

Foreign Policy and Economic Development: Iran under Rafsanjani

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Abstract

This article explores the impact of Iran's foreign policy on economic development since the end of the Iran-Iraq war. The main question discussed in this article is how foreign policy may affect economic development in the Islamic Republic of Iran. As a case study the foreign policy of the Islamic Republic during Ayatollah Akbar Hashemi Rafsanjani's presidency will be examined. To answer the main question, conceptual framework of development-orientated foreign policy, along with two examples, i.e. China and Nigeria, will be introduced. The hypothesis of the article is that with a more realistic and pragmatist foreign policy, more opportunities for success in economic development are created. The article argues that in the era of globalization, economic development of a country hinges on foreign relations with major economies and cooperation with international institutions and organizations, especially economic entities. Accordingly, if a country adopts a developmental approach in foreign policy, it should accept the existing international order, along with its components.

Key words: developmental foreign policy, Iran, economic development, Hashemi Rafsanjani

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Introduction

Since the 1979 Islamic Revolution in Iran, there have been many discussions about Iran's approach towards the Western countries. After the end of Iran-Iraq war in 1989, Iranian politicians began to pay extreme attention to foreign policy issues in order to improve Iran's deteriorated relations with European countries. Iranian leaders have learned from their traumatic experience of the war that good diplomatic relations with other countries especially European countries would have political, economic and even cultural consequences for Iran. Since then, post-war administrations of the Islamic Republic have attempted to maintain their relations with other countries at a friendly level, except for the U.S. and Israel.

This article focuses on the impacts of Iran's foreign relations on its economic development. The main question discussed in this article is how Iran's foreign policy may affect economic development. In the first section, conceptual framework, i.e. development-orientated foreign policy theories, will be explained with providing some examples. In the next section, principles of the Islamic Republic of Iran's foreign policy will be analyzed. Then, President Hashemi Rafsanjani's foreign policy and its effects on Iran's economy will be evaluated. In last section, and with analysis of Iran's foreign policy, the paper concludes that if Iran's leaders adopt a pragmatist foreign policy, it can improve its relations with major powers, international organizations and institutions. By doing so, the Islamic Republic of Iran can use monetary, financial, and trade international system effectively to improve its economic condition.

After the collapse of the Soviet Union and the spread of globalization process, development strategies have undergone a remarkable transformation towards a market economy. These circumstances make it necessary for policy makers to consider economic development for increasing governments' legitimacy in the world (Vaezi, 2008: 18-19). In fact, governments should have the ability to encourage economic development in their countries, considering the fact that national prosperity and economic welfare in society legitimize the governments and guarantee their national security (Musavi Shafae, 2010: 322).

In order to achieve this purpose, the policy makers should regard their countries' status in international system. In general, countries take three different approaches to the international system, including maintenance or reform of the status quo or confrontation with it. Those countries that adopt confrontation strategies- like Iran's approach between 1979 -1988- try to challenge present order of the international system. In this approach, any offer for cooperating with international institutions would be rejected. Moreover, some countries attempt to preserve the international system by getting involved in international institutions and cooperating with great powers. Those countries that take a reformist approach in global arena make efforts to gradually change international system through persuasive and diplomatic means, although the use of force is not totally excluded (Vaezi, 2008: 22-24). Likely those countries that seek to preserve the international system, adopt development-orientated foreign policy. This policy possesses the following characteristics: Development is a top priority; Improving relations with other countries as well as regional and international institutions is of significance (Vaezi, 2008: 28); This policy is often perused after guaranteeing national security; and, This policy is sought by countries that establish their relations based on difference not confrontation (Sariolghalam, 2008:80-81).

However, what is particularly noteworthy about such characteristics is their durability. In fact developing countries' foreign

policy undergoes change due to their structural transformation and critical conditions. Societies in transition not only experience domestic problems in the social and economic sector, but also face serious challenges in foreign affairs. In contrast, the countries that have stable, dynamic, and balanced foreign policy are more likely to achieve their developmental objectives. However, any instability and sudden transformations in foreign policy approaches can operate as a reversible factor in development orientated process. Therefore, foreign policies that have significant features such as stability, consistency, and persistency can guarantee achievement in their strategic aims. (Motaghi, 2008: 150-151).

A successful development-oriented foreign policy requires three preconditions, including peaceful coexistence, détente, trust building, and multilateralism. Peaceful coexistence is a realist policy based on mutual respect and interest. According to détente principle, politicians pursue a policy of coexistence and cooperation. In fact, détente is a process in which countries seek to normalize their relations with other countries. Furthermore, trust building is a laborious process for improvement of relations with other countries through more transparency, exchange of information and development of effective communications (Dehghani, 2008: 366-368). Moreover, according to Aderian Leftwich particular characteristics of developmental foreign policy include good and close relations with international institutions and organizations like World Bank, World Trade Organization (WTO), and International Monetary Fund (IMF); and ability to attract foreign investment (Shirzadi, 2008: 356). He introduces six vital domestic elements in development orientated state including: Determined elites who seek to achieve goals of development; the relative independence of the state; strong and competitive bureaucracy; weak civil society; appropriate and effective management of interest of private sectors; the ability of government to use suppression means of encouragement of development regarding to public welfare and preserve of legal legitimacy (Majidi and Suri, 2008:

242).

However, in foreign relations, developing countries should consider the status of their countries in international system and manage their national policy towards a global economy. In this regard, neoclassic economists argue that countries should pay high attention to specialization and in doing so the best policy for a country is opening borders and pursue free trade. In direct contrast, conservative nationalists emphasize on autarky, political and military power and radicals insist on social transformation (Majidi and Suri, 2008: 245-246).

Development in China is an excellent example of developmental foreign policy. During Deng Xiao leadership, the China communist party changed its attitudes towards international politics. This transformation occurred after the eleventh summit of the central committee of the communist party. In his era, the communist party implemented two coherent policies. First, the communist party of china changed its attitudes about war and peace and concluded a total war would not be waged in the long term. Second, communist party focused on economic development as the locus of China's foreign policy. In Deng's point of view, if the government takes developmental approach, and thus national power and living standards increases, then China would gain high status in the international system and could pursue its aims (Shariati Nia, 2008: 516).

Another good example of developmental state would be Nigeria that has endeavored to achieve its economic aims since its independence. To reach this objective, Nigeria enhances its foreign policy capability. Since Goodluck Jonathan election as the fourth president of Nigeria, "Transformation Agenda" has been a top priority for his government. According to this agenda, Nigeria has adopted a foreign policy that attempts to maintain Nigeria as an important country in regional politics. In this approach it is believed that foreign relations assist economic development and enhance

reputation of the country abroad. Interestingly, these policies have been one of the key factors in Nigeria's economic development. The reports published by the Price Waterhouse Coopers would be a good evidence for this claim. The Price Waterhouse Cooper has predicted that Nigeria will become as the 13th top economy in the world by 2050. Furthermore, economic indicators have brought good news for Nigerians. According to economic data, the rate of inflation has reduced to percentage 9.1 from percentage 12.4 in May 2011. In the meantime, external reserve had gone up from \$ 32.08 billion in 2011 to \$48.4 billion in 2013. Moreover, Nigeria has attracted more than \$7 billion foreign direct investment from overseas (Lateef and M.Hassan, 2015: 7-8). Nevertheless, Nigeria has faced serious challenges in course of its development. These challenges are related to institutional deficits including absence of a strong modern and competent state as well as lack of rule of law which guarantees property rights, citizen security, and transparency in transactions (Fukuyama, 2008).

I. Political Context

In general, Islamic- Shiite ideology has determined pillars of the Islamic Republic of Iran's foreign policy. In fact, it has exerted profound and lasting influence on the actions, reactions, and behavioral patterns of Iran's foreign policy (Dehghani Firoozabadi and assadi, 2013: 167). Since 1979 and the establishment of the Islamic Republic, Iran's supreme leaders (both Ayatollah Khomeini and Ayatollah Khamenei) are considered as the head of Iran's foreign affairs. As heads of the state, both leaders have set principles for Iran's foreign policy as follows: Exporting revolution; rejection of domination; preserving the integrity of Islam and Muslim; rejection of interference in the other countries affairs; encouraging the oppressed and discouraging the oppression; the political slogan of *No East , No West*; supporting the liberation movement; unity of Islamic Community (Ummah) (Salehzadeh, 2013: 19); having a preference for nations rather than states; anti- Israel and pro-Palestine policy; anti –

U.S policy; preferring ideology rather than economic interest in bilateral relations; separating economic foreign affairs from political foreign affairs; and, rejecting veto system in Security Council of UN (Sariolghalam, 2013).

In addition, some provisions of the Islamic Republic's constitution (Articles 152-155) explicitly and implicitly refer to these principles. For example, article 152 guarantees that the Islamic Republic of Iran, "whilst scrupulously refraining from all forms of interference in the internal affairs of other nations, it supports the struggle of the *mustad'afin* (oppressed) against the *mustakbirin* (oppressors) for their rights in every corner of the globe" (Islamic Parliament of Iran 2015). According to the words of Ayatollah Khomeini, "we have to support all oppressed people around the world because Islam is the supporter of all oppressed people" (Khomeini, 2007). Some writers also describe Ayatollah Khomeini's worldview as an anti-Western, post-colonialist, "third-world-ist" and even Marxist in foreign policy (Ottolenghi, 2014: 20). In fact, the nodal point of Iran's foreign policy is "anti western revolutionary identity" (Mohammad Nia, 2012).

These principles reveal "anti-hegemonic" and "anti arrogance" approach of the Islamic Republic, and show that the Islamic Republic of Iran have chosen two important strategies including "look east policy" and "south - south alliances" (Mohammad Nia, 2011: 284). Based on these strategies, Iran has joined *Non-Aligned Movement (NAM)* since 1979. By joining such organization, the Islamic Republic of Iran, has made an effort to fill the political vacuum of the broken relations with the Western countries. By using such policies the Islamic Republic of Iran has tried to forge an alliance with the Latin American countries like Venezuela, Nicaragua, Bolivia and the countries that pursue an anti-imperialism agenda (Mohammad Nia, 2012). Such initiative were accepted by Iranian people, Ayatollah Khomeini, as many Iranians, hate foreign influence, and believe that foreign powers especially western powers – have created major

problems for Iran (Pollack, 2013). Nevertheless, Iran's foreign policy has suffered from lack of coherent doctrine that is obvious in presidency of who took power after Ayatollah Khomeini passed away. In the words of Richard Haass, "A foreign policy doctrine serves useful purposes. It can provide overall policy direction and help establish priorities. Doctrine can help shape, size, and steer the allocation of resources" (Haass, 2013). However, in Iran, different presidents and a variety of factions strongly disagree in foreign policy approaches

Some experts in the Islamic Republic's political system believe that Iranian political system is clearly divided between conservatives and reformist as two distinct political groups (Salehzadeh, 2013: 4). However, others like Sadjadpour have divided Iranian political camps into three distinct parties as hard-liners (or Islamic *principlists*), pragmatists and reformists (Sadjadpour, 2011). The latter division is the most likely to be accepted among Iran's experts. In recent years, it has been proven that moderates (pragmatists and reformists) are more lenient towards domestic and especially foreign issues. In fact, pragmatists conduct foreign policy problems more flexibly. They make decisions based on available evidences, consider the advantages and disadvantages of alternative policies, and are quick to reverse themselves if those policies prove unsuccessful (Hook, 2013). The hard-liners are clearly more ideological and revolutionary than moderates and claim to remain loyal to the supreme leader. For instance, in presidential campaign in 2013, Saeed Jalili, a staunch supporter of Ayatollah Khamenei, claimed that he conducts foreign policy based on pure Islam (Milani, 2013). Contrary to hard liners, reformists have more moderate views about the world and the West. For example, former vice-president Mohammad Reza Aref believes that the government should use skilled forces from all political factions and pay more attention to women and ethnic minorities in policymaking process (Alalam 2013).

Regardless of their different approaches, it is obvious that all

political camps, have similar views on fundamental principles like devotion to the Islamic Republic system, Islamic jurisprudence, and Constitution (Irna 2015). Nevertheless, it must be taken into account that every political faction has its own specific attitudes towards foreign policy issues. In such political context every government conducts foreign policy based on its own political views.

II. Rafsanjani's Experience

In 1989, Akbar Hashemi Rafsanjani, as a pragmatist political figure, was elected as president of the Islamic Republic. As a pragmatist president, compared with other revolutionaries, he regarded ideology less significant. Even he went further, firmly rejected the slogan, neither "Neither East, nor West," and said, "We cannot build dams with slogan" (R. K. Ramazani 2010, 59). Despite this conciliatory tone, he made passionate speeches in Friday Prayers. In one of the Friday Prayers, he stated, "What about foreign policy, it must be said that neither East nor West that the Islamic Republic has announced and slogan that people shouting in the streets and the demonstrations, by all means are in the society" (Naghibzadeh, 2009: 248).

His administration recognized that Iran has paid high price due to its confrontational and dogmatic foreign policy and they sought to repair those damages. By doing so, President Hashemi Rafsanjani attempted to convince the West that Iran is a responsible and serious country (CIA 1991). The main aim of his administration was how to transform the Islamic Republic of Iran to regional power, the largest, and the strongest economy in the Middle East (Sajjadpour and Nourian 2011, 205). He strongly believed that Iran needs economic changes and making balance between realism and Islamic ideology. Rafsanjani pursued two pragmatic policies including solving economic problems that war had caused and improving Iran relations with other countries. Sadegh Zibakalam, professor of political science at Tehran University, believes that President Hashemi Rafsanjani had moderate views on foreign policy issues and made efforts to relieve tensions

between Iran and other countries (Iranian Diplomacy 2013). In fact, pragmatists like him try to keep power means and evade provoking international tensions (Brzezinski, Gates and Maloney 2004, 15). In doing so, on one hand he declared publicly the West is evil and dangerous and on the other hand, he argued the Islamic Republic would not achieve its goal unless it gain Western capital for economic recovery (Coll 1990). Some political analysts believe that President Hashemi Rafsanjani rationalized and de-revolutionized the Islamic Republic and through his program of liberalization of economy: foreign exchange realignment, the politics of wages, privatization, and structural adjustments (Sohrabi 2009, 4). Other scholars like Shireen T.Hunter believe that President Hashemi Rafsanjani adopted pragmatist foreign policy despite consistent intra-regime ideological difference and power struggle (Hunter 2010).

Contrary to his hard liner rivals, he formulated his foreign policy based on three principles: 1) Iran cannot change the political map of Middle East rapidly and fundamentally, 2) Iran must provide a new balance of power in the Middle East which is the opposite to the balance of power that the U.S is interested in; 3) Iran should improve its political relations with Saudi Arabia due to its importance in GCC (Ruth de Boer 2009, 78) These foreign policy initiatives, either approved or disapproved by the supreme leader, led to Iran's position of neutrality during the allied attack on Iraq in 1991, policy of non-intervention in Afghanistan's internal affairs and of support for the Palestinians in the Arab- Israeli conflict (Maleki 2014, 9). Based on these initiatives, in the so-called "era of reconstruction", President Rafsanjani pursued a policy of *détente*, to put an end to political isolation of Iran in the international community. Later, Hahemi Rafsanjani compared *détente* policy with Dialogue of Civilizations which was pursued by President Khatami (1997-2005) and said:

Now, no country can work alone. Already, we are a member of many organizations; we have difficulties with one another, due to spirit of collaboration with world, and (countries of) region, and even

inside of our country are weak. After the war, we declare the policy of détente in foreign policy arena, leading to collaboration with so many countries of the world especially neighboring countries. We went ahead well and at the time of Mr. Khatami, especially due to policy of dialogue of civilization, cooperations were relatively good. (The Official Website of Ayatollah Hashemi rafsanjani 2015)

Meanwhile, in December 1992 the European Council adopted policy of critical dialogue towards the Islamic Republic. This policy was based on four principles: 1) the violation of human rights, 2) the Fatwa against Salman Rushdi, 3) weapons procurement and 4) Iran's skepticism towards Palestine–Israel peace process (Sabet-Saeidi 2008, 58). These initiatives by both sides led to some tangible results. On the one hand, Rafsanjani administration stressed its readiness to reconcile with Iran's Arab neighbors (Struwe 1998) and the west, on the other hand, European countries considered Iran, with a population of 60 million, to be a suitable country for investment. By doing so, Europeans would benefit from Iran's influence in Shiite community in Lebanon and surmount major obstacles for the release of the Western hostages in Lebanon. In this period, Iran's foreign trade relations improved particularly with Germany, France, Britain, and Italy (Dadandish 2012, 64). It must be taken into account that the European countries were the main buyer of Iran's oil and have adopted different position toward the Islamic Republic compared to the U.S. (Samoudi and Hatamzadeh 2012, 152).

Islamic Republic of Iran, during Hashemi Rafsanjani's presidency, decided to restore its political relations with the European Union and develop its economic relations with influential regional institutions. These breakthroughs in diplomatic relations were based on mutual understanding and cooperation. Even before the establishment of the European Union, Iran had close economic relations with some European countries especially Italy and Germany. However, after the collapse of bipolar system, Iran had become the fourth oil exporter to the European Union. This condition provided

limited but good opportunity for both parties to trade in other goods with each other. Between 1982 and 1992, 60% of Iran's total import was from Europe. Over 90% of Iran's import from Europe belonged to Germany, Italy, France and the Great Britain. In fact, both parties recognized economic and political importance of each other. Relations with Europe had critical importance for Iran for several good reasons. First, Iran could balance against U.S. or relieve U.S. pressures by improving its diplomatic relations with the European Union. Second, Iran was determined to encourage European investment in its oil and gas industries. The last but not the least, Iran came down in favor of membership in the international institutions. High political aspiration made it necessary for the Islamic Republic of Iran to interact strongly and directly with the European Union (Mousavi, 2008: 91-92).

Moreover, Hashemi Rafsanjani attempted to separate political issues from economic ones. This thinking enabled his administration to trade with the U.S. regardless of the absence of diplomatic relationships between Iran and the United States. Hashemi Rafsanjani believed that Iran could not trust the United States to resume political relations between the two countries. In his opinion, United States did not intend to treat with Iran with mutual respect. Moreover, he intended of breaking off economic relations between two countries and insisted on economic cooperation between U.S. companies and their Iranian counterparts. He not only believed in economic moderation, but also encouraged moderation and tolerance on foreign policy issues. During his presidency and based on such attitudes, the Islamic Republic of Iran signed a \$1 billion contract with The Conoco Companies in the oil and gas industry. Despite his moderate foreign policy, President Clinton terminated the contract on 11 March 1995. In addition, his administration decided to join the most significant economic institution: World Trade Organization (WTO). The Islamic Republic of Iran submitted its request after consulting with political and economic experts and approval of the Iranian Supreme Leader.

During his presidency, Iran formally applied for membership of the WTO on several occasions. In 1995, the Islamic Republic of Iran submitted a request for WTO observer status. However, the WTO ignored Iran's request due to U.S. pressures, despite Islamic Republic's repeated requests (Salehi, 2014: 192-200).

Because of political purposes and ideological differences, the United States made no effort to conceal its antagonism towards the Islamic Republic of Iran. In this condition, President Clinton accused Iran of supporting terrorism, opposing the Arab-Israeli peace process, and pursuing weapons of mass destruction. He issued Executive Order 12957 in March 1995. In addition to cancelling the Conoco contract, this order banned American companies from participating in oil development projects in Iran. Two months later, he issued Executive Order 12959, which imposed a blanket embargo on all American trade and investment in Iran. Thereafter, the US Congress passed, and President Clinton signed, the Iran-Libya Sanctions Act (ILSA) in 1996 (Iranhumanrights, April 29, 2013). These extreme measures by Clinton administration forced Hashmei Rafsanjani to react angrily. He attended an interview with the Washington Post correspondent and said:

The new measure we feel is partly because of the pressure that is exerted by the Zionist circles. But generally speaking, from the very beginning of the revolution, American administrations have shown hostility toward the revolution. The internal conditions of the United States, the rivalries between the two parties and the other internal problems that the U.S. has, have made it necessary to pick up an enemy outside. In the past, the Soviet Union was considered the enemy. Now they want Iran to be a scapegoat. When their peace plan in the Middle East has failed, they cannot openly say {they} planned it poorly. They have to put the blame on somebody else (Washington Post, July 9, 1995).

In addition to Iran's reaction, many European countries took steps against U.S. sanctions. For example, in July 1995, the French-

based oil company *Total* and Iran's NIOC signed a contract for the development of offshore oil and gas fields in Siri. The same contract had been given to the U.S. company, Conoco, earlier but was pulled out after the approval of U.S. ILSA Act. Also, Total Company signed a \$2 billion contract (together with Russian Company Gazprom and Malaysian Company Petronas) to explore the South Pars Gas field and to develop the field during Phase 2 and 3. Moreover, the Islamic Republic of Iran and France entered into a contract for developing airports, rail, land, and sea facilities for transit of French goods to Central Asia. Furthermore, Germany and Iran became trading partners, mainly regarding oil imports and exports of other products to Iran. Also, Great Britain, Norway and Netherland tried to improve their economic relations with Iran. In general, Iran exported %36 of its total export to the European Union, %75 of which was oil. Iran's external debt to the European Union (rescheduled in 1996-1999) amounted to \$ 10 billion by 2001 (Rakel, 2008: 195).

These encouraging rapprochements between Iran and other countries especially the west, promoted Iran's economic cooperation with advanced industrial states and the Persian Gulf countries (Ruth de Boer 2009, 78). These external economic activities influenced Iran's economic development. In addition, post-war reconstruction of Iran's economy was the first priority for Hashemi Rafsanjani. In 1991, President Hashemi Rafsanjani encouraged private investment and launched a program for denationalization and promotion of investment. During that period, the stock market was reopened and trade increased to more than 3.5 times compared to the prerevolutionary level in terms of volume. His administration offered to private investors from mines automobile assembly factories. In the words of Ali Akbar Velayati, the foreign minister of Iran, "economic consideration overshadows political priorities" (Marie and Naghshpour 2011, 134).

In his first term as President (1989-1993), Hashemi Rafsanjani picked highly educated figures in field of economy, for economic

positions. These leading figures included Mohsen Noorbakhsh for Ministry of Economy and Finance, Mohamad Hussein Adeli for Central Bank and Masoud Roghani Zanjani for Plan and Budget Organization. It is worth mentioning that among these key persons Mohamad Hussein Adeli as head of Central bank saw economic issues from foreign policy perspective (Ireconomy, January 21, 2014).

In Rafsanjani's cabinet, political priority was overshadowed by economic consideration. Based on new economic policy, populist policies of the 1980s were discarded and economic integration into global economy appeared. The goals of these policies were to reconstruct damaged and a fragile economy, promote cooperation between Iran and foreign companies and privatize much of the domestic economy. In order to achieve these ambitious aims, Hashemi Rafsanjani's administration tried to decrease the role of state in economy. Meanwhile, his administration announced a plan for increasing the role of private sector by %75 – %80 in 1990s. Moreover, his cabinet formulated several plans to reform radically monetary and financial policies in order to reconstruct economic sectors. The main aim of his government was to improve Iran monetary system and enable Iran's currency to compete with international currencies. By adopting such policies, Iran sought to play an active role in the international economy. In the first step of economic reconstruction, his government tried to reduce import restriction on goods. In addition, his administration eased imposed restraints on foreign direct investment. Meanwhile, rules of foreign investment were reformed. As a result of these reforms, foreign investment in common projects was increased by % 49. By building two free ports in the Persian Gulf and creating several, free economic zones in the North, East, and South of the country, Iran's economy and industry become internationalized (Moin dini and Entezar Almahdi, 2009: 206-207).

Hashemi Rafsanjani's administration drew up a five-year economic development plan to reconstruct Iran's economic system.

The plan had several parameters including: privatization of domestic sector, deregulation of economic activities in banking and financial service, encouraging foreign direct investment in the national economy, receiving foreign loan, creation of free economic zones around the country, development of Tehran Stock Exchange, devaluation of Iranian currency (Rial), gradual elimination of subsidies, and to encouraging Iranian specialists to come back from abroad (Ehteshami, 1999: 23-24). As the Western countries exert major influence on the global economy and international institutions, to carry out the plan Hashemi Rafsanjani's cabinet, , had to make peace with the West. In fact, all of these initiatives made it necessary for Iran to cooperate with the international community. For example, the Islamic Republic of Iran needed approval of international institutions to receive foreign debt. In such conditions, Hashemi Rafsanjani made a tough decision to implement the détente policy towards its neighbors, especially Arab countries and the West. By adopting such policy, his cabinet rightly expected to gain great economic benefit from this cooperation.

President Hashemi Rafsanjani was interested in solving economic problems including unemployment, inflation, and instability of prices (Soltani and Ekhtiari Amiri 2010, 202). During Rafsanjani's presidency, major parts of these economic problems were caused by an apparent lack of financial resources which was the result of the Iraq air strike's damage and limitation of oil export. Prior to his presidency, oil export fell to 500.000 bpd during the summer of 1986 and his administration could not increase oil production. While oil production was about 2 million bpd, the average export was about 1.3 million bpd in 1986-87. Moreover, while Iran was in needed huge money to reconstruct its economic structure, low prices minimized oil revenue (Zahirinejad 2010, 5). During his presidency, as a result of US sanctions, Rafsanjani faced other economic challenges. These sanctions included the Iran Nonproliferation Act in 1992, the Iran_Libya Sanction Act (ILSA) in 1996; and the "dual containment policy

in 1993" (Ruth de Boer 2009, 82). However, throughout history, economic sanctions have worked only when they have been universal and comprehensive, consistent and credible. In this case, none of these conditions were met. In addition, the psychological effects of sanctions have been mixed. Despite the fact that the Islamic Republic of Iran seemed defiant of the United States, Hashemi Rafsanjani's administration was wary of the costs of American hostility. His government preferred to compromise rather than confront the United States (Amuzegar, 1997: 34-35). When President Clinton prohibited U.S. company's investment, and traded with Iran, he was attempting not only to punish Iran's leaders, but also to undermine the European Union policy, especially that of Germany. But even after imposition of economic sanctions on Iran by the Clinton administration, Western Europe and Japan refused to change their opinion about trade with the Islamic Republic, because they believed the trade embargo is not an appropriate instrument for influencing opinion in Iran. Moreover, European leaders accused U.S. oil companies and other firms of doing a considerable amount of business with Iran. The allegation was not false because U.S. companies bought \$ 4.3 billion worth of Iranian oil, for sale in Europe since imports to the United States were banned, and sold the Iranians \$ 300 million worth of other goods before the Clinton embargo was announced (Lane, 1995: 77-78).

Despite all of economic difficulties, the foreign policy pursued by President Rafsanjani led to increase in GDP from 81.2 Billion of U.S. dollars in 1989 to 110.6 Billion of U.S. dollars in 1996 (IMF 2015). In fact, his foreign policy encouraged European companies to invest in Iran. For instance, French Total Company signed a contract with the Iranian Oil National Company to develop Siri oilfield in 1995. The Company made an investment roughly \$600 million in this oilfield within five years (Jafari Valdani 2004, 225). Furthermore his economic policies produced some desired effect, as Iran invested in infrastructures including building dams, airports, oil refineries, and

irrigation system (Takeyh 2009, 114).

During his presidency, Iran oil export rose gradually. Meanwhile, oil prices remained low in comparison with recent years. The tables 2-1 and 2-2 show the Iran oil export and oil prices during his administration, respectively.

Table 2-1 Oil Export 1989-1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Barrel of Oil (million)	1.8	2.2	2.4	2.3	2.1	2.2	2.2	2.4

(Entekhab, January 4, 2015)

Table 2-2 Oil Prices 1989-1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Dollars per Barrel Oil	17.31	22.26	18.62	18.44	16.33	15.53	16.86	20.29

(Statista, August 13, 2015)

The total Iran oil revenue has been \$ 123 billion since 1989 to 1996. Hashemi Rafsanjani could improve some aspects of Iranian economy; however, he failed in his attempt to reduce the inflation or the unemployment. The following tables show the Iran's economic indicators during Rafsanjani administration.

Table 2-3 GDP 1989- 1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Billions of U.S. dollars	81.2	85	97.4	114.8	85.9	67.1	90.8	110.6

(IMF 2015)

Table2-4 GDP Growth 1989-1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Percent	6.2	19.6	12.6	4.3	-1.6	-0.4	2.7	7.1

(IMF 2015)

Table 2-5 FDI 1989- 1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Millions of U.S. dollars	-19	-362	23	9	207	2	17	26

(World Bank 2015)

Table 2-6 Import 1989- 1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Billions of U.S. dollars	13.45	18.33	25.19	23.27	19.29	12.62	12.77	14.99

(World Bank 2015)

Table 2-7 Export 1989_ 1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Billions of U.S. dollars	1.04	1.31	2.65	3	3.75	4.82	3.25	3.11

(World Bank 2015)

Table 2-8 Inflation 1989 - 1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Percent	—	14.7	22.5	21.9	26.4	34.2	36.5	17.4

(IMF 2015)

Table 2-9 Unemployment 1989-1996

Year	1989	1990	1991	1992	1993	1994	1995	1996
Percent	—	14.2	10	10	10	10	10	9.1

(IMF 2015)

As above economic indicators show due to pragmatic policies, such as policy of détente, foreign direct investment increased from -19 million of U.S. dollars in 1989 to 26 million of U.S. dollars in 1996. In addition, these policies increased GDP growth to 7.1 percent in 1996 due to their positive impact on Iran's economy. Economic growth in those years had other reasons. However, innovative and flexible approaches of Hashemi Rafsanjani's foreign policy provide political

stability for an economic transaction at home and abroad.

Conclusion

Since the establishment of the Islamic Republic in 1979, Iran's leaders have recognized the survival of Islamic state is the most important aim of different governments and every president has been more or less loyal to Islamic principles of the Islamic Republic. However, every Iranian government has pursued a different approach in foreign policy since the Islamic Revolution. In other words, pragmatists, reformists, and hard liners had their own foreign policy. Every kind of foreign policy had its own effect on economic development indicators.

During Hashemi Rafsanjani's presidency, Islamic republic of Iran pursued pragmatic and realistic foreign policy. By adopting such policy, Iran held meeting with western countries in the level of foreign ministers. Furthermore, Islamic Republic began critical dialogue with the European Union to deal with political and controversial issues like ideology, human rights, and terrorism. In the economic issues, Hashemi Rafsanjani's administration could persuade Europeans to ease economic sanctions (Nonproliferation Act) in 1992. These constructive measures provided the foundation for economic recovery. In this condition, Iran could export more oil. Meanwhile the low price of oil put the obstacles for his administration to overcome economic challenges. Nevertheless, his government could improve some economic indicators.

In general, whenever the Islamic Republic implements realistic and friendly foreign policy towards other countries, particularly the Western countries, hope for considerable growth in some economic indicators is raised. Based on the data mentioned, it seems extremely probable that if Iran pursues pragmatic foreign policy it will be able to make progress in its economic sectors. In fact, less aggressive and belligerent behavior in foreign policy leads to more success in foreign trade and foreign investment and eventually in economic

development.

Finally, if politicians want to encourage economic development, they should adopt development-orientated foreign policy. As Iran's case show, more pragmatic and realistic foreign policy, increased the probability of taking advantage of the international system. In fact, countries that accept the existing international order, can improve their relations with major powers and international institutions, especially economic ones. By doing so, they would pave the way for economic development.

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