁹ According to US EIA,³⁸⁰ the largest buyers of Iranian crude and condensate are China, India, Japan, South Korea, and Turkey. This point is mentioned by different commentators with the argument that sanctions create stronger links between Iran and rivals of the United States, such as Russia and China. For example, Roger Howard claims that as Iranian oil is feeding the

³⁷⁵ Ibid.

³⁷⁶ Mohammad Hassani, 'Iran Oil Production, Investment Policy, International Sanctions and P5+1 Deal with Iran, 2006–2015', *Contemporary Review of the Middle East*, 3(4), 2016, p.414

³⁷⁷ Majidpour, "The Unintended Consequences of US-led Sanctions", p.14

³⁷⁸ Ibid.p.7

³⁷⁹ Siret Hürsoy ve H.H. Orhon, "Modern Dünya Sisteminde Sermaye Birikimi ve İran'ın Enerji Politikaları," *Ege Strategic Research Journal*, 3:2, 2012, p.71

³⁸⁰ US Energy Information Administration, *Iran Energy and Data Analysis Report 2015*.

oil hunger China and economic growth in India, their political relations become stronger as well.³⁸¹ In 2004, while Washington was pressing for referring the Iranian nuclear file to the UN Security Council, the Chinese oil company Sinopec and the National Iranian Oil Company drafted a memorandum of understanding for the development of the massive Yadavaran oil field.³⁸²

In fact, this was a mutual relationship since the rapid growth of the Chinese economy increased its need for the raw materials dramatically. As a result, China has become world's second biggest importer of oil following the USA. Interestingly, China is followed by India, Japan and South Korea which are also the biggest importers of the Iranian oil. Moreover, the oil consumption of only China is predicted to rise to 12.8 per barrels per day until 2030s and Asia's demand as a whole is expected to rise to 32 million which shows the prospective global demand for the Iranian oil.³⁸³ Iran is China's third-largest supplier of crude oil. The country is also an importer of Iranian Gas, as in 2002, the Chinese state owned oil company, Zhuhai Zhenrong, signed a twenty-five-year contract to import 100 million tons of LNG from Iran. Same year another Chinese company, Sinopec, signed a deal with Iran valued 70 billion dollars to import further 250 million tons for the next 25 years.³⁸⁴ Similarly, in 2005, India signed a 40 billion dollars' contract with the NIOC according to which Iran was expected to ship 5 million tons of LNG annually to India for 25 years.³⁸⁵

However, especially the sanctions on the insurance companies and other financial measures had adverse impacts on the purchase of Iranian oil in certain times. For example, in the first half of 2010, Chinese oil imports from Iran dropped by 35 percent. This was the period when Washington was pressuring Beijing to support the UN

³⁸¹ Howard, *Iran Oil*, p.3

³⁸² Erica Downs and Suzanne Maloney, "Getting China to Sanction Iran: The Chinese-Iranian Oil Connection", *Foreign Affairs*, Vol. 90, No. 2 (MARCH/APRIL 2011), pp. 15-21

³⁸³ Howard, *Iran Oil*, p.27

³⁸⁴ Rakel, *Power, Islam and Political Elite in Iran*, p.180

³⁸⁵ Ibid. p.81

sanctions with forcing the Saudi government to guarantee oil supplies to China.³⁸⁶ The former U.S. Secretary of State, John Kerry said in 2013 that a total of 20 countries have continued to significantly reduce the volume of their crude oil purchases from Iran.³⁸⁷

Despite these efforts, China protected its major role in Iranian oil trade in the long-run, even though its companies adhered to the UN Resolution 1929. Furthermore, as mentioned by the U.S. EIA, by the last quarter of 2012, despite the sanctions, the Iranian exports recovered as Japan, South Korea, and India began to issue sovereign guarantees for vessels carrying Iranian crude oil and condensate, which bypassed EU sanctions on the insurance companies.³⁸⁸ Lastly, Iran tried to bypass the financial sanctions by trying to export its oil with currencies other than dollar. In 2006, firstly, they declared the establishment of an oil market based on euros, and later with China and India it is agreed to transact oil with the local currencies.³⁸⁹ Even though, the system of payments with local currencies has not developed well, it sheds light on the efforts of Iran to integrate the oil industry into the international economy with alternative means.

3.3.3. Investment in the Iranian Oil Industry: IRGC, Buy-Back and IPC

There are mainly two dynamics affecting the foreign investment in the Iranian oil sector: the Iranian constitution and the sanctions. The article 81 of the Iranian constitution states that “it is absolutely forbidden to give foreigners the right to establish companies or institutions in commercial, industrial, and agricultural fields, as well as in mines and in the service sector.” Moreover, article 44 of the constitution underlines the state control over the key national industries such as the energy sector. Even though the article is

³⁸⁶ Downs and Maloney, “Getting China to Sanction Iran”

³⁸⁷ “Us Renews Exemptions EU, And Japan From Sanction on Iran Oil, Pakistan & Gulf Economist”; Karachi, 32:12, Mar. 2013, 47

³⁸⁸ US Energy Information Administration, Iran Energy and Data Analysis Report 2015.

³⁸⁹ Hürsoy and Orhan, “Modern Dünya Sisteminde Sermaye Birimi ve İran’ın Enerji Politikası”, p.81

modified in 2004 for privatization policies, oil and gas extraction kept its status of being a state sector.³⁹⁰

However, after the revolution as the oil production declined compared to the pre-revolutionary periods due to the outbreak of the Iran–Iraq war in September 1980; Iraqi attacks on Iran’s main export terminal at Kharg island; and the extension of international sanctions on the Iranian oil sector, the need of Islamic Republic for capital to develop the oil fields has come to surface.³⁹¹ This resulted in the development of new policies to bypass both the sanctions regime and constitutional restrictions on the private investment in the oil sector. In other words, as it was seen in the reconstruction efforts of Rafsanjani and the development of quasi-legal trading regimes, the oil industry is being integrated into the circuits of global accumulation through the development of alternative means.

The first response to the lack of capital for the development of the oil industry was introduced with President Rafsanjani’s idea of involving government organizations in business transactions as a way to generate independent income.³⁹² As a result, in the 1990s IRGC started to involve in non-military projects such as construction of refineries, depots, pipelines for gas, oil and mining. However, as discussed in the previous sections, this process reached its peak during the Presidency of Ahmadinejad when he started to offer no-bid contracts to the IRGC. In his term, IRGC started to serve for the engineering and logistical operations and developmental projects. Khatam al-Anbia, which is the reconstruction headquarters of the IRGC, got several contracts during his presidency, which were subcontracted to hundreds of other companies in the domestic sector. For example, in 2006, the National Iranian Gas Company awarded IRGC 1.3-

³⁹⁰ Thierry Coville, “How to Transform a rent-seeking Economy: The case of Iran”, in H. E. Chehabi, F. Khosrokhavar and C. Therme (eds.), *Iran and the Challenges of the Twenty-First Century: Essays in Honour of Mohammad-Reza Djalili*, Mazda Publishing, 2013, p.172

³⁹¹ Hassani, ‘Iran Oil Production, Investment Policy, International Sanctions and P5 + 1 Deal with Iran, 2006–2015’, p. 406

³⁹² Frederic Wehrey, et al. *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*. Rand Corporation, 2008, p.56

billion-dollar contract to build a gas pipeline.³⁹³ As a result, over the last decade, IRGC-linked contracting firms have replaced foreign companies in the development of oil and gas fields, pipeline projects and highway and tunnel construction. For instance, when the European oil companies pulled out of Iran's South Pars natural gas field on the Persian Gulf around 2010, President Ahmadinejad handed the largest chunk of the project's \$21 billion in contract for drilling, pipelines and platforms to the IRGC.³⁹⁴ However, as it is also mentioned by Kevan Harris, Khatam al-Anbiya has no problem with the international capital itself.³⁹⁵ It worked with European companies for the construction of dams and with Chinese, Indian and Russian firms on gas and oil projects. Similarly, Iranian state demands the imposition of foreign capital into the oil sector as in January 2016, Rouhani government's oil minister, who also served for the same office during the presidency of Khatami, in his visit of a giant gas project held by IRGC said that oil industry is suffering from the lack of foreign equipment and technologies.³⁹⁶ However, the only pre-condition for the foreign investment was to maintain the state control over the energy sector. In other words, IRGC is not to give up its privileged status in the oil fields to the international firms, which sets the basis of the struggle between the liberal capitalist classes and the conservative power centers on the state structure, as it is to be discussed in the next chapter.

The second response to the lack of capital for the development of the oil industry and to the domestic and international limitations for its internationalization of the sector was formulated through what is called as the buy-back contracts. These contracts are defined as service contracts which require the international oil company to invest its own capital and expertise for the development of oil and natural gas fields.³⁹⁷ After the field is

³⁹³ Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.187

³⁹⁴ Benoit Faucon, Stacy Meichtry and Asa Fitch, "Iran's Government and Revolutionary Guards Battle for Control of Economy", *Wall Street Journal*, 18 May 2016

³⁹⁵ Harris, 'Vectors of Iranian Capitalism', p.238

³⁹⁶ Faucon et al. "Iran's Government and Revolutionary Guards Battle for Control of Economy"

³⁹⁷ The U.S. Energy Information Administration, *Iran Energy and Data Analysis Report 2015*.

developed and the production starts, the project's operatorship reverts back to NIOC. The international oil company, on the other hand, earns its revenues from the sale of oil and gas by the NIOC, instead of getting a share in the oil and gas fields. These contracts prevent foreign companies to be granted with concessions (*emtiaz*) on the oil fields for their exploration, development and production activities. They also serve to circumvent the constitutional prohibition on granting oil rights to foreigners.³⁹⁸ As it is mentioned by Hursoy and Orhon, buy-back contracts are designed to protect the full sovereignty of state on the natural resources.³⁹⁹ They claim that, since Iran was not able to develop its competitiveness in the energy sector with its own resources, it tried to abolish the domestic obstacles on the global capital accumulation with buy-back contracts. It is claimed that, with this strategy Iran invites the foreign capital in its own territory, not in the way that they will serve only the interest of the core states but meet the needs of the Iranian energy sector too.⁴⁰⁰ Since the foreign company is neither a partner nor a concessionaire, but acting as a hired contractor servicing the national company, the sector is being internationalized (since it enables the merger of Iranian capital with the international ones and brings international investment into the domestic market, which were the two criteria of an internationalized economy) without breaching the constitutional limitations on the foreign investment.

The buy-back contracts, in fact, were a product of the Petroleum Law of 1987, which opened new spaces for capital accumulation by permitting the establishment of contracts between the Ministry of Petroleum and the state companies; and between local and foreign natural citizens and legal entities.⁴⁰¹ However, until mid-1990s, they have not been emerged as alternative mechanisms for encouraging the internationalization of the Iranian oil industry. Interestingly, the first buy-back production sharing contract was signed with the U.S.-based company Conoco of Houston in March 1995. The agreement

³⁹⁸ Howard, *Iran Oil* Howard, *Iran Oil*, p.33

³⁹⁹ Hürsoy and Orhon, "Modern Dünya Sisteminde Sermaye Birikimi ve İran'ın Enerji Politikaları", p.73

⁴⁰⁰ Ibid. p.74

⁴⁰¹ Bahgat, *American Oil Diplomacy in the Persian Gulf*, p.117

was on the development of the offshore Sirri crude oil field, which was estimated to contain 500-million-barrel oil reserves and expected to produce 120,000 barrels of crude in a day.⁴⁰² However, with the imposition of ILSA by the U.S. government in 1996, Conoco announced its withdrawal from the agreement. Following the Conoco agreement, Iran offered several agreements to various European, Canadian, Japanese and other Asian companies. For example, in July 1995, Total and Malaysia's Petronas signed a deal to develop the Sirri A and Sirri E gas fields.⁴⁰³ Same year in November, Iran paid efforts to call international capital for the development of 11 large oil and gas offshore projects.⁴⁰⁴ As a result, Russia signed a provisional agreement with Iran to establish joint venture companies in oil exploration, production, and sales.⁴⁰⁵ However, at the end of the same year, as Bill Clinton endorsed the legislation to penalize non-U.S. companies that invested more than 40 million dollar in a year in oil and gas projects, some of these companies stopped their activities. This created problem in the production capacities of some fields as some spare parts for the equipment were supplied by the U.S. companies.

Despite of the impact of ILSA, with the election of Khatami, Iran has continued to offer new contracts to the international companies. In March 1999, France's Elf Aquitaine and a consortium of Italy's ENI and Agip were awarded a \$1 billion contract for the recovery of the Doroud oil and natural gas field; and in April 1999, Canada's Bow Valley Energy signed a buy-back contract to develop the offshore Balad field.⁴⁰⁶ The internationalization of oil industry is intensified during the presidency of Khatami despite the sanctions, as a result, in late 1990s German investment bank Dresdner

⁴⁰² Hassani, 'Iran Oil Production...'p.407

⁴⁰³ Howard, *Iran Oil*, p.33

⁴⁰⁴ Ibid.

⁴⁰⁵ Hassani, 'Iran Oil Production...', p.407

⁴⁰⁶ Molavi, *Oil and Gas Privatization in Iran*, p.146

Kleinwort Benson was hired to conduct a study on Iran's petrochemical expansion and prepare a report that foreign investors could use as a guide.⁴⁰⁷

These efforts have become successful as in 2000 Norwegian firms, Norsk Hydro and Norex, were granted exploration contracts and Royal Dutch/ Shell Group has been involved in exploration projects in the southern Caspian Sea and development of Soroush and Nowruz oil fields.⁴⁰⁸ In the same years, Japan agreed to loan Iran \$3 billion in exchange for receiving the development rights of Azadegan.⁴⁰⁹ In 2004, Total and Petronas also agreed to develop Iranian oil fields; however, the project was handed over to Chinese National Petroleum Company in 2009, after complaints by the Iranian government about the delays on the part of Total and Petronas.⁴¹⁰ In the same year, Chinese Sinopec signed a \$70 billion deal with the National Iranian Gas Exporting Company to develop the Yadavaran oil field.

It should be noted that international sanctions kept affecting the duration and stability of those agreements. Norway's Statoil, Italy's ENI and Spain's Repsol reduced their investments several times. However, companies without significant exposure to the U.S. energy markets, by calculating whether the rewards of doing business with Iran outweigh the risks, continued their investment activities. The activities of these companies were under close scrutiny of the U.S. government. According to a report prepared by the Foundation for Defense of Democracies in 2010, following companies are having substantial operations in Iran and therefore deserve further investigation under the Comprehensive Iran Sanctions, Accountability, and Divestment Act (signed

⁴⁰⁷ Howard, *Iran Oil*, p.33

⁴⁰⁸ Bahgat, *American Oil Diplomacy*, p.115

⁴⁰⁹ Molavi, *Oil and Gas Privatization in Iran*, p.147

⁴¹⁰ Maysam Bizaer, "Will Total deal pave way for other oil majors' return to Iran?", November 30, 2016, *Al Monitor*,

<http://www.al-monitor.com/pulse/originals/2016/11/total-cnpc-iran-south-pars-return-international-oil-majors.html#ixzz4XaRH9tmo>, accessed February 2, 2017

into law on July 1, 2010, and the Iran and Libya Sanctions Act of 1996, amended in 2006 to the Iran Sanctions Act):

Table 5.⁴¹¹

Company	Country	Sectors
Aker Solutions	Norway	Natural Gas
China National Petroleum Company	China	Gasoline Supplier; Oil Exploration & Production; Natural Gas
Daelim Industrial Corporation	South Korea	Refining; Petrochemicals
Elektrizitäts-Gesellschaft Laufenburg	Switzerland	Natural Gas
Gazprom	Russia	Oil Exploration & Production
Haldor Topsoe	Denmark	Refining; Petrochemicals
Inpex	Japan	Oil Exploration & Production
The Linde Group	Germany	Refining; Petrochemicals
Lukoil	Russia	Oil Exploration & Production, Gasoline Supplier
LyondellBasell	Netherlands	Refining; Petrochemicals
Oil & Natural Gas Corporation	India	Oil Exploration & Production
Petróleos de Venezuela, S.A	Venezuela	Oil Exploration & Production; Natural Gas

⁴¹¹ Mark Dubowitz and Laura Grossman, 'Iran energy partners: Companies requiring investigation under U.S. law.', August 2010, http://www.defenddemocracy.org/content/uploads/documents/IEP_Report_August_2010_for_Website_PDF.pdf, accessed January 27, 2017, p.3

Sasol Limited	South Africa	Refining; Petrochemicals
Sinopec	China	Gasoline Supplier; Oil Exploration & Production; Refining
SKS Ventures	Malaysia	Refining; Petrochemicals; Natural Gas
ThyssenKrupp	Germany	Refining; Petrochemicals
Tupras	Turkey	Gasoline Supplier
WorleyParsons	Australia	Natural Gas; Petrochemicals
Zhuhai Zhenrong Corporation	China	Gasoline Supplier

Despite the sanctions, the international companies are not satisfied with the buy-back contracts. Apart from lengthy and slow negotiation processes, they complain about the structures of the contracts proposed. For example, in 2004 an official from Total said that “in buy-back you develop fields and when it is finished you say goodbye to everything.”⁴¹² Moreover, according to Facts Global Energy (FGE), the rate of return on buyback contracts ranges between 12% and 17%, and the payback period is between five and seven years.⁴¹³ As these have not satisfied the demands of the international companies, the Iranian officials recently developed a new oil contract model called the Iranian (or Integrated) Petroleum Contract (IPC).

Unlike, buy-back contracts IPC contains terms similar to a production-sharing agreement. As it is mentioned by Hassani, these contracts target to lift any financial, technical, and legal obstacles to expand Iran’s cooperation with the major oil companies.⁴¹⁴ In other words, they internationalize the oil industry through enabling

⁴¹² Howard, *Iran Oil*, p. 34

⁴¹³ US Energy Information Administration, *Iran Energy and Data Analysis Report 2015*.

⁴¹⁴ Hassani, ‘Iran Oil Production...’p.412

merger of Iranian capital with the international firms. While buy-back contracts cover only the exploration and development phases of the oil production, IPC encompasses the exploration, development, and production phases, along with the possibility to extend into enhanced oil recovery phases. Furthermore, IPC covers twice longer time period for the contacts, ranging between 20-25 years.⁴¹⁵ Even though these contracts allow exploration, development, and production projects with international companies, international investors still have to team up with Iranian companies to form joint ventures, whose 51% shares should remain in the hands of Iranians. Moreover, they do not allow any concessions resulting in the ownership of the reserves.

Even though the contracts are recently announced and have not taken their last form yet, an agreement signed with Total-led consortium within the IPC framework on November 8, 2016. Similarly, in November 27, Schlumberger Ltd., world's largest oil driller by market value, signed a preliminary deal to study an Iranian oil field, making it one of the most important contracts signed after the election of President Donald Trump.⁴¹⁶ Even though, the oil giants such as BP still hesitates to invest in Iran because of the sanction, this new type of contracts are expected to bring new foreign investment into the Iranian oil industry.

3.3.3.1. China and International Investment in Iranian Oil

There was an overlap between the energy strategies of Iran and China in mid-2000s, which made China the most crucial player in the internationalization of Iranian oil industry in an alternative way. As it is discussed above, since China's economy was growing, its role in the global energy markets has increased dramatically. To secure its supply and support its growth in the long-term, China initiated a policy of encouraging its national energy companies to invest in the overseas upstream projects and establish

⁴¹⁵ US Energy Information Administration, Iran Energy and Data Analysis Report 2015.

⁴¹⁶ Bizaer, "Will Total deal pave way for other oil majors' return to Iran?"

partnerships. Through this policy, Chinese firms have increasingly invested in oil and gas exploration and production projects in a variety of countries, including Iran.

At the same time, with the election of Ahmadinejad the relationship between Iran and the Western countries was deteriorated. As further sanctions were imposed on Iran, Ahmadinejad government started to look for alternative sources for the internationalization of the oil industry. As a result, contracts started to be offered to Chinese energy companies. For example, in January 2009, Chinese National Petroleum Corporation (CNPC) and NIOC signed a contract worth 2 billion dollars to develop the North Azadegan oil field.⁴¹⁷ In March 2009, the NIOC opened an office in Beijing and to support its relations with China, Iran opened its first commerce center in Shanghai in the same year.⁴¹⁸ As a result, at the end of the decade, China started to replace the European companies in the oil industry. In 2009, the CNPC replaced France's Total for the development of the South Pars phase 11. The Chinese investment in the Iranian oil industry has reached even above the limits allowed by the sanctions. At the end of the decade, Iran's deputy oil minister Hossein Noqrehkar Shirazi was stating that China had invested approximately \$ 40 billion in Iran's energy sector.⁴¹⁹ European companies were well aware of the Chinese investment wave in the Iranian oil fields and several times mentioned their concerns that Chinese companies are buying their voided Iranian contracts.

In fact, despite of its general reluctance, China supported UN Security Council resolution 1929, which states a relation between Iranian oil revenues and its nuclear activities. However, despite its support to the resolution, China made it clear that its companies will continue to do business in the Iranian energy sector. Since Chinese companies meet the needs of the Iranian oil industry with their investments, Foundation

⁴¹⁷ Hassani, 'Iran Oil Production...'p.409

⁴¹⁸ Mark Dubowitz and Laura Grossman, 'Iran's Chinese Energy Partners: Companies Eligible For Investigation Under U.S. Sanctions Law', Foundation for Defense of Democracies, September, 2010, [http://www.defenddemocracy.org/content/uploads/publications/China_Report_September_2010_for_Web site.pdf](http://www.defenddemocracy.org/content/uploads/publications/China_Report_September_2010_for_Web_site.pdf), accessed January 27, 2017, p.7

⁴¹⁹ Ibid. p.8

for Defense of Democracies, prepared another report indicating that China should be punished due to undermining the “international community’s policy toward Tehran.”⁴²⁰ The report provides a list of the Chinese companies, which should be taken into close scrutiny (See Table 6).

Table 6.⁴²¹

Company	Activity in Iran
China National Offshore Oil Company (CNOOC)	Exploration & Production
China National Petroleum Company (CNPC)	Exploration & Production; Gasoline Supply
China ZhenHua Oil Co., Ltd. (ZhenHua Oil)	Gasoline Supply
Shanghai Zhenhua Heavy Industry (ZPMC)	Technology & Equipment Supply
China Petroleum & Chemical Corporation (Sinopec)	Exploration & Production; Gasoline Supply
Zhuhai Zhenrong Corporation	Gasoline Supply
The Kerui Group	Equipment; Engineering Services
Kingdream PLC	Technology & Equipment Supply
Panyu Chu Kong Steel Pipe Company, Ltd.	Technology & Equipment Supply
Shanghai Sunry Petroleum Equipment Company, Ltd	Technology & Equipment Supply

⁴²⁰ Ibid. p.3

⁴²¹ Ibid. p.3

Regarding its growing dependence on the Iranian energy markets, it does not seem possible to persuade Chinese energy companies to end their activities in Iran. However, what is to be underlined in these developments is the role of China in the internationalization of Iranian oil industry, as this long list of active companies in the field proves.

3.3.4. Internationalization of the Oil Revenues: The National Development Fund

The Iranian oil industry is also being internationalized through the establishment of Sovereign Wealth Funds (SWF), or National Development Fund in the case of Iran. These funds are public and controlled by a state body or an independent institution. They are mostly composed of the surpluses of balance of payments, revenues from foreign exchanges, privatizations and sale of energy resources. According to the Santiago Principles, there are three characteristics of the funds: first of all, the funds are owned by a national or a federal state; second, the investments through these funds are targeting international markets; and lastly, the objective of each fund is different from country to country.⁴²² In the case of Iran, the establishment of such funds internationalizes the domestic Iranian capital through the expansion of oil capital to the other geographies.

In fact, SWFs first appeared as early as 1950s.⁴²³ First stabilization fund was established in Kuwait in 1953.⁴²⁴ Following the oil crisis of the 1970s, UAE and Saudi Arabia established their own funds and they are followed by Singapore and Chile in the 1980s. This was followed by other countries, such as Norway, China, Kuwait, Singapore, Qatar,

⁴²² Ezgi Nur Türkoğlu, *Sermayenin ve Devletin Uluslararasılaşması Sürecinde Kamusal Varlık Fonlarının İşlevi*, (Unpublished MA thesis), Hacettepe University, Law Department, 2017

⁴²³ Seyed Mahdi Sadatrasoul, Mohammadreza Gholamian, Kamran Shahanaghi, 'Investigating the Effect of Selected Sustainable Development Indicators on Credit Allocation: the Case of National Development Fund of Iran', *Iranian Journal of Management Studies (IJMS)* Vol. 8, No. 3, July 2015, p.455

⁴²⁴ Christopher Balding, *Sovereign Wealth Funds the New Intersection of Money and Politics*, New York: Oxford University Press, 2012, p.4

Russia, Australia, South Korea, and Kazakhstan; and recently Turkey established its own SWFs.

These funds are crucial for the internationalization processes as they bring the capital surplus into the global financial system and stabilize the international economy. As it is mentioned by Bazoobandi, SWF are contributing to the bailing of the Wall Street.⁴²⁵ These Funds became so influential during the 2008 global crisis since they provided the finance and investment that was necessary for the international companies who were losing value.⁴²⁶ Especially the impact of the SWFs of the Gulf countries on the international economic system during this period has been examined in different studies.⁴²⁷ Since the oil surplus is re-circulated into the international markets through the investments made by these Funds, they create a strong dependence between the fund owners and the Western capitalisms. The establishment of the IMF International Working Group of Sovereign Wealth Funds in 2008 is a reflection of this reality. The members of the Working Group are Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, China, Equatorial Guinea, Iran, Ireland, South Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad & Tobago, The United Arab Emirates and The United States.

Iran has also established its SWF in 2000 as an integral part of the third five-year-development plan. It was a product of Khatami's policy to decrease the dependence of economy on the oil revenues.⁴²⁸ As it is mentioned by Salehi-Isfahani, in Iran about one-third of the oil revenues are allotted for the domestic use, through payments to the

⁴²⁵ Sara Bazoobandi, *The Political Economy of the Gulf Sovereign Wealth Funds a Case Study of Iran, Kuwait, Saudi Arabia and the United Arab Emirates*, New York, Routledge, 2013.

⁴²⁶ Ibid. p. ix.

⁴²⁷ See. Hanieh, *Capitalism and Class in the Gulf Arab States*, 2011; Özdemir, *Kolektif Emperyalizm*, 2014

⁴²⁸ Fred Lawson, "The Persian Gulf in the Contemporary International Political Economy", in M. Kamrava (ed.), *The Political Economy of the Persian Gulf*, London, Hurst Publisher, 2014, p. 106

citizens.⁴²⁹ This meant that sustainability of the oil revenues in Iran is crucial for the regime stability regarding their functions in getting the public legitimacy.⁴³⁰

Furthermore, the growth of the Iranian economy is highly dependent on the oil revenues. For example, the growth rate was so low in 1999 when the oil revenues were around 18 million dollars and it rose dramatically in 2005 when the oil revenues increased to 48 billion dollars.⁴³¹ Therefore, in order to get rid of these effects of the Dutch Disease,⁴³² which defines the limitations of an economy that is highly dependent on one leading economic sector, Khatami initiated the idea of the 'Oil Stabilization Fund'. The Management and Planning Organization was established to manage the assets of the funds. In 2011, based on the Article 84 of the fifth Five-Year Development Plan (2011-2015), the fund was renamed as the National Development Fund of Iran and started to support the domestic industrial projects as well. For example, in 2011 the sources of the fund were used to finance South Pars projects.⁴³³ Similarly, in 2014 the Fund allocated \$125 million for scientific projects.⁴³⁴

As it is mentioned above, SWFs are contributing to the internationalization of oil sector by investing its revenues to the international markets. Since the information on the assets that the fund owns is not accurate, their impact on the global economy is not really clear. In September 2013, the fund is claimed to be the world biggest 21st SWF with its more

⁴²⁹ Djavad Salehi- Isfahani, 'Oil Wealth and Economic Growth in Iran', in Ali Gheissari (ed.) *Contemporary Iran: Economy, Society, Politics*, Oxford University Press, 2009, p.5

⁴³⁰ See. Giacomo Luciani, "Allocation vs. Production States: A Theoretical Framework", in G. Luciani (ed.) *The Arab State*, Kent: Routledge, 1990

⁴³¹ Salehi- Isfahani, 'Oil Wealth and Economic Growth in Iran', p.8

⁴³² Engin Sune ve Ali Murat Özdemir, 'Rantçı Devlet Yazını Üzerine Deneme', *Uluslararası İlişkiler*, 9: 35, Güz 2012, s.3-31

⁴³³ F. Milad, "National Development Fund to finance South Pars projects", *The America's Intelligence Wire*, Oct 26, 2011

⁴³⁴ TCA Regional News, "Iran's National Development Fund allocates \$125M for scientific projects", Oct 18, 2014

than \$52 billion-worth assets.⁴³⁵ In October 2013, the Board of Directors of the National Development Fund has declared that the fund holds \$18.1 billion, while at the same month Iranian first Vice-President Eshaq Jahangiri said that the figures are not genuine and the fund holds \$32 billion in fact.⁴³⁶ Similarly, the next year, the Deputy Director General of the fund said that when President Hassan Rouhani took the office the reserves of National Development Fund were around \$54 billion and has reached \$60 billion since then.⁴³⁷ A recent source says that the sources of the fund reached to \$68 billion in October 2016.⁴³⁸

Whatever their size is, Iranian SWF is circulating Iranian oil capital into the international markets. As it is mentioned before, first of all, it enables the expansion of the Iranian domestic capital into other geographies. In 2013, Deputy Head of National Development Fund Qasem Hosseini said that National Development Fund has approved to invest \$20 billion in 380 mega projects and it invests 10 percent of its total assets in the international markets.⁴³⁹ Similarly in 2014, Hosseini mentioned that the fund is ready to invest to other geographies in alliance with OPEC but the sanctions prevent them. Same year he also said that the fund is investing in Azerbaijan's financial markets.⁴⁴⁰ Secondly, Iranian National Development Fund internationalizes the Iranian oil industry by enabling the Iranian capital to merge with the international ones. For example, recently Milan-based CDP Equity, formerly known as Fondo Strategico Italiano, has signed up an investment deal with the National Development Fund of Iran worth \$ 2

⁴³⁵ Rahim Zamanov, "Sanctions affect Iran's National Development Fund", *McClatchy- Tribune Business News*, Washington, 14 September 2013

⁴³⁶ Fatih Karimov, "Report: Iran's National Development Fund holds \$18.1 billion", *McClatchy- Tribune Business News*, Washington, 26 October 2013

⁴³⁷ McClatchy- Tribune Business News; 'Assets of Iran's National Development Fund reach \$60 bln', Washington, 02 May 2014

⁴³⁸ Fatih Karimov, Assets of Iran's National Development Fund reach \$68B, *TCA Regional News*, Oct 2, 2016

⁴³⁹ Zamanov, "Sanctions affect Iran's National Development Fund"

⁴⁴⁰ Temkin Jafarov, Emil Ismayilov, 'Iran's National Development Fund intends to invest in Azerbaijan', *McClatchy- Tribune Business News*; Washington 03 May 2014

billion.⁴⁴¹ Similarly, China Investment Corporation (CIC) said that they are looking forward to launch a joint committee with the National Development Fund to facilitate investment in private sector projects in Iran.⁴⁴² Lastly, Kazakhstan's National Management Holding Baiterek plans to sign a memorandum of cooperation with the National Development Fund of Iran at the Kazakh-Iranian Business Forum in Tehran on February 7.⁴⁴³

3.4. The Sanctions and Internationalization of Iranian Economy

This section analyzes the effects of sanctions regime on the Iranian economy. Unlike the commonly held view that Iranian economy is under international isolation due to the sanctions, this part of the study analyzes the sanctions with a political economic perspective and targets to put forth the alternative mechanisms developed by the Islamic regime to circumvent them. In other words, the aim of the section is to demonstrate the process of the internationalization of the Iranian economy under the sanctions. With this aim, the section begins with a brief history of the sanctioning regime. Following that, it concentrates critically on the impact of sanctions on the economic and political structures of Iran. This part of the study ends with the examination of the practices developed by the Iranian regime to bypass the sanctioning regime, which contributed to the integration of the Iranian economy into the circuits of international capital accumulation.

⁴⁴¹ Global Money Management, 'SWF Duo Signs Joint Investment Deal', Jul 8, 2016

⁴⁴² Mehdi Sepahvand, 'Iran, China in talks for funding private sector projects', TCA Regional News, Jun 20, 2016

⁴⁴³ Interfax, Kazakhstan General Newswire; "Kazakhstan's Baiterek and Iran's National Development Fund to establish cooperation", Almaty, 01 Feb 2016.

3.4.1. Review of Iranian Sanctions

Sanctions, as mechanisms of disciplining and transforming the political and economic structures of the targeted states, have been imposed on the Islamic Republic since its establishment. As early as April 1980, following the invasion of the U.S. embassy, the first sanctions were imposed on Iran by the Carter administration and they have been effective ever since.⁴⁴⁴ This first initiative was prohibiting Iranian oil exports to the U.S., freezing all Iranian assets held by the U.S. institutions and banning the travel of enlisted Iranians. Even though the financial disputes related with the hostage crisis was tried to be settled with the Algiers accords in 1981, the sanctions regime prevailed by transforming the discourse on the reasons of its existence. After the hostage crisis, the sanctions are claimed to target, first the terrorist activities and later the nuclear issue. However, it should be noted that for the most part of their history, sanctions were unilaterally applied and they were not strict until the mid-1990s. For example, during the hostage crisis, Japan and Europe adopted minimalist trade sanctions only midway through the 15-month crisis and they were loose enough to enable the continuation of the trade.⁴⁴⁵ Of course, Soviet Union was vetoing the sanctions from the beginning. The U.S. companies were even conducting business with Iran's oil sector during the first decade of the sanctions by using the loopholes within the sanctioning regime.

In order to end this, in 1996, under the policy of dual containment policy, Clinton administration imposed Iran Libya Sanctions Act (ILSA). The Act mainly forced foreign firms to choose either to participate in the U.S. markets or to continue conducting energy-related transactions with Iran. In other words, ILSA was the first major extra-territorial sanction in which the USA punishes the third country firms investing more

⁴⁴⁴ Hadi Salehi Esfahani, and M. Hashem Pesaran. "The Iranian economy in the twentieth century: A global perspective." *Iranian Studies* 42: 2, 2009, p.207

⁴⁴⁵ Ray Takeyh and Suzanne Maloney, "The Self-Limiting of Iran Sanctions", *International Affairs*, 97: 6, 2011, pp.1297-1312

than \$20 million in one year in the Iranian energy sector. As Takeyh and Maloney mentions, this policy contradicts with the U.S. commitments to free trade.⁴⁴⁶

However, until 2006 the U.S. sanctions remained unilateral and they were not stable. For example, during 1999-2000 sanctions were eased in order to support the liberalization efforts of Khatami. Just one month before the 9/11 attacks, on the other hand, the Bush administration extended ILSA for further 5 years and renamed it as the Iran Sanctions Act. President Bush prioritized multilateral cooperation in sanctions and tried to broaden the impact of the U.S. unilateral measures. He also initiated a campaign focusing on the financial firms in Europe and the Persian Gulf.⁴⁴⁷

Since 2002, USA and the EU approaches on Iran have started to converge as the nuclear issue came to the fore. The critical moment was 2002, when the International Atomic Energy Agency (IAEA) confirmed the allegations that Iran was building facilities that could produce fissile material for the development of nuclear weapon. After Iran failed to suspend its uranium enrichment program, the UN Security Council imposed several sanctions targeting Iran between 2006 and 2010. The UN declared Resolution 1737 in December 2006, which was the first resolution on sanctions against Iran. The resolution mainly requested the UN members to prevent any assistance to Iranian enrichment related fields. Furthermore, the EU has also expressed its concerns on Iranian nuclear program and imposed sanctions since February 2007.

The UN sanctions have continued in March 2007 with the Resolution 1747 and March 2008 with the Resolution 1803. Similarly, the U.S. has maintained its sanctions policy during late 2000s. Since 2006, the Treasury Department has used its own authorities to persuade foreign banks and succeeded in convincing 80 of them to cease handling financial transactions with the Iranian entities. For example, in 2005 Treasury fined Dutch bank ABN Amro for doing transactions with Iranian Bank Melli (owned by the IRGC). In December 2009, Credit Suisse agreed to pay \$536 million for illicit

⁴⁴⁶ Ibid. p.1302

⁴⁴⁷ Ibid. p. 1303-4

processing of Iranian transactions with the U.S. banks. Similarly, Dutch Bank IMG, Clearstream Banking of Luxemburg and Bank of Moscow were fined for breaching Iranian sanctions.⁴⁴⁸

Since 2010, sanctions regime has been tightened further by the efforts of the U.S., UN and EU. The sanctions ever since have been targeting especially the financial sector. For example, in 2010, Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), which enforces the U.S. banks to terminate correspondent banking relationships with the foreign banks that knowingly engaged in significant transactions with the designated Iranian banks. Similarly, in 2011, National Defense Authorization Act for Fiscal Year 2012 sanctioned Iranian Central Bank, which received the country's oil receipts to a great extent. As a result of these sanctions, in 2012, HSBC Holdings, PLC and HSBC Bank USA NA had agreed to forfeit \$1.256 billion to the U.S. in connection with violations of sanctions targeting Iran.⁴⁴⁹ EU, following a similar policy, imposed comprehensive sanctions in the form of trade ban and banking restrictions in July 2010. In 2012, EU Foreign Affairs Council decided to impose an embargo on Iranian crude oil and petrochemical products. This was accompanied by an insurance ban for oil shipments and freezing assets of the Central Bank of Iran.

However, perhaps the most influential sanctioning policy was the decision of the Council of European Union in March 15, 2012, to prohibit the provision of specialized financial messaging services to certain persons and entities that are designated by the UN or EU, or have engaged in, supported, or been associated with Iran's proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems. In response to the Council's decision on May 17, 2012, the Belgium-based Society for

⁴⁴⁸ Kenneth Katzman, 'Iran Sanctions', *Current Politics and Economics of the Middle East*, 5:1, 2014, pp.31-157

⁴⁴⁹ United States Government Accountability Office Paper, 'Iran: US and International Sanctions Have Adversely Affected the Iranian economy', in Lucas Ebner (ed.), *Sanctions on Iran and Their Impact*, New York, Nova Publishers, 2013, p.108

Worldwide Interbank Financial Telecommunication (SWIFT) announced ending its all transactions with Iranian banks that had been designated by the EU.⁴⁵⁰ This has severely influenced the Iranian economy as Iranian banks are prevented to engage in global financial transactions.

Lastly, in July 14, 2015, the P5+1, the European Union, and Iran came to an agreement on Iranian nuclear program with the Joint Comprehensive Plan of Action (JCPOA). The plan requires limited, temporary, targeted and reversible easing of the international sanctions. Despite of this, on February 2017, the U.S. Treasury imposed further sanctions on Iran as it conducted its first ballistic missile tests a couple of weeks before. The Trump government sanctioned, 12 institutions and 13 individuals from the UAE, Lebanon and China, with the allegations that they involved in the ballistic missile program. The Treasury also sanctioned four Lebanon companies which were claimed to be owned by the IRGC.⁴⁵¹

3.4.2. The Impact of Sanctions

There are different views on the impacts of sanctions on Iran, ranging from the denial of any detrimental effects to the exaggeration of the consequences of sanctioning regime. For instance, Iranian leaders always tended to demonstrate the sanctions as ineffective by celebrating the country's capacity to endure external pressures. In fact, as Jahangir Amuzegar argues the U.S. sanctions have not produced the anticipated results or transformed the Islamic regime.⁴⁵² However, it is also wrong to claim that sanctions had no impact on the economic structures of Iran.

⁴⁵⁰ Ibid. p. 114

⁴⁵¹ Sputnik Turkiye, February 3, 2017, <https://tr.sputniknews.com/abd/201702031027060807-abdden-irana-yeni-yaptirim/>, accessed February 24, 2017

⁴⁵² Jahangir Amuzegar, 'Adjusting to Sanctions', *Foreign Affairs*, 7:3, pp.31-41

First of all, it is underlined that the sanctions created a notion of self-sufficiency and self-reliance. In the Iranian case, this self-sufficiency turned out to be regime's new ideological narrative. For example, Ayatollah Khamenei said that sanctions made Iranian youth to produce whatever the enemy did not want them to do.⁴⁵³ In this sense, the sanctions viewed as hardening the regime even more.⁴⁵⁴ This has reached its peak during Ahmadinejad's Presidency, who was able to present the nuclear program to the Iranians as a symbol of national honor, a scientific success and resistance to the West, especially after the first UN Security Council resolution on Iranian sanctions. Apart from that, the development of the automotive and the agricultural machines industry are also shown as the signs of increasing self-sufficiency.⁴⁵⁵ However, the manufacturing of new automobiles in the country fell from 1.5 million to 800,000 annually especially after the EU sanctions due to the lack of necessary equipment. Another example is the implementation of the first gas to liquids plants in 2011. Since the necessary equipment for the project cannot be transferred from the Western Companies, the Industry, Mine and Trade Ministry of Iran developed the project indigenously.

In reality, the self-sufficiency discourse has come together with the increasing role of the Revolutionary Guards in the economy. During the sanctions, as many foreign companies are kept away from the Iranian market, IRGC has started to dominate industries from energy to telecommunications.⁴⁵⁶ IRGC has bought the domestic bankrupting firms, compensated the financial shortages in the energy sector and stepped into broker business deals with countries outside the sanctioning regime. IRGC's main company, Khatam al-Anbia, started to conduct the biggest infrastructural projects. This is why

⁴⁵³ Takeyh and Maloney, "The Self-Limiting of Iran Sanctions", p. 1306

⁴⁵⁴ Willem van Kemenade, "China vs the Western Campaign for Iran Sanctions", *The Washington Quarterly*, 33: 3, 2010, p.110

⁴⁵⁵ Majidpour, "The Unintended Consequences of US-led Sanctions on Iranian Industries", p.11

⁴⁵⁶ Benoit Faucon, Stacy Meichtry and Asa Fitch, "Iran's Government and Revolutionary Guards Battle for Control of Economy", *Wall Street Journal*, 18 May 2016

some commentators conclude that imposing further sanctions is likely to increase the economic power of IRGC.⁴⁵⁷

Secondly, as it was discussed in the previous section, the sanctions affected the Iranian oil and gas industry. At this very point, it is useful to remind that even though sanctions have influenced Iranian energy industry, it did not shake its foundations. As it is indicated before, due to Iran's considerable role in the global energy market, sanctioning Iran's oil and gas will result in international turbulence. This major role played by Iran in the supply of world energy resources made the commentators to claim that restricting Iranian oil exports into the extreme levels would be sanctioning other countries, such as China.⁴⁵⁸ Despite this, especially after the involvement of EU into the sanctioning regime, there was a decrease in Iranian oil exports in 2011. However, this impact is ambiguous since the gas production increased and oil revenues recovered in the following years. Even so, sanctions created a burden on the oil industry since it limits the investment and marketing options. As it is mentioned by one of the officials of the Iranian enterprise MAPNA, the biggest power plant constructor in Iran and the Middle East, General Electric's products had higher quality and lower prices but they cannot work with the U.S. firms due to sanctions.⁴⁵⁹

Third, the sanctioning regime had an impact on the international trade and investment related fields. Especially Iran's inability to conduct trade with the biggest economy and market of the world, including that the U.S. compromised almost 20 % of Iran's total trade before the revolution, had an adverse impact on the related fields. Especially, after the second half of 2012 with the EU sanctions, the burden of sanctions on the Iranian

⁴⁵⁷ Farhang Morady, "Who rules Iran? The June 2009 election and Political Turmoil", *Capital and Class*, 35 (1), p.56

⁴⁵⁸ Kemenade, "China vs the Western Campaign for Iran Sanctions", p.109

⁴⁵⁹ Majidpour, "The Unintended Consequences of US-led Sanctions on Iranian Industries", p.10

international trade has increased. However, Iranian markets are still flooded with American made computers, drilling equipment parts from trucks to tanks.⁴⁶⁰

The relation between the sanctions and international investment in Iran is even more ambiguous regarding that easing the sanctions has not affected the volume of international investment so far. The Joint Comprehensive Plan of Action (JCPOA) requires limited, temporary, targeted and reversible easing of international sanctions. However, as it is mentioned by several commentators, the end of sanctions will not be enough to attract investors.⁴⁶¹ This is mostly due to Iran's domestic policies and self-induced political risk as they reduce the commercial desire for investing in the country. Moreover, major banks, including the World Bank, are hesitant to provide cover for deals with Iran.⁴⁶² The insufficient market liberalization, corruption and conspiracies about the intention of the foreign investors are said to hinder the engagement of international capital. This fact is manipulated by the conservative power centers in Iran and became the new anti-Western discourse against president Rouhani as Iranian economy remained stagnant despite the ease of sanctions. For example, in May 2016, at the Europe-Iran forum in Zurich, a businessman from Iran said that they recognize the internal problems relating to Iran's opaque business structures and outdated banking systems but the sanctions contribute to these conditions by shutting Iran out of global financial reforms and providing fertile ground for the black market and the growth of the IRGC's reach into economy.⁴⁶³

Lastly, the financial sanctions, especially the decision to exclude Iran from the SWIFT system, had the most drastic impact on the Iranian economy. The last wave of sanctions influenced firstly the transactions for the Iranian exports. Due to the lack of a legally

⁴⁶⁰ Bryan R. Early, *Busted Sanctions: Explaining Why Economic Sanctions Fail*, California, Stanford University Press, 2015, p.117

⁴⁶¹ Cyrus Amir-Mokri and Hamid Biglari, "A Windfall for Iran? The End of Sanctions and the Iranian Economy", *Foreign Affairs*, 94, 2015

⁴⁶² Ellie Geranmayeh, "Rouhani's Greatest win on the verge of becoming liability", *Al Monitor*, May 19, 2016

⁴⁶³ Ibid.

viable payment process, Iran was unable to receive its oil and gas revenues from Asian countries for months. In May 2016, the Indian PM Narendra Modi visited Tehran and underlined India's effort in its struggle to convince European banks to process a none-off euro payment of debt owed to Iran for oil imports worth \$6.5 billion.⁴⁶⁴ Apart from the impact on the payments, sanctions have also affected the borrowing capacity of Iran. USA has targeted to prevent Iran's financing capacity by Export-Import Bank, export credits, loan guarantees and export insurances. USA instructed its representatives in the international financial institutions, such as World Bank, IMF, and Asian Development bank, to vote against loans to Iran.⁴⁶⁵ These financial sanctions by the USA forced Iran to find alternative financing sources. Obviously, these alternatives increased Iran's costs of financing, as it had loans in less favorable terms. Also, financial sanctions have caused Iran to sign unfavorable oil contracts as the options were limited.⁴⁶⁶

3.4.3. The Alternative Mechanism Circumventing the Sanctions

After putting forth the impact of the sanctions on Iran, now it is useful to demonstrate what alternative methods Iranian policy makers have developed over the years of sanctions to remedy those adverse effects. The long-standing sanctions have turned into a dynamic game in the last decades in which the U.S. or the international community implements sanctions and Iran develops countermeasures to bypass them. As it is put by Takeyh and Maloney,⁴⁶⁷

“The regime is resourceful, adaptable and well versed in insulating its preferred constituencies and in identifying alternative suppliers. Iranian leaders are experienced at replacing prohibited suppliers, finding alternative financiers and absorbing additional costs in order to mitigate the impact of sanctions.”

⁴⁶⁴ Ibid.

⁴⁶⁵ Akbar E. Torbat, 'Impacts of the US Trade and Financial Sanctions on Iran', *The World Economy*, 28:3, 2005, p. 418.

⁴⁶⁶ Ibid, p.421

⁴⁶⁷ Takeyh and Maloney, "The Self-Limiting of Iran Sanctions", p.1310

The first measure developed by the Iranian policy makers against the sanctions was to change the geographical location of its international economic activities and diversify its trading partners.

Table 7. ⁴⁶⁸

Top five countries from which Iran Imported goods

1997	2010	2015
Germany	UAE	UAE
Japan	China	China
Argentina	Germany	South Korea
Italy	Korea	Turkey
Russia	Turkey	India

During 1990s, EU emerged as the first alternative valve for bypassing the sanctioning regime. In 1992, despite the U.S. expectation from its allies to support the sanctions, EU initiated the policy of “critical dialogue” with Iran, which meant criticizing Iranian government for their activities but maintaining diplomatic and economic relations.⁴⁶⁹ As a result, in order to punish the third parties, the USA initiated ILSA in 1995 and EU refused to join these further sanctions. Until the UN sanctions, EU emerged as the main trading partner of Iran for bypassing the U.S. sanctions. For example, the French firm Peugeot, which was a partner of the Iran’s largest auto firm Khodro, has stayed in the Iranian auto industry market until 2006.

As the EU has become more reluctant to maintain its business activities with Iran due to the intensification of sanctions, Iran started to rely more on its Southern neighbors. Especially regarding their geographical proximity to Iran, their historical commercial

⁴⁶⁸ Source: World Bank, World integrated Trade Solutions

⁴⁶⁹ Nader Habibi, "The Iranian Economy in the Shadow of Sanctions", in P. Alizadeh, and H. Hakimian, (eds.) *Iran and the Global Economy: Petro Populism, Islam and Economic Sanctions*, Routledge, 2013, p.177

ties and their rapid internationalization in the last decades, the GCC countries were the best alternatives to replace Europe. This is why the trade between Iran and GCC was limited until 2000s and boosted afterwards. Since GCC countries refused to cooperate with the unilateral U.S. sanctions, the tendency of Iranian officials to direct their economic activities to this region has increased. As a result of this, GCC exports to Iran increased from \$1.3 billion to \$13.4 billion in 2008 and Iran exports to the region increased from \$630 million in 2000 to \$2.62 billion in 2008. This increase is not distributed evenly. Iran's imports from the UAE rose 11 times during 2000-2008.⁴⁷⁰ What makes UAE more special than the other GCC countries is the port city of Dubai, which serves as a major re-export center for the entire Middle East and particularly for Iran. Moreover, the existence of a huge Iranian diaspora in the UAE, as it is discussed before, was also effective in this rise. There has also been a rapid increase in the number of Iranian owned businesses in the UAE during 2000s, due to the participation of EU in the sanctions.⁴⁷¹ As a result of this, at the end of 2000s, the imports from UAE were accounted for more than 20% of Iran's total imports.⁴⁷² As it can be seen from the chart above, in 2015 UAE's share increased to 39.5%.

⁴⁷⁰ Nader Habibi, 'The Impact of Sanctions on Iran-GCC Economic Relations', *Middle East Brief*, No.45, November 2010

⁴⁷¹ Habibi, "The Iranian Economy in the Shadow of Sanctions"

⁴⁷² Esfahani, and Pesaran. "The Iranian economy in the twentieth century"

Table 8.⁴⁷³**Iran's Imports/ Exports by Country (2015)**

Imports		Exports	
UAE	39.5%	China	22.3%
China	22.3%	India	8.7%
EU	9.0%	Turkey	8.5%
South Korea	4.7%	Japan	4.5%
Turkey	4.6%	South Korea	3.3%
India	4.0%	Pakistan	2.7%
Brazil	2.1%	Syria	2.6%
Russia	1.3%	UAE	2.1%

Apart from that, as it was discussed before, the UAE's role in busting the sanctions on Iran's behalf is even bigger, regarding the volume of smuggling and unreported trade. Dubai's global role as a global hub for the re-exports, as in 1990 nearly 7 percent of the world's total international trade passed through Dubai by land, air, or sea, is said to bring the world at Iran's doorstep.⁴⁷⁴ UAE's use of Iranian sanctions regime as a commercial opportunity made some commentator to claim that the peace in Persian Gulf

⁴⁷³ Source: European Commission Directorate-General for Trade

⁴⁷⁴ Early, *Busted Sanctions*, p.104

is against the interest of Dubai's merchants.⁴⁷⁵ Similarly, during my interviews in Iran in Tehran in 2015, by pointing the Iranian businessmen in Dubai, a Professor of Economics said that the internationalized capitalist classes of Iran are against the internationalization of Iranian economy as they benefit from the existing system.

Apart from the UAE, other neighbors in the South of Iran were used too for circumventing the sanctions. For example, the trade between Iran and Oman increased. Similarly, during the presidency of Khatami, Iran's trade with Saudi Arabia increased by 315%.⁴⁷⁶ However, as the U.S. realized the increasing role of the GCC, especially of Dubai, in helping Iran to bypass the sanctions regime, it started to pressurize them to end their business activities with Iran. Revelations about the active participation of the UAE in A. Q. Khan proliferation network's efforts to export nuclear-related items and technologies to Iran stimulated further such U.S. efforts to prevent UAE.⁴⁷⁷ As a result of US efforts and later UN sanctions, the UAE revised its business activities with Iran and in June 2010, UAE Central Bank ordered its banks to freeze the assets of 41 Iranian entities.⁴⁷⁸ Moreover, in 2012, Dubai-based Noor Islamic Bank, which was used by Iran for its oil payments, announced that it ends transactions with Iran.⁴⁷⁹ Similarly, Kuwaiti oil traders declared the end of their gasoline sales to Iran in 2010 in response to the U.S. warnings. However, despite of these efforts, there are strong evidences that UAE is still helping Iran to bypas the sanctions. For example, in September 2016, the U.S. Treasury Department identified six individuals and four companies in UAE helping Iran to evade oil sanctions.⁴⁸⁰ Regarding the existence of the quasi-legal trading networks, UAE's role in these activities seems inevitable.

⁴⁷⁵ Ibid. p.103

⁴⁷⁶ Habibi, "The Iranian Economy in the Shadow of Sanctions"

⁴⁷⁷ Early, *Busted Sanctions*, p.90

⁴⁷⁸ Habibi, "The Iranian Economy in the Shadow of Sanctions"

⁴⁷⁹ Katzman, 'Iran Sancions', p.98

⁴⁸⁰ Con Coughlin, Iran's secret trade links to bypass sanctions, *The Telegraph*, September 29, 2016

Especially after the UN sanctions, Iranian policy makers tried to build strategic ties with Turkey, and Brazil. President Ahmadinejad made visits to these countries to enhance the cooperation. Even though the extent of their contribution to Iran's success in bypassing sanctions varies, they formed "Trilateral Declarations" with Iran in May 2010 and tried to mediate between the West and Iran on the nuclear issue. After the financial sanctions of 2012, especially Turkey started to play an important role in bypassing the sanctions. For example, it was identified that there was a tremendous increase in gold exports from Turkey to Iran during this period. As it was analyzed before, through this way billions of dollars were transferred to the Central bank of Iran by using the loopholes in the sanctions. In December 2013, the American blacklist included also 512 Turkish companies that traded with Iran through bypassing the U.S. and EU sanctions.⁴⁸¹ Moreover, Turkish Halkbank was accused of bypassing the financial sanctions and on January 6, 2014, the Commerce Department issued an emergency order blocking a Turkey-based firm from re-exporting U.S.-made jet engines to Iran.⁴⁸² In 2017, the vice-president of the Turkish bank was arrested at New York upon these activities.

Russia and China are the other sources of internationalization for Iranian economy during the sanctions. Even though the volume of trade between Iran and Russia is limited, Moscow has been against the U.S. sanctions from the beginning. This is mostly a strategic decision regarding its rivalry with the USA and close political relations with Iran. Moreover, Russian officials were mentioning that sanctions provoke further radicalization in Iran.⁴⁸³ Therefore, Russia maintained its economic and political relations with the Islamic Republic. For instance, in early 2014, Russia and Iran signed an agreement by which Russia pledged to act as a trade broker for 500,000 barrels of Iranian oil daily, by which the funds received from its re-export would be used to supply necessary goods to Iran.

⁴⁸¹ Sergey Sargsyan, Iran: An Attempt to Bypass The Sanctions, Noravank Foundation, July 6, 2015,

⁴⁸² Katzman, "Iran Sanctions", p. 96

⁴⁸³ Takeyh and Maloney, "The Self-Limiting of Iran Sanctions", p.1310

China, on the other hand, as Iran's biggest trading partner, inevitably contributes to the internationalization of Iranian economy under the sanctions. As it was seen in the previous section, sanctioning Iranian energy sector will mean for China to indirectly sanction itself. Moreover, by replacing the western firms, China became the biggest beneficiary of the sanctions. The Chinese oil payments to Iran are even returning back to the Chinese markets as Iranian payments to the oil companies or the imports from the country.⁴⁸⁴ Moreover, China, as a country which subjected to a transatlantic arms embargo after the Second World War, voiced against the sanctions in every occasion. For example, after the UN sanctions of 2007, the Chinese ambassador said that the sanctions should not affect the normal economic, trade and financial exchanges between Iran and other countries.⁴⁸⁵ Similarly, Jiand Yu, the Foreign Ministry spokeswoman of China, in response to President Sarkozy's call for massive sanctions, said that China always believes that sanctions and pressure should not be an option.⁴⁸⁶

Apart from China, other Asian countries such as South Korea, Japan, India and Malaysia have also become significant players in Iran during the course of sanctions. Japan exports significant amounts of chemical and rubber products as well as electronics with local currency. Similarly, South Korea exports electronic consumer products such as Samsung and LG and pays through local currency to Iran's Central Bank for its exports.⁴⁸⁷ India, as another reluctant sanction imposer, convinced Iran to pay its oil imports with rupees in January 2012. At the end of the year, Iran was supplying 10% of Indian oil; even though, with the pressures coming from the EU and USA, this has decreased to 6% in mid-2013.⁴⁸⁸

Iran has also started to strengthen its economic relations with the other neighbors to diversify its partners. For example, in May 2009, Iran and Armenia inaugurated a natural

⁴⁸⁴ Early, *Busted Sanctions*, p. 114

⁴⁸⁵ van Kemenade, "China vs the Western Campaign for Iran Sanctions", p.101

⁴⁸⁶ Ibid. p.102

⁴⁸⁷ Katzman, "Iran Sanctions", p.92

⁴⁸⁸ Ibid. p.93

gas pipeline between the two, built by Gazprom of Russia. Azerbaijani officials assert that Iran is using occupied Nagorno-Karabakh territory to circumvent international financial sanctions. It is also claimed that IRGC companies have established 150 front companies in Georgia for the purpose of importing dual-use items.⁴⁸⁹ Afghanistan, on the other hand, is used to acquire foreign currency and Iran-owned Arian Bank, in Afghanistan, is used to move funds from one location to another.⁴⁹⁰ Of course, Iraq was another effective player in sanctions busting. In 2013, the country signed an agreement with Iran to buy 850 million cubic feet per day of natural gas through a joint pipeline. It was reported in February 2014 that Iraq ordered \$200 million worth of arms from Iran, despite the UN ban on Iranian arms exports.⁴⁹¹ Lastly, as international sanctions intensified during his term, President Ahmadinejad has built strong relations with Latin American and African countries. As it is to be discussed below, especially the relations between Venezuela were really effective in bypassing the sanctions.

The second measure developed by the Iranian policy makers against the sanctions is to employ the economic power of its para-governmental organizations which turned to be the monopolies over the years. As it was discussed before, one of the examples of such reliance on the national monopolies was the replacement of international corporations by the IRGC affiliated firms. As it is mentioned by Daryani and Nakhae, Ahmadinejad's election in 2005 and the following UN sanctions in 2006 coincided with the increase in awarding contracts to the IRGC's construction firm GHORB.⁴⁹² Even though the role of IRGC in circumventing the sanctions is widely discussed in the literature, participation of the other para-governmental institutions in the process is neglected. The tax-exempt religious charities, namely the Bonyads, also use their economic power and international connections to subvert the sanctions. Since these institutions are to be analyzed in detail

⁴⁸⁹ Ibid. p.97

⁴⁹⁰ Ibid. p.99

⁴⁹¹ Ibid. p.98

⁴⁹² Hessam Daryani and Nima Nakhae, "The Changing Formations of the Power Bloc in Iran and the Neo-National Bourgeoisie", *Global Discourse*, 2011, p.103

in the next chapter, for the moment it is useful to say that these para-governmental organizations have already become the international corporations of Iran and they are compartmentalized in dozens of smaller entities in and out of Iran. With this characteristic, they are able to transfer funds from one entity to another without being detected. This is why some commentators call these institutions as the excellent mechanisms to bypass the U.S. sanctions.⁴⁹³ Their complex and deceptive structure even enables some of their firms to operate within the IMF.

One of the examples of how Bonyads use their economic power and structure to bypass the sanctioning regime is their business relations with Latin America. Companies from Argentina and Brazil have been known to implement and adhere to Iranian Bonyad ventures. In Venezuela alone, there are at least ten manufacturing plants whose shareholding distribution is 49 % Iranian business connected with Bonyads, leaving 51 % within Venezuelan state. One example of this is the case of the Venezuela based Banco Internacional de Desarrollo, whose all executive board is occupied by the Iranians.⁴⁹⁴ In order to prevent Bonyads to bypass the sanctions, there is no option but to impose sanctions on Venezuela as well, along with other states and privately owned international banks. Moreover, as these institutions are not accountable and transparent, the companies under their control are not known and this makes it even more difficult to impose effective sanctions.

Lastly, the Iranian officials have developed complex integral system of legal and gray schemes to bypass the sanctions over the long-lasting sanctions history. These include methods such as barter transactions, oil-for-goods deals, trade in gold, use of national currencies instead of dollars etc. For example, Iran started to use barter as a payment method, as in late August 2012 when China settled some of its oil bill to Iran by providing 315 subway cars for the Tehran metro.⁴⁹⁵ Similarly, Iran engaged in barter

⁴⁹³ Kerry Patton, “Bonyads: Iran’s Greatest Strength against Sanctions”, *American Thinker*, 2012

⁴⁹⁴ Ibid.

⁴⁹⁵ Katzman, ‘Iran Sanctions’, p.96

agreements with India exchanging oil for food, medicine, and commercial products which helps Iran to continue selling oil to other countries without accessing the international financial institutions.⁴⁹⁶

Perhaps the most effective method to bypass the financial sanctions through legal and gray schemes was the case of gold issue in between Turkey, UAE, and Iran as it was mentioned before. Iran began selling its natural gas to Turkey in return for Turkish lira that it kept in local bank accounts. Iranians then used these funds to buy gold bullion, the trade of which was not subjected to international sanctions. Since under UAE custom rules, individuals can legally import up to 50 kilos of gold in to the country in a single visit, gold transferred easily from Turkey to UAE.⁴⁹⁷ The role of close figures to IRGC, such as Zencani and Zerrab, in these transfers was mentioned in the discussion of the establishment of quasi-legal trading networks. Since, Turkish exports to the UAE exploded from \$7 million to \$1.9 billion from July to August 2012 and the gold Turkey shipped to the UAE in August comprised over 82 % of Turkish total gold exports that month,⁴⁹⁸ the gold transfer was detected by the U.S. officials. As a result of the U.S. pressure, Turkey ended its participation for 'gas for gold' scheme.

Furthermore, the U.S. sanctions do not ban the import of gasoline or other energy products from the foreign refiners that contain and mix Iranian oil with oil from other producers. Therefore, much of the Iranian oil is mixed and imported into the U.S. through EU countries such as Netherlands until the imposition of the EU sanctions.⁴⁹⁹ Iran is also using small and medium businesses which were ready to supply strategic products for extra profits. It is claimed that these companies are receiving payments for their brokering services in amount of 15-20 % of the trade deal value. Depending on the

⁴⁹⁶ United States Government Accountability Office, 'Iran: US and International Sanctions Have Adversely Affected the Iranian economy', p.144

⁴⁹⁷ Early, *Busted Sanctions*, p.2

⁴⁹⁸ Ibid.

⁴⁹⁹ Katzman, 'Iran Sanctions', p.50

importance of the deal, the payment may go up to as much as 30 percent or higher.⁵⁰⁰ Due to these broker activities, on January 2013, Adam Szubin, the director of the U.S. Treasury's Office of Foreign Assets Control said Iranians were using private exchange houses and trading companies in other countries, masking transactions with fake identities and relying on the paperless practice known as hawala, common in parts of the Middle East and Asia, in which money is transferred informally and often illegally through trustworthy couriers.⁵⁰¹ Lastly, Iran started to discuss to switch from SWIFT to Chinese International Payment System (CIPS) or a similar infrastructure, which will enable banks in different countries to conduct transactions with each other.

Conclusion: Internationalization through Quasi-Legal Mechanisms

The issues related with the international economic activities of Iran, which were analyzed within the scope of this chapter, enable the study to come up with two main conclusions. While the first one signifies the similarity of the internationalization of Iranian economy with the other countries, the other underlines its differences. The analysis of the common tendencies in these different spheres of the economy demonstrates that, similar to the other geographies, Iranian economy is not immune from the capitalist expansion and integration. As it is mentioned before, there are six elements of the internationalization of an economy. The developments taking place in Iran since 1990s prove that Iranian economy fulfills these criteria. It has been shown in several instances that Iranian domestic capital has found ways to expand to other geographies. The merger of Iranian domestic companies with international ones, mostly keeping 51% of the shares in their hand, was another common ground of the internationalization process of Iran. Despite the distortion created by the sanctions, the international investment in the key sectors of Iranian economy was vivid. It has been also demonstrated that the international trade of Iran has intensified through the networks

⁵⁰⁰ Sargsyan, "Iran: An Attempt to Bypass The Sanctions"

⁵⁰¹ New York Times, January 11, 2013, <http://www.nytimes.com/2013/01/11/world/middleeast/iran-finding-ways-to-circumvent-sanctions-treasury-department-says.html>, accessed February 13, 2017

established. Even though the financial system accommodated transactional problems due to the sanctioning regime, with more stable monetary policies and alternative mechanisms, the financial system did not prevent the international economic activities of the Islamic Republic. Lastly, similar to the other geographies, especially with Rafsanjani's reconstruction, Iranian international capitalist classes are formed and started to integrate into the global accumulation system.

The second conclusion that may be extracted from the analysis above is what differentiates Iran from other countries is the emergence of quasi-legal, or alternative mechanism in each of these different moments of integration. In other words, the political and economic structures of Iran create incentives for the development of alternative mechanisms for international capital activities, which makes its integration as unique. Circumventing the domestic obstacles of internationalization and bypassing the international pressures for liberalizations are some of the motivations for the development of these tools. However, the main reason of the emergence of these mechanisms should be found in the political structures of the Islamic state and its dialectical relation with the international structures. As it is discussed over the course of the chapter, any liberal initiative of internationalization of the economy is transformed into an illiberal initiative at the end. For example, Rafsanjani's economic reforms towards liberalization empowered the unaccountable elements of the economy. Liberalization of trade initiatives with the establishment of the FTZ, resulted in the integration of trade system through the quasi-legal smuggling networks. Methods were developed to internationalize the oil industry in a way to protect the state control over the industry. The sanctions, on the other hand, directly encouraged Iran to integrate into the global economy through maneuvering the sanctions regime with the quasi-legal mechanisms. This proves that any initiative to integrate Iran into the global economy with a Western-style liberal trajectory is kept being manipulated by the dominant class structures in Iran, which reflect itself with the emergence these alternative mechanisms of integration. This position also suggests that the classes forming the core structure of the Iranian regime are not against to the internationalization of economy since the

process was maintained. However, Western-type liberal internationalization suggested by the reformist power circles, which also necessitates the transformation of the state in order to sustain non-discrimination to any capital, contradicts with the accumulation strategies of these core groups since they owe their economic power to their privileged position within the state mechanisms. This certain segment of capitalist classes enjoys state protection from foreign industries and accesses to oil revenues in the form of subsidized foreign currency and cheap loans. Therefore, it is necessary to concentrate on the state structure of Iran and the position of these groups within this institutional organization. The efforts of these groups to internationalize the Iranian economy by protecting their positions within the state mechanism resembles to BRICs type of internationalization. However, a deep analysis of the political structures in Iran may show that Iranian para-governmental organizations, which form the largest portion of these groups, are different than the comprador capitalists of BRICs, in regard to their ideological, political and economic roles in the functioning of the Islamic regime. Furthermore, contrary to the comprador bourgeois of the BRICs, it is difficult to call the managers of these organizations, such as bonyads or IRGC affiliated institutions as bourgeoisie since their power rests on their position in the institutional structure, instead of the capital they own. In this sense, the next chapter concentrates on Iranian state structure in order to demonstrate how the institutional set up enables domestic classes to struggle over the process of internationalization.

CHAPTER 4

THE POLITICAL STRUCTURES OF IRAN AND INTERNATIONALIZATION OF STATE

This chapter aims to analyze the political structures of the Islamic Republic with a certain focus on its peculiarities in order to evaluate their compatibility with the international state form. With this target, the chapter begins with the examination of the Iranian state structure. Following that, the first section concentrates on the institutional reorganization of the Iranian state and the reinstitution of its capitalist elements after the Islamic revolution. The second one tries to put forth the relationship between Islam, revolutionary ideology and economy in the case of Iran. The section tries to reveal the impact of the so-called Islamic economic system and the revolutionary leftist discourse on the development of the political economic structures in Iran. The following section examines the para-governmental organizations within these structures, since these institutions not only give an original characteristic to the Iranian state structure but also shape its internationalization process. Therefore, the section is to analyze mainly the establishment, commercialization, monopolization and internationalization of the bonyads. The rise of IRGC, as another monopolistic economic power and an influential para-governmental organization, also deserves a special attention in this part. The section also targets to put forth the dependent relationship between the para-governmental organizations and the Islamic Regime. The last section of the chapter, aims to locate the political and economic factions into this set up. By concentrating on their accumulation strategies, the part targets to demonstrate how different factions have different internationalization strategies and how they try to shape this process into different directions. The concluding part concentrates on the internationalization of the Iranian state within this setting.

4.1. Iranian State Structure

This part concentrates mainly on two issues related with the state structure of the Islamic Republic. Firstly, it tries to find out if the Iranian state diverges from a capitalist state. Based on the conceptualization of the state presented in the first chapter, this section aims to find out the differences of the state of Iran from the other political formations in diverse geographies. Secondly, it analyzes the institutional structure of the Islamic Republic in order to discuss whether this mechanism has the capacity to internationalize in the next sections. Moreover, this effort is crucial, since these institutions are the main tools for different political fractions to transform their interest into state policy. As it is discussed below, the institutional organization of the Islamic Republic gives a certain group the upper hand in the political and economic structures, who invested their interest in the maintenance of the existing political system in the Islamic Republic.

4.1.1. Is Iranian state a capitalist one?

Since its establishment, a variety of different adjectives have been used to describe the structure of the Islamic state. Before the collapse of the Shah's regime, Hossein Mahdavy used the term 'Rentier State' in order to identify Iran, which refers to the states "that receive on a regular basis substantial amounts of external rent."⁵⁰² This conceptualization is later adapted by the other scholars to define the post-revolutionary state of Iran as well.⁵⁰³ The other scholars, by concentrating on the regime type, come up with different adjectives. For example, Rakel defines the Islamic Republic as a semi-theocratic republic by claiming that during Khomeini the regime was totalitarian and authoritarian; and after him it turned into an authoritarian democracy accommodating

⁵⁰² Hossein Mahdavy, "The Patterns and Problems of Economic Development in Rentier States", *Life*, 1000:1, 1970, p.428

⁵⁰³ See. Hootan Shambayati, "The rentier state, interest groups, and the paradox of autonomy: state and business in Turkey and Iran." *Comparative Politics*, 1994, pp 307-331; Theda Skocpol, "Rentier state and Shi'a Islam in the Iranian Revolution." *Theory and Society*, 11: 3 1982, pp. 265-283.

totalitarian, authoritarian and democratic tendencies.⁵⁰⁴ With similar reasons, Iranian state is labeled as a nondemocratic hybrid in other texts.⁵⁰⁵ A variety of different adjectives are also suggested by those who concentrate on the institutional structure of the state. For example, Parvin Alizadeh asserts that Iranian state structure has a ‘polycentric governance structure’ since the elected and unelected institutions exists together within the same system.⁵⁰⁶ With similar reasons Tazmini refers Iranian state system as a dual-natured political system.⁵⁰⁷ Keshavarzian, on the other hand, by analyzing the manipulation of Janus-headed political system by different fractions, defines the Islamic Republic as a dysfunctional dual sovereignty.⁵⁰⁸ He also calls Islamic Republic as a factionalized authoritarianism since highly fragmented state generates and nourishes elite factionalism and allows the religious power centers to monitor political forces, which in the end results in the persistence of factionalism without unraveling into an authoritarian breakdown or a full-fledged democratic transition.⁵⁰⁹ Apart from those, it is possible to come across with terms such as cronyism, distributive, clientalism or patronage as adjectives used to define the political rule in Iran.

This study avoids adding another concept into this ocean of terms. Instead, as it is discussed below, there are strong motivations to call the Iranian state as a modern capitalist state. Even though its structure differs from its liberal Western counterparts, the economic structures established after the Islamic revolution inevitably kept the capitalistic character of the Iranian state intact. Moreover, as it was mentioned in the

⁵⁰⁴ Rakel, *Power, Islam and Political Elite in Iran*, p.2

⁵⁰⁵ Oliver Borszik, International Sanctions Against Iran under President Ahmadinejad: Explaining Regime Persistence, *GIGA Working Papers*, 2014

⁵⁰⁶ Parvin Alizadeh, "The Political Economy of Petro Populism and Reform, 1997–2011.", in Pervin Alizadeh and Hassan Hakimian (eds.) *Iran and Global Economy: Petro-Populism, Islam and Economic Sanctions*, NY, Routledge, 2013, p.76

⁵⁰⁷ Tazmini, G. *Khatami's Iran: The Islamic Republic and the Turbulent Path to Reform*, New York, I.B. Tauris Publishers, 2009, p. 105

⁵⁰⁸ Arang Keshavarzian, "Contestation Without Democracy: Elite Fragmentation in Iran", Posusney and Angrist (eds.) *Authoritarianism in the Middle East: Regimes and Resistance*, 2005, p.71

⁵⁰⁹ Ibid. p.88

first chapter, “the state is no specific institutional ensemble with multiple boundaries, no institutional fixity and no pre-given formal or substantive unity.”⁵¹⁰ Capitalism adapts itself differently into each social formation that it penetrates; and therefore, the peculiar conditions in Iran, such as the relation between Islam, revolutionary ideology and economic structures, created a specific type of capitalist state in this country. This original capitalistic character of the economic structures in Iran is analyzed further in detail in the next section; however, at this point, in order to support the argument that Iranian state is a capitalist one, the preservation of the basic capitalist institutions after the Islamic revolution is to be put forth.

First of all, the basic element of the capitalist societies, its class character, is retained in Iran after the revolution. The bourgeoisie, apart from those associated with the Shah’s regime, has also been excluded from the political participation before the revolution; therefore, they were portrayed as a part of the anti-autocratic movement during the revolutionary period. In fact, none of the property-owning classes, apart from Shah’s cronies, was fighting against the revolutionary upsurge and some fractions supported the religious elements of the revolution with financial backing.⁵¹¹

After the revolution has succeeded, it is said that Quran accepts existence of different classes and Khomeini used hadiths to support this argument. As it is cited by Rahnema and Nomani, “Khomeini in one of his books refers to the hadith which states that ‘people have dominance over their property’ and that ‘the rule of respect for the belongings of Moslems is derived from the rule of reign over belongings, because the owner of the object rules over it and has all rights concerning its disposition.’”⁵¹² Moreover, in order to consolidate the idea that the classes are natural, the individual remained as the basic philosophical unit of the society. Similar to the utilitarian concepts of pleasure used in the neoclassical economics, pleasure of Allah and avoidance of the

⁵¹⁰ Jessop, *State theory*, p.267

⁵¹¹ Ali Rahnema and Farhad Nomani, *The Secular Miracle: Religion, Politics and Economic Policy in Iran*, Zed Books, London, 1990

⁵¹² Ibid. p.138

pain resulting from God's wrath were used as the basis of the new individualistic society.⁵¹³ As it was mentioned by Jessop, the form of state is shaped through the forces acting in and through it.⁵¹⁴ Since in a capitalist society these forces are the classes, the Iranian state structure is shaped by its class society.

Secondly, related with the first element, the sacredness of the private property is preserved as a principle in the formation of the social structures of the new Republic. As it is also mentioned by some scholars, the economy of Iran is based on the institution of private ownership of the means of production and the market, which are essential elements of any capitalist system.⁵¹⁵ The ideologues of the Islamic republic, while criticizing the Western capitalism, tried to defend its basic institution. For example, Ayatollah Baqer Sadr, said that,

“In capitalism, it is not private property that is the source of troubles and tragedies.... It was not private property that threw millions of workers out of private property that compels the capitalist to destroy large quantities of their products to keep the prices stable... Lastly it is not private property that impels the capitalists to arrange new markets for themselves even at the cost of the sovereignty and rights of other nations... It is materialism... that the capitalists to indulge in all sorts of evil practices and unjust transactions.”⁵¹⁶

As a result of this, private property gained constitutional protection, as the article 22 of the constitution mentions, the citizens' dignity, life, property, residence, and occupation are inviolate, except in cases sanctioned by the law. There is also a strong belief in the market economy within the ideologues of the Islamic Republic. In Iran, all the economic activities are taking place within the market, which is based on the private ownership of the means of production. Similar to the other capitalist social formations, the state has a

⁵¹³ Ibid. p.134

⁵¹⁴ Jessop, *State theory*, p.269

⁵¹⁵ Rahnama and Farhad, *The Secular Miracle*, p.136

⁵¹⁶ Ibid. p.138

regulatory role to play in the structure and operation of the economy, the objectives and the extent of which are a matter of dispute among different policy makers. However, contrary to the laissez faire economies of the Western liberalism, with the impact of the revolutionary promises, the state has undertaken considerable economic power as it owns property, organizes and disposes of state and public properties and receives various taxes. Even so Khomeini stressed that state intervention into the economy should be exceptional, not permanent and not applicable to all commodities.⁵¹⁷ By this way, while the property owned classes were allowed to engage in economic activities, the disadvantaged groups are to be taken care of. However, this has not gone beyond the discourse, since the Shiite clergy proposed a variation of capitalism that is said to be Islamic.

Lastly, referring to the definition of Poulantzas, the modern capitalist state has a role of cohesion between the different levels of a social formation as the state is a site where different classes' struggles and contradictions are condensed.⁵¹⁸ Similarly, the Iranian state maintains the unity and cohesion of its capitalistic social formation. In order to maintain this function, the Islamic leaders were ready to neglect the Islamic character of the new Republic. As it is mentioned by Chehabi, the new regime was established on the principle that the Shiite clergy has the right to disregard the Islamic ordinances in order to maintain what is in the interest of the "ruling order"; and the institution of Valeyat-e Motlaqa-ye Faqih, which refers to the absolute dominion of the jurisprudent, is given the responsibility to figure out this ruling order.⁵¹⁹ In the end, for fulling the task, Khomeini created a body whose members are appointed by himself. As it is to be discussed below, the Expediency Council was designed to compromise between the parliament -the legislative body- and the Guardian Council –the body that checks the legislative. The establishment of Expediency Council is a measure for preventing the state organs to

⁵¹⁷ Ibid. p. 155

⁵¹⁸ Poulantzas, *Classes in Contemporary Capitalism*, p.78

⁵¹⁹ Houchang E. Chehabi and Asghar Schirazi, "The Islamic Republic of Iran", *Journal of Persianate Studies*, 5, 2012, p.196

consume themselves. Its position, as the last arbiter between the parliament and Guardian Council, and capacity to challenge the veto power of the latter proves that the compatibility of legislations with Islamic jurisprudence has taken a backseat in the sake of protecting the ruling order.

The capitalistic nature of the Islamic Republic and the form it took in the Iranian social formation are examined in the following sections. At this very point, the study moves on to the analysis of the institutional set up of the Islamic republic since these established state mechanisms are crucial for the internationalization of the state.

4.2.2. The Institutional Structure of the Iranian State

Decades before the revolution, Ayatollah Khomeini stated that,

“it is in contrast with the government of God that the nature of all existing governments becomes clear, as well as the sole legitimacy of Islamic government. The duty of our government, which is among the smaller states in the world, is to conform to this legitimate government by making the laws passed by the Majlis, a kind of commentary on divine law... We do not say that government must be in the hands of the faqih; rather we say that government must be run in accordance with God’s law for the welfare of the country and the people demand this and it is not feasible except with the supervision of the religious leaders.”⁵²⁰

This statement is crucial in the sense that after the revolution, all the Islamists agreed with Khomeini on his comment that state must be ideologically committed to the application of Islamic law, norms and principles. Since these functions necessitate the expertise of the Shiite scholars, the clergy was supposed to take a special position within the state structure. However, this was a difficult task since the original Islamic sources do not delineate how to form states, run governments and manage institutions.⁵²¹ Therefore, the Shiite clergy took the task of transforming the modern state compatible

⁵²⁰ Imam Khomeini, *Islam and Revolution: Writings and Declarations of Imam Khomeini, 1941-1980*, Mizan Press, Berkeley, 1981

⁵²¹ Nazih N. Ayubi, “Rethinking the Public/Private Dichotomy: Radical Islamism and Civil Society in the Middle East”, *Contention*, 4, Spring 1995, p.80

with the Islamic principles. In this sense, instead of returning to the premodern past, the new state was an attempt to create ulema control over the modern state. As it is mentioned by Chehabi and Shirazi, Iran was the first state in modern times in which sections of the ulema took the direct control of the state.⁵²²

In order to establish this religious control over the modern state institutionally, the new republic was designed on a principle of dual sovereignty. On the one hand, the divine sovereignty is to function as a guarding mechanism of the state, on the other, the popular sovereignty is to guide the daily affairs. The effort to combine the Islamic principles with the modern state resulted in the juxtaposition of divine and popular sovereignties in the Iranian state structure.⁵²³ In fact, regarding the formation of the state as a site of condensed class relations, the composition of post-revolutionary class dynamics was effective in making popular sovereignty as a component of the new regime. In other words, it was also a concession that religious fractions have given to the popular will.

This notion of dual sovereignty is institutionalized with the creation of both theocratic and republican state organs. In fact, formally the Islamic government divided into three branches of executive, legislature and judiciary, similar to the Western separation of powers. Therefore, modern institutions such as legislature and executive, which had existed in the country since the Constitutional Revolution of 1906, have become important components of the new regime as well. However, the revolutionary elite also created several institutions that are unique to their own regime.⁵²⁴ These were mostly positioned in a parallel way to the modern institutions for guiding and supervising them according to the criteria developed by the Islamic power centers. As Kamrava and

⁵²² Chehabi and Shirazi, "The Islamic Republic of Iran", p.175

⁵²³ Houcheng E. Chehabi, "The Impossible Republic: Contradictions of Iran's Islamic State", *Contention*, Vol. 5, No. 3, Spring, 1996, p.137

⁵²⁴ Mohseni, "Guardian politics in Iran", p.79

Hassan-Yari asserted, the institutions that perform identical or related functions were established to balance each other.⁵²⁵

These parallel structures are imposed on the executive branch, the legislature, the judiciary, armed forces and economy. The Islamic institutions are formed by the new government and included in the original constitution. These are the institutions of the Velayet-e Faqih, The Assembly of Experts and the Guardian Council. Later, the Expediency Council was also included to this group of institutions. As it may be discussed in detail below, while the institution of Velayet-e Faqih was designed to balance the executive branch, Guardian Council and Expediency Council are counterpoising the legislature. The army is even balanced by the establishment of the Revolutionary Guard Corps as the armed forces of the Islamic regime. This institutional structure remained almost unchanged since its establishment.

In short, while the institutions of the presidency and parliament are designed as the symbols of the popular sovereignty, the Velayat-e Faqih, the Expediency Council, the Council of Guardians, the Assembly of Experts, the judiciary and para-governmental organizations, such as IRGC and bonyads, were established in the name of protecting the revolutionary ideology and the Islamic values. This has created a fragmented institutional structure in which the power centers controlling the religious institutions have an upper hand in the political system. As certain fractions within the Islamic republic owes their privileged political and economy positions to this institutional structure, the transformation of the state structure becomes even harder, as it may be put forth at the end of this chapter.

The most influential institution in the camp of the elected bodies is the presidency. According to the Article 113 of the constitution, the president supervises the application of the constitution and is the head of the executive; however, since he is the highest official of the country after the Velayet-e Faqih, the article maintains that the executive powers of the president are limited in the matters concerned with the office of the Faqih.

⁵²⁵ Kamrava and Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.496

The Faqih also has the right to dismiss the president, if he is found guilty by the Supreme Court of violating his constitutional duties. This is why some scholars comment that Iran is the only republic in the world whose president is not the head of the state.⁵²⁶

The president is elected popularly for four years' term to run the daily social and economic affairs of the country. According to the article 115, he must be elected among the religious and political personalities, who have a strong belief in the principles of the Islamic republic and religion. The president, after his election, chooses the cabinet and heads it. The article 134 states that together with the cabinet, the office presidency determines the program and policies of the government and implements the laws. He appoints the Expediency Discernment Council and controls the Planning and the Budget Organization which gives him the authority to determine the economic policy. However, regarding the economic structures in the Islamic Republic, it should be noted that this authority is very limited.

The presidential prerogatives explicitly mentioned in the constitution are signing the international treaties after they have received parliament's approval (Article 125), conducting the national planning, budget, and state employment affairs (Article 126), appointing ambassadors and receiving the credentials of foreign ambassadors (Article 128), and awarding the state decorations (Article 129). Moreover, even though the president heads the National Security Council (*Shura-ye Amniyat-e Melli*), the institution that is responsible for the government activities related with defense, intelligence service and foreign policy, he lacked the power to determine the foreign policy freely as this task is given to the Faqih.⁵²⁷ However, since 1989, the president and his office has gained more power in formulating the foreign policy of Iran, despite the fact that he still shares this task with the Supreme Leader.⁵²⁸

⁵²⁶ Chehabi and Shirazi, "The Islamic Republic of Iran", p.193

⁵²⁷ Buchta, *Who Rules Iran?*, p. 22

⁵²⁸ Rakel, *Power, Islam and Political Elite in Iran*, p.150

In fact, until the constitutional change of 1989, the president was sharing his powers with the office of the prime minister. The prime minister was the actual head of the government in charge of policy and executive manners in the first decade of the Islamic Republic according to the article 113 of the constitution. He was nominated by the president and approved by the national legislature. With the amendments, the office of Prime Minister was eliminated and the president, assisted by deputies, was put directly in charge of the ministries. The country's administrative and budgetary matters were also given to his responsibility (Article 126). This was a transformation from a semi-presidential system to a presidential one.⁵²⁹ It is claimed that in the first years of the revolution, there was an institutional tension between the two institutions and in order to solve this tension, the management is centralized and streamlined with the elimination of the prime ministry.

Another elected body in the Iranian political structure is the National Consultative Assembly (*Majles-e Shura-ye Melli*), namely the *Majles* or the parliament. This elected body, whose members have to be ratified by the Guardian Council, is the legislature body that is responsible for enacting laws. According to the article 71 of the constitution, the parliament has the duty to establish laws on all matters within the limits of its competence. However, these laws cannot contradict with the principles and ordinances (*osul and ahkām*) of the official state religion, or the Sharia according to the article 72.⁵³⁰ The Article 112 of the Islamic constitution clearly indicates that Guardian Council has the right to veto any bill proposed by the Majles, if it thinks it is against the Islamic principles. As Tazmini indicates, this proves that without the existence of the Guardian Council, the Majles lacks sovereignty.⁵³¹ The parliament also checks the executive; as it is stated in the article 76, it has the right to investigate and examine all the affairs of the country. Furthermore, the international agreements need the approval of the parliament

⁵²⁹ Mohseni, *Guardian politics in Iran*, p.85

⁵³⁰ Chehabi and Shirazi, "The Islamic Republic of Iran", p.195

⁵³¹ Ghoncheh Tazmini, *Khatami's Iran: The Islamic Republic and the Turbulent Path to Reform*, New York, I.B. Tauris Publishers, 2009, P. 102

before ratification according to the article 77 of the constitution. Lastly, Parliament confirms the ministers chosen by the president and can dismiss them on motions of no-confidence (Articles 87-89).

Apart from these institutions of popular sovereignty, Islamic republic is also established on several unelected institutions which set the basis of the political system. The first among these is the Supreme Leader, or the Velayet-e Faqih. In accordance with the hadith ‘The direction of public affairs is in the hands of those who are learned concerning God and are trustworthy in matters pertaining to what He permits and forbids’, in the original constitution of 1979, it is stated that “in keeping with the principle of governance (*wilāyat al-amr*) and the perpetual necessity of leadership (*imāma*) the constitution provides for the establishment for leadership by a faqih possessing the necessary qualifications and recognized as the leader by the people.”⁵³² As a result, the notion of the “Leader of the Revolution” is transformed into the theocratic institution of the Faqih. While the office of the first Supreme Leadership was automatically served by Imam Khomeini, it is later chosen among the clerics that constitute the Assembly of Experts. The Supremacy of the Leadership comes from his supervision of the three branches of government; as it is stated in the article 57 of the Iranian constitution,

“The powers of government in the Islamic Republic are vested in the legislature, the judiciary, and the executive powers, functioning under the supervision of the absolute wilayat al-'amr and the leadership of the Ummah, in accordance with the forthcoming articles of this Constitution. These powers are independent of each other.”

According to the Article 110 of the Constitution, Faqih is the supreme controller of the state organs and he has the right to appoint the influential officials, such as the chief of the general staff of the military, commander in-chief of the Revolutionary Guards, two advisors to the Supreme National Defense Council, the commanders of the three branches of the armed forces (army, navy, air force), the head of the judiciary, the head

⁵³² Chehabi and Shirazi, “The Islamic Republic of Iran”, p.191

of the Supreme Court, and the Prosecutor-General. According to the article 91, Faqih also chooses the six members of the Guardian Council. As the commander of the armed forces, the leader is charged with declaring war and peace as well.

Apart from these formal institutions, Faqih is also responsible to appoint the heads of the effective informal institutions of the Islamic Republic such as the representative of the Supreme Leader, the Association of Friday Prayer Leaders, ideological and political organizations, the Special Court of Clergy, the Islamic associations and media. More important than those, Faqih appoints the head of the revolutionary and para-governmental organizations, especially the *bonyads*, which have a crucial role in the political and economic structures of the Islamic Republic.

Since the institution of the Velayet-e Faqih also checks the policies of the executive branch, it is claimed that this office is one of the most important institutional veto player in the regime.⁵³³ This, in the end, makes the cooperation between the Supreme Leader and President compulsory. Any tension between these two institutions results in instability and political turmoil. Moreover, it can be said that the powers of the Leader can even go beyond the ones that are indicated above since he can use Islam as a tool for the legitimization of any policies he suggests or refuses.

The second important unelected institution in the Islamic Republic is the Guardian Council (*Shora-ye Negahban*). The Council is composed of 12 members: six theologians are appointed by the Faqih and six jurists nominated by judiciary and approved by the parliament.⁵³⁴ The Council is the supervisor of the elected parliament and it circumscribed the legislative powers of it. It monitors any law formulated by the parliament and has the right to veto if it is thought to be contrary to the Islamic law (Article 91-94).⁵³⁵ As Mohseni underlines, this veto power resembles to the supreme

⁵³³ Mohseni, Guardian politics in Iran, p.81

⁵³⁴ Ibid.

⁵³⁵ Michael Saward, 'Authorisation and Authenticity: Representation and the Unelected', *The Journal of Political Philosophy*, Volume 17, Number 1, 2009, p.10

courts in the Western countries, which are also obliged to determine whether or not the legislation passed by the parliament violates the constitution. As it is indicated in the Article 69 of the Iranian constitution,

“Legislation passed at a closed session is valid only when approved by three-fourths of the members in the presence of the Guardian Council.”

In fact, the Council as a whole examines the laws’ compatibility with the constitution, but only its clerical members determine legislation’s compatibility with Islam.⁵³⁶ If the Council decides any legislation contravenes with the Islamic principles or the constitution, the bill is returned back to the parliament for review and revision. The Council of Guardians is not hesitant to use its power coming from the divine to balance the one stemming from the popular sovereignty. For example, during Khatami’s presidency, the Council rejected the bill of Vice President of Legal and Parliamentary Affairs, with the claim that it violates the Islamic Law. Another example is the prevention of the economic plan that aimed to attract foreign investment. In June 2001, the Council vetoed it with the claim that it is incompatible with the constitution and could not be passed into law.⁵³⁷

According to the article 99 of the Islamic constitution, another task of the Guardian Council is to supervise the elections: “The Guardian Council is responsible for supervising the elections of the Leadership Council of Experts, the President of the Republic, the Islamic Consultative Assembly, and referrals to the public vote and referenda.” In fact, this power differentiates it from the supreme courts of the Western states. As it may be seen from the article, what is meant by the term supervision is not really specified; therefore, the Council is using this article to justify its activities of vetoing or banning any candidate that runs for the elections and Presidency, without

⁵³⁶ Chehabi and Shirazi, “The Islamic Republic of Iran”, p.195

⁵³⁷ Evaleila Pesaran, *Iran’s Struggle for Economic Independence: Reform and Counter Reform in the Post Revolutionary Era*, New York, Routledge, 2011, p. 122

giving the right to appeal to the ones that are banned.⁵³⁸ In this sense, the existence of the Guardian Council as the main force of status quo is an obstacle to any power group that comes up with the idea of a structural change. Regarding the context of the Council, it is not surprising to see that since its establishment it has been controlled by the religious power centers. This domination, especially during the elections of the Seventh Majles, demonstrated its effectiveness with the prohibition of a great number of reformist candidates. It disqualified 44 percent of the candidates (3533 out of 8145).⁵³⁹

As it may be seen above, when the popularly elected Majles or the president represents the interest of another fraction than the one whose interest represented by the unelected institutions, a crisis of management was coming to the fore. In fact, different institutions may represent different interest and agendas in every state. However, in Iranian case the existence of dual institutions created a structure in which the key institutions work to undermine the other's agenda and influence. Kamrawa and Hassan-Yari name this as 'suspended equilibrium' and claim that in order to resolve this trap, Iranian policy makers designed the Expediency Discernment Council (*Majma'-e Tashkhis-e Maslahat-e Nezam*) in 1989 for the purpose of conflict resolution, even though it has become one of the main actors within the on-going factional conflicts.⁵⁴⁰ The term '*tashkhis Mashalat-e Nezam*' (identification of the ruling order) is critical, since instead of making an Islamic and revolutionary body (Guardian Council) as the last decision making organ, the durability of the political order was situated at the center of the decision making process, as it was discussed above. Despite the harsh opposition from the members of the Guardian Council, the establishment of this institution was added to the constitutional change of 1989. Reminding the discussions of the previous part, this was the beginning of the consolidation of the modern political and economic structures in Iran.

⁵³⁸ William A. Samii, 'Iran's Guardians Council as an Obstacle to Democracy', *Middle East Journal*, Vol. 55, No. 4 Autumn, 2001, p. 643

⁵³⁹ William A. Samii, 'The mullahs and the ballot box: Can Iranians change their political system?', *NY Times January 16, 2004*, retrived from <http://www.nytimes.com>, accessed May 18, 2013

⁵⁴⁰ Kamrawa and Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.497

In short, the Expediency Council was established to settle the legislative disputes between the legislature and the Guardian Council and to declare the last binding decision. As it stated in article 112 of the constitution, “Upon the order of the Leader, the Nation's Expediency Council shall meet at any time the Guardian Council judges a proposed bill of the Islamic Consultative Assembly to be against the principles of Sharia or the Constitution, and the Assembly is 'unable to meet the expectations of the Guardian Council.’” In addition to this, the Council can also legislate itself.⁵⁴¹ In this sense, it is claimed that the Council resembles to the old Soviet politburo, as it is the nation's top decision-making body unless the Leader disagrees with its decisions.⁵⁴² Faqih controls this organ as he appoints the members within religious, social and political figures. The Chairman of the Expediency Discernment Council was the former President Hashemi Rafsanjani until his death in January 2017.

There is also another institution, the Assembly of Experts, which was designed to check and balance the Leader. This was the product of the transformation of the Assembly of Experts for Constitution, an elected body comprised of both clerical and lay members, which was established to draft the constitution that is approved by a popular referendum in 1979. However, for the 1989 constitutional changes the supreme leader Ayatollah Khomeini called for a new body, the Assembly for the Reappraisal of the Constitution, with the majority of its members appointed by him.

According to article 81 of the constitution, 83 clerics (increased to 88 in 2016), are elected popularly in the national elections to serve for in the Assembly of Experts. The institution resolves issues of succession, picking the next leader once the current leader dies or is incapacitated in one way or another. In other words, this body is capable to dismiss the Leader. However, this power has never been used as Ayatollah Khomeini had become directly the first Leader of the new state and Ayatollah Khamenei, who was chosen by the Assembly as the new leader after Khomeini's death, still serves for the

⁵⁴¹ Chehabi and Shirazi, “The Islamic Republic of Iran”, p.196

⁵⁴² Ibid. p.197

office. Therefore, in Iranian political structure this institution has only a symbolic power rather than an actual one.

Apart from these powers of legislature and executive, the Islamic power centers established their control on the whole legal system, by introducing Sharia as the basis of the judicial system and choosing the judges in between those who are capable to apply Sharia laws. Due to this characteristic of the legal system, even though the main objective of the judiciary is to guarantee that sharia laws are enforced, its functions ensure the theocratic predominance. In fact, the original constitution of 1979 conferred a degree of independence on the judiciary by placing at its head a council of five, only two of whom were appointed by the Leader.⁵⁴³ However, with the revision of the constitution in 1989, the judiciary system is subordinated completely to the office of the Supreme Leader. After this, the judiciary has become a strong foothold of the factional conflict as it turned out to be a protector of status quo in Iran and started to undermine the interests represented by the elected institutions. For example, during the presidency of Khatami, the judicial system is used by the conservative power centers to undermine the reform related policies.⁵⁴⁴ The supporters of reform movement were charged of several offenses. Only in 2000, 18 of the 20 pro-reform publications were shut down by the judiciary decisions on the charges of anti-revolutionary writings.⁵⁴⁵

In order to understand the state structure of the Islamic Republic, it is also vital to situate the informal power centers which exert considerable power under the control of the Supreme Leader. These institutions are responsible for ensuring that the Islamic character of the regime remains intact; however, their direct dependence on the office of the Supreme Leader, as they report directly to him and are technically under his supervision, transform them as the extended arms of the Faqih.⁵⁴⁶ The Representatives

⁵⁴³ Ibid. p.198

⁵⁴⁴ Tazmini, G. *Khatami's Iran: The Islamic Republic and the Turbulent Path to Reform*, New York, I.B. Tauris Publishers, 2009, P. 103

⁵⁴⁵ Ibid. P. 106

⁵⁴⁶ Rakel, *Power, Islam and Political Elite in Iran*, p.34-35

of the Supreme Leader (*Namayendegan-e Rahbar*), the Association of Friday Prayer Leaders and Special Court for the Clergy (*Dadgah-e Vizheh-ye Rouhaniyat*) are several examples of those informal institutions. Universities have also become useful tools to be employed when direct intervention of the Faqih into the political system could be politically costly. Of course, bonyads, which are para-governmental organizations tasked with specific economic functions, are the strongest institutions that are in the service of Faqih. Since these institutions are only accountable to the Faqih, it is impossible for the other institutions, such as Majles or the president to check or balance their actions. Regarding the economic and organizational capacities of these institutions, there is a huge dependence between status quo powers within the regime and the bonyads. These institutions are to be analyzed later in detail.

Regarding the overall structure of the Islamic state, for the purpose of this study, a few points should be concluded. First of all, the institutional set up of the state demonstrates that there is a duality in the organization of the state, in which parallel institutions conduct similar and balancing functions. This is significant since this duality is manipulated and used by different fractions to achieve their own political agendas. As it is mentioned by Kamrawa and Hassan-Yari, “the fractious Iranian state, featuring multiple centers of power with conflicting agendas and their own groups of institutional clienteles, appears to be at war with itself.”⁵⁴⁷ Second, within this duality the unelected institutions, such as the Valeyat-e Faqih and Guardian Council, have an upper hand over the elected institutions of presidency and parliament. This is also significant since these institutions are the main elements that give Iranian state its Islamic identity. Moreover, since the interest of unelected bodies is embedded in the existing state system, they are the strong apologists of the preservation of the current regime and institutional structure. Lastly, unelected institutions’ upper hand in the political system means that implementation of any serious policy necessitates approval or at least the compromise of the managers of those institutions. Therefore, it is almost impossible to

⁵⁴⁷ Kamrawa and Hassan-Yari, “Suspended Equilibrium in Iran’s Political System”, p.501

conduct any structural transformation within the political and the economic system if it does not serve the interest of the fractions holding these core political institutions. As it is to be discussed at the end of the study, this is one of reasons of the internationalization of the Iranian economy by keeping the state structure intact. In other words, this characteristic of the political structure is one of the obstacles of the internationalization of the Iranian state.

4.2. Islam, Revolutionary Ideology and Economy

This part of the study concentrates on the economic structures established in Iran after the revolution. By concentrating on the Islamic and revolutionary ideology and discourse, the section tries to put forth to what extent the Islamic model of economy developed in Iran differs from the capitalist economies. It is targeted to reveal the peculiarities of this economic structure in order to locate the para-governmental organizations within this economic set up in the next section. With this aim, the study firstly analyzes the relationship between the Islamic ideology and capitalist mode of production in Iran. Later, it is concentrated on the revolutionary ideology for the analysis of the socialist discourse developed during the course of the revolution and its impact on the newly established economic structures. The last section examines the impact of the co-existence of these contradictory capitalist and socialist elements on the class formations in Iran. Especially its impact on the emergence of domestic economic actors, which are dependent on the existing political structures, is to be put forth. Since these groups struggle over the process of internationalization of the Iranian state, the tendencies creating dependence between the economic actors and political structures deserves a special attention.

4.2.1. Islamic Ideology and Capitalism

As it is discussed in the previous sections, the Islamic jurisprudence (fiqh) addresses mainly issues that fall into the realm of private law, not public policy. Even though the

modern society of Iran has required an extensive development of the public policy mechanisms such as constitutional, administrative, tax, enforcement and bankruptcy law, Islamists thought that if Islam is to be applied to all the spheres of the social life, the problems inherent to the Western capitalisms or communist states will be solved by the Islam itself.⁵⁴⁸ The Shiite clergy was of one mind that the ideal Islamic economic system instituted only during the time of the Prophet and Imam Ali, when socioeconomic context was traditional, rural and in some places commercial;⁵⁴⁹ therefore, neither Quran nor Sunnah were useful sources for the establishment of an economic structure in a developed, complex and dynamic society. Due to this, the Shiite ideologues were given the task to develop the rules and regulations for the Islamic economic system. Khomeini pointed out Islamic jurisprudence as the source for the Islamic economy as he stated that “the supervision and supreme administration of the country, the dispensing of justice, and establishment of equitable relations among the people, these are precisely the subjects that the (Islamic jurisprudence) has studied.”⁵⁵⁰ However, since the Islamic jurisprudence does not really address the rules and regulations related with public policy,⁵⁵¹ the establishment and operation of the economic system was prone to manipulation and different interpretations. The leftist Islamists -with an emphasis on the notion that world belongs to the God- supported the idea that a state representing the will of the God can limit the individual’s property rights for the protection of the highest good. Others, on the other hand, put forward the argument that private property is the fruits of one’s labor in order to support the establishment of a liberal economy.

Leaving aside the impact of the leftist interpretations of the economic system for later discussions, there were two views within the capitalist interpretations of the Islamic economy. Some Ayatollahs were suggesting a developmental model on the lines of the World Bank and the International Monetary Fund that would construct a modern,

⁵⁴⁸ Chehabi, “The Impossible Republic”, p. 135

⁵⁴⁹ Rahnama and Nomani, *The Secular Miracle*, p.132

⁵⁵⁰ Chehabi, “The Impossible Republic”, p. 136

⁵⁵¹ Rakel, *Power, Islam and Political Elite in Iran*, p.3

privatized and liberal economy and would fully integrate Iran into the larger global economy.⁵⁵² Both the revolutionary discourse of “Neither West, nor East”, as it is analyzed later in detail, and the emphasis on the Islamic principles prevented the discussions on this model until the end of the first decade of the Islamic Republic. Contrary to this, with the task of establishing an alternative economic system based on Islam, an Islamic-Iranian model of economy was suggested by the other Islamists. During these discussions, Ayatollah Khamenei said that “What type of development are we after? This is a critical point in the current economic and non-economic discussions underway. Some are after throwing out words and detracting the minds of people from critical issues: The China model, the Japanese model, the whatever model. The model of development in the Islamic Republic accords with the culture, history, heritage and beliefs and faith of this people; a completely indigenous model derived from the Iranian nation itself. One must not copy anyplace; not from the World Bank; not from the International Monetary Fund; not from this country on the left, not from that country on the right; each place has its own needs.”⁵⁵³ However, what was an Islamic-Iranian model of economy, which principles did set the basis of the economic structures of the new republic and lastly was the end product really different than a capitalist economic system?

The Islamic ideologues claimed that the application of Islamic norms to various realms of economy is the main trait of an Islamic economics as this differentiates it from the Western capitalisms. It is asserted that Islam equips individuals with the behavioral norms in their economic actions, which differentiate them with the self-interested individuals of the neo-classical economics. It is claimed that these behavioral norms in Muslim societies have the distinct function of transforming the acquisitive and

⁵⁵² Mohseni, Guardian politics in Iran, p.115-6

⁵⁵³ Ibid. p.135

pragmatic homo economics into a dedicated, altruistic and pragmatic homo Islamicus.⁵⁵⁴ Evoking the evolutionary theory of history, the Islamic individual was supposed to achieve its potential capabilities. As it is mentioned by Ayatollah Talaqani, whose thoughts are accepted both by the Islamic Republic and the People's Mojahedeen, the new state is to cleanse the society from colonialism, tyranny, repression, injustice, selfishness, which will prepare the means of developing people's potential capabilities.⁵⁵⁵

Therefore, according to the Shiite clergy, in an Islamic society the spirit of cooperation and dedication to the common good prevails without any interference into the economy. It is claimed that in Islam, the entire Ummah is guaranteed security. In other words, as it is mentioned by Hosseini, for the most proponents of the Islamic economics, there exists a basic harmony of interest among individual, society and the state.⁵⁵⁶ In fact, this concept of the harmony of the interest in the economics is not very different than the invisible hand of the neoclassical economics. However, unlike the principle of non-intervention in the economic sphere, as it is suggested by the advocates of the invisible hand, Islamists give the state the role of stepping in the economics to solve the problems or implement the Islamic norms. Therefore, as it is mentioned by Hunter, the Islamists have an economic vision described as capitalism with a social conscience, a system where individual initiative is balanced by limited state intervention to protect the greatest good and the rights of society's more vulnerable sectors.⁵⁵⁷ The social security system based on taxes is said to provide peaceful cohesion in Islamic society; therefore it was agreed that the Islamic government shall receive taxes and will spend them on welfare or other type of projects.

⁵⁵⁴ Hamid Hosseini, "From Homo Economicus to Homo Islamicus: The Universality of Economic Science Reconsidered", in Cyrus Bina and Hamid Zangeneh (eds.), *Modern Capitalism and Islamic Ideology in Iran*, New York, St. Martin's Press, 1992, pp.110

⁵⁵⁵ Hamid Dabashi, "Talaqani's Qur'anic Exegesis: Elements of a Revolutionary Discourse", in Cyrus Bina and Hamid Zangeneh (eds.), *Modern Capitalism and Islamic Ideology in Iran*, New York, St. Martin's Press, 1992, p. 69

⁵⁵⁶ Hosseini, "From Homo Economicus to Homo Islamicus". p.111

⁵⁵⁷ Hunter, *Iran after Khomeini*, p.60-64

In this sense, rather than public ownership of the properties or state control over the economy, the Iranian-Islamic economic model envisioned by the Islamists prioritized market economy, in which state has a regulatory role of removing the obstacles for its free operation as supported by the advocates of the laissez-faire economy in the Western capitalisms. Supporting this argument, Professors at the Qum Seminary, who had the task of formulating the basis of an Islamic social science, were stating that “The price mechanism provides for the most efficient form of the allocation of resources, since it leads to the highest level of satisfaction for the consumer, producer and supplier of factors of production.”⁵⁵⁸ Various Quranic verses were also referred to demonstrate that Islam permits the sale and purchase of goods and trade.

It is accepted that within this system there will be inequalities in the society. These were justified by employing the arguments of the conventional economic theory. For example, Ayatollah Baqer Sadr asserted that the supplier of the capital receives an award since capital has a value as it renders service for man. Similarly, Ayatollah Talaqani legitimized the inequalities between the capital owner and the worker with defining capital as the product of the original work, as a single mass of saved-up labor.⁵⁵⁹ In this context, the Shiite mojtaheds and juris consults have recognized the legitimacy of the profit and rent.

Private ownership of the properties was incorporated into this vision without any contradictions. Within the ideologues of the Islamic republic it was only Ali Shariati who claimed that an ideal Islamic society should be based on the people’s common ownership. However, his views were not shared by the mojtaheds who concentrated on Quran to claim that individuals have right to get benefit of their properties. For example, Khomeini cited the Prophet to support the sacredness of private property: “Your blood and your belongings are forbidden to each other.”⁵⁶⁰ He also stated in other occasions

⁵⁵⁸ Rahnama and Nomani, *The Secular Miracle*, p. 152

⁵⁵⁹ Ibid. p.148

⁵⁶⁰ Ibid. p. 138

that if the ownership of the properties is legitimate, it should be respected. In this sense, only moral constraints were imposed on the private ownership. These constraints stem from the idea that God has the ‘real ownership’, while man holds property in trust; therefore, man is accountable to God and must follow His various injunctions relating to property, laid down in Sharia.⁵⁶¹ However, it should be noted that even in the current modern capitalist economies there are all kinds of legal limitations and regulations regarding the right of private ownership and market operation.

Related with the sacredness of the private property, the Islamic model of economy is claimed to be against confiscations and nationalization of private properties. For example, the Professors of Qum indicated that “in Islam there is no such thing as confiscation.”⁵⁶² The confiscations of the properties of the officials and close associates of the Shah regime after the revolution are legitimized with the discourse of repossession of usurped properties. However, nationalization has taken a special place in the Islamic economy after the revolution, especially with the discourse of anti-imperialism. In fact, Islamic ideologues such as Ali Shariati and Ayatollah Baqer Sadr supported nationalization and claimed “those who actively work with natural resources have prior claim to these resources and materials derived from them and are, in first instance, their owners.” Thereof, despite the free market characteristics of the Islamic economy, nationalization of the big industries, such as the oil industry, has become an important component of the new economic structure. Within this context, Shiite mojtaheds defined the ownership in Islam under three categories: imam (Islamic state) ownership, public ownership by Muslims and private ownership.⁵⁶³ This view was directly codified in the constitution of the Islamic Republic as article 44 divides the economy of the Islamic Republic of Iran into three sectors: state, cooperative, and private.

⁵⁶¹ Ibid. p.137

⁵⁶² Ibid. p.143

⁵⁶³ Ibid. p. 139

This “Islamic Economy”, which is based on the institution of private ownership of the means of production and the market, inevitably necessitated the development of wage labor. The concept of wage labor is presented as a natural institution and hiring workers for contractual activity has become lawful, which prevented workers’ claim on the ownership of their own products. As a result of this, the percentage of the working class within the employed work force, as it is shown by Nomani and Behdad, increased from 24.6 % in 1986 to 31.1% in 1996.⁵⁶⁴

Since Sharia does not accept the interest rate and condemns it as an unethical gain, banking sector was the most controversial area in the establishment of an “Islamic Economy”. This was a difficult task and an issue of deviation from the Sharia for the Shiite Clergy, since the financial sector has become a component of the economy at the end.⁵⁶⁵ The banking system in Iran is founded on paying and charging interest rates as it is allowed under different names such as prize to customers.

Regarding all these, the Shiite Clergy with the task of creating an Islamic economy declared the legitimacy of private ownership of the means of production, the wage-labor, trade and commerce, rent and profit and lastly the market. In this sense, without any contradictions many institutions of capitalism have easily been integrated into the Iranian-Islamic economic model. Similar to the capitalist economies, the mode of production in the so-called Islamic model is again a generalized commodity production. Therefore, despite the efforts of the Shiite Clergy on creating an economic system based on the Islamic concepts, moral, ethical and financial laws, as Rahnema and Nomani mentioned, the contemporary structures are not much different than the capitalist societies.⁵⁶⁶

⁵⁶⁴ Farhad Nomani and Sohrab Behdad, “The Rise and Fall of Iranian Classes in the Post-Revolutionary Decades”, *Middle Eastern Studies*, 44: 3, May 2008, pp. 377-396

⁵⁶⁵ Chehabi, “The Impossible Republic”, p.146

⁵⁶⁶ Rahnema and Nomani, *The Secular Miracle*, p.159

The revolutionary upheavals and post-revolutionary turmoil disrupted the capitalist relations of production in the early years of the Islamic Republic, until the establishment of these economic structures totally. This period witnessed the de-proleterianization of the urban economy, peasantization of agriculture and significant increase in the small-scale service activities.⁵⁶⁷ However, following that, the capitalist relations of production are revitalized, market institutions are reconstituted, the work force is proletarianized and the rural economy is de-peasantized. Therefore, as Ehteshami states, if there has ever been an Islamic model of development in revolutionary Iran, it was shelved after 1989, with the policies of economic liberalization, deregulation and privatization used for rejuvenating market institutions and capitalist relations of production.⁵⁶⁸

4.2.2. Revolutionary Ideology and Socialism

Despite of these strong capitalistic characteristics of the post-revolutionary structures, socialist elements were also crucial components of the revolutionary movement. These elements were effective in winning the popular support for the anti-Shah opposition. Even though they cooperated well during the revolutionary period, there was an embedded rivalry between the Islamists and socialist groups due to their anomalistic world views. For example, Ayatollah Talaqani was stating that the Marxists are the infidel materialists of the century and the modern versions of the idolaters of the Jahiliyyah period.⁵⁶⁹ Ayatollah Khomeini, on the other hand, was underlying the difference between a communist and Islamic state in his defense of private property.⁵⁷⁰ In fact, there was a mutual convergence between the Islamist and socialist discourse, as leftists clocked their ideas in Islamic terms and symbols, and Islamists started to

⁵⁶⁷ Nomani and Behdad, "The Rise and Fall of Iranian Classes", p. 386

⁵⁶⁸ Ehteshami, *After Khomeini*, p.100

⁵⁶⁹ Dabashi, "Talaqani's Qur'anic Exegesis", p.70

⁵⁷⁰ Ali A. Saeidi, "The Accountability of Para-Governmental Organizations (bonyads): The Case of Iranian Foundations", *Iranian Studies*, Vol. 37, No.3, 2004, p.484

emphasize the revolutionary concepts such as egalitarianism. As it is put by the Hunter, the result was a growing confusion about the interpretation of Islamic injunctions.⁵⁷¹ Concurrently with the suppression of the socialists, this confusion was solved as the leftist discourse has been manipulatively absorbed into the Islamic discourse. In other words, Ulama has started to put forth the egalitarian and freedom elements within Islam, on which the leftist movement was established. This absorption through manipulation is obvious especially regarding the discourses of imperialism and oppressed classes. The emphasis on these two went beyond the discursive level as they dramatically shaped the economic structures established after the revolution.

Anti-imperialism was one of the unifying elements of the anti-Shah movement. Socialists were inevitably anti-imperialists and Islamists were accusing Shah's relations with the infidel West as the main source of the corruption in the pre-revolutionary Iran. The anti-imperialist discourse of the Islamists, who encircled around Khomeini, was effective not only in mobilizing the masses but also in gaining the support of the leftists. In fact, Stalinist parties in Iran, such as Tudeh, was believing in the theory of two stages of the revolution, which suggests first a national bourgeoisie struggle for the independence from the imperialist powers and a socialist revolution following the development of the domestic capitalist forces.⁵⁷² They believed that the groups united around Khomeini are progressive and anti-imperialist bourgeoisie, and therefore provided whole support to his followers. Tudeh and one faction of the Maoists, the Ranjbarān party, called for a Yes vote for the Islamic constitution of the Republic by stressing the necessity of avoiding internal rifts at a time when the nation had to stand united in the face of imperialist conspiracies.⁵⁷³ In order to get further support of the

⁵⁷¹ Hunter, *Iran after Khomeini*, p.64

⁵⁷² Peyman Jafari, "Rupture and revolt in Iran." *International Socialism*, 124, 2009, pp.95-163

⁵⁷³ Chehabi, "The Impossible Republic", p.182

socialists, the constitution stated that “government does not derive from the interests of a class, nor does it serve the domination of an individual or a group.”⁵⁷⁴

However, the content of the imperialism used by the Islamists was totally different than that of the socialists as the relationship between capitalism and imperialism is ignored by the former group. At the end of the day, the anti-imperialism of Iran turned into an opposition to any country that is against the Islamic republic; those supported the Islamic Republic, on the other hand, were labeled as anti-imperialist. For the Islamists, being anti-imperialist has started to be associated with the independence from both West and East. Therefore, ‘Neither the East, Nor the West’ turned out to be a slogan of the theocratic leadership. This notion is employed to underline that neither capitalism and its ideology, nor Marxism and its ideal socio-economic system, is suitable for the Iranian society. However, as it is stated by Rahnema and Nomani, this slogan was more anti-communist than it was anti-capitalist.⁵⁷⁵ The Islamists, by abusing the anti-imperialist discourse, were directing the mass anger against the United States. By this way, they were able to empty the capitalistic nature of the imperialist exploitation and preserve the private property and capitalism without keeping the old social and economic ties to the USA. This is why some commentators come up with the argument that anti-imperialism in Iran was used to hide the class nature of the new regime and its reactionary capitalist order.⁵⁷⁶ Despite these slogans, Iran’s long-term position in the international division of labor remained unchanged under the Islamic Republic; the import substitution strategy under the previous Pahlavi administration, for example, maintained by Khomeini with the discourse of self-sufficiency. The founders of the new republic have perceived that any structural change in Iran’s economic relations with the Western countries would have caused further intensification of country’s socioeconomic crisis since they were the main supplier of the intermediate and capital goods for capital accumulation in Iran. Therefore, they were inclined to keep the basic institutions of the capitalism intact.

⁵⁷⁴ Ibid. p.185

⁵⁷⁵ Rahnema and Nomani, *The Secular Miracle*, p.4

⁵⁷⁶ Torab Saleth, “Class Nature of the Iranian Regime”, *Critique*, 35:3, 2007, p.438

However, the impact of the leftist anti-imperialist discourse during the Iranian revolution added a dimension of independence from the West and the East in the process of the establishment of new structures in the Islamic Republic.

Another leftist discourse that has been manipulatively absorbed into the Islamist discourse of the founders of the new regime was the concept of the *mostazafan* (the oppressed). The unifying motive for the masses was Shah's westernization policies as it was believed that this created a privileged and corrupted class around the Shah, while the rest of the population was suffering. Since the anti-Shah political movement was set on the basis of the struggle against the economic and social deprivation, the new rule that came to power had no option but to embrace the discourse of the social justice. However, instead of establishing a social state under which welfare policies were constitutionally guaranteed for all the citizens, the concept of oppression is manipulated and poverty alleviation is presented something as Islamic. In this sense, as it is put by Harris, the welfare-making activities in Iran intertwined with the state-making.⁵⁷⁷ This was succeeded mostly by institutionalizing the welfare system through the Islamic charity organizations.

As they are going to be analyzed in detail in the next section, after the revolution, properties of Shah and his affiliated classes were transferred to the Islamic charity organization (*bonyads*) which are located outside the networks of the state. This created an ambiguity on the lines between the public and the private as they were neither controlled by the state nor the private investors. Transferring the properties to these charities and giving them the task of welfare policies was a strategic move to present the new state as the protector of the *mostazafan*. Moreover, the welfare policy is formulated as a hegemonic project of ideological exhortation. This meant that the ideological aspect of this policy was based on the idea that it is the Islamic character of the regime that is

⁵⁷⁷ Kevan Harris, "A Martyrs' Welfare State and Its Contradictions: Regime Resilience and Limits through the Lens of Social Policy in Iran." in S. Heydemann and R. Leenders (eds.) *Middle East Authoritarianisms: Governance, Contestation, and Regime Resilience in Syria and Iran*, Stanford University Press, 2013, p.64

providing welfare to its citizens. In other words, instead of protecting the social rights under the constitution and provide them to every citizen as a natural right, the Islamic state presented the welfare policies as the new regime's largesse. As a result of this, while a social welfare system exists in Iran, the discourse of social rights has not developed.⁵⁷⁸

The most well-known of these charity organizations is the Imam Khomeini Relief Committee. The institution was so effective in organizing the social life during the Iraqi war and in connecting the social policy with revolutionary legitimation, as the organization took its name from the leader of the revolutionary movement. Ayatollah Khamenei underlying this connection in the early years of the revolution stated that "with the formation of Imam Khomeini Relief Committee in the early phase of the revolution, the Imam Khomeini conveyed the importance of the dispossessed for the opinions of government officials and institutionalized it."⁵⁷⁹ Contrary to the socialist discourse of a proletariat state, the Islamists used the welfare methods to contain and channel the popular mobilization into a base of support and legitimation for the new regime. The close relationship between this para-governmental welfare system and the regime is being criticized by the opposition that the welfare system is politicized along the Islamists lines of Iran's conservative political fractions and the resources are used to proselytize a mixture of nationalism and Shi'a theology that form the core ideological claims of the Islamic Republic. These institutions are further analyzed in the next section.

Lastly, pro-worker policies of the socialist agenda were also manipulated in the formulation of the new labor law in order to integrate the masses with the new regime. Under the new labor code, while the worker's militancy was limited and the concept of

⁵⁷⁸ Ibid.

⁵⁷⁹ Kevan Harris, "Politics of Welfare After Revolution and War: The Imam Khomeini Relief Committee in the Islamic Republic of Iran." in J. Parker, S. A. Crabtree and A. Azman (eds.) *The Cup, the Gun and the Crescent: Social Welfare and Civil Unrest in Muslim Societies*, London, Witting and Birch, 2012, p.137

wage-labor or individual contracts were accepted, the leftist discourse enabled formulation of a more pro-worker law even though the basis were kept same with Shah's period. The Islamists again put forth Islam as the sources of pro-worker character of the new economic structures.⁵⁸⁰

4.2.3. The Political Economy of the Islamic Republic

The capitalist economy established under this revolutionary leftist rhetoric created a specific type of political economic structure in Iran. While the strong capitalist elements created a crony economic structure, the socialist ones led to the transfer of large capital into the hands of para-governmental organizations. The common point in these two elements is that both created a fraction which is strongly dependent on the existing political structures.

As Keshavarzian states, in Iran the state incorporation is based on personalism rather than corporatist arrangements found in the other parts of the Middle East and Latin America.⁵⁸¹ The emergence of a capitalist class fraction dependent on these personal ties within the political structures was mostly the product of the policy of leaving the capitalist relations of production of the Shah's period intact. What saved the pre-revolutionary capitalist state from total destruction was the compromise to transform the capital from the hands modernist, industrialist, pro-Western bourgeois faction located around the Shah to a more Islamic, traditionalist, mercantilist faction under the leadership of the Shi'ite hierarchy.⁵⁸² This process was going hand in hand with the fundamental changes in the composition of the political elite in Iran, whose secular oriented members were replaced by mainly clergies and religious laypersons.⁵⁸³ This is

⁵⁸⁰ Chehabi, "The Impossible Republic", p.145

⁵⁸¹ Keshavarzian, "Regime Loyalty and Bazari Representation"

⁵⁸² Saleth, "Class Nature of the Iranian Regime", p.437

⁵⁸³ Rakel, *Power, Islam and Political Elite in Iran*, p.31

why some commentators stated that the Islamic revolution was a counter-revolution which saved the bourgeoisie state.⁵⁸⁴

This new revolutionary fraction created opportunities for a primitive accumulation through appropriation of the properties of Shah's affiliates. Moreover, the central planning structures were functional in limiting the members of these groups since mostly clerics and their cronies, who are organized under various kind of affiliations and business arrangements, were capable of accessing this rent seeking opportunities. As it is mentioned by Majloo, all the post-revolutionary Iranian governments tended to follow the same goal but different paths to promote class interests of the cronies of the ruling political elites with an eye on having the masses' political support.⁵⁸⁵ After these class relations have been consolidated in the first decade of the revolution, the second period was settled, in which the capitalist relations were reinvigorated under more liberal lines as it is established during Rafsanjani's presidency. However, the informal ties maintained as these groups institutionalized their interests within the political setting through the informal connections. As a result, the only institution representing the interest of the independent capitalists has become publicly run Chamber of Commerce, Industry and Mines. However, since the president of the chamber is proposed by the Ministry of Commerce, the extent of its independency from the cronies is questionable.

This characteristic of Iranian capitalism stimulates the discussions on its resemblance with the crony capitalisms that sprouted from the ashes of the Soviet Union. This may lead to a deficient approach that the Islamic Republic is integrating into the circuits of global capitalism in a similar way- with an economic structure dominated by the crony capitalists. In fact, what distinguishes Iran from these states is the transfer of the capital controlled by the previous regime, not to the cronies but to the Islamic charitable foundations, controlled by the clerics. It is not possible to call the managers of these

⁵⁸⁴ Saleth, "Class Nature of the Iranian Regime", p.443

⁵⁸⁵ Majloo "Three placement modes of the Economy in Post-revolutionary Iranian Society", p.31

institutions as bourgeoisie since they owe their structural powers not to the capital they possess but to the positions they hold within the institutional mechanism.

While supporting the sacredness of the private property, the transfer of the large-scale capital owned by the group around the Shah to the bonyads is legitimized with the claims that Reza Shah confiscated all religious lands and foundations in 1939.⁵⁸⁶ Some argued that this created a backward capitalist dictatorship in Iran.⁵⁸⁷ In fact, the transfer of the properties to these institutions was more related with the discourse of “mostazafan”. As it is indicated before, in order to present the new regime as the protector of the oppressed classes and to give an Islamic form to these efforts, the Shiite clergy created a para-governmental sector in the interstices between the state sector and the crony capitalists. Since the revolution, the regime has developed high economic and ideological dependency on these institutions. Bonyads, as the largest monopolies of the Islamic Republic, are extracting their economic powers on their position between public and private sector, and therefore, invest highly to the survival of the political structures. The status of these organizations within the political economic structures makes them an important variable in shaping the political and economic strategies of the Islamic Republic. Therefore, these para-governmental organizations and their impact on the internationalization of the Iranian economy takes a special attention within the scope of this study.

4.3. The Para-governmental Organizations in the Political and Economic Structures

This section of the chapter concentrates on the most essential institutions that are located at the center of the Islamic regime’s political and economic structures- the para-

⁵⁸⁶ Cyrus Vakili- Zad, “Continuity and Change: The Structure of power in Iran”, in Cyrus Bina and Hamid Zangeneh (eds.), *Modern Capitalism and Islamic Ideology in Iran*, New York, St. Martin’s Press, 1992, p.22

⁵⁸⁷ Saleth, *Class Nature of the Iranian Regime*, p. 435

governmental organizations. Analyzing the growing roles of these institutions and revealing their instrumental economic and political functions requires a special attention within the scope of the study, since they have emerged as the key agents trying to shape the internationalization of the Iranian state during the course of the Islamic Republic. With this aim, the section firstly tries to set forth the process that led the creation of the Bonyads in order to situate them rightly within the political and economic structures in Iran. Later, the commercialization and internationalization of these institutions, especially in the second decade of the Islamic Republic, are examined in order to demonstrate the transformation of these charity organizations into giant conglomerates. This is to be followed by an analysis of the Islamic Revolutionary Guard Corps (IRGC) –*Sepah-e Pasdaran-e Engaleb'e Islam*. Even though the purpose, function and institutional character of the IRGC was much more different than the Bonyads, the commercialization of this institution after the Iran-Iraq war and during the course of sanctions, transformed it into another vital economic actor, which is also highly dependent on the existing political economic structures. Therefore, IRGC's rising economic power also deserves a special attention in this section. Lastly, the section analyzes the interdependent relationship between the Islamic regime and the para-governmental organization, with a certain focus on the ideological functions interplayed by the latter. This interdependence is an important motivation for the para-governmental organizations' advocacy of an illiberal internationalization of the economy.

4.3.1. The Establishment and Institutional Structure of Bonyads

As it was stated in the previous chapters, the para-governmental charity organizations in Iran are the products of the confiscation of enterprises that had been originally owned by the Shah, his ruling elite and the other Iranian capitalists who had fled the country after the revolution, leaving behind hundreds of companies in the different sectors of the

economy.⁵⁸⁸ Their creation was one of the first initiatives of the new revolutionary regime; with a decree of Imam Khomeini as early as February 1979, one of the largest bonyads of Iran, Bonyad-e Mostazafan, was founded. As it is stated in the website of the foundation,⁵⁸⁹ its capital is composed of the assets and movable and real properties donated to the Foundation or expropriated, or to be expropriated, by the Foundation in accordance with the supreme jurispudent's decree, or those obtained, or to be obtained, through the economic activities of the Foundation. As a result of these early initiatives of expropriation, the Bonyad has taken the control of 203 manufacturing and industrial factories, 472 large firms, 101 construction firms, and 238 trade and service companies in 1982.⁵⁹⁰ As it is mentioned by Saeidi, these religious charities reconstructed into giant private monopolies with no governmental discretion over their operations, while they could contribute to the ideological and cultural needs of an Islamic state.⁵⁹¹ Apart from the Bonyad-e Mostazafan (Oppressed), Bonyad-e Shahid (Martyrs), Bonyad-e Masken (Housing), Bonyad-e 15th Khordad, Bonyad-e Astan-e Quds (Imam Reza Shrine) and Imam Khomeini Relief Committee are among these well-known institutions which control a big share of the country's economy.⁵⁹²

The control of these confiscated properties was passed to the religious leaders in the forms of the newly established bonyads. Moreover, they were used as mechanisms to reward the loyal bazaaris as those who mobilized their resources for the revolution were given the manager status in these institutions. For example, Habiballah Asgarawladi-Musalman, one of the founding members and of the public face of the Society of Islamic Coalition (SIC, *Jamiyyat-i Mutalifah-i Islami*), which was one of the main organization established by the bazaaris to support the revolutionary religious elements, was given the

⁵⁸⁸ Akbar Karbassian, "Islamic Revolution and the Management of the Iranian Economy", *Social Research*, 67, 2, Summer 2000, p.621

⁵⁸⁹ See. <http://www.irmf.ir/En/default.aspx>

⁵⁹⁰ Keshavarzian, *Bazaar and State in Iran*, p.167

⁵⁹¹ Saeidi, "The Accountability of Para-Governmental Organizations", p.480

⁵⁹² H. Amirahmadi, *Revolution and the Economic Transition*, p. 145

office of the representative of the supreme leader at the Imam Relief Fund Committee and has served as the member of the central council of the Bonyad-e 15th Khordad.⁵⁹³ Similarly Alinaqi Khamooshi, another SIC member from a bazaar family, served as the director of the Bonyad-e Mostazafan. Some of the volunteer organizations centered around the bazaars during the revolutionary turmoil were also transformed into the bonyads, as in the case of Imam Khomeini Relief Committee.

The most important institutional characteristics of the bonyads is their location in between the public and private spheres. As it is mentioned by Keshavarzian, bonyads are public in the sense that they do not pay taxes, are entitled to state-subsidized loans and foreign currency, tax and duty exemptions, receive contributions from the Supreme Leader and are tasked with the state's mission of redistribution. Within this setting, these institutions enjoy ideal positions for direct access to rents via the privileges mentioned above. Therefore, the managers of these institutions are labeled as a "state-class" (*dawlati*) by some scholars.⁵⁹⁴ Bonyads are also private in the sense that they are neither accountable nor monitored by the government. Even though the foundations are said to receive 58 % of the state budget, the popularly elected executive and legislature bodies do not have any authority over their performances.⁵⁹⁵ In this context, there is no control by the government over the foundations' economic activities and expenses; they have no public accounts, no correctly defined legal status, apart from their responsibilities to the Faqih.⁵⁹⁶ As it is indicated in the article 4 of the Bonyad-e Mostazafan, "The Foundation is an institution rooted in the Islamic Revolution, non-profit, a legal entity with financial, administrative and employment independence, administered under the high supervision of his highness the Supreme Leader, in accordance with the regulations enclosed in these articles of association, and the internal bylaws."⁵⁹⁷ Moreover, the control of the Supreme

⁵⁹³ Keshavarzian, "Regime Loyalty and Bazari Representation", p.232

⁵⁹⁴ Keshavarzian, *Bazaar and State in Iran*, p.102

⁵⁹⁵ Ibid. p.167

⁵⁹⁶ Rakel, *Power, Islam and Political Elite in Iran*, p.39

⁵⁹⁷ See. <http://www.irmf.ir/En/default.aspx>

leader over these institutions is sustained as the Faqih directly appoints the heads of the bonyads. As it is stated in the article 12 of the Bonyad-e Mostazafan, “The president of the Foundation shall be appointed by the decree of the Supreme Leader, and, as the highest executive official of the Foundation, shall be in charge of the implementation and execution of all affairs, directing the activities, and safeguarding the rights and interests of the Foundation; he shall perform his duties within the frameworks of these articles of association and the resolutions of the board of trustees.” This characteristic of the bonyads in between private and public sector, in some circumstances causes them to perform parallel roles with the official government institutions. For example, Bonyad-e Masken was operating along with the Housing Ministry in providing housing to the families in need.

This institutional character of the bonyads enabled them to extent their activities qualitatively and quantitatively. In fact, the original setting of these para-governmental institutions triggered the extension of their functions especially in the economic sphere. For example, Bonyad-e Mostazafan, while defining its general goals, along with its social functions, such as improvement of the material, spiritual and cultural level of living for the deprived and the disadvantaged of the society, stresses certain economic duties which enable the extension of their role. According to article 6 of the organization, these economic goals are the optimal management of the assets at disposal and an effective presence in the economic areas, within the framework of the general policies of the state. Correspondently, the general duties of the organization were categorized under two headings- duties related with the deprived and economic activities. Under the latter one, developing the economic potential of the Foundation, as well as performing activities of production and services in order to increase the national production, create income, expand the competitive atmosphere, and help to the implementation of the goals and policies of the government of the Islamic Republic of Iran are a set of duties that the organization is obliged to perform. This stated tasks, duties and goals have resulted in the monopolization, commercialization and, especially

in the second decade of the Islamic Republic, internationalization of these para-governmental organizations as giant conglomerates.

4.3.2. Commercialization and Internationalization of Bonyads

As it is stated, the structural characteristics of the Bonyads and their organizational setting equipped them with the necessary tools and goals to commercialize easily. Apart from those structural drives, there were specific conjunctural moments, especially after the 1990s, which triggered such incentives to the full capacity. In fact, the role of the bonyads in the economic field has been increasing gradually in the 1980s. As the capital flight has reached to tremendous levels during the revolutionary turmoil and afterwards, bonyads have started to increase their economic activities to fill this vacuum.⁵⁹⁸ Since these institutions maintained a primitive mode of accumulation through taking the control of the previously produced capital, such as the Coca-Cola factories or Hilton Hotel, they were able to maintain economic functions when the economy was under large restrictions. At the end of the 1980s, Bonyad-e Shahid for example, owned 150 companies in the agriculture, mining, construction, and trade, as the resources allocated to the foundation by the government increased annually by 29.3% from 11.4 billion riyals in 1981 to 115 billion riyals in 1990.⁵⁹⁹ At the end of the decade, it is claimed that Bonyads' budget has reached nearly half of the government national budget.⁶⁰⁰ However, such numbers do not go beyond estimation as the total assets of the bonyads are not public and only accountable to the Faqih.

Since 1990s, three different developments have resulted in the decrease of the social functions of the bonyads and further commercialization of them. The first development was triggered by the decision of the Rafsanjani administration to cut the budget and

⁵⁹⁸ Hunter, *Iran after Khomeini*, p.61

⁵⁹⁹ Saeidi, "The Accountability of Para-Governmental Organizations", p. 488

⁶⁰⁰ Ibid. p.493

impose the requirement that state ministries and organizations should be financially self-sufficient. This has forced the state organs to involve more into the economy in order to balance their budgets by launching profit-making enterprises that could compete for contracts in construction, manufacturing, commerce and services.⁶⁰¹ This went hand in hand with a process of the sale of state owned enterprises. Since this privatization process was conducted under direct negotiations with the interested buyers, instead of public auctions, corruption was widespread as the enterprises were transferred to those with personal connections within the political mechanism. As it is mentioned by Harris, this has resulted in the emergence of a new “aghazadeh”- sons of elite.⁶⁰² As a result of this, during the fourth Majles (1992-1996), the bonyads have started to pressurize the conservative power circles to change the privatization policy. However, this was not a move to end the corruptions embedded in the process. Instead, Bonyads were demanding a process of privatization in which they can participate. Following this, in 1994 the parliament banned privatizations through negotiated transfers and started to sell state owned enterprises through the transactions houses. More crucially, the new law allowed the sale of companies’ shares to those devoted to the war, the prisoners of war and the relatives and members of those who were killed in the war. Especially, Bonyad-e Mostazafan and Bonyad-e Shahid were the main beneficiaries of this amendment. Harris states that, the half of the shares of the 331 companies that were fully or partially transferred in the name of privatization during 1989-94, went in the hands of the para-governmental organizations.⁶⁰³ While these efforts of liberalization by the reformist power circles in Iran was manipulated by the core institutions of the Islamic Regime, as it is happened in the other liberalization efforts, Bonyads started to increase their

⁶⁰¹ Arang Keshavarzian, “The Iran Deal as Social Contract”, *MERIP*, 45: 277, Winter 2015

⁶⁰² Harris, ‘Vectors of Iranian Capitalism’, p. 221

⁶⁰³ Ibid.

economic powers. As it is mentioned by Rakel, this first initiative of the reforms towards liberalization led to monopolization of the religious foundations.⁶⁰⁴

The second historical development that conveyed the shift of economic ownership from the state to a variety of para-governmental organizations was the election of Mahmood Ahmadinejad to the presidency. As Ahmadinejad has built his campaign on populist discourses such as “bringing oil money to the people’s dinner table”, after his elections he initiated a program known as “Justice Shares”. His rhetoric was mainly to support the poor by introducing a share of stock in the privatized state companies for the needy. Shortly after his election, Ayatollah Khamenei issued a directive reinterpreting the Article 44 of the constitution, which draws lines between the state, cooperative and private sectors of the economy. It is stated that the aim of this reinterpretation was: “To speed up national economic development; expand ownership among the populace with the purpose of assuring local social justice; improve the efficiency of enterprises; enhance economic competition; reduce the fiscal and administrative burdens of the state; improve employment and income for the population; and encourage the people to invest and save.”⁶⁰⁵ As a result, the government was ordered to reduce its share in the non-essential sectors by 20 percent and to privatize 80 percent of its assets in the essential sectors such as mining, heavy industry, energy and banking. The transfer of the state properties took mainly three forms as it is mentioned by Kevan Harris.⁶⁰⁶ Firstly, the changes in the constitution enabled the government to pay its debt to the para-governmental organizations via direct transfers of the state-owned enterprises. For example, the International Exhibition Center of Tehran was sold to IRGC affiliated Armed Forces Social Security organization for government’s debt. Secondly, the sale of the state-owned enterprises was held through the Tehran Stock market, public auction or negotiations. Even though private investors were active in this process, the economic

⁶⁰⁴ Rakel, *Power, Islam and Political Elite in Iran*, p.83

⁶⁰⁵ Ehsani, “Survival Through Dispossession”

⁶⁰⁶ Kevan Harris, “The Rise of the Subcontractor State: Politics of Pseudo-Privatization in the Islamic Republic of Iran”, *International Journal of Middle East Studies*, 45, 2013, p.56

power of the para-governmental institutions made them really uncompetitive in these areas. For instance, the buyers of National Iranian Copper Industries Company that was privatized in 2007 were the state-affiliated companies.⁶⁰⁷ Lastly, state owned enterprises were transferred through the Justice Shares. It is stated that during the first term of Ahmadinejad, of the total divested state owned enterprises, 68.5% went to Justice Shares, 12.5 % to debt cancellations, and only 19% was sold or negotiated through the stock market.⁶⁰⁸ As Justice Shares was located at the heart of the process of privatizations, fractious conflicts and claims structured around it. The Central Board of Justice Share Distribution, the office executing the privatization process, was composed of the ministers, the head of Bonyad-e Shahid, the commander of Basij and the head of the Imam Khomeini Relief Committee.⁶⁰⁹ It can be deduced that the state-affiliated classes and institutions had a strong primacy within this setting. In November 2009, the Parliament Research Center's report, entitled "Transition from the State to the Pseudo-State Economy", revealed that 264 companies were sold from 2004 to 2009 and within these sales from 2007 to 2009, 82 firms' share were given to para-governmental organizations- it is stated in the report that especially the Social Security Investment Company and Iranian Mehr Eqtesad (IRGC affiliated Bank) obtained 46 % of these shares.⁶¹⁰ The phase of these pseudo-privatizations during Ahmadinejad had reached to tremendous levels as the number and value of the companies divested were larger than the ones divested by Rafsanjani and Khatami combined. In 2009, the head of the Iranian Privatization Organization was declaring that government has divested 800,000 billion riyals and 370 companies so far.⁶¹¹ In December 2010, the commission was reporting that out of seventy billion USD worth of assets of State Owned Enterprises divested since 2006, only 13.5 percent of the shares had transferred to the private sector, the

⁶⁰⁷ Ibid. p.57

⁶⁰⁸ Ibid. p.58

⁶⁰⁹ Harris, "Vectors of Iranian Capitalism", p.227

⁶¹⁰ Harris, "The Rise of the Subcontractor State", p.58

⁶¹¹ Ibid. p.56

remainder were taken by the para-governmental organizations.⁶¹² Since these para-governmental institutions are composed of numerous organizations, which do not make up a single connected entity, their participation in the process of privatizations as state-affiliated organizations are even less visible. For example, in its website, Bonyad-e Mostazafan names 13 different holdings under its control, such as Paya Saman Pars Investment, Sina Investment, Iran Housing Development, Kaveh Pars Mining, Sina Energy, and so on. These holdings, together with the others, are further separated into smaller compartments. Due to their control over the economic system through a complex web, they have succeeded in dominating the process of privatizations. As a common critique of this type of privatization in Iran, it is said that the process resembles to the privatizations of Russia in 1990s which created oligarchic industrial class and Russia's version of popular capitalism.⁶¹³ As the argument is developed later in detail, in Iranian case, this dominance of the para-governmental organizations creates a structural trap, since the capital cannot be reallocated from one sector to another. The efforts to decrease the inefficiencies of the economy through divesting subsidized state owned enterprises, ended up transferring these firms into the hands of the other unregulated public institutions, such as the bonyads.⁶¹⁴

The third historical development that further triggered commercialization of the para-governmental organizations was the sanctions. As it is discussed in the previous chapter, bonyads' capacity to import, export, and sell goods at below market prices has already made them an important player in the international trade regimes. It is also showed that these organizations are able to bypass the domestic trade bans and duties as they are provided with exemptions, such as special licenses (*mojavvez-e moredi*) to conduct trading activities, and subsidized foreign currencies. As it is also discussed previously, IRGC has also enlarged its economic powers during the course of the sanctions.

⁶¹² Ibid. p.46

⁶¹³ Harris, 'Vectors of Iranian Capitalism', p.237

⁶¹⁴ Karshenas and Hakimian, "Oil, Economic Diversification and the Democratic Process in Iran", p.74

As a result of this whole process, bonyads have commercialized and turned to be the largest monopolies of the Islamic Republic. Keshavarzian claims that these organizations own 20 percent of the asset base of the Iranian economy and contribute 10 percent to the country's GDP.⁶¹⁵ For instance, Bonyad-e Mostazafan has become the second largest commercial enterprise in the country. It is claimed that the organization employs up to 400,000 workers and its assets are above 10 billion dollars.⁶¹⁶ According to the website of the Bonyad, with an annual turnover of \$3.5 billion, the Bonyad and its affiliated organizations manage more than 400 companies and factories. It is also stated that the bonyad controls huge areas of economy from food and beverage, chemicals, cellulose items, metals, petrochemicals, construction materials, dams, lowers, civil development, farming, horticulture, animal husbandry, tourism, transportation, five star hotels, commercial services, financing, joint ventures etc. Bonyad-e Mostazafan's largest subsidiary, the Agricultural and Food Industries Organization, owns more than 115 additional companies. Bonyad also has contracts on large engineering projects such as the construction of Terminal One of the Imam Khomeini International Airport. The former director of the Bonyad, Mohsen Rafiqdoost, stated that while the bonyad allocates 50 percent of its profits for providing aid to the needy in the form of low interest loans and monthly pensions, the remaining 50 percent is used for such investment projects.⁶¹⁷

The case of Imam Reza Shrine, which is located at the city of Mashad, is another sample of the rise of the para-governmental organization. This largest charity of centuries old foundation, at the end the 1990s, owned vast tracts of urban real estate, hotels, factories, farms and quarries. Even though it is difficult to predict its holdings as they are not transparent, some Iranian economists speak of a net asset value of \$15 billion or more.⁶¹⁸ The parliamentary representative of Mashhad has claimed that the Imam Reza Shrine,

⁶¹⁵ Keshavarzian, *Bazaar and State in Iran*, p.168

⁶¹⁶ Klebnikov, "Millionaire Mullahs"

⁶¹⁷ Ibid.

⁶¹⁸ Ibid.

together with the other foundations, controls 70 % of the economy.⁶¹⁹ Over the time, these organizations not only established quasi-banking institutions but also got the control of financial subsidiaries, such as Sina Bank or the Finance and Credit Company, which are outside the regulatory control of the Central Bank of Iran and are not obliged to produce audited financial statements, nor are they subject to Iran's Islamic Banking Law.⁶²⁰

The accumulation of huge amounts of capital within the hands of these para-governmental organizations inevitably induced their internationalization in the following decades. Similar to their commercialization, the internationalization of the bonyads was embedded in their original settings. For example, Bonyad-e Mostazafan defines its main strategies as the development of participation with domestic and foreign investors, development of exports of goods and diversifying methods of provision of financial resources and investment. Moreover, consolidating and administrating the capital and the assets in an optimum fashion, rendering activities of production and services inside the country and abroad, and administrating the affiliated companies and units optimally are enumerated missions of the bonyad.⁶²¹ All these are strongly related with the internationalization processes. Especially the notion of administrating the capital of the organization efficiently triggered the production and services activities of the Bonyads inside and outside the country. Bonyad-e Mostazafan, rationalizes these activities by putting forth its mission of the maximization of the value of the optimal composition of the assets and stocks. Under this notion, the organization is allowed to authorize the establishment of branches or offices inside or outside the country as deemed necessary. As a result, Bonyad-e Mostazafan subsidiaries pursued contracts in the late 1990's to construct a railway system and urban rail system and to manage a livestock project in Libya; they maintained economic connections with the Middle East, Europe, Africa,

⁶¹⁹ Keshavarzian, *Bazaar and State in Iran*, p.168

⁶²⁰ Rodney Wilson, "Etatisme Versus Market Driven Islamic Banking: the Experience of Iran and Arabian Peninsula Compact" in M. Kamrava (ed.), *The Political Economy of the Persian Gulf*, London, Hurst Publisher, 2014, p.126-7

⁶²¹ See. <http://www.irmf.ir/En/default.aspx>

South Asia, Russia and former Soviet Republics, and the General Mechanic Civil and Housing Organization of the Bonyad-e Mostazafan began work in 2004 on a 30\$ million, 36-month contract to build a 37-km road into the Hajar mountains in the UAE.⁶²² According to the information gathered from the webpage of the Bonyad, it has also conducted business partnerships with companies from Denmark as it purchased machineries for their gas factory. Moreover, with the German companies, collaboration for technology transfer was conducted until the involvement of EU into the sanctions regime. Imam Reza Shrine, similarly, involved in investment activities together with the investors from Saudi Arabia and UAE. Ayatollah Tabasi, who served as the chairman of the organization, was the main supporter of the internationalization of the institution as his son was put in charge of the Sarakhs Special Economic Zone, on the border with the former Soviet republic of Turkmenistan. The bonyad poured hundreds of millions of dollars not only into the project, but also for the establishment of a rail link between Iran and Turkmenistan, as it is stated previously.⁶²³ Bonyads had also expanded their economic power to overseas as they have started to invest in the joint ventures in Latin America. For example, in Venezuela alone there are at least ten manufacturing plants whose shareholding distribution is 49 % Iranian business connected with Bonyads, leaving 51 % within Venezuelan state.⁶²⁴ The executive board of the Banco Internacional de Desarrollo was composed of Iranians. Moreover, countries such as Argentina and Brazil are known to invest in Iranian Bonyad ventures. In fact, since any foreign investor looking for investment opportunities in Iran are forced to find a local partner and since the economy is dominated by the bonyads, international capitalists inevitably merge with the companies controlled by the para-governmental organization. Regarding the determinants of the internationalization of capital as enumerated in the first chapter -spatial expansion of the capital, the mergers of the companies, internationalized trade, and formation of international capitalist classes- it can be

⁶²² Wehrey et al, *The Rise of the Pasdaran*, p.58

⁶²³ Klebnikov, "Millionaire Mullahs"

⁶²⁴ Kerry Patton, "Bonyads: Iran's Greatest Strength against Sanctions", *American Thinker*, 2012,

claimed that the para-governmental organizations are increasingly internationalizing as they meet all these criteria.

4.3.3. A New Economic Actor: Islamic Revolutionary Guard Corps

Another important economic actor, which owes its economic power to the established political structures and therefore developed highly dependence on it, is the IRGC. Unlike Bonyads, within its original institutional set up, IRGC was not assigned with any economic tasks. IRGC was designed and institutionalized as a parallel military force in 1982 and linked directly to the institution of Faqih; and similar to the other para-governmental organizations they function for the Islamic regime, instead of the state. Defending the Islamic Revolution and cooperation with the other armed forces were the only tasks assigned to the organization.⁶²⁵

However, the political structures that triggered the accumulation of huge amounts of capitals in the hands of religious charities, such as importing licenses, tax exemptions, subsidized hard currency, and control over the procurement boards, produced the same consequences for this para-governmental organization. Moreover, the same moments that led the monopolization of Bonyads –Rafsanjani’s liberalization, Ahmadinejad’s privatization and sanctions- have encouraged commercialization of the IRGC as well. Before these triggers, the war with Iraq and IRGC’s leading role in the war-field were the first motivations for the organization’s involvement in the economy in the mid-1980s. The first arms factory by the Corps was funded in 1984 as IRGC was allowed to establish its own defense industry in order to supply the necessary war equipment.⁶²⁶ At the end of the war, since the IRGC was the most organized entity, it has started to lead the reconstruction efforts. This process, together with Rafsanjani’s policy of involving government organizations in business transactions as a way to generate independent

⁶²⁵ Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.44

⁶²⁶ Ibid. p.54

income, has resulted in IRGC's entrance into the economy in the early 1990s. The organization took the control of several confiscated factories after the war and established the headquarters of reconstruction and headquarters of self-sufficiency -also known as GHORB (*Gharargah'e Sazendegi-ye Khatam'al Anbiya*) or Khatam'al Anbiya.⁶²⁷ In the early 1990s, through these headquarters, IRGC started to establish companies in non-military fields, such as agriculture, industry, mining, transportation, construction of roads, refineries, depots, pipelines for gas, oil import and export sector.

The case of Khatam'al Anbia deserves a special attention since the economic operations of the IRGC are mostly concentrated in this organization. This also situated the organization at the center of the international surveillance, as the Western-backed sanctions mostly targeted its operations and individual commanders affiliated with this base. Since its establishment, Khatam'al Anbia has become one of the largest contractors in Iranian industrial and development projects as it is awarded more than 750 contracts in different fields and completed more than 150 projects.⁶²⁸ The Ministry of Oil, Transportation and Energy and the mayor of Tehran signed several contracts with the IRGC through Khatam al-Anbia. Since, the most of these projects are subcontracted to the subsidiaries or private companies, conglomerates affiliated with the IRGC have become a source of wealth creation for the bureaucrats holding the offices in these organizations. As it is mentioned by Harris, many of the subcontracting companies that Khatam'al Anbia gives its project are staffed with the IRGC retirees.⁶²⁹ This rise of the military-linked contractors in Iran has also been observed in the post-Communist Eastern European countries.

Having reached to a tremendous economic capacity during the course of 1990s, Khatam'al Anbia has started to dominate the economy, especially with the election of Ahmadinejad; as he started to offer no-bid contracts to IRGC in the areas oil and natural

⁶²⁷ Wehrey et al, *The Rise of the Pasdaran*, p.59

⁶²⁸ Ibid. p.60

⁶²⁹ Harris, "The Rise of the Subcontractor State", p.59

gas extraction, pipeline construction, and large-scale infrastructure development.⁶³⁰ This was a strategy for Ahmadinejad administration to mobilize financial resources to the affiliated groups. Two prominent Khatam subsidiaries, the Sepasad Group and Hara Company, are the most beneficiaries of these projects. For example, the former was awarded a \$1.2 billion contract to build the line seven of the Tehran Metro. According to the International Crisis Group, only in 2006, Khatam'al Anbia headquarters were awarded \$2.09 billion worth no-bid contracts to develop phases fifteen and sixteen of the South Pars Natural Gas field and \$1.3 billion contract to build the multiple destinations pipeline between Assalouyeh and Iranshahr.⁶³¹ The organization has also constructed Tehran-Tabriz railway and several dams. In 2010, IRGC affiliated companies were awarded one of its largest projects; the construction of a high-speed railway from Tehran to Qom and Isfahan, worth \$2.7 billion.⁶³² For the project, the Khatam has collaborated with China Railway Engineering Corporation. As it is to be discussed later, this demonstrates that IRGC is not against the internationalization of the Iranian economy unless it is not forced to compete with the international capital or unless its privileged position within the political and economic structure is challenged.

The increasing role of the IRGC in the energy industry, especially with the sanctions, was discussed in the previous chapter. Reminding that, with the projects awarded to the headquarters, Khatam'al Anbia has become the sole contractor in Iran's gas industry. In one of these, the organization was given the contract to build 900 km natural gas pipeline worth 1.3\$ billion, without any formal bidding requirement in 2006. As a response to the criticisms, the Oil Ministry legitimized the process by claiming that providing gas to the underprivileged regions was an urgent necessity and that a formal bidding process would have taken more than a year to complete; therefore, it is directly

⁶³⁰ Daryani and Nakhae, "The Changing Formations of the Power Bloc in Iran", p.103

⁶³¹ Majloo "Three placement modes of the Economy in Post-revolutionary Iranian Society", p. 39

⁶³² Faucon, Meichtry and Fitch, "Iran's Government and Revolutionary Guards Battle for Control of Economy"

given to the GHORB.⁶³³ Another indicator of the dominance of the organization in the energy sector was the appointment of the head of the Khatam'al Anbia, General Rostam Ghasemi to the Ministry of Oil during the presidency of Ahmadinejad.⁶³⁴

As it is also discussed before, sanctions contributed to further commercialization of IRGC, similar to Bonyads. With their immunity from the rules of the government and their control over the means of power, these institutions are equipped with the necessary mechanisms to function in the quasi-legal networks. As a result, IRGC started to engage in large-scale trading, such as exporting the state subsidized gasoline outside the country through Martyr Rajai Port Complex in Hormuzgan. It is claimed that IRGC is yielding 200-300 percent profit on such illegal sales.⁶³⁵

As a result of these economic activities, during the course of the Islamic Regime, the para-military organization of the Revolution has turned out to be one of the largest monopolies in the economy, alongside the bonyads. This is why some commentators define the IRGC as a militarized bonyad.⁶³⁶ In fact, there are strong connections and common interests between these para-governmental organizations as they are dependent on the same political structure. The former head of the Bonyad-e Mostazafan, Mohammad Forouzandeh, was the former head of the Ministry of Defense and Armed Forces Logistics and a former IRGC officer. Similarly, the former IRGC Air Force commander Hossein Dehghan served as the president of Bonyad-e Shahid and these two organizations conducted numerous economic endeavors, including participation in a joint venture with the Industrial Development and Renovation Organization and Defense Ministry subsidiary, the Iran Electronic Development Company.⁶³⁷ Similar to the bonyads, since IRGC is also unaccountable, acting above the legal limitations, the value of its total assets are unknown. Harris claims that the organization controls about 60

⁶³³ Wehrey et al, *The Rise of the Pasdaran*, p.59

⁶³⁴ Daryani and Nakhae, "The Changing Formations of the Power Bloc in Iran", p.104

⁶³⁵ Wehrey et al, *The Rise of the Pasdaran*, p.56

⁶³⁶ Ibid.

⁶³⁷ Ibid. p.57-59

percent of the economy⁶³⁸ and Morady asserts it controls 70 % of the state-run economy.⁶³⁹ Even though these are not beyond predictions, it is known that IRGC runs more than 800 companies from dental and eye clinics to car factories and construction firms, owns 51 % of the National Telecommunications Company, bought two of the largest financial institutions,⁶⁴⁰ and dominates the Tehran Stock Exchange.⁶⁴¹

It is commonly believed that IRGC is against internationalization of the Iranian economy since it contradicts with its business interests. In reality, accumulation of huge amounts of capital in the hands of IRGC affiliates has inevitably created internationalization incentives for the IRGC, even though they are in strong opposition to the liberal form of internationalization. Moreover, as it is mentioned by Faucon and the others, the increasing competitive pressure and reduction of the direct subsidies necessarily force these institutions in the developing countries to internationalize.⁶⁴² Khatam'al Anbia companies for example, worked with the European companies, as in the construction of Gudar-i Landar dam and more recently with Chinese, Indian and Russian firms on gas and oil projects, as it is discussed in the previous chapter. The companies affiliated with the Revolutionary Guards have started to hire Western consultants and recruit politically moderate professionals to help companies in participating into foreign businesses.⁶⁴³ Telecommunication Company of Iran, whose control was taken by the IRGC with the cancelation of an international agreement as it is discussed in the following chapter, hired French IT consultancy Sofrecom in 2014 to improve service and computerize networks. Also, regarding the internationalization of Bonyads, it is not possible to assert that the para-governmental organization of the Iran, which sets the core of the Islamic Republic, are against the internationalization of

⁶³⁸ Harris, "The Rise of the Subcontractor State", p.45

⁶³⁹ Morady, "Who rules Iran?", p.51

⁶⁴⁰ Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.187

⁶⁴¹ Alizadeh, "The Political Economy of Petro Populism and Reform", p.94

⁶⁴² Faucon, Meichtry and Fitch, "Iran's Government and Revolutionary Guards Battle for Control of Economy"

⁶⁴³ Ibid.

Iranian capital, even though internationalization of state is a huge challenge for their accumulation strategies.

4.3.4. Para-Governmental Organizations and the Survival of the Islamic Regime

The developments taken place during the course of the Islamic Republic made the state strongly dependent on the resources of these organizations for the reproduction of the political and economic structure. For the whole reproduction of its social formation the Iranian state needs the resources of the para-governmental organizations as any capitalist state that is highly dependent on the reproduction of the capitalist system for its survival. Perhaps what differentiates the Iranian capitalist state from its Western counterparts is the fact that the reproduction of the capitalist economy in Iran is attached to the reproduction of a specific regime type. This is mostly maintained with the establishment of these parallel or dual power structures, as it is analyzed in the first section of the chapter. Within this dual structure, as Saeidi states, bonyads reinforce the financial authority of the religious leaders without accountability.⁶⁴⁴ By holding the control of these organizations, the clerical power centers -the supreme leader, his representatives, affiliates and political factions- capture the authoritative resources used for the consolidation and expansion of the central state apparatus.

Not only the domestic goals, but also international agenda of the Islamic Regime was maintained through these resources. As Kevan Harris underlines, Imam Khomeini Relief Committee (IKRC), for example, has branches in Lebanon, Syria, Palestine, Iraq, Afghanistan and Tajikistan.⁶⁴⁵ There are several photographed visits from Hezbollah leader Sayyed Hassan Nasrallah and various Hamas dignitaries to the headquarters of the Bonyad. This is why some commentators claim that bonyads assist in fueling

⁶⁴⁴ Saeidi, "The Accountability of Para-Governmental Organizations", p. 479

⁶⁴⁵ Harris, "Politics of Welfare After Revolution and War", p.135

international terrorism.⁶⁴⁶ Paul Klebnikov, for example, pointed out Mohsen Rafiqdoost, who was the minister of the Revolutionary Guards in the 1980s and served as the head of several bonyads, as a key player in sponsoring Hezbollah in Lebanon.⁶⁴⁷

Apart from the dependence on the economic means of the para-governmental organizations, the ideological functions of these organizations are vital for the construction of the hegemony and survival of the Islamic regime. As it is stated by Saeidi, what is often not realized widely about these organizations is that they have been actively involved in Iranian polity by propagating the dominant ideology in a wide range of social and cultural activities. These institutions were created at the period of the revolutionary turmoil, when the new ruling classes could not trust the old regime's bureaucratic apparatus for the institutionalization of their ideology. Therefore, these institutions were established and tied to the populist transformative agenda of the new regime.⁶⁴⁸

For example, the establishment of the IKRC, was an effort to attach the welfare policies directly to the personality of Imam Khomeini, as it can be understood from its name, by his supporters Mehdi Karroubi and Habibollah Asgarowladi. After the end of Iran-Iraq war, the organization started to extend its welfare functions into the rural areas. It is claimed that nearly 10 % of the society receives services from the organization and 6-7 % gets month-to-month aid.⁶⁴⁹ Bonyad-e Mostazafan plays a similar role in welfare policies as the social activities of the Foundation are defined as promoting the material, spiritual, and cultural life of the disadvantaged and the deprived of the society. The Bonyad was crucial in maintaining the hegemony of revolutionary forces over the subordinated classes and assisted them to administer and pursue social welfare and reconstruction programs. Together with the others, such as Bonyad-e Shahid, the

⁶⁴⁶ Kerry Patton, "Bonyads: Iran's Greatest Strength against Sanctions", *American Thinker*, 2012

⁶⁴⁷ Klebnikov, "Millionaire Mullahs"

⁶⁴⁸ Keshavarzian, *Bazaar and State in Iran*, p.166

⁶⁴⁹ Harris, "A Martyrs' Welfare State and Its Contradictions", p. 69

Bonyad-e 15th Khordad, and IKRC, the welfare system provided by the para-governmental system is covering one in every four Iranians.⁶⁵⁰ Since these institutions are also exempt from the budgetary constraints that are applied to the public welfare organizations, they are able to maintain their services even during the periods of economic recessions. Therefore, these welfare policies are functioning in a way to consolidate the support for the Islamic character of the political structure. These organizations also establish schools, universities, research centers, publish books, journals, produce films and establish museums which further serve for the hegemonic ideology. As a result, these foundations have become capable of mobilizing tens of thousands of people, from urban and rural lower classes, for demonstrations that support the Islamic regime.⁶⁵¹ In a similar vein, they may be demobilized, as in 2009 the head of IKRC Hossein Anvari claimed that none of the families helped by the organization took part in the country's Green movement demonstrations.⁶⁵² In short, the ideological and welfare functions of the bonyads are inalienable for the Islamic Regime, as Mehdi Karroubi confessed "today we realized that if (bonyads) did not exist, there is no knowing what would have happened to the fate of the revolution and country."⁶⁵³ Of course these ideological functions were maintained due to the financial capacities of the para-governmental organizations which were formed with their privileged status within the political structure. Rafiqdoost, when he was the head of the Noor Foundation, said that he is a normal man, but if Islam is threatened he will become big again.⁶⁵⁴ This means that the resources of the bonyads can be tapped when the Islamic regime needs it.

Apart from the regime's dependence on the para-governmental organizations, for securing the reproduction of their economic and institutional capacities, the survival of the Islamic regime is highly vital for these organizations. As it is indicated several times

⁶⁵⁰ Jafari, "Rupture and revolt in Iran."

⁶⁵¹ Rakel, *Power, Islam and Political Elite in Iran*, p.39

⁶⁵² Harris, "Politics of Welfare After Revolution and War", p.146

⁶⁵³ Ibid. p. 140

⁶⁵⁴ Klebnikov, "Millionaire Mullahs"

before, these organizations are enjoying immediate access to the rents via exclusive importing licenses, tax exemptions, and subsidized hard currency and there is no governmental discretion over their expenses, no shareholders, no public accounts and no well-defined legal status. Owing their power to this structure, they oppose any transformation towards transparency and accountability as it is initiated by Khatami.⁶⁵⁵ Moreover, they have the institutional power to re-shape the direction of any policy as it happened during the privatizations. In fact, during the course of the Islamic state, bonyads have developed different strategies to prevent any structural transformation in the political and economic structures that may shake their status. For example, when Rafsanjani was trying to reformulate the economic structure in accordance with the IMF principles and therefore tried to revise Iran's foreign policy in 1989, Bonyad-e 15th Khordad announced that they would increase the reward for the assassination of Salman Rushdie in an effort to prevent a possible convergence with the West.⁶⁵⁶ Even though, Rafsanjani reacted by saying that they are only a private charitable institution, the political and economic structures of the republic attach the interest of the bonyads directly with that of the regime. Moreover, their unaccountable and non-transparent structures turned these organizations into, with the words of Kamrava and Hassan-Yari, states within states.⁶⁵⁷ In fact, in some occasions these organizations try to become the state itself, as the current custodian and chairman of Imam Reza Shrine, Ebrahim Raisi, run as the conservative candidate in 2017 presidential elections.⁶⁵⁸

4.4. Factions Struggling over the Internationalization of Iranian State

This section of the study puts forth the rival political and economic factions, which due to their different accumulation strategies try to shape the internationalization of the

⁶⁵⁵ Saeidi, "The Accountability of Para-Governmental Organizations", p.494

⁶⁵⁶ Ibid. p.495

⁶⁵⁷ Kamrava and Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.496

⁶⁵⁸ Arash Karami, "Conservative presidential candidate paints bleak picture of Iran", *Al Monitor*, April 14, 2017

Iranian state differently. The section targets to reveal different accumulation strategies and different trajectories on the process of internationalization adapted by different factions acting within the social structures of Iran. Unlike the traditional categorizations of the factions in Iran, based on the groups' political, cultural or overall economic orientations, the section aims to classify them according to their internationalization policies. In this sense, the three different factions and two different strategies of integration are to be presented. Since the institutional organization of the state and its dual power structure enable factions to shape the process via controlling the key institutions, how different factions use their institutional power to overshadow their rivals' political and economic agendas is a matter of examination under this section of the study.

4.4.1. Factional Politics in Iran

In Iran, the struggle between the dominant classes appears as elite factionalism and public contestation, since the conflicting interests of both groups are being represented in a state structure that is fragmented in between the elected and appointed institutions. The use of the capacities of these parallel institutions and their veto powers by the different groups to undermine the other's agendas in the case of Iran, make the factions and their conflicting interests even more observable. As it is mentioned by Kamrava and Hassan-Yari, the existence of multiple official and unofficial venues for competition has sharpened the tenor and substance of factional rivalries.⁶⁵⁹ Therefore, situating the different internationalization trajectories within this factionalism and state structure is crucial to reveal how domestic classes and political groups are shaping the process of internationalization.

It is a general tendency to separate Iranian political factions in between the radical and moderates or the traditional and modern. For example, Keshavarzian labels the internal

⁶⁵⁹ Kamrava and Houchang Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.495

divisions in Iran as the splits between the hard-liners and soft-liners, while the former supports the absolutist powers of the Leader and related unaccountable institutions; the latter seeks more expansive powers for the republican institutions.⁶⁶⁰ Others, on the other hand, find these dual categories void as it prevents the representation of Iranian factional politics.⁶⁶¹ Four different categories may summarize the findings of various studies trying to map the Iranian factious politics by concentrating on the political and economic agendas of different groups. The first group is labeled as the theocratic right,⁶⁶² traditional conservatives⁶⁶³ or traditional right,⁶⁶⁴ which is composed of conservatives controlling the Council of Experts and the Guardian Council and favoring a merchant economy network with the Islamic charities and minimal state interference. The second group is referred as the theocratic left, radical right, principilists or neo-radicals that is composed of the neo-conservatives, anti-Western non-clerics, the members of IRGC and the groups that find representation with the election of Ahmadinejad to the presidency. It is stated this group favors leftist economic policies such as government intervention in economics, subsidies and welfare policies.⁶⁶⁵ Some writers take the case further by claiming that this group is not only against to capitalism and foreign investment but also to the integration of Iran into the world economy.⁶⁶⁶ The third one is labeled as the republican right, the modern right or the moderates, which is composed of the modern industrialists, bureaucrats, technocrats, professionals, bazaar merchants and the capitalist surrounded Ayatollah Rafsanjani.⁶⁶⁷ These groups while advocating a free market economy, similar to the theocratic right, push state to play a

⁶⁶⁰ Keshavarzian, "Contestation Without Democracy", p.65

⁶⁶¹ Mohseni, "Guardian politics in Iran", p.90

⁶⁶² Ibid.

⁶⁶³ Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.136

⁶⁶⁴ Kamrava and Houchang Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.514

⁶⁶⁵ Marc Champion, "Stop Thinking Reformers Versus Conservatives in Iran," *Bloomberg View*, March 8, 2016

⁶⁶⁶ Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.175

⁶⁶⁷ Mohseni, "Guardian politics in Iran", p.93

developmentalist role to promote industrialization and economic growth along the models espoused by the international economic institutions such as the World Bank and the International Monetary Fund (IMF). Lastly, the republican left, liberals or reformists is composed of the groups around the figures such as former President Khatami, current president Rouhani, former Parliamentary Speaker Mehdi Karroubi, former Prime Minister Mir-Hussein Mousavi.⁶⁶⁸ These groups prefer a market economy based on free entrepreneurship and demand more transparency and accountability.

Even though the categories above have taken into account both the political and economic agendas of the groups, they neglect the accumulation strategies of the different fractions. Therefore, it is difficult to extract the different internationalization policies adapted by different groups. The only examination of the formation of the power bloc in Iran, in the context of the changing global and regional constellation of power, is conducted by Daryani and Nakhae.⁶⁶⁹ These scholars concentrate on the formation of state and power bloc, informed by Nicos Poulantzas, to define the emergence of three different fractions in the post-revolutionary Iran. According to their analysis, the Islamic revolution created the first fraction, labeled as the national bourgeoisie, which has become hegemonic during the Iran-Iraq war. The primitive mode of accumulation that is adapted during the revolutionary turmoil has provided huge amounts of capital in the hands of the capitalist fraction that formed the national bourgeoisie. The authors assert that after the war, the accumulation of capital in the hands of the national bourgeoisie canalized them to develop tendencies that favor further liberalization of the economy and closer international ties with the EU and US.⁶⁷⁰ This process associated with the emergence of the second fraction, the neoliberal bourgeoisie, which pushes for the neoliberal restructuring of Iran's economy and state. It is claimed by the authors that the new tendency of the neoliberal fraction was able to find representation from 1989 to 2004, during the terms of Rafsanjani and Khatami. The attempt to restructure the

⁶⁶⁸ Ibid. p. 94

⁶⁶⁹ Daryani and Nakhae, "The Changing Formations of the Power Bloc in Iran".

⁶⁷⁰ Ibid. p. 98

economy and the state by the neoliberal bourgeoisie has created a counter tendency that triggered the formation and dominance of the third fraction, the neo-national bourgeoisie. Since the new fraction was using the discourses of reviving the revolutionary ideals, they are referred as neo-radicals, composed of the segment of national bourgeoisie disturbed by the neoliberal restructuring of the economy. The new accumulation strategy adapted by this fraction finds considerable representation in the majority of the elected bodies of the Republic with the election of Ahmadinejad to the presidency. The authors define factious politics of Iran as interplay between these neoliberal and neo-national fractions as the emergence of the Green Movement in 2009 against the Ahmadinejad's government is demonstrated as a reflection of this.⁶⁷¹

Even though the scholars' approach is meaningful in the sense that it takes the accumulation strategies of the different groups as the basis of defining the political struggles in Iran, it is not sufficient to capture how the existence of these different accumulation strategies simultaneously within the same social formation shapes the integration of Iran into the global economy. In other words, in order to make a sense of Iran's integration into the global economy, it is necessary to show how the different accumulation strategies, existing at the same time in the same political formation, affect the process of internationalization within the political and economic structures presented in the previous sections. In this scope, this study by concentrating on the accumulation strategies and political relations of the hegemonic classes, categorizes three different groups struggling for the internationalization of the Iranian state. Each group is trying to direct the post-revolutionary Iranian economy and its internationalization towards whichever interpretation of the economic system best fits to their particular interest.

⁶⁷¹ Ibid. p. 105

4.4.2. Accumulation Strategies and Factions in Iran

The first group may be referred as the state dependent capitalists. This faction was a product of the early capitalist elements of the Islamic republic which created a crony economic structure as it is discussed in the second section of the chapter. The accumulation of wealth within the hands of the state after the revolution has created a limited capitalist fraction in these early years, which were able to use their personal ties and connections in the political structures to shape the decision-making procedures. They are mostly composed of the merchants who engage in the general business of importing-exporting, buying and selling. Even though they demand more space in the economy, which is strongly dominated by the para-governmental organizations, their incorporation into the state apparatus appears as an obstacle in their support for a liberal form of internationalization, since they owe their economic power to the existence of patrimonial and clientele type of relations between the economic and political structures. Despite of the fact that their economic model is based on the promotion of the industrialization and the growth along the models espoused by the international economic institutions such as the World Bank and the International Monetary Fund (IMF), state dependent capitalists try to push state to play a developmentalist role. Even though liberalization of economy from the control of the para-governmental organization is crucial for these groups' accumulation strategies, their dependence on the state attaches their interests to the political structures. Therefore, they try to internationalize the economy while keeping the state or the political structures intact. In this sense, the patrimonial and clientele type of relationships in Iran prevents the internationalization of the state, despite of the interest in full integration into the global economy. These groups were able to find representation especially during the terms of pragmatists, which is also termed as the mercantile elite.⁶⁷² However this impact went beyond the pragmatist term, as the resumption of the same political structures after on

⁶⁷² Pesaran, "Ideals, Interests and Economic liberalization in the Islamic Republic of Iran", p.17

has enabled these groups to sustain their personal ties and economic power during the course of the Islamic Republic.

The second group is composed of the regime-dependent factions. These are mostly the associates of the para-governmental organizations. As it was discussed before, instead of the state itself, these groups developed dependence on the form of the state, especially on its Islamic and revolutionary character as they owe their economic power to it. Unlike the categorization adapted in this study, Pesaran refers to this faction as the statist elite, since they enjoy ideal positions for direct access to the rents via the privileges, tax exemptions, subsidized loans and foreign currency and freedom from governmental monitoring of their accounts.⁶⁷³ She also asserts that these groups take advantage of their positions in the political mechanism in order to transform their vision of Islamic economics into practice. The Islamic character of the regime also provides them with fiscal revenues as well as non-official sources of income, such as mosques, the holy shrines and other religious foundations.⁶⁷⁴ The accumulation strategy of the faction is based on the control of the large industries and the ability to manipulate the economic processes through their privileged political positions. Contrary to the common belief that these groups support a state-controlled economy, privatizations are not against their accumulation strategy as they are able to manipulate any economic process by using their dominant positions. This is how the privatizations provided further resources to this faction. Their dominant position creates a structural trap in which the reallocation of capital from the hands of the state or the regime dependent capitalist to the private investors is prevented. They control essential distributional mechanisms to sustain their control over the economic processes. For example, the Central Board of Justice Share Distribution was composed only of the members of the regime dependent faction- the head of Bonyad-e Shahid, the commander of Basij and the head of the Imam Khomeini Relief Committee. Even though some scholars claim that these groups are against the

⁶⁷³ Ibid.

⁶⁷⁴ Hossein Akhavi-Pour and Heidar Azodanloo, "Economic Bases of Political Factions in Iran", *Critique*, 13, Fall, 1998, pp. 83-102

internationalization process⁶⁷⁵ or they are uncompetitive outside the protected domestic market⁶⁷⁶, the previous discussion proved that the capital of the regime dependent factions has been internationalizing since 1990s. Moreover, the legal procedures in Iran force the foreign investors looking for investment opportunities to find local partners. The international capitalists investing in Iran inevitably merge with the companies controlled by this faction since the economy is dominated by them. Unless this domination or the privileged position within the political and economic structure is challenged, internationalization serves to the interest of the regime dependent faction. For example, the Head of the Astan Quds Razavi, Ebrahim Raisi, during his presidential campaign stated his support to the nuclear deal, but criticized its failure to end Iran's economic recession.⁶⁷⁷ The regime dependent faction, in this sense, supports internationalization of economy as they are benefiting from it.

The Islamic regime is also dependent on its regime dependent faction as the resources of these organizations are vital for the reproduction of the political and economic structures of the regime. Therefore, any structural transformation within the political and the economic system that damages the accumulation strategies of these groups are being prevented by the mechanisms of the fragmented state structure. For example, Khatami's liberalization efforts towards a more transparent and accountable economic system was challenging the interest of this fraction and therefore has never been put into practice. As it is mentioned by Keshavarzian, "despite the efforts of Rafsanjani and Khatami to create a transparent and accountable economic structure, bonyads have remained resilient and maintained their privileged status."⁶⁷⁸ In fact, during the course of Islamic Republic, within the elected state institutions the regime dependent faction has only been able to find representation during the presidency of Ahmadinejad. The Principilists were strongly supported by the bonyads and IRGC, as they were the main beneficiaries of the

⁶⁷⁵ Wehrey et al, *The Rise of the Pasdaran*, p.70-71

⁶⁷⁶ Harris, "The Rise of the Subcontractor State", p.64

⁶⁷⁷ Ali Hashem, "Iran's dark horse candidate for president", *Al Monitor*, May 10, 2017

⁶⁷⁸ Keshavarzian, *Bazaar and the State*, p.169

economic policies of the Ahmadinejad government. However, the representation within the elected institutions is not vital for the regime dependent groups since their position between the public and private sector provides their access to the Faqih, revolutionary organizations and the judiciary when it is necessary.

The last faction is the independent capitalists, whose accumulation strategy is based on a Western type neoliberal economy and integration. This faction is present in the domestic and foreign trade, small industries and small mining activity, while its role in the large-scale economic activity is negligible.⁶⁷⁹ They do not benefit from the distributional policies of the state. They rely on the official modes of economic relations and are subjected to the official fiscal instruments such as tax, fees, payments etc.⁶⁸⁰ The accumulation strategy of this fraction necessitates legal protection for the capitalist relations and its liberal principles; otherwise, the lack of political connections stifles the survival opportunities for this group. As Erami and Keshavarzian states, “Businessman without contacts in the government could not compete with the state affiliates that were exempt from paying duties, received subsidized foreign exchange and bypassed the time-consuming bureaucracy.”⁶⁸¹ One of those businessmen, who lost a construction contract to a regime dependent faction (an IRGC affiliated firm), define this unfair competition with the following statements: “How can we compete? Why can they offer such an inexpensive price for a civil project like this? A, they have access to the cheap assets and equipments owned by the IRGC. B, for unskilled workers they can use the drafted soldier, though we have to pay. C, they are confident once they win the tender, they can ignore the overruns.”⁶⁸² Similarly, 29 private contractors sent a letter to the government asking if it makes sense economically and technically to award all the large-scale projects to the military and paramilitary organization.⁶⁸³ In order to cope with the

⁶⁷⁹ Khajepour, “Domestic Political Reforms and Private Sector Activity in Iran”

⁶⁸⁰ Rakel, Power, *Islam and Political Elite in Iran*, p.47

⁶⁸¹ Erami and Keshavarzian, “When ties don’t bind”, p.123

⁶⁸² Wehrey et al. ““Economic Expansion: The IRGC’s Business Conglomerate and Public Works”, p.73

⁶⁸³ Ibid. p.74

rival factions, the independent capitalists, as Keshavarzian mentions, demand transparency and attraction of private economic interests which have been shut out of Iran's crony capitalism.⁶⁸⁴

Even though the independent capitalists have accessed legal protection in the certain sectors of the economy such as finance, the political and economic structures of the Islamic Republic reproduce the state and regime dependent fraction's control over economy. For example, on April 2017, Alireza Daliri, an official from the vice president's Office for Science and Technology, stated in an interview with *Al-Monitor* that his team had done its best to keep the state-affiliated groups away from the financial technology industry to help improve competition.⁶⁸⁵ However, he acknowledged that some semi-state organizations still try to get a larger piece of the cake despite of a recently approved law that puts a 5% cap on state companies' share in knowledge-based companies. In short, this fraction is hostile to the state and regime dependent fractions as they minimize the presence of private and international investors in Iran's economy and infrastructure.⁶⁸⁶ Thus, the accumulation strategy of the independent capitalists necessitates a cohesive economic strategy to render the economic decision making more responsive to the neoliberal capitalist principles and international market forces. The structural transformations demanded by those groups are targeting to enable free competition and consequently the strong presence of multinational investors. Therefore, in times that they find representation within the ruling mechanisms, they give economic concessions to the international capital. The Rouhani administration for instance, believes that Iran's ambitious economic objectives cannot be achieved without the strong presence of multinational investors in the Iranian market.⁶⁸⁷ Stating that, it is not only the Rouhani administration that represents the interest of this fraction. During the course of the Islamic Revolution, the independent capitalists were able to find

⁶⁸⁴ Keshavarzian, "Contestation Without Democracy", p.69

⁶⁸⁵ Alireza Ramezani, "Financial tech gaining steam in Iran", *Al Monitor*, May 9, 2017

⁶⁸⁶ Daryani and Nakhae, "The Changing Formations of the Power Bloc in Iran", p.103

⁶⁸⁷ Ramezani, "Financial tech gaining steam in Iran"

representation especially within the elected institutions. Even though Rafsanjani administration was mostly representing the state dependent faction, the accumulation strategy of the independent capitalists was tried to be reproduced and represented both in the parliament and presidency in his term. However, the representation of these groups in the unelected institutions, which form the core of the political and economic structures in Iran, is very limited. Moreover, the independent capitalists lost their control over the elected institutions during the presidency of Ahmadinejad.

4.4.3. Liberal and Illiberal forms of Internationalization

Regarding the existence of three different accumulation strategies and modes of relations in the political mechanisms, there emerges a different internationalization strategy serving the interest of the different groups. Reminding the previous discussions, none of the fractions in Iran has an embedded interest in keeping the economy of Iran isolated. However, while they support internationalization, they have different policies on its form. In this sense, liberal and illiberal forms of internationalization are the two different strategies appeared during the course of the Islamic Republic.

Since the existing political structures are vital for the accumulation strategies of the state dependent and regime dependent capitalists, they try to integrate into the global economy by keeping the political and economic structures of the Islamic Republic intact. The efforts of these fractions were resulted in the integration of Iran into the global economy through alternative mechanisms, such as using the FTZ or smuggling networks. In other words, while the internationalization of economy serves the interest of these two fractions, internationalization of state cracks down their accumulation strategy, since such a transformation brings nondiscriminatory policies. As the internationalization of state meant treating capital indiscriminately, regardless of their affiliation, origin or nationality, these two fractions may lose their privileged positions and their access to the tax exemptions, subsidized loans and foreign currency. Moreover,

an illiberal mode of integration creates a sort of protection for these two capitalist factions in the domestic level, as they had an upper hand in their competition with the international capitalists. This also provides them with more resources to be used in the international markets.

However, there is a difference between the state dependent and regime dependent capitalists. The state dependent capitalists do not depend on the form of the state. Their lesser ideological association with the regime, in certain historical moments directs them to ally with the independent capitalists as they also have to compete with the para-governmental organizations. Rafsanjani's period was symbolizing this alliance for example. However, unlike independent capitalists, state dependent fraction benefits from the distribution of oil revenues within the existing structures. Therefore, they are supporting the transformation of political structure only into the extent that it decreases the control of parastatal organization. In this sense, while the internationalization strategy of the state dependent classes is similar to the regime dependent groups, they try to keep different elements of the state intact. This is because while the regime dependent groups owe their economic power to the Islamic character of the state, the state dependent faction benefits from the personal connections in a mechanism which receives huge amounts of oil revenues.

The independent capitalists on the other hand, prefer a Western type liberal internationalization, which will bring IMF type of structural transformations. This also meant the strict separation of the political and economic processes, in order to decrease the involvement of the former groups in the economic decision making mechanism. Even though the internationalization of the economy is vital for their accumulation strategy, its form under the existing structures does not serve to the interest of the independent capitalists; since the process is being manipulated and shaped by the two other factions in a way to serve their interests. In order to overcome the dominance of the rival factions, the independent capitalists favor internationalization of economy

together with internationalization of state, as the transformation of the state form is believed to open more space for their accumulation strategies.

4.4.4. Institutions under the Factional Politics and Internationalization Strategies

Even though the different strategies have become hegemonic at different historical moments, they exist altogether and form the capitalist mode of relations in Iran. In their efforts to shape the internationalization process of Iran, they take advantage of the fragmented state structure of the Islamic Republic and use the power of the institutions under their control. As it is stated before, these institutions are the main tools for different political factions to implement their interest into state policy. In this context, the elected parliament appears as an institution in which mostly the independent capitalists managed to find representation. Since 1990s, with the consolidation of the capitalist relations in Iran, this faction has managed to transform their interest into state policy. Rafsanjani's first FYDP and Khatami's liberalization efforts were the reflections of this representation. The ability of these groups to get the majority in the elected institutions proves that the number of state and regime dependent capitalists is extremely limited and they have difficulties in creating hegemony. Western type liberalization and internationalization policies have been the main targets of the parliament for transforming the political system structurally. However, as it is analyzed before, those efforts were continuously being manipulated by the factions who control the core decision making political tools in Iran. This was apparent especially in the privatization policies. As it is mentioned by Harris, "intra elite conflict and non-elite claims have structured around the process of privatization."⁶⁸⁸

Furthermore, in certain historical moments the independent capitalists totally lost their control over the parliament. This was followed by a period where the independent faction has started to lose its previous gains. For example, the sixth parliament,

⁶⁸⁸ Harris, "The Rise of the Subcontractor State", p.45
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dominated by the reformists, was able to pass a new Foreign Investment Promotion and Protection Act into law in 2002, with the help of Expediency Council as the Guardian Council vetoed it.⁶⁸⁹ As a result of this, the independent faction started to give contracts to the international firms. In 2004, Turkish Telecommunications Company, Turkcell, established Irancell and won the tender for Iran's first private enterprise in the telecommunications sector for 300 million euro. According to the contract, the company was obliged to construct the infrastructure for 5 million lines until the end of 2005 and was going to pay 25% of its profit to the treasury.⁶⁹⁰ Regarding that Iran's state owned telecommunication company has only 3 million customers at that time, Turkcell investment was the biggest foreign direct investment in Iran. Before Turkcell has started its activities, the independent faction lost its control over the parliament, and in 2004, the regime dependent groups took the control of the seventh Majles. The new parliament passed a law in September 26, 2004, enforcing Majles' approval for the contracts giving more than 49 % of the shares to the foreign companies in the sectors of airport management, post-service and telecommunications. As a result, Turkcell was encouraged to invest under different conditions, as the head of the Parliamentary Commission on Telecommunications, Ali Sadiqzadeh, said that the government is expecting Irancell to sign a new contract in which 51 % of the shares are given to local partners.⁶⁹¹ Despite the efforts of Turkcell to protect its rights arising from the contract, the deal was canceled retroactively by the new parliament representing the interest of a different mode of accumulation. As a result, the project was given to a South African company, MTN, which was willing to hand over a greater share of the contract to its Iranian Partners- a state-owned company and another owned by a prominent bonyad.⁶⁹²

⁶⁸⁹ Pesaran, 'Ideals, Interests and Economic liberalization in the Islamic Republic of Iran', p.23

⁶⁹⁰ Atay Akdevelioğlu, "Türk Şirketlerinin İran'da Yatırım Girişimleri, TAV ve Turkcell Örnekleri", *Gazi Üniversitesi Sosyal Bilimler Dergisi*, 2:3, 2015, p.147

⁶⁹¹ Ibid. p. 154

⁶⁹² Pesaran, 'Ideals, Interests and Economic liberalization in the Islamic Republic of Iran', p.24

The office of presidency is also another important institution where independent capitalists have been able to find representation. The presidency of Rafsanjani, into a certain extent, and Khatami were the two terms that the accumulation strategies of independent capitalist were supported in the political mechanisms. Rouhani represents the same strategy as with his election, the contracts provided to the para-governmental organizations have brought under government scrutiny. For example, after his election, the state-owned National Iranian Gas Company canceled a contract given to IRGC-affiliated Khatam to build a \$1.3 billion worth gas pipeline.⁶⁹³

The office of presidency has not always been a base for the independent capitalist as with the election of Ahmadinejad, the internationalization strategy of the regime dependent faction has become hegemonic. The para-governmental organizations have turned out to be the main beneficiaries of the distributional policies as the head of the GHORB, General Rostam Ghasemi, has become the Oil Minister during Ahmadinejad. As it is mentioned by Daryani and Nakhae, during his term, the economic concessions given to the capitalists of the U.S. and EU by the neoliberal fraction have been reversed.⁶⁹⁴ The policies initiated by Khatami administration under the five-year development plan were exposed to a similar faith. The vacuum emerged out of these policies is filled by the regime dependent capitalists. For example, the IRGC affiliated Etemad Mobil bought 51% of Iran Telecommunications, while the independent factions were trying to incorporate the Siemens Company into the privatization of Iran's Telecommunications.⁶⁹⁵

In fact, for the regime dependent capitalists, the capacities of the elected institutions are not vital since they control the core institutions of the political system. As it is stated before, the institutional set up of the state demonstrates that there is a duality in the organization of the state, in which parallel institutions conduct similar and balancing

⁶⁹³ Faucon, Meichtry and Fitch, "Iran's Government and Revolutionary Guards Battle for Control of Economy"

⁶⁹⁴ Daryani and Nima Nakhae, "The Changing Formations of the Power Bloc in Iran", p.110

⁶⁹⁵ Ibid. p.107

functions. This is significant since this duality is manipulated and used by different factions to achieve their own political agendas. In this sense, regime-dependent faction's ability to shape the economic processes has been put forth in the previous sections. The revolutionary institutions, as the products of the new regime, inevitably turned into strongholds for this faction. Obviously, the office of Velayet-e Faqih is mostly representing the interest of the regime dependent groups. The Council of Guardians, similarly initiates policies serving the interest of this faction; as in 2004 parliamentary elections, it disqualified 80 of the reformist MPs, who served in the previous government.⁶⁹⁶ Since the judicial structure is designed to protect the rule of sharia over the social relations, the judiciary also inevitably serves the interest of the regime dependent factions. This capacity is used to undermine the reform related policies of Khatami.⁶⁹⁷ Not only the policies are prevented but also the supporters of the reform movement were charged of several offenses and pro-reform publications were shut down by the judiciary.⁶⁹⁸

Under these institutional set up, the regime dependent capitalists are able to secure their interest through the representation mechanisms. However, their direct control over the para-governmental organizations, which are located in between the public and private spheres, makes the representation mechanisms unnecessary, since whenever the representation mechanism is not sufficient to protect the interest of the regime dependent groups, the capacities of those organizations are activated. For example, in 2003, the Khatami administration bade a contract for the construction and management of Imam Khomeini Airport. Despite the participation of the IRGC affiliated companies into the tender, a Turkish-Austrian company, Tepe-Akfen-Vie (TAV), won the contract for \$193 million bid. TAV, after concluding the construction of the first unit of the airport, was

⁶⁹⁶ Atay Akdevelioğlu, "İran'da 7. Dönem Meclis Seçimleri Süreci ve Sınıfsal Temeli", *SBF Dergisi*, 59-1, 2004, p.239

⁶⁹⁷ Tazmini, *Khatami's Iran*, P. 103

⁶⁹⁸ Ibid. P. 106

going to gain the right to manage it for 11 years 3 months.⁶⁹⁹ However, before the airport was opened on February 1, 2004, it is claimed that one of the partners of TAV, Akfen, conducts activities in the defense industry and security and it has two offices in Israel. Furthermore, it was stated that the managers of Akfen were retired Turkish generals and police officers, which is a threat to Iran's interest.⁷⁰⁰ As a result, two days before May 8, when the air trafficking was to start, TAV received a call from the Ministry of Transportation informing their dismissal from the execution of the airport for 15 days.⁷⁰¹ As the air trafficking started in May 8 as it was planned, IRGC tanks invaded the airport. As it is mentioned by several scholars, one of the reasons of this action was that IRGC's own engineering firm had lost out on the airport contract.⁷⁰² In this case, the regime dependent faction used the institutional powers of the para-governmental organizations under their direct control against the policies developed by the rival factions. As Daryani and Nakhae states, this was to abort the granted contracts by the neoliberal fraction to the foreign companies.⁷⁰³

Even though the fragmented state structure reproduces the power and control of the factions that depends on the existing political structures, two points must be clarified. Firstly, the different factions do not always compete as their accumulation strategies, at certain historical moments and on certain issues, are corresponding. As it is mentioned by Pesaran, mercantile and statist elites join ranks for the protection of their mutual interests at times when the economy is being restructured.⁷⁰⁴ Internationalization of Iranian economy was another of such cases. No factions' objection to the Nuclear Deal with P5+1 was the reflection of this. Secondly, the Iranian state, similar to any other modern counterpart, ensures that conflict among the factions persist without unraveling

⁶⁹⁹ Akdevelioğlu, "Türk Şirketlerinin İran'da Yatırım Girişimleri", p.145

⁷⁰⁰ Ibid. p.151

⁷⁰¹ Ibid. p.145

⁷⁰² Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.187

⁷⁰³ Daryani and Nakhae, "The Changing Formations of the Power Bloc in Iran", p. 103

⁷⁰⁴ Pesaran, "Ideals, Interests and Economic liberalization in the Islamic Republic of Iran", p.17

into a breakdown of the overall political and economic structures. Reminding Poulantzas, state uses its cohesion impact for the reproduction of the social relations. In this sense, state, rather than representing the interest of a single capitalist faction, tries to reproduce its overall social system. Therefore, at certain times, different accumulation strategies become hegemonic while the non-hegemonic ones maintain their existence. In the case of Iran, the struggle between the factions to impose their accumulation strategies as a state policy results in a crisis of management due to the fragmented state structure. As it is discussed before, the Expediency Discernment Council (*Majma'-e Tashkhis-e Maslahat-e Nezam*), was designed for reconciling the different interests represented by these different factions. It was established in 1989, when the capitalist mode of relations was being consolidated and the struggle of different factions to shape the process was creating a crisis of management. However, the Council itself has become an actor of the on-going factional conflicts⁷⁰⁵ and the different factions kept using the capacities of the institutions under their control to shape the internationalization process in a way to serve their interest and accumulation strategies.

Conclusion: Keeping the State Intact

The chapter demonstrated that the structures created after the Islamic Revolution in Iran are based on the main capitalist institutions and principles, even though they have taken a different form in their adaptation to a new social formation. It also showed that the efforts to create the religious control over the modern state institutionally designed the new republic on a principle of dual sovereignty, which created a fragmented state structure. In this state structure, those controlling the core political institutions, have access to the authoritative resources of the Islamic Republic. This political power magnifies with the economic powers of the para-governmental organizations as they are under the control of the core religious institutions. This creates an interdependence

⁷⁰⁵ Kamrawa and Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.497

between the two agents; while the regime needs the capacities and resources of these organizations, the para-governmental organizations, for the reproduction of their economic and institutional capacities, highly depend on the survival of the Islamic regime. The crony capitalist relations also created a hegemonic faction, with a strong personal interest in the survival of the existing modes of relationship between the political and economic structures. These two groups are truly internationalized, thanks to their privileged position in a political mechanism which receives huge amounts of oil rents. Therefore, their accumulation strategy is based on the internationalization of the Iranian economy by keeping the political structures, which consolidate their privileged positions, intact. Their access to the core decision making mechanisms and regime's dependence on their economic and ideological capacities enabled these factions to limit the rival strategies adapted by the independent liberal factions. In this sense, the internationalization of the Iranian state depends on the extent of the internationalization of its own state dependent and regime dependent capitals.

How does the internationalization of state threaten the interests and accumulation strategies of the hegemonic factions in Iran? As it is stated in the theoretical chapter, the internationalization of state refers to a process of the internal transformations of nation states, in a direction that gives them the responsibility to set the internal conditions for the global accumulation, by developing the capability of the representing the international capital as well as their own national capital. In this sense, national treatment of the foreign capital is the most crucial reflection of this representation. Since the class representation is an abstract reality, its concrete impacts are mediated through the legal and monetary structures. Regarding the legal aspects, the internationalization of state necessitates constitutional protection provided to the international capital, which is crucial for the protection of the long-term investments in the infrastructure. However, as the Turkcell agreement has shown, the Iranian state is incapable of providing a stable constitutional protection in the times that the interest of its hegemonic factions is challenged. In this sense, the interest of the international capital, or of their local partners, is not represented in the political mechanism into the same extent that the

regime and state dependent capitalist are represented. Another legal trait of an internationalized state is the independence of the economic procedures from the political decision making mechanisms, in order to sustain nondiscriminatory policies towards any capital. This is crucial as it prevents unfair competition between the international and domestic capital by hindering any crony capitalist faction to take advantage of its political position to get contracts in the bids. In the case of Iran, as IRGC's invasion of the Imam Khomeini Airport proves, the economic processes are not given off to the market forces. In fact, the existence of the para-governmental organizations itself, with their institutional structure in between the public and private spheres (political and economic spaces in this sense), is the main obstacle for such separation. Therefore, internationalization of the state in Iran directly challenges the survival of the state and regime dependent factions.

On the side of the monetary policies, on the other hand, the political structures in an internationalized state are expected to create the internal conditions that enable the international capital to penetrate the internal market; such as stable prices, privatizations, liberalization of trade and finance, internationalization of production etc. During the course of the Islamic Republic, serious initiatives targeting such policies have been conducted. However, as the chapter has demonstrated, these initiatives are being manipulated by the factions that form the core of the Islamic Regime, in a way that the restructuring will serve to the interest of their own faction. This created a structural trap which prevents the transformation of the political structures towards internationalization.

In this context, the internationalization of the Iranian state resembles to the BRICs type of late integrations, which followed a concentric development based on the crony capitalists and the role of the state in the economy. However, the existence of the bonyads and IRGC alongside the crony capitalists in Iran differentiates this case from those, since the managers of these para-governmental organizations owe their economic power to their positions in these institutions, instead of the capital they hold. Despite of this difference, in both cases certain factions, whose interest is based on the existing

political structures, use their capacities to shape the internationalization period. In the case of Iran, these efforts resulted in the internationalization of Iran through keeping the state structure intact.

CHAPTER 5

CONCLUSION: THE STRUCTURE, AGENT AND ACTOR IN THE INTERNATIONALIZATION

This concluding section re-evaluates the theoretical discussions of the study by taking the findings of the Iranian case at the center. Therefore, the discussion centered around two main questions: What does the Iranian case reveal and what does that mean for the theories of internationalization?

In the analysis of the internationalization of the Iranian case within the scope of this study, the main elements influencing and being influenced by the process is the international structure, classes, social forces and the state. The examination concentrating on these elements puts forth that Iranian economy and capital have been internationalized despite of all the isolationist discourse and international sanctions. For the theoretical level, this suggests that the developments in the productive forces and capitalist mode of social relations inevitably enforce every capitalist formation and capitalist class to internationalize to a certain degree. The analysis of the common tendencies in different spheres of the Iranian economy demonstrates that no single economy is immune from the capitalist expansion and integration. Even the small-scale domestic capitalists conducting no international business activities have to take into account the internationalized capital in the current epoch. Therefore, the international should be defined as the generative mechanism that forms the structure which limits and motivates the activities of the social agents.

The Iranian case also demonstrates that states and social classes do not passively accept or react to the forces of internationalization. The human agent, as a collective social power, is capable of shaping the process of internationalization into certain directions. In

the case of Iran, the emergence of quasi-legal or alternative mechanisms in each different moment of integration is a reflection of this capability. In each different moment of internationalization, the efforts of different social classes to manipulate and shape the process into different directions resulted in the creation of these alternative mechanisms. For example, the establishment of FTZ and their metamorphosis into 'quasi-legal' trade platforms is a product of domestic class struggles trying to shape the internationalization of Iranian economy into different directions. This metamorphosis proves how the hegemonic classes in Iran are able to manipulate the mechanisms that are established for a neoliberal internationalization of the economy. Therefore, it is necessary to find out the main triggers and motivations that enforce the efforts of variety of social groups to shape the process of internationalization.

In fact, the emergence of these alternative mechanisms is peculiar to Iran and gives its internationalization process an original characteristic. In other words, what make the integration of Iran into the international capitalist system as unique are the political and economic structures of the country which creates incentives for the development of those alternative mechanisms. Even though these alternative mechanisms do not exist in each social formation, in every state hegemonic social forces are trying to shape the internationalization process in a way that best serves their own limited interests. Therefore, as Poulantzas maintains, internationalization can be understood only in relation to its own location, that is in the reproduction of the capitalist mode of production in the forms specific to each social formation.⁷⁰⁶

In the case of Iran, these interests of different social classes have resulted in the efforts of internationalizing the economy with keeping the existing state structure intact. For the theoretical discussion, this fact enforces us to make a categorical distinction between the two moments of the internationalization process: internationalization of economy and internationalization of state. While all the class fractions have established certain interest in the internationalization of capital as this has become the dominant accumulation

⁷⁰⁶ Nicos Poulantzas, *Classes in Contemporary Capitalism*, London, NLB, 1976, p.50.

strategy in the current international structure, their different levels of internationalization and different modes of relations that they established with the political structure create different motivations for the internationalization of the state.

For example, in the case of Iran the discord between the internationalization pressures coming from the international capital and the domestic capitalist classes, who have no personal or institutional connections in the decision-making institutions of the Islamic Republic, and limitations created by the existing state structure that serves the interest of the cronies has resulted in the internationalization of the economy by keeping the state intact. The existing state structure in Iran and the mode of relation that the hegemonic social classes have established with this have resulted in the policies of circumventing the domestic obstacles of internationalization or bypassing the international pressures for liberalizations. Therefore, for the analysis of the internationalization of any social formation, the relation of the dominant classes with the existing domestic political structures and international accumulation strategies should be taken into account. As the Iranian case has proved what motivate the efforts of different social classes to shape the internationalization process are their accumulation strategies which directly attach their interests to the process of internationalization. For example, the effort to keep the state intact in Iran was triggered by the accumulation strategy of the dominant classes which are highly dependent on the existing political structures.

The case also demonstrated that any initiative to integrate Iran into the global economy with a Western-style liberal trajectory is being manipulated by the dominant class structures, which has reflected itself with the emergence of these alternative mechanisms of integration. This position also suggests that the classes forming the core structure of the Iranian regime are not against to the internationalization of economy since the process was maintained. However, any liberal initiative of internationalization of the economy produces an illiberal outcome at the end, since Western-type liberal internationalization suggested by the reformist power circles, which also necessitates the transformation of the state in order to sustain non-discrimination to any capital,

contradicts with the accumulation strategy of these core groups as they owe their economic power to their privileged position within the state mechanisms. As it is demonstrated, while the post-revolutionary capitalist elements created a crony economic structure, the socialist ones led to the transfer of large capital into the hands of para-governmental organizations. Both created a fraction which is strongly dependent on the existing political structures. In Iran, this created three different accumulation strategies and modes of relations in the political mechanisms, which established different internationalization strategies serving the interest of the different groups. In this sense, within the case of Iran two different strategies of internationalizations, liberal and illiberal forms have become apparent. While internationalization of economy serves the interest of all class fractions in Iran, internationalization of state cracks down the accumulation strategy of the hegemonic groups, as such a transformation brings nondiscriminatory policies. Therefore, internationalization of the Iranian economy by keeping the political structures intact, which consolidate the privileged position of the dominant groups, has become the state policy in the country. In this sense, the internationalization of the Iranian state depends on the extent of the internationalization of its own state dependent and regime dependent capitals.

For the theoretical level, the most important contribution of the analysis of the case of Iran is that it conceptualizes the divergences in the process states' integration into the global capitalism. While the conventional studies on globalization ignore those divergences, the critical schools neglect the real forces triggering different modes of integration. In fact the study on Iran demonstrated that the theory of internationalization should demonstrate the dialectical relationship between the domestic and the international. While the international structure has a generative power, the domestic class forces -with their accumulation strategies and degree of their representation within their domestic political structures- appear as the agents capable of shaping the process.

Moreover, the capacities of the classes to shape the internationalization process according to their accumulation strategies suggest that it is not the state, but the classes,

that are the agents of the international structure. Therefore the analysis of the case of Iran contributes to the internationalization literature that class forces acting in and out of the states have the capability to reproduce and challenge the international structure. As Jessop maintains, the form of state institutions, so the state is shaped through the forces acting in and through the state.⁷⁰⁷ At the level of the state, the outcomes and forms are determined through the strategic activities of specific classes and class fractions engaged in social conflict and collaboration.⁷⁰⁸ William Robinson confirms this as he claims that it is the social classes and groups acting in and out of the state as collective historical agents that give the state its form and functions.⁷⁰⁹ The Iranian case showed that the state is not internationalized since the agents acting in and out of it cannot accumulate if the state treats the international capital in the same way as it does to its own capitalists.

At this point, Jonathan Joseph's separation between the agents and actors of the international system should be adapted to the studies of internationalization.⁷¹⁰ Joseph asserts that agency should be capable of conscious, reflexive and intentional actions; therefore, only people, or groups of people possess the unique characteristics of agency.⁷¹¹ In this sense, states can be defined as agents only if one attributes personhood to them. Instead, Joseph claims that states should be defined as the actors of the international system by the virtue of the agents within them. However, they are structure type of actors as they have properties such as anteriority, relative endurability and powers of allocation, enablement and constraint. In this sense, the theories of internationalization should formulate the classes as the agents of the international system instead of the nation-states.

⁷⁰⁷ Bob Jessop, *State theory: putting the Capitalist state in its place*, Pennsylvania, Pennsylvania University Press, 1990, p.269

⁷⁰⁸ Ibid. p. 262-269

⁷⁰⁹ William Robinson, "Social Theory and Globalization: The rise of a transnational state", *Theory and Society*, 30, 2001, pp. 164

⁷¹⁰ Jonathan Joseph, "Combining Hegemony and Governmentality to Explain Global Governance", *Spectrum Journal of Global Studies*, Vol. 6, No. 1

⁷¹¹ Ibid. p.4

It is the impact of this agency that refutes the homogenization discourse of the globalization and invalidates the discussions that nation state is melting in the age of internationalization. This study, with the concept of internationalization of state, showed how the change in the global whole is manifested in particular countries with different degrees of internationalization and with condensation of different relations within the state structure. In fact, it is the classes and social actors acting within the state that integrates every state into the same international system into different degrees. And it is this social agency that gives state a different (internationalized) form in the age of internationalization. However, this does not mean that there are no common patterns in the internationalization of certain states or group of states. For example, Western powers, or the collective imperialist bloc, have been internationalized under the guidelines of neoliberal principles. The late developing industries in the countries that are outside of this bloc, on the other hand, face the reality of an already established system controlled by the core. The extreme external competition they face and the catch-up efforts in the late capitalisms create a concentric development model, mostly based on a revolutionary ideology mobilizing its social base. In these formations, as social basis is organized above by the state, the capitalists remained dependent on the state for their survival.

This is why the Iranian case exhibits certain common traits with the internationalization process of the BRICs. The BRIC's capitalisms exhibit a greater role for state regulation and public sector; state regulation of industrial policy, state-controlled banks, family owned business conglomerates, party-state capitalism and relative protectionism are the defining characteristics of these social formations.⁷¹² In this sense, Iranian economy is internationalizing in the same way as BRICs do. In both cases, while the economy is being internationalized the state is kept intact. What distinguishes Iran from these states is the transfer of the capital controlled by the previous regime, not to the cronies but to the Islamic charitable foundations controlled by the clerics. It is not possible to call the

⁷¹² William I Robinson, "The Transnational State and the BRICS: a Global capitalism perspective", *Third World Quarterly*, 36: 1, 2015, p.17

managers of these institutions as bourgeoisie since they owe their structural powers not to their control over the means of production but to the positions they hold within the institutional mechanism. The hegemonic bloc in Iran, which is mostly composed of the para-governmental organizations, shapes the political structure into different directions, as their degree of internationalization and their ideological function for the regime varies. In this sense, the internationalization of the Iranian capitalist state differentiates from its Western counterparts in the sense that the reproduction of the capitalist economy in the country is attached to the reproduction of a specific regime type. Non-internationalization of the state prevents the representation of the internationalized capital in the state mechanism of Iran. In this sense, the representation of international capital within these political formations is limited.

Lastly, the case of Iran contributed to the studies on globalization as it put forth the liberal and illiberal forms of internationalizations. While the conventional studies on internationalization only concentrate on the homogenization processes, the critical studies tend to associate internationalization with liberalizations or neoliberal policies. However, the case has shown the fallacy of taking the liberalization as the single basis of the internationalization, as Iranian capital find ways to internationalize without liberalizing. Therefore, a theory of internationalization should put forth different modes of internationalizations in its analysis of a single and unifying international structure. In this sense, while there is one single international structure, there are several different modes of integrations into that structure.

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APPENDICES

A. CURRICULUM VITAE

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Academic Background:

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Harvard University, Center for Middle Eastern Studies,
Visiting Fellow
- * September 2012- In Progress: PhD Candidate
Middle East Technical University, Graduate School of Social Science,
Department of International Relations
PhD Qualification Exam Completed on June 2014
PhD Thesis Topic: A Political Economic Perspective on Iran's Integration to the
Global System
Thesis Supervisor: Prof. Meliha Altunışık
- * September 2009- June 2012: Master of Science

Middle East Technical University, Graduate School of Social Science,
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CGPA: 3.75/4.00

Master Thesis: Defining the Different: A Critical Analysis of the Rentier, Failed
and Rogue State Theories

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- * 2007 Fall: The Hague University, Erasmus Programme, The Hague, Netherlands
 - * September 2004- June 2009: Undergraduate
Middle East Technical University, Faculty of Economics and Administrative
Sciences, Department of International Relations
CGPA: 3.35/4.00
 - * September 1997- June 2004:
Cesme Suleyman Sami Sari Anatolian High School
CGPA: 4.80/5.00
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Career History:

- * **July 2010- Present:** Research Assistant at Hacettepe University,
Faculty of Economics and Administrative Sciences
Department of International Relations
- * **January 2010-Present:** Research Assistant of Professor Lenore G. Martin
(Harvard University and Emmanuel College)
- **January 2011- June 2013:** Editor and Writer at Kalem Literature and Art
Magazine
- **January 2008- January 2010:** Sahne Sanat Art Center
- **October 2008 – December 2008:** UNHCR, UN High Commissioner for
Refugees
Ankara Office, Intern

- **June 2007 – September 2007:** Milliyet Newspaper,
Ankara Office, Intern
 - **June 2006 – September 2006:** Cesme Ladin Hotel
Accounting Department
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Academic Studies:

- **Publications:**
 - **Books:**

A. M. Özdemir, E. Aykut, E. Sune, G. Ugurlu, *Türk Dış Politikasının Ekonomi Politiği* (Political Economy of Turkish Foreign Policy), Ankara, İmge, Kasım, 2015
 - **Articles Published in Journals:**

Engin Sune ve Ali Murat Özdemir, ‘Rantçı Devlet Yazını Üzerine Deneme’, (A Study on Rentier State Theory), *Uluslararası İlişkiler*, 9: 35, Güz 2012, s.3-31

Engin Sune, “Non-Western International Relations Theory and Ibn Khaldun”, *All Azimuth*, Volume 5, Number 1, January, 2016

Engin Sune ve Goksu Ugurlu, ‘İran Devrimi'nde "Çarşı" ve Hegemonyanın Yeniden İnşasında Dinin Rolü Üzerine’ (The Role Religion in Bazaar and Construction of Hegemony in Iranian Revolution), *Praksis*, Issue 41, 2016
 - **Book Chapters**

Engin Sune, “Emperyalizm Teorileri ve Uluslararası İlişkiler” (Theories of Imperialism and International Relations), Faruk Yalvac (der.) *Tarihsel Materyalizm ve Uluslararası İlişkiler*, Ankara, İmge, 2017

Engin Sune, “Kaddafi Diktatoryasından Piyasaların Esaretine” (From Qaddafi’s Dictatorship to the Bondages of Market), *Kolektif Emperyalizm: Mağrib’ten Maşrik’a Dönüşümün Ekonomi Politiği* içinde, A. M. Özdemir (der), Ankara, İmge, 2014

Engin Sune, “İran Kalesi: Statükonun Egemenliğinde Devlet Yapısı ve Ekonomi”, (The Iran Castle: State Structure and Economy under the dominance of Status quo) Kolektif Emperyalizm: Mağrib’ten Maşrik’a Dönüşümün Ekonomi Politikası içinde, A. M. Özdemir (der), Ankara, İmge, 2014

Engin Sune, “Uluslararası Hukuk: Devlet Biçiminin Yeniden Düzenlenmesinin Bir Aracı” (International Law: A tool of Re-organizing State Structure), *Emperyalizmin Hayaletleri* içinde A. M. Özdemir (der.), Ankara, İmge, 2013

Conferences:

Date	Name of the Conference	Title of the Presentation
14-16 December 2011	12 th National Social Sciences Conference	International Law in the Process of Internationalization
4-6 December 2013	13 th National Social Sciences Conference	Collective Imperialism: Libya
25-27 June 2014	13 th METU Conference on International Relations: Multiple Paradigms Multiple Worlds	Is IR nothing but Imperialism?
28 November-1 December 2017	15 th National Social Sciences Conference	Imperialism and Corruption: Turkish-Iranian Relations

*** Projects / Field Researches:**

- Integration of Iran into the Global System Project Executer, Sponsor: Hacettepe University, International Cooperation Development Funding April 2016-September 2017
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Languages:

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B. TURKISH SUMMARY / TRKE ZET

C.

Bu alıřma uluslararasılařma ve kreselleřme tartıřmaları zerinden, devletlerin kresel sisteme farklı biimlerde eklemleme srelerini tetikleyen unsurları ortaya koymaya alıřmaktadır. Sermayenin ve devletin uluslararasılařması kavramlarına odaklanarak kreselleřme srecinde devletler ve uluslararası yapı arasındaki karmařık iliřkiyi aıęa ıkarmaya alıřan bu alıřma, alan ierisindeki yapı/fail tartıřmalarına yeni bir soluk getirmektedir. Bu kapsamda İran devleti ve lkenin kresel sisteme eklemleme sreci vaka analizi olarak ele alınmıřtır. 1990'lerden bu yana İran'ın izledięi farklı politikalar ve deęiřen iktidar iliřkileri ele alınarak, lkedeki yerel glerin kreselleřme srecini biimlendirme projeleri ve kapasiteleri ele alınmaktadır. İslami devrimden bu yana farklı birikim rejimleri geliřtiren sınıflar ve grupların kreselleřmenin yaratacaęı etkilere gre sreci farklı doęrultulara ekme giriřimleri incelenmektedir. Bu giriřimler zerinden kreselleřmenin kaınılmaz bir sre olup olmadıęı ya da yerel dinamiklerin bu sreci biimlendirme kapasitesini haiz olup olmadıęı analiz edilerek kreselleřme tartıřmalarında gz ardı edilen yerelin etkisi ortaya konmaktadır. İran toplumsal formasyonunun analizi ekonominin ve devletin uluslararasılařması zerinden yapılan kategorik bir ayırım aracılıęıyla gerekleřmektedir. Bu ayırım, İran ekonomisinin 1990'lerden bu yana kaınılmaz olarak kreselleřtięini ortaya koyarken, devlet yapısının kreselleřme baskısına direndięini ortaya koymaktadır. Bu direniřin kapsamı ve motivasyonu ise İran'da devrim sonrası inřa edilen sınıf iliřkilerinde ve egemen sınıfların birikim rejimlerinde bulunmalıdır.

İran devleti 1979 devriminden bu yana sayısız nadlarla anılmakta ve uluslararası yapının baskısına maruz kalmaktadır. İlgili literatr ise İran'ı kresel sisteme henz entegre olamamıř parazit bir yapı olarak kavramsallařtırmaktadır. İran devletini niteleyen rantıye veya haydut (rogue) devlet gibi kavramlar, devlet yapısının znn anlařılmasında dřnsel bariyerler olarak iřlev grmekte ve kreselleřme dneminde devletler ve uluslararası yapı arasındaki karmařık iliřkinin kavramsallařtırmasında yetersiz kalmaktadır. Buna karřın kreselleřme anlatısının homojenleřme iddiaları ise

tek-tip bir devlet yapısı öngörmekte, süreç içerisinde ortaya çıkan farklılıkları anlamlandıramamaktadır. Oysa süreç içerisinde ortaya çıkan çelişkilerin anlamlandırılması farklı kavramsal araçlara ihtiyacı gözler önüne sermektedir. Zira ilgili toplumsal formasyonun analizi sermayenin ve ekonomik faaliyetin her kapitalist formasyonu kapsayacak şekilde kaçınılmaz olarak küreselleştiğini ve uluslararasılaştığını gözler önüne sermektedir. Buna karşın, kaçınılmaz bir ekonomik bütünleşmeyle sonuçlanan uluslararasılaşma evresinde devlet yapılarında farklılaşmalar göze çarpmaktadır. Bu sebepten ötürü küreselleşme tartışmalarının devletlerin farklı tip eklemlenme süreçlerini ortaya koyan yeni bir kavramsal çerçeve etrafında ele alınması ihtiyacı doğmaktadır.

Bu kapsam altında bu çalışma boyunca sürecin açıklanması için bilimsel realizmin metotları benimsenmiştir. Bu metot toplumsal gerçekliğin bütünlüğü içinde anlaşılmasında hayati görülmektedir. Bu yüzden, çalışma nesnelerini parçalara ayırıp bu parçaların birbirleriyle kurdukları dışsal ilişkiye odaklanmak yerine, bunların aynı bütünün parçaları oldukları ve birbirlerine içkin oldukları anlayışı benimsenmiştir. Çalışma nesnesinin incelenmesinde, ampirik veriler ve gözlemin önemi yadsınmadan, bilginin kendi kendini yorumlama kapasitesine sahip olmadığı olgusu kabul edilmiştir. Bu sebepten ötürü, gözlemlenemeyen ama gerçekte var olan -ve toplumsal ilişkilerin bir ürünü olan- yapı kavramı bu çalışma kapsamında önemli bir yer kaplamaktadır. Bu kavram aracılığıyla ampirik veri ile sosyal gerçeklik arasında bir köprü kurulması hedeflenmektedir. Yapı ile fail arasındaki karşılıklı ve diyalektik ilişki ortaya konulmaktadır. Eleştirel ekonomi politik perspektifin sunmuş olduğu araçlarla ise piyasalar ve devlet arasındaki ilişki açığa çıkarılmaktadır. Dahası tarihsel materyalist bir yöntem ile toplumsal yaşamın yeniden üretilmesindeki gelişmelerin sosyal yapılar üzerindeki dönüştürücü etkisi ortaya konmaktadır.

Bu kapsamda ilgili araştırmanın temel olarak iki amacı bulunmaktadır. İlki, yerel sınıf kompozisyonları ile devletin küresel sisteme entegrasyon politikaları arasındaki ilişkiyi kurmaktır. Zira devletlerin küresel sisteme farklı biçimlerde eklemleri aşamasında asıl itici gücün yerel sınıfların uluslararası yapı ile kurdukları ilişki olduğu ön görülmektedir.

İkincisi ise özellikle küreselleşme olarak adlandırılan süreçte devletlerin uluslararası yapı içerisindeki fail rolünü ortaya koymaktır. Her ne kadar yapı, failleri belli bir davranış kalıbı içerisinde hareket etmeye zorlasa da, devletler ve sınıflar bunu dönüştürme ve alternatif alanlar açma kapasitelerine sahiptirler. İlk amaç için, çalışma öncelikli olarak İran İslam devrimi sonrası gelişen elit bölünmeleri ve sınıf kompozisyonlarına odaklanmaktadır. Böylece, farklı devlet projelerinin birbirleriyle rekabetleri sonucu birisinin galip gelmesi ve devlet politikası halini almasının içsel ve dışsal dinamikleri ortaya konulacaktır. İkinci amacın gerçekleştirilmesi için ise çalışma özellikle İran devlet yapısına odaklanmakta ve ilgili yapıyı uluslararasılaşmış devlet tartışmaları ışığında ele almaktadır. Böyle küreselleşme sürecinde devletlerin sahip oldukları özgün alan ve bu alanın dönüşümünü tetikleyen temel unsurlar ortaya konabilecektir. Fakat çalışma vaka incelemesinin de ötesine geçerek küreselleşme sürecinde yapı/fail ilişkisini yeniden oluşturmayı hedeflemektedir. Bu tür bir girişim, ana akım homojenleşme iddialarını da aşmaya imkan tanımaktadır. Bunun da ötesinde çalışma, yerel sınıf dinamikleri ve küresel egemen birikim rejimleri arasındaki diyalektik ilişkiyi barındıran bir devlet teorisi inşa ederek, Uluslararası İlişkiler alanında egemen iç/dış ayrımının da ötesine geçmeyi amaçlamaktadır.

Ana akım küreselleşme anlatısı devletleri yalnızca pasif aktörler olarak tahayyül etmektedir. Bu hatalı bir yapı/fail kavramsallaştırmasından kaynaklanmaktadır. Çalışmanın temel kaygısı da, küreselleşme sürecinde ulus devletlerin rollerini ve değişen kapasitelerini ortaya koymak, böylece günümüzde yapı/fail ilişkisini yeniden kavramsallaştırmaktır. İran son dönemdeki gelişmelerden önce küresel sisteme entegrasyon konusunda muhalefet gösterip bunda başarılı olabildiği için de vaka incelemesi olarak ele alınmıştır. Ana akım anlatının homojenleştirme ve ulus devleti etkisiz öngörmesine karşın İran örneği bize göstermiştir ki, devletler bu süreç içerisinde aktif rol almaktadır. Böylece cevaplanması gereken asıl soru bu tür kararlar alınırken devletleri etkileyen unsurların ne olduğudur. Bu yüzden de çalışma İran İslam devriminden sonra gelişen yapılara odaklanarak, yerel sınıfların birikim rejimlerine ve bu doğrultuda süreci biçimlendirme girişimlerine odaklanmaktadır. Bunu yaparken de

her iktidarın ekonomik tabanını ve sınıf kompozisyonlarını ortaya koymaktadır, ancak böylece hangi iktidar döneminde hangi egemen birikim rejimlerinin temsil bulduğu ve bunların ne şekilde kurumsallaştığını betimlemek mümkün olacaktır. Bu tür bir analiz, günümüzde küresel sisteme eklemlenme (ya da izolasyon) politikalarının, yerel ve uluslararası sınıf dinamikleriyle ilişkili bir şekilde belirlenerek devlet politikasına dönüştüğünü ortaya koyabilecektir. Bir başka deyişle, belirli hakim sınıfların birikim rejimlerinin izolasyondan ne şekilde faydalandığını ve bu çıkarın ne şekilde devlet politikası haline dönüştüğünü; benzer bir şekilde karşıt birikim rejimine sahip toplumsal sınıfların eklemlenme yönündeki talepleri ve çıkarlarını ortaya koymak, küreselleşme sürecinde yerelin hareket alanı ve bu hareket alanını belirleyen unsurları betimlememizi sağlayacaktır. Bu kapsam altında ele alınan İran vakası devrim sonrası inşa edilen iktisadi yapıya odaklanmaktadır. Çalışma içerisinde, farklı dönemlerde hegemonya kazanan ve temsiliyet bulan sınıf fraksiyonları ve bunların birikim rejimlerine odaklanılarak, küresel sistemle diyalektik bir ilişki içerisinde İran devletinin benimsediği eklemlenme stratejileri incelenmektedir. Şah döneminde rejime entegre olmuş büyük sermayenin İslami devrim sonrasında bonyad adı verilen dini vakıflara aktarılması, yeni devlet yapısı içerisinde dini kuruluşların çıkarlarını ve ayakta kalma kapasitelerini doğrudan uluslararasılaşma sürecine bağlamıştır. Bunun dışında devrim sonrası inşa edilen yapılar, doğrudan devlete bağlı ve ‘ahbap-çavuş’ ya da ‘eş-dost’ (crony) kapitalizmi olarak tabir edilen, birikim rejimi devlet içerisindeki bireysel ve kişisel bağlantılarına dayanan bir kapitalist fraksiyonun oluşumuyla sonuçlanmıştır. Bonyadlarla birlikte bu ahabap-çavuş kapitalist fraksiyonlar her ne kadar uluslararasılaşmış bir birikim sürecine girmiş olsalar da, ekonomik güçlerini mevcut politik yapıya borçlu oldukları için devlet yapısını dönüştürmeden iktisadi alanın uluslararasılaşması yönünde çaba sarf etmektedirler. Buna karşın siyasi aygıt ile kişisel bağlantıları olmayan sermaye fraksiyonları ise sermayenin uluslararasılaşması sürecinde devletin de dönüşümünü zaruri görmektedir. İran’ın küresel sisteme entegrasyon süreci bu farklı kapitalist fraksiyonların buldukları temsiliyetle doğrudan ilişkilidir. Farklı iktidar dönemlerinde değişen güç ilişkileri kimi zaman bütünsel neoliberal reform

girişimleriyle sonuçlanırken kimi zaman da devlet yapısını koruyucu politikalar ile son bulmaktadır. Bu anlatı göstermektedir ki, devletler küreselleşme sürecinde ne pasif aktörler olarak öne çıkmakta ne de süreci bütünüyle kontrol etme yetisine sahip olmaktadır. Ayrıca, devletin kendisinin küreselleşme sürecine doğrudan çıkarı bağlı bir oluşum olmadığı ortaya çıkmaktadır. Bunun aksine devletler içerisinde temsiliyet bulmuş ve hareket kapasitesine sahip toplumsal sınıfların aktiviteleri, her ulus devletin aynı yapıya farklı bir şekilde eklenmesinin dinamosudur. Bu noktadan hareketle, uluslararası yapının dönüştürme kapasitesini haiz faili olarak kavramsallaştırılması gereken çalışma öznesinin devletler değil, sınıflar olduğu ortaya çıkmaktadır. Her ne kadar bu toplumsal sınıflar küreselleşme sürecini bütünüyle kontrol etme yetisinden yoksun olsalar da kendi ulus devletlerinin iktidarlarını kullanarak süreci dönüştürme ve biçimlendirme kapasitesine sahiptirler.

Yukarıda yapılan analiz sonucu ortaya koymaktadır ki küreselleşme tartışmalarında küreselleşme kavramı bir homojenleşme sürecine işaret ederken, ulus-üstücülük tartışmaları devletlerin üzerinde bir otorite oluştuğunu iddia etmektedir. Buna karşılık bu çalışma süreç içerisinde ulus devletlerin varlığını koruyarak geçirdikleri dönüşüme vurgu yaptığı için ‘Uluslararasılaşma’ kavramını kullanmayı doğru bulmuştur. Küreselleşme anlatısı ulus devletlerin artık vasfını yitirdiği, uluslararası örgütler, uluslararası kurum ve kuruluşlar ve uluslararası sınıfların oluşturduğu ulus-üstü bir yapının varlığına işaret eder. Oysa ulus devletler, küreselleşme çağında da uluslararası ilişkilerin temel birimi olarak vasfını korumakta ve dönüşen uluslararası sisteme uyum sağlayacak biçimde değişimler yaşamaktadır.

Sermayenin ve ekonomik alanın uluslararasılaşmasının kaçınılmaz bir süreç olarak farklı coğrafyaları aynı ekonomik sisteme entegre olmaya ittiği gözlemlenmektedir. Buradan hareketle, farklı bir birikim rejimine sahip Kuzey Kore gibi ülkeler hariç tüm politik organizasyonlar küresel kapitalist çerçeve etrafında sisteme entegre oldukları iddia edilebilir. Her ne kadar entegrasyon sürecinde yerel özgünlükler korunsa da kapitalist üretim ilişkileri coğrafi olarak genişlemekte ve kapitalist toplumsal ilişkiler derinleşmektedir. Bu süreç sermayenin uluslararasılaşmasına işaret etmektedir.

Her ne kadar sermayenin uluslararasılaşması 1970’lerden itibaren ivme kazanmış bir süreç olsa da, kapitalist sistem özü gereği uluslararasılaşma eğilimini başından beri bünyesinde barındırmaktaydı. Marx ve Engels’in Komünist Manifesto’da belirttikleri gibi *“Sürekli genişleyen sürüm ihtiyacını karşılamak için burjuvazi, yeryuvarlağının bütününe el atmakta. Her yerde yerleşmesi, her yerde yapılaşması, her yerde bağlantılar kurması gerekiyor.”* Fakat günümüzdeki sermayenin uluslararasılaşması sürecinin anlaşılması özellikle İkinci Dünya Savaşı sonrası inşa edilen küresel yapılarda aranmalıdır. 20. Yüzyıl boyunca üç temel dönüşüm bu sürece önemli katkılar sunmuştur. Bunlardan ilki İkinci Dünya Savaşı sonrası yeniden yapılandırma girişimleri ve bu süreç içerisinde Amerikan hegemonyasının belirginleşmesi ve bunun bir ifadesi olarak uluslararası örgütlerin ortaya çıkışıdır. Savaş sürecinin alt üst ettiği Avrupa ekonomileri ve altyapılarının inşası sürecinde ABD’nin Batı devletlerine Marshall Planı kapsamında sağlamış olduğu destek, liberal bir dünya sisteminin Avrupa ülkelerini de içerisine dahil edecek şekilde genişlemesini sağlamıştır. Bu süreç Amerikan sermayesinin Batı politik ve ekonomik yapılarını, uluslararasılaşma sürecine katkı sunacak şekilde yapılandırmasının yolunu açmıştır. İkinci önemli gelişme Washington Uzlaşısı olarak nitelenen ve 1970’ler farklı bir kapitalist birikim rejimi yaratan süreçtir. İkinci Dünya Savaşı’ndan 1970’lere dayanan süreçte aşırı birikimin yaratmış olduğu kriz 1970’lerde neoliberalizmin temelini atan reformları da beraberinde getirmiştir. Fordizm’den Post-Fordizm’e geçiş, üretim zincirlerinin küresel olarak entegrasyonunu sağlamıştır. Öncelikle üretimin uluslararasılaşmasının önünü açan bu süreç, ticaretin liberalleşmesi ve finansal aygıtların uluslararasılaşarak farklı bir yapıya bürünmesiyle sonuçlanmıştır. Sermayenin uluslararasılaşmasının önünü açarak kapitalizmin tam anlamıyla küresel bir sistem haline gelmesini sağlayan son gelişme ise farklı bir iktisadi sistemin egemen olduğu Sovyet bloğunun çöküşüdür. Bu gelişme yalnızca kapitalizmin Sovyet bloğuna yayılmasıyla değil, Sovyetlerin varlığıyla kendine yaşam alanı bulmuş olan 3. Dünya’nın da kapitalist dolaşım ve birikim ağlarına eklemlenmesiyle sonuçlanmıştır. Böylece kapitalizm tam anlamıyla küresel bir yapıya bürünmüştür. Bu bakış altında sermayenin uluslararasılaşması birkaç kapitalist mekanizmanın dönüşümüyle

açıklanmaktadır. Bunlardan ilki kapitalist üretim araçlarının ve kapitalist birikimin coğrafi olarak genişlemesidir. Bir diğeri, kapitalist üretimin uluslararasılaşmasıdır. Bu süreç üretimden elde edilen artı değerin ve üretimin gerçekleştiği mekanın farklı coğrafyaları içerecek şekilde genişlemesine neden olmuştur. Sermayenin uluslararasılaşmasının diğeri bir unsuru ise ticaretin liberalleşmesi ve uluslararasılaşmasıdır. Bununla bağlantılı olarak sermayenin uluslararasılaşması finansal sistemin yeni düzenlemelerini de gündeme getiren bir husus olmuştur. Son olarak, sermayenin uluslararasılaşması uluslararası sınıfların ve şirketlerin ortaya çıkmasına işaret eden bir gelişmedir.

Bu durumun bir yansıması da devletin uluslararasılaşmasıdır. Devletin uluslararasılaşması kavramı, farklı anlatılar içerisinde birçok şekilde tanımlanmıştır. Fakat özellikle eleştirel kuramın farklı okulları içerisinde bilgi üreten birkaç çalışma, bu kavramın açıklanmasında önplana çıkmaktadır. Bunlar içerisinde Nicos Poulantzas, uluslararası yapıdaki dönüşümlerin farklı toplumsal formasyonlar arasındaki bağımlılık ilişkisini arttırdığına işaret ederek, devletin uluslararasılaşmasını emperyalist merkezin egemen olduğu küresel sermaye ilişkilerinin farklı ulus devletler tarafından yeniden üretilmesinde aramaktadır. Devletlerin küresel kapitalizmin yeniden üretimi için geçirmiş olduğu dönüşümleri bu kavram ile açıklamaktadır. Konuya ilişkin akademik çalışmalar üreten diğeri bir yazar ise Robin Murray'dır. Murray, sermayenin uluslararasılaşmasıyla birlikte ortaya çıkan uluslararası devlet işlevi ihtiyacını, devletin uluslararasılaşması kavramıyla açıklamaktadır. Robert Cox ise devletin uluslararasılaşmasını ulus devletlerin kendi ulusal ekonomilerini küresel ekonomik sistemin dinamiklerine göre organize etme işlevinin yarattığı etkiye göre tanımlamaktadır. William Robinson ise sermayenin küreselleşmesiyle birlikte ulus-üstü bir sınıf oluştuğuna işaret ederek, ortaya çıkan ulus-üstü devlet ihtiyacının da ulus devletlerin, uluslararası örgütlerin ve ulus-üstü sınıfların oluşturduğu karmaşık bir yapı tarafından karşılandığını iddia eder. Panitch ve Gindin ise bir devletin birden çok sermayeye, bir sermayenin de birden çok farklı ulus devlete olan bağımlılığına işaret

ederler ve devletlerin uluslararasılaşmasını bu yapı içerisinde Amerikan enformal imparatorluğunun farklı ulus devletler tarafından yeniden üretimi olarak tanımlarlar.

Bu çalışma kapsamında ise, devletin uluslararasılaşması kavramı ile küreselleşme sürecinde ulus devletlerin geçirdikleri dönüşümlere odaklanılmıştır. Geleneksel anlatının, ulus devletleri kendi kapitalist sınıflarının çıkarını diğer ulusal sermayeye karşı koruyan bir politik organizasyon olarak kavramsallaştırmalarının aksine, ulus devletlerin ulusal sermaye yanında uluslararası sermayeyi de temsil edecek bir yapıya büründüğü üzerine durulmuştur. Bunun nedeni küreselleşmeyle birlikte uluslararası ekonomik faaliyet sürdüren kapitalist sınıfların yalnız kendi ulusal sınırları içerisinde değil, diğer coğrafyalara da yüklü yatırımlar yaparak ve yerel ortaklarla kurdukları karmaşık üretim ağları aracılığıyla farklı devletlerde temsiliyet bulduğu gerçeğidir. Bu temsiliyet dolaylı olarak ulus devletin dönüşümüne, başka bir deyişle devletin uluslararasılaşmasına sebep olmaktadır. Fakat devletin uluslararasılaşması, uluslararası yapının ulus devletler ekseninde örgütlenmiş olmasındaki bir dönüşüme işaret etmemektedir. Aksine bu kavram ulus devletlerin küresel kapitalizmin ve hegemonik birikim rejimin yeniden üretimi için geçirmiş oldukları reformasyonları nitelemektedir. Buradan hareketle ulus devletlerin içsel dönüşümlerine işaret eden bu kavram, asıl olarak temsil ilişkilerindeki dönüşüme odaklanmaktadır. Bu çalışmada kabul edilen devletin uluslararasılaşması kavramı bu yeni temsil ilişkisinin yaratmış olduğu somut dönüşümleri nitelemektedir.

Somuttaki dönüşümlerden ilki ulus devletin uluslararası sermayeye ulusal sermayeden farksız davranmasını zorunlu kılmaktadır. İkincisi uluslararası sermayeyi anayasal çevreveler ile koruyacak dönüşümleri getirmiştir. Üçüncüsü iktisadi süreçlerin politik karar alma mekanizmalarından bağımsız olması, başka bir deyişle piyasa mekanizmalarına terk edilmesidir. Bu çalışma boyunca benimsenen devletin uluslararasılaşması kavramı ise bu dönüşümlerin sağlanması için gerçekleşen yeni kurumsal düzenlemelere dikkat çekmektedir. Bunların en başında merkez bankasının bağımsız bir yapı kazanması ve uluslararası kararların yerel politikaya hızlıca dönüştürülmesi için yürütme aygıtının güçlendirilmesi gelmektedir.

Fakat her ulus devlet aynı ölçüde uluslararasılaşmamıştır. Geç kapitalistleşen devletler küresel sisteme entegre olurken devlete bağımlılık geliştirmiş yerel kapitalist sınıfların çıkarlarını korumakta, bu da neoliberal bir düzenle sisteme entegre olmalarını engellemektedir. Kapitalist gelişimini geç tamamlayan ülkeler, hali hazırda kuralları emperyalist devletlerce belirlenmiş bir uluslararası sistem içerisinde kendilerini bulmaktadırlar. Başka bir deyişle yoğun bir rekabet ortamının olduğu uluslararası kapitalist sistemde ve iş bölümünde kendilerine yer açma gayretine girmektedirler. Bu çalışmanın kapsamındaysa asıl üzerinde durulan geç kapitalistleşmiş fakat çevreselleşmemiş toplumsal formasyonlardır. Bu özellikle BRICs olarak tabir edilen, Brezilya, Rusya, Hindistan ve Çin örneklerinde gözlemlenebilmektedir. Her ne kadar bu ülkeler kapitalist üretim ilişkilerini benimsemiş ve küresel kapitalist sisteme entegrasyonlarını bütünüyle tamamlamış olsalar da kapitalist küreselleşmenin yerel ve yabancı sermayeye benzer politikalar uygulama prensipleri bu coğrafyalardaki üretim ilişkiler ile çatışmakta, bu yüzden bu ülkeler ekonomik anlamda uluslararasılaşırken devlet yapısı ulusallığını korumaya devam etmektedir. İran örneği BRICs ile derin benzerlikler barındırdığı için çalışmanın bir öznesi olmuştur. Bu ülkelerin politik ve ekonomik yapılarının gelişiminde dış yapıların büyük bir etkisi olmuştur. Geri kalmışlığın bilinci ve uluslararası kapitalist sistem içerisinde kendine bir alan açabilme girişimleri, bu toplumsal formasyonlarda doğanın ve toplumun şekillenmesinde merkezi planlamanın önemini arttırmıştır. Bu toplumsal formasyonlarındaki hegemonik bir burjuva sınıfı eksikliği, devletin otoriter bir çerçeve altında toplumsal gelişimde önemli bir yer almasına neden olmuştur. Bu durum da ilgili devletlerde, toplumun merkezi bir biçimde devrimci bir ideoloji ekseninde şekillendiği bir kalkınma modelinin gelişimine yol açmıştır. Bu yüzden bu toplumlardaki kapitalist sınıflar kendi varlıklarını sürdürebilmeleri için devlete bağımlı bir hale gelmişlerdir. İlgili devletlerdeki crony (ahbap-çavuş) kapitalist sınıfların varlığı bu duruma işaret etmektedir. Ayrıca bu devletlerde kamu sektörünün büyümesi ve devletin iktisadi alanda düzenleme işlevinin yaygınlığı gözlemlenmektedir.

Bu durum kapitalizmin çeşitliliği (*varities of capitalism*) tartışmalarını doğrular niteliktedir. Bu kavram kapitalizmin küresel bir sistem olduğunu kabul etmekle beraber, kapitalizmin mekanının farklı politik yapılar tarafından düzenlendiği tezi üzerinden ulusal farklılıkların altını çizmektedir. Bu da ekonominin düzenlenmesinde piyasanın etkisi ve küresel kapitalist birikim rejimine entegrasyonda farklılıkların ortaya çıkmasına işaret eder. BRICs örneği göstermektedir ki, bu toplumsal formasyonlarda piyasanın devlet tarafından regülasyonu Washington Prensipleri'nin temelleriyle çatışmalarına yol açmaktadır. Buradan hareketle İran'da bir kapitalist çeşitliliği sembolize etmektedir.

Buna rağmen BRICs'in kapitalist küreselleşmeye sistemik bir tehdit oluşturduğu söylemi doğru değildir. Her ne kadar bu devletlerdeki kamu sektörünün büyüklüğü ve neoliberal prensiplerle uyumsuzluklar uluslararasılaşmaya bir tehdit gibi görünse de, bu toplumsal formasyonlar uluslararası kapitalist iş bölümüne tamamıyla entegre olmuş durumdadırlar. Zira Batı kapitalizmleri, daha önce de belirtildiği gibi, uzak coğrafyaları yalnızca kendi ulusal sermayelerinin artı değere el koyacağı biçimde yeniden şekillendirmemektedirler. Asıl emperyalist girişim, uluslararası sermaye birikimi için gerekli yerel koşulların sağlanması yönünde kurumsal dönüşümleri içerdiği için, bu birikim tipi BRICs gibi geç kapitalistleşen ülkeleri de sistem dışına itmemektedir. Ayrıca bu geç kapitalistleşip çevreselleşmeyen toplumsal formasyonlar içinde uluslararası sermaye temsiliyet bulabilmektedir, zira bu devletler içerisinde egemen olan kapitalist sınıfların kendi sermaye faaliyetleri uluslararasılaşmıştır.

İran 1990'lardan bu yana, özellikle birinci beş yıllık kalkınma planından itibaren küresel sisteme entegre olma uğraşındadır. 1980li yıllar İran için kayıp yıllar olarak tabir edilebilmektedir. Zira devrim sonrası ortaya çıkan kaos ve ardından Irak ile girilen sekiz yıllık savaş sebebiyle, Şah sonrası yeni yapıların inşası gecikmiştir. Bu on yıllık dilimde İran ekonomisi merkezi planlamaya dayalı bir ekonomi olmaktan çok ulusal kaynakların savaş giderlerini karşılayacak şekilde organize edildiği bir yapıya dönüşmüştür. Rakip devrim yorumlarını taşıyan politik yapıların ortadan kaldırılması da bu dönemde gerçekleşmiştir. Bu yüzden Humeyni'nin ölümünden sonra İran'da muhalif devrim yorumlarının ortaya çıkışı tezinin aksine, 1980li yıllar bu alternatif yorumların yok

edilmesi üzerine odaklanmıştır. Öncelikle devrimin komünist yorumları bu uygulamalardan payına düşeni almış ve siyaset sahnesinden tamamen silinmişlerdir. Ayrıca Mehdi Bazargan ve Abolhassan Banisadr gibi isimlerin temsil ettiği devrimin liberal yorumları da 1990lı yılları göremeden İran'ın siyaset sahnesinden silindi. 1980'li yılların ikinci yarısında, İran devriminin İslami yorumları dışındaki bütün alternatifler siyaset sahnesinden silinmişlerdi. Bu yorumların taşıyıcıları İslami Cumhuriyet Partisi çatısı altında birleşmişlerdi. Humeyni'nin ölümden sonra ortaya çıkan iktidar mücadelesi ise bu partinin dağılmasıyla ortaya çıkan tartışmalardan ibaretti.

Buna mukabil, 1990lı yılların başından itibaren İran'da kapitalist sistemin yeniden inşası üzerine odaklanılmıştır. Bu süreç sonunda yeni rejimin kurmuş olduğu devlet yapısı konsolide olmuş ve İslami rejim sermaye birikimini sağlayarak kendi kapitalist sınıflarını oluşturmuştur. Bu yeni kapitalist sınıflar İran'ı küresel sisteme yeniden entegre etmek için 1989 yılında Cumhurbaşkanı Rafsanjani ile buldukları temsiliyet aracılığıyla ilk beş yıllık kalkınma planını devreye sokmuşlardır. Hukuksal yapıda yapılan dönüşümlerle yürütme organının gücü bu süreçte arttırılmıştır. Bu da tam olarak sermayenin uluslararasılaşması için gerekli olan, uluslararası uzlaşının anında yerel politikaya uygulanmasını kolaylaştırıcı bir sürece işaret etmektedir.

Rafsanjani, savaşın yıkmış olduğu ekonominin yeniden inşası için uluslararası sermayeyenin şart olduğunun altını çizerek İran ekonomisini kademeli olarak küresel ekonomiye entegre etme girişiminde bulunmuştur. Bu kapsam altında ilk beş yıllık kalkınma planının hedefleri özelleştirme, bankacılık ve finans sisteminin deregülasyonu, Tahran borsasının kurulması, yabancı yatırımın teşviki, dış borçlanma kanallarının açılması, serbest ticaret bölgelerinin inşası, sübvansiyonların kaldırılması, İran riyalinin devalüasyonu, ticaretin liberalleşmesi ve sürgündeki sermayelerlerin ülkeye dönüşü gibi kriterler etrafında belirlenmiştir. Savaş sonrası ortaya çıkan hammadde ihtiyacının karşılanması için ilk beş yıllık plan çerçevesinde ticaret liberalleştirilmeye çalışılmıştır. Bununla paralel olarak ticaret üzerindeki kontrolün kaldırılmasına yönelik adımlar atılmıştır. Rafsanjani hükümeti bu çerçevede Sovyetler Birliği, Çin ve Körfez ülkeleri ile yeni ilişkiler kurdu. Yine ticaretin uluslararasılaşmasının önünü açmak adına ilk beş

yıllık plan özellikle Körfez kıyılarında serbest ticaret bölgelerinin kurulmasını öngörmekteydi.

İlk beş yıllık kalkınma planı İran'a uluslararası sermayeyi çekmeye çalışarak ve ulusal sermayenin uluslararası sermayeyle birleşmesine zemin hazırlayarak İran ekonomisinin uluslararasılaşmasının önünü açmıştır. Bu süreç sonunda Peugeot ve Fiat gibi araç üreticisi uluslararası sermayenin İran'da kendilerine iktisadi faaliyet alanı yarattıkları gözlemlenmiştir. Ayrıca Tahran borsasının kurulması ve para sistemindeki reformlar aracılığıyla İran ekonomisinin küresel finansal sistemlerle uyumlulaştırılması yönünde adımlar atılmıştır. Devrim sürecinde İran'dan kaçmış sermayenin yeniden ülkeye çekilmesi ve birikmiş artı değerın özelleştirmeler aracılığıyla piyasaya sürülmesi İran'da 1990lardan itibaren uluslararası sermaye ve kapitalist sınıfların uluslararasılaşmasının önünü açmıştır. Son olarak İran'ın ilk beş yıllık kalkınma planı, küresel kapitalizmin koordinasyon mekanizmaları olan uluslararası örgütler ile İran'ın ilişkilerinin yeniden gündeme getirilmesine yol açmıştır.

İlk beş yıllık kalkınma planı, her ne kadar İran ekonomisinin uluslararasılaşmasında ilk adım olsa da, onunla başlayan süreç 1990'lardan itibaren bu uluslararasılaşma ivmesinin hız kesmeden devam ettiğini göstermektedir. Fakat bu süreç içerisinde ortaya çıkan gelişmeler, İran'ın uluslararasılaşmanın her safhasında neoliberal küreselleşmeye alternatif mekanizmalar yaratarak faaliyetini sürdürdüğünü ortaya koymaktadır. Hem dışarıdan gelen İran'daki politik yapıların dönüşümü baskısı, hem de içerideki politik ve hukuki kısıtlamalar, İran'ın ilgili alternatif mekanizmalara başvurusunu zorunlaştırmıştır.

Bu alternatif mekanizmalardan biri İran ticaret rejimin uluslararasılaşmasında gözlemlenebilmektedir. İran'da ticaret rejimi serbest ticaret bölgeler üzerinden alternatif kanallar yaratarak 1990'lardan bu yana uluslararasılaşmaktadır. Serbest ticaret bölgeleri, birer pilot bölge olarak İran ticaret sisteminin uluslararasılaşmasının aracı olarak inşa edilmişlerdi. Hem İran'dan devrim sürecinde kaçan sermayedarların yoğunlukta bulunduğu bir bölge olmasıyla hem de kendi uluslararasılaşma sürecinde Ortadoğu bölgesinin ithalat deposu haline dönüşmesi nedeniyle Körfez ülkeleri kıyıları, İran'ı

uluslararası ekonomiye eklemleyecek bu serbest ticaret bölgelerinin inşa üssü olmuştu. Açılan bu kanallar aracılığıyla, her ne kadar İran liberal bir ticaret rejimine sahip olmasa da ve uluslararası yaptırımlar ticaret rejiminin liberalleşmesinde engeller yaratsa da ticaret rejimi uluslararasılaşmıştır. Birikmiş sermayeye sahip kapitalist sınıflar ticaretin uluslararasılaşması önündeki yerel ve uluslararası kısıtlamalara karşı, birinci beş yıllık kalkınma planıyla inşa edilen serbest ticaret bölgelerinin kapasitelerini kullanmışlardır. Coğunluğu Ortadoğu'nun en fazla uluslararasılaşmış bölgesi olan Körfez kıyılarında inşa edilen bu ticaret bölgeleri yaptırımlar altındaki İran'a her türlü ithal malın getirilmesinin yolunu açmıştır.

Zaman içerisinde bu ticaret bölgeleri İran sermayesinin uluslararasılaşması önündeki engelleri kaldırmakta başarısız oldu. Serbest ticaret bölgelerine istenilen uluslararası yatırımlar çekilemedi. Fakat süreç içerisinde bu bölgeler dönüşüm geçirerek yasal kaçakçılık olarak tabir edilebilecek gri şemalar üzerinden İran sermayesini küresel neoliberal ticaret rejimine alternatif bir mekanizma aracılığıyla eklemlemekte başarı sağladı. Bu gri şemaların oluşumunu tetikleyen iki unsur vardı. Bunlardan ilki İran ticaret kanunu diğeryse uluslararası yaptırımlardı. Devrimden sonra inşa edilen hukuki yapılar ticaret rejimini çok sıkı kurallar etrafında düzenlemişti. Ticarete uygulanan yüksek vergiler, belli başlı ürünlerin ticaretinin yasaklanması ve ticari faaliyetin karmaşık bürokratik prosedürleri zorunlu kılan lisans uygulamalarına tabi olması ticaretin liberal bir şekilde uluslararasılaşmasına içerideki düzenlemeler aracılığıyla ket vurmaktaydı. Fakat serbest ticaret bölgelerinin bu tür uygulamalardan muaf olması, İran'lı ticaret burjuvazisinin bu bölgeler aracılığıyla uluslararası ticari faaliyetlerini şeffaf olmayan gri şemalar etrafında örgütlemelerine yol açmıştır. Her ne kadar bu süreç İran'da ticaret burjuvazisinin sermaye birikimine katkı sunmuş olsa da ithal edilen ürünlerin iç piyasaya sürülmesi noktasında kamu ve özel sektör arasında yer alan bonyadların ve İran Devrim Muhafızları Ordusu'nun kapasiteleri kullanılmıştır. Bu husus da bu çalışma kapsamında belirtildiği gibi, İran'da liberal girişimlerle inşa edilen ekonomik yapıların egemen sınıflar (özellikle de devlet ve rejim bağımlı kapitalist fraksiyonlar) tarafından manipüle edilebilme kapasitesini ortaya koymaktadır.

İran hammadde üreticisi olarak petrol endüstrisi üzerinden kaçınılmaz olarak uluslararası ekonomik sisteme entegredir. İran dünyanın en büyük dördüncü petrol rezervine ve ikinci doğal gaz rezervine sahiptir. Dünya petrol rezervinin 13 yaklaşık yüzde 10'u ve OPEC petrol rezervinin yüzde 13'ü İran'da bulunmaktadır. Ayrıca dünya doğal gaz rezervlerinin de yüzde 17'si ve OPEC doğal gaz rezervinin de yaklaşık üçte biri bu ülkede bulunmaktadır. Doğal gazın ihracatı yalnızca boru hatları ya da doğalgazın LNG'ye dönüştürülmesiyle mümkündür. Bu yüzden İran'da doğal gaz çoğunlukla iç pazarda kullanılmaktadır ve uluslararasılaşmaya katkısı düşüktür.

Bu petrol rezervleri İran'ın zaruri olarak küresel kapitalist sistemin önemli bir yapı taşı olmasıyla sonuçlanmıştır. Fakat petrol endüstrisi de yerel ve uluslararası kısıtlamalardan ötürü alternatif kanallar yaratarak uluslararasılaşmaktadır. İran ekonomisinin temel taşı oluşturduğu için uluslararası yaptırımlar özellikle İran petrol endüstrisini hedef almışlardır. Fakat İran petrolünün ticaretini aşırı ölçüde kısıtlamak uluslararası piyasalar için de olumsuz etkiler yaratacağı için, yaptırımların etkisi sınırlıdır. Her ne kadar yaptırımlar petrol üretim ve ticaretinde olumsuz etkiler yaratmış olsa da İran devleti farklı ticaret ortakları arasında seçim yaparak bu etkileri bertaraf etmeye çalışmıştır. Böylece petrol ihracatı Batı Avrupa ve ABD'den Asya ve Pasifik coğrafyalarına doğru kaymıştır.

Petrolün uluslararasılaşması yalnızca petrol ticaretini kapsamamaktadır. Bu süreç petrolün çıkarılma ve işlenme süreçlerinin metalaşması ve petrol gelirlerinin uluslararası finans ağları üzerinden küresel sermaye döngüsüne sokulmasını içermektedir. Petrolle ilgili süreçlerin metalaşması öncelikle 1990'lardan itibaren Devrim Muhafızlarına bağlı şirketlerin endüstri içerisinde aktif rol almalarıyla sonuçlanmıştır. Bunun yanında petrol endüstrisinin uluslararasılaşmasına karşı yerel kısıtlamalar da benzer bir şekilde, alternatif kanallara başvurularak çözülmeye çalışılmıştır. Örneğin uluslararası firmaların bu endüstrideki kontrolün kısıtlanması için uluslararası sermayeye yalnızca 'buy-back' adı verilen geri alım kontratları verilmiştir. Bu sözleşme tipleri, uluslararası firmalara imtiyaz tanımadan yatırım yapmalarına fırsat tanıdığı için, yaptırımlar süresince egemen sözleşme tipi olmuşlardır. Bunun yanında, son yıllarda İran Petrol Sözleşmeleri adı

altında uluslararası sermayeye daha geniş bir alan açan farklı bir tip yatırım modeli benimsenmiştir. Fakat bu sözleşmelerin başarısına hem İran'daki iç dinamikler hem de yaptırımların yaratmış olduğu etkiler ket vurmaktadır.

Yukarıda belirtildiği gibi İran ekonomisinin uluslararasılaşma sürecini etkileyen önemli dinamiklerden bir diğeri de uluslararası yaptırımlardır. Uluslararası ekonomik yaptırımlara rağmen İran alternatif yapılar yaratarak küresel sisteme entegre olma girişimdedir. Uluslararası yaptırımlar İran ekonomisini dönüştürmüş, farklı kaynaklar bulmaya zorlamış fakat buna rağmen ekonominin uluslararasılaşmasının önüne geçememiştir. Aynı petrol endüstrisinde olduğu gibi ekonomik zor yoluyla İran'ı 'ehlileştirme' girişimleri iktisadi problem yaratmakla beraber ekonomik alanın uluslararasılaşmasını önleyememiştir. Yaptırımların başladığı tarihten bu yana İran ticaret ortaklarını değiştirerek öncelikle Avrupa ardından Körfez ülkeleri, bunu takiben Türkiye, Irak gibi diğer komşu ülkeler aracılığıyla uluslararası ekonomik faaliyetlerine devam etmiştir. Birleşmiş Milletler'in de yaptırımlara katılmasıyla beraber Çin ve Rusya gibi ortaklar aracılığıyla İran yaptırımlara alternatif kaynaklara yaratmaya devam etmektedir.

Yalnızca uluslararası yaptırımlar değil, İran devlet ve ekonomik yapısının ta kendisi de alternatif kanallar aracılığıyla küresel sisteme entegre olma girişimlerini zorunlu kılmaktadır. İran İslami devriminin ezilenler ve antiemperyalizm söylemleri, devrim sonrası inşa edilen yapılarda kendini göstermiş ve karmaşık bir ekonomik yapının oluşumuyla sonuçlanmıştır. Bu yapı içerisinde her ne kadar kapitalist üretim ilişkileri ve özel mülkiyete karşı alenen bir kısıtlama getirilmese de uluslararası sermaye ile kurulan ilişkide çok katı kurallar oluşturulmuştur. Bu durum da İran'da yabancı yatırımların önünü tıkamakta ve yerel sermayedarların uluslararası ortaklar bulmalarını engellemektedir. Bu yüzden yerel sermayedarlar yalnızca uluslararası kısıtlamaları değil, yerel zorunlulukları da aşarak uluslararasılaşmaya çalışmaktadırlar.

İslami ve devrimci ideoloji İran'da spesifik bir ekonomik yapı yaratmıştır. 1979 devriminden sonra yukarıda da bahsi geçtiği gibi ezilenler ve anti-emperyalizm söylemi ekonomik yapı üzerinde köklü bir etki yaratmıştır. Ezilenler söylemi sosyal bir devlet

yaratmasa da sosyal yardım politikası uygulayan yapıların inşası ile sonuçlanmıştır. Anti-emperyalizm ise Şah'ın ortakları olduğu düşünülen sermayedarların mal varlıklarına el koyularak bunların dini kuruluşlara aktarılması ve bunun sonucunda da İran'a özgü bir ekonomik yapının inşasına yol açmıştır. Fakat bu anti-emperyalizm söylemi yalnızca Amerika Birleşik Devletleri'nin bünyesinde somut bir anlam ifade bulmuştur, zira İran örneğinde kapitalist toplumsal ilişkilerden izole edilmiş bir emperyalizm algısı yaratılmıştır. Buna göre İran İslami devrimine karşı olan tüm ülkeler emperyalist olarak tabir edilmişlerdir.

İslami yapılar kapitalist bir ekonomi altında yeniden yorumlanarak İran devlet yapısı içerisinde hayati bir yer elde etmişlerdir. Devrimin tüm işçi sınıfı yanlısı söylemlerine karşı, İslami devrim sonrası inşa edilen yapıların analizi göstermektedir ki kapitalist toplumsal ilişkiler ve kapitalist devlet devrimden sonra da varlığını sürdürmüştür. Kapitalizm her toplumsal formasyonda kendine özgü bir biçim edindiği için elbette İran'daki toplumsal yapılar Batı'daki muadillerine karşı farklılıklar barındırmaktadır. Fakat her kapitalist toplumun temel taşını oluşturan burjuva ve işçi sınıfının birbirleriyle çatışan varlığı devrim sonrası İran'da da gözlemlenmiştir. Çeşitli dini söylemler altında sınıfların varlığı meşrulaştırılmış ve doğal bir süreçmiş gibi ortaya konuşmuştur. Bununla ilişkili olarak İran'da özel mülkiyetin de yeni toplumsal uzlaşının vazgeçilmez bir ögesi olduğu ortaya konulmuştur. Son olarak da toplumsal sınıflar arasındaki çatışmanın toplumun yeniden üretilmesinin koşullarını ortadan kaldırmayacağı bir şekilde sürmesi için modern kapitalist devletin edinmiş olduğu toplumsal yapıdırma fonksiyonu İran devleti tarafından da benimsenmiştir. Bu yapı içerisinde hegemonya kurmayı başarabilen kapitalist fraksiyonlar ise Bonyad adı verilen dini vakıflar etrafında örgütlenmişlerdir. Devrim öncesi biriken sermayenin büyük çoğunluğunun bu vakıflara aktarımıyla ekonomik tekel halini alan bu kuruluşlar İslami görünümü ve faaliyetleri altında, batıdaki özel girişimler gibi sermaye birikimine devam etmektedirler.

Bu kapitalist yapı içerisinde İran devlet yapısı çift başlı bir siyasi organizasyon etrafında örgütlenmiştir. Bir yanda Dini Lider'in doğrudan atadığı ve İran'daki siyasi yapının temelini oluşturan Devrim Koruma Konseyi gibi kurumlar, diğer tarafta doğrudan

temsili demokrasi araçlarıyla işlev gören Başkanlık ve parlamento gibi yapılar bulunmaktadır. Atama yoluyla işlev gören kurumlar seçimle işleyen kurumlara bir denge unsuru yaratarak İran politik sistemini kontrol edebilme kapasitesine sahiptirler. Bu yapıya sırtını dayayabilmiş kapitalist fraksiyonların birikim rejimleriye devlet politikası haline gelebilmektedir.

İran'daki dini kuruluşlar mevcut devlet yapısına bağımlılık geliştirerek tekeller haline gelmiş ve ekonomik çıkarları İran'ın uluslararasılaşması sürecine doğrudan etki yaratmıştır. Sermaye birikimlerini rekabetsiz bir ortamda rahatça genişleten ve petrol gelirlerinden ayrıcalıklı paylar alan bu grupların çıkarı, uluslararasılaşma süreciyle doğrudan bağlantılıdır. Bu yüzden İran ekonomisinin uluslararasılaşmasının anlaşılmasında bu grupların çıkarlarının açık bir şekilde ortaya konulması gerekmektedir. Bonyadların oluşturduğu kamu ile özel sektör arasında yer alan bu kurumlar şeffaflık prensibinden uzak oldukları ve yalnızca İran devletinin başı, Velayeti Fakih'e hesap vermek zorunda oldukları için, İran iktisadi yapıları içerisinde özgün bir yer tutmaktadırlar.

İran'daki egemen fraksiyonlar devlet yapısını koruyarak ekonomik sistemi küreselleştirmeye çalışmaktadır. Yalnızca bonyadların oluşturduğu İslami gruplar değil, devrimden bu yana bireysel 'ahbap-çavuş' ilişkileri üzerinden bürokratik aygıt içerisindeki bağlantıları aracılığıyla sermaye birikimi sağlayan gruplar da mevcut devlet yapısına bağımlılık geliştirdikleri için devletin dönüşümüne karşı çıkmaktadırlar. Fakat bu gruplar yoğun sermaye birikimine sahip oldukları için de siyasi mekanizma içerisindeki ayrıcalıklı pozisyonlarını koruyarak iktisadi alanın uluslararasılaşması yönünde faaliyet sürdürmektedirler. Her ne kadar kroni kapitalistlerle bonyadların birikim rejimleri her zaman örtüşmese de bu iki grup da devletin uluslararasılaşmasına karşı çıktıkları için uluslararasılaşma stratejilerinde bir uyum gözlemlenmektedir. Devlet içerisinde buldukları temsiliyetin, diğer kapitalist fraksiyonlara nazaran sağlamış olduğu avantaj bu grupların çıkarının devlet politikasına dönüşmesine yol açmıştır.

İran'da farklı iktidar dönemlerinde temsiliyet bulmuş sermaye fraksiyonları kendi birikim rejimlerini devlet politikasına çevirmekte ve bu da İran'ın uluslararasılaşma

sürecindeki temel değişikliği oluşturmaktadır. Örneğin Rafsanjani döneminde ‘crony-capitalist’ olarak tabir edilen grupların temsiliyet bulması liberal bir uluslararasılaşma politikası olarak yansırken, Hatemi döneminde ekonomik alanın liberalleşmesiyle birlikte devletin de uluslararasılaşması yönünde çıkarları olan gruplar temsil edilmiştir. Ahmedinejad başkanlığında ise Bonyadların başını çektiği, devlet yapısını koruyarak uluslararası kapitalist faaliyetlerini sürdürmek isteyen grupların çıkarı devlet politikasına dönüşmüştür.

Buradan hareketle uluslararası ilişkilere egemen teoriler tarafından devletin uluslararası ilişkilerin temel faili olarak ele alınması görüşünün sorgulanması gerekmektedir. Vaka analizi toplumsal sınıfların bilinçli sosyal aktörler olarak uluslararası yapı içerisinde failler olarak ele alınması gerektiğini ortaya koymaktadır. İran örneği göstermiştir ki, uluslararası yapı tarafından devletler üzerinde yaratılan dönüşüm baskısı ulusal sınıflar tarafından biçimlenmektedir. Bu yüzden kapitalizm uluslararası yapı olarak tanımlanırken, sınıfların bu yapının faili, devlet ise uluslararası yapı içerisindeki aktörler olarak betimlenmelidir.

İran örneği ayrıca göstermektedir ki küresel kapitalist sisteme entegrasyonun tek bir biçimi yoktur. Hem geleneksel hem de eleştiril okul içerisinde üretilen küreselleşme tartışmaları genel olarak uluslararasılaşmayı liberalleşmeyle özdeşleştirmekte ya da neoliberalizm kapsamı altında ele almaktadırlar. Oysa İran örneğinde görüldüğü gibi uluslararasılaşmanın liberal ve liberal olmayan biçimleri de mevcuttur. Örneğin ticaret sistemi liberalleşmeden uluslararasılaşmıştır. Benzer şekilde şeffaflık ve hesap verilebilirlik ilkeleri iktisadi hayata yerleşmeden İran ulusal sermayesi uluslararası sermaye ile bütünleşmeyi başarmıştır. Yine aynı eğilim üzerinden neoliberal politikaların temelini oluşturan iktisadi ve politik alanların birbirinden ayrışması İran’da gerçekleşmemiş olsa da, petrol piyasasına uluslararası yatırımın çekilmesi hususunda başarı kaydedilmiştir. Bu İran’ın da BRICs ülkelerine benzer bir şekilde küreselleşmeye karşı olmasa da onun neoliberal prensipleriyle uyum konusunda sorunlar yaşadığını ortaya koymaktadır. Fakat BRICs’in aksine devrim sonrası İran’daki sermaye, politik mekanizma içerisinde bireysel bağlantıları bulunan kapitalist fraksiyonlara

aktarılmamıştır. Bonyadların varlığı İran kapitalist sisteminin yeniden üretimini doğrudan İslami rejimin yeniden üretimine bağlamıştır. Bu yüzden devletin uluslararasılaşması bonyadları doğrudan etkileceğinden İslami rejim de devletteki iktisadi dönüşümlere karşı bir hassasiyet geliştirmiştir. Devletin uluslararasılaşmamış olması, küresel sermayenin İran'ın kendi yerel sermayesi uluslararasılaştığı ölçüde İran'da temsiliyet bulmasına yol açmıştır. Buradan hareketle İran'ın uluslararasılaşma sürecinin anlaşılması, İran sermayesinin uluslararasılaşması ölçüsü, devletin kurumsal ve politik yapısı, bu yapı içerisinde farklı fraksiyonların bulmuş olduğu temsiliyet ve bunların birikim rejimlerinin anlaşılmasını zorunlu kılmaktadır. Böylece uluslararasılaşma çalışmalarının küresel yapıya odaklanırken yerel sınıf kompozisyonlarını da göz önünde bulundurmaları ve bu sınıfların uluslararası kapitalist işbölümünde tutmakta oldukları konumu ortaya koymaları kuramsal çalışmalar için zorunlu görülmektedir.

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