

FROM RESISTANCE ECONOMY TO IRANIAN NEIGHBOURHOOD POLICY: IRAN'S NEW ECONOMIC PARADIGM

ОТ ЭКОНОМИКИ СОПРОТИВЛЕНИЯ
К ИРАНСКОЙ ПОЛИТИКЕ ДОБРОСОСЕДСТВА:
НОВАЯ ЭКОНОМИЧЕСКАЯ ПАРАДИГМА ИРАНА



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After plunging into a serious recession in the early 2010s following increased international pressure to limit the Iranian nuclear programme, the Iranian state hastened by the edicts of the Iranian Supreme Leader, Seyyed Ali Khamenei, began to heavily redefine its role and responsibilities in the management of the economy under the auspices of the Supreme Leader's Doctrine of Resistance Economy. With state policies failing to deliver on short- and long-term development goals, top leadership in Iran began to formulate a new economic paradigm, *Neighbourhood Policy*, that viewed the root to economic success as being Iran's integration into its neighbouring markets.

Keywords: Iran, Iranian Neighbourhood Policy, Iranian Foreign Policy, Iranian Foreign Economic Relations, Khamenei's Economic Thought, Islamic Economic Thought

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Погрузившись в серьезную рецессию в начале 2010-х гг. после усиления международного давления с целью ограничения иранской ядерной программы, иранское государство, ускоренное указами Верховного лидера Ирана Сейеда Али Хаменеи, начало серьезно пересматривать свою роль и обязанности в управлении экономикой под эгидой доктрины «экономики сопротивления». Поскольку государственная политика не смогла обеспечить достижение краткосрочных и долгосрочных целей развития, высшее руководство Ирана начало формулировать новую экономическую парадигму — политику добрососедства, согласно которой экономические успехи Ирана связаны с интеграцией в соседние рынки.

Ключевые слова: Иран, иранская политика добрососедства, внешняя политика Ирана, внешнеэкономические отношения Ирана, экономическая мысль Хаменеи, исламская экономическая мысль

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Being a servant is not a natural way of making a living. Trying to make money from buried and other treasures is not a natural way of making a living

Ibn Khaldun, Al Muqaddimah

My real wish — which of course may not be realized anytime soon — is that we would close our oil wells and base our economy on non-oil goods and products

Iranian Supreme Leader
Seyyed Ali Khamenei, 1994

THE NEW CONTINUITY IN IRANIAN FOREIGN POLICY

When Ebrahim Raisi became the eighth Iranian president in 2021, he and his political circle disagreed with much of the foreign policy of his predecessor Hassan Rouhani. However, with regards to one policy the Raisi administration firmly stood by the directions and the framework set up by Rouhani and his foreign minister Mohammad Javad Zarif. It was the Iranian Neighbourhood Policy, a completely new paradigm of Iranian regional foreign policy that aimed to end Iran's regional hostilities with Arab powers and recreate Iran's position as an important component of the regional trade hub of the Middle East.

While academic literature has not yet adequately studied the origins and goals of Iran's new

regional policy that began developing in Iranian governmental foreign policy think tanks in 2015, this new regional policy is now an integral part of Iranian geopolitical and geo-economic calculations in the region. At its core this policy has two roots that led to its creation. Firstly, the Iranian realization that its rise has caused unprecedented levels of cooperation between its Arab rivals and Israel; this led to the rethinking of Iran's regional grand strategy and its desired long term goals and outlook in the region. Secondly, Iranian 'Resistance Economy' policy that aimed to develop the Iranian economy self-sufficiently in despite of US sanctions completely failed in achieving economic growth and only managed to keep the Iranian economy alive. The immense failure of 'Resistance Economy' led to two domestic crises with mass protests in 2018 and 2019 which were the largest of their kind since the 2009 Presidential Election in Iran. By 2019, it was becoming clear that serious readjustments are necessary with regards to Iran's governmental economic planning.

ROUHANI'S REALIZATION

Hassan Rouhani's administration more or less correctly understood that a remedy to these issues can be the serious changes to Iran's regional economic positioning. Iranian think tanks and



Iranian foreign policy intelligentsia at large recognized that the lack of any real integration of the Iranian economy in the region has led to the situation where Arab leaders do not have much to lose if they were to pursue deeper and official relations with Israel, in complete disregard of the overall negative public Arab sentiment towards Israel. The Abraham Accords of 2020, while were not directly responsible for causing the shift of attitude in Iranian leadership, were a testament to the fact that Israel had concrete economic and security benefits to offer to Arab countries which were wary of Iran's rise in power.

Rouhani administration and Iranian governmental think tanks clearly understood that if Iran continues to be isolated in the regional economy, it will be more difficult to settle political disagreements with the Arab leaders. Especially considering that Iran has little to no economic leverage apart from its geopolitical tools such as its affiliated militias in the region. Integrating Iran into the regional economy would also serve as a measure against preventing further Israeli presence in the region [Khataei, 2022]. It was viewed that in the same way that increased Iranian economic engagement with Arab countries might be useful in delivering baseline agreements with Arab leaders on security and political issues, increased Israeli presence in Iran's neighbouring markets could make way for swaying Arab leaders to pursue deeper political ties with Israel [Khataei, 2022].

WHAT IS AYATOLLAH KHAMENEI'S RESISTANCE ECONOMY?

In early 2014, in the face of greater domestic problems due to the tightening international sanctions regime on Iran, the Iranian Supreme Leader notified Iranian state bodies of his new economic plan of action named 'Resistance Economy' (interchangeable hereafter with 'Economy of Resistance' and 'Resistance Policy'). By doing so Khamenei ordered the Iranian state to adopt on a radically new economic approach. The policy directive began by him stating that:

"With the aim of providing dynamic growth and improving economic resistance indicators and achieving the goals of the Twenty-year Plan document, the general policies of the resistance economy are communicated with a jihadist, flexible, opportunistic, productive, endogenous, progressive and extroverted approach" [Khamenei, 2014a].

The policy aimed to make the Iranian economy resilient in the face of unprecedented international sanctions; but the short term aim of the policy was not the growth in despite of isolationism but rather economic survival in face of economic warfare with the West. Iran was to limit import of "necessary" and strategically significant products as much as possible, to diversify countries where it imports from and to create a storage of the most important products including pharmaceuticals.

It is important to highlight the fact that the chief architect of Resistance Policy, Ayatollah Khamenei, did not want to give the Iranian state levels of economic oversight higher than permissible under the Constitution of Islamic Republic of Iran (Revised 1989). As clearly stated in the constitution, the government is principally a supervising body over an economy ran by Islamic principles, that aims to create the baseline level of welfare for the people without encroaching on private property rights and creating an uncompetitive market [Khamenei, 2020]. Therefore, the constitutional explanation used was that the state *had* to strongly intervene in the market because of the fact that outside pressure (e.g., economic warfare of the West) had crippled the self-correcting mechanism of the Iranian market and cut off its access to necessary foreign goods and material.

Overall, the sanctions against Iran gave Iranian state the legitimacy to seek drastic changes in the Iranian economy and political economy that highly favoured partially or fully state-owned enterprises that are loyal to the leadership of the Iranian state, meanwhile willingly or unwillingly limiting the civic prowess of the Iranian middle class due to shrinking wages and increasing disparities. This point is of significance to any study of the civic movements inside Iran as it highlights the fact that



contrary to western beliefs, sanctions were not as effective as initially hoped in bringing about regime change or mass protests in Iran.

ROOTS OF THE SHIFT FROM RESISTANCE POLICY TO NEIGHBOURHOOD POLICY

As time went by it became clear that the Iranian 'Resistance Economy' was incapable of creating an atmosphere of economic growth because of constant government intervention and price controls, lack of large-scale investments in newer technologies and low investments rates in general due to the lack of consumer optimism, supply shocks to necessary imported raw material and demand shock due to losing foreign customers. The termination or adjustments to Resistance Policy seemed obviously needed, but a major problem was that Resistance Policy was not just an attempt to resist sanctions. As clearly stated by Khamenei, the Resistance Policy was part of a much larger state effort at reshaping the very structure of the Iranian economy and move it from having an oil-dependent economy into a high-tech manufacturing hub in West Asia [Khamenei, 2014b]. If the state were to reverse this exact policy, how could it still reach its long-term development goals?

Indeed, the Iranian state shifted the focus from Resistance Economy policies to Neighbourhood Policy specially after the final years of Hassan Rouhani as president. But either way such rapid changes in Iranian policy had to be consented to by the Supreme Leader Seyyed Ali Khamenei, and since he is the initiator and the main sponsor of 'Economic Resistance' doctrine in Iran, he should have been convinced in some manner or another that the ultimate aims of his policies were not reasonably achievable by pursuing the autarkic politics of Economic Resistance. Explaining such a shift in discourse of the Supreme Leader is important as it allows futures studies of Iranian regional policy to be aware of continuities in Iranian policy and not mistaking short term policy shifts as a sign of shift in long term ambitions.

Therefore, to identify the economic roots of the Iranian Neighbourhood Policy in the mind of Iran's Leader and top officials two steps are necessary. Firstly, the initial aims of Economic Resistance need to be discussed with emphasis on the economic doctrines behind such unusual policy. Secondly, to highlight how the Iranian policy-maker and specially the top brass of leadership in Iran became aware that the policy has failed or will fail in the long run. However, it must be admitted that a certain school of thought in Iran is of the general view that Resistance Economy was not isolationist in nature and did not want to cut off Iran from the global market. But in reality, the interpretation that was adapted by the administration of Hassan Rouhani was that since in absence of reaching a deal with the West on the nuclear issue, no deep-rooted cooperation with the global community is possible. For the Rouhani administration 'Resistance Economy' essentially meant holding fast economically not to be pressured by the West into accepting a sub-optimal nuclear deal.

ECONOMIC THOUGHT OF THE IRANIAN SUPREME LEADER

Pinpointing the economic thought of the Iranian Supreme Leader is a difficult task, and in a way his specific way of thinking is not containable by only one variation of established economic schools. However, the author of this paper personally holds the belief that the closest economic paradigm to Ali Khamenei is the one of Ibn Khaldun, Muslim philosopher of history and administrator of the 14th century. The author makes this claim because both Ibn Khaldun and Khamenei do not decouple rationalism from faith. The underlying worldview for both is Islam (although of two different branches) and they both are fervently defensive of their ideologies but pursue rationalism as long as it does not sacrifice core Islamic tenants.

The specific point of view on which Khamenei and Ibn Khaldun are very similar are their views on production. Put simply, expert craftsmanship and production of sophisticated goods are taken



as necessary must for the development of a society and its people, as long as making sure that the productive capacities are not all being wasted on producing luxury goods that can harm the spiritual life of the citizenry. Khamenei has many numerous speeches on the importance of domestic production and even named several years of the Iranian Islamic Solar Calendar with titles containing the word production, such as “1398 — The Year of a Surge in Production”. In the Persian New Year’s Address in March 2016 Khamenei stated: “The main point is that the people of Iran should do something to liberate themselves from vulnerabilities in the face of the enemies’ threats and enmities. We should do something to avoid being vulnerable in the face of the enemies’ threats. We should reduce our vulnerability to zero” [Khamenei, 2016].

One of the main tenants behind Khamenei push for initiation of Economic Resistance was his understanding that Iran has lacked behind other large economies because of the positioning Iran acquired in the world periphery during the Pahlavi Dynasty, the following quotation summarizes his way of thinking quite nicely: “This [economic dependence on oil] started during the Pahlavi regime. The youth who do not know what the old regime [Pahlavi] did to this country, should know that this is one of their many betrayals. They made the economy of this country dependent on oil, which cannot be changed and corrected easily” [Khamenei, 1998].

The single way out of this position in the world periphery for the Iranian supreme leader was establishing Iran as a knowledge-based manufacturing economy. The Iranian state began a large-scale program of import substitution and identified several industries as sunrise industries suitable for government planned investments. Cutting dependence on oil was thought as the main tool towards increasing resistance to foreign economic pressure and at the same time this entire effort was viewed as a golden opportunity to transform Iran’s position in the global economy and move it out of the periphery of the world that is reliant on importing high tech goods and material from abroad.

The immediate outcome of such a policy was indeed increase in manufacturing capacity and a boost in acquisition of foreign tech and domestic R&D, but it also led to anti-competitive behaviour, increased corruption and cronyism between technocrats and big business and increased inequality in the Iranian society due to uneven distribution of benefits. Initially Khamenei had marked the issue of inequality and distribution of wealth in Iran as one of the major problems that the Resistance Policy should address [Khamenei, 2014a], but the policy itself by creating an uneven playing field led to greater unequal distribution of wealth in the Iranian society.

CONCLUSION: THE PARADIGM SHIFT

By 2019, the Iranian state basically had created an enclaved knowledge-based economy, that was subsidized by the government but had no visible success in bringing about economic development in the Iranian consumer market, mainly because domestic demand was too low to create real profits and investment rates continued to be dismal given the low expectations on returns. Some state affiliated enterprises that were so heavily subsidized by the government reached record profits, but their profits were in no way reinvested into the economy.

Thus, top Iranian leadership used its initiative for a new regional policy and closer economic relations with its neighbours as an opportunity to whip its uncompetitive private and state-owned sectors into shape. Now Iranian companies were not to follow self-sufficiency in the autarkic sense but to seek, create and expand demands for Iranian products abroad. It was much because of this shift of perspective, that in the months following February 2022, Iranian state apparatus was fully ready to exploit the international situation in its favour to boost economic ties with Russia. Iranian ministries quickly amassed Iranian businessmen into entering the Russian market and organized numerous large business missions.



By the end of this Persian fiscal year in March, the picture will be clearer as to how successful Iranian Neighbourhood Policy has been in boosting Iranian trade with its regional neighbours. The most important question for Iranian leadership is whether the policy has had real positive impact for the average Iranian consumer. If so, then Iranian leadership will become more confident than ever before in its ability to create economic development with or without the JCPOA (the Iran Nuclear Deal), meaning with or without the US centred world order.

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