

Economic Reform and Opposition in Iran after the Nuclear Deal

Zep Kalb

This policy brief analyses developments in Iran's economic policy since the Nuclear Deal. After examining reformist politics in Iran, the report reviews some key economic reforms, including the 6th Five-Year Development Plan, the expansion of special economic zones, and labour code reform. Finally, I evaluate some of the opposition to these reforms coming from organised labour.

On 16 January 2016, a range of international sanctions, imposed by the UN, US and EU over the preceding half decade, were removed as part of a nuclear deal between the Islamic Republic of Iran and a group of world powers. Iran was allowed to re-access the global banking system, export oil, and start making deals with Western businesses. These prospects sparked huge foreign investor interest, motivated by what was seen as one of the world's largest untapped frontier markets running low levels of national debt and possessing one of the region's most capitalised stock markets.¹

The removal of sanctions was well-timed: it just preceded the 2016 parliamentary (*majles*) elections. The current Rouhani administration, which won a resounding electoral victory in 2013 on a reformist platform of global integration and nuclear negotiations, could thus turn the nuclear deal into a factional push for power. Despite intense vetting of electoral candidates, the parliamentary elections, held in two rounds between February and May 2016, resulted in a working majority for the reformists. For the first time in over a decade, moderates controlled both executive and legislative bodies of the state, potentially allowing for swift policy and legislative shifts.

What kind of policy is the current, reformist government likely to pursue? Before answering that question, it merits emphasising the competitive nature of Iranian state politics. In particular, contemporary Iran has been described as a 'diffused semi-autocracy': a political system in which a warring and competitive elite allows limited

Zep Kalb is a doctoral candidate in Oriental Studies, at St Antony's College, Oxford.

¹ "Thoughts from a Renaissance Man: Iran – the Next Ten Years." Renaissance Capital. July 13, 2015.

democratic mechanisms to the extent that it does not threaten their hold on power.² In Iran's electoral system, a variety of political groups have tended to congregate around two poles: the 'reformists' (*eslahtalaban*) and the 'conservatives' (*osulgarayan*).

The content of reformist politics has shifted dramatically over the past years, and especially since the failure of the 2009 Green Movement. What has come to be known as a reformist faction first emerged in the late-1990s, when universities and a growing middle class rallied behind the soft-spoken cleric Mohammad Khatami. Khatami's reformist front consisted of a wide coalition with the statist 'left' (*chapgara*) and economic and political liberals. His agenda did not emphasise economics, but rather cultural liberalisation, political development, and international cooperation and integration.³ More or less, these remained the prime electoral concerns of the reformist faction until after 2009.

Reformists faced severe obstacles in implementing this original program, particularly from Iran's non-republican state institutions. The Guardian Council, which is charged with evaluating conflicts between majles-approved laws and Islamic rulings, fiercely opposed policies that could lead to structural democratisation and socio-cultural liberalisation. Finally, the suppression of the 2009 Green Movement made advocacy of such liberal discourse quasi-illegal.

The 2013 presidential election was won by a reformist coalition on a different campaign, consisting firstly of a promise to remove outstanding sanctions through international negotiations, and secondly, to provide good economic management and inflation reduction. This campaign was able to gather popular support not only because of the fate of the Green Movement, but also because the incumbent conservative president presided over a rapidly worsening economy, while clashing more and more with his senior allies. In contrast to earlier reformist coalitions, the Rouhani government declared itself 'moderate' (*e'tedalgara*). It rallied support from several powerful figures and institutions traditionally less interested in cultural liberalisation and democratisation, yet advocating globalisation and the free market. In particular, Hassan Rouhani was backed by former president Akbar Hashemi Rafsanjani, who was a powerful broker at the head of the Expediency Council.⁴

While Rouhani was able to swiftly negotiate a nuclear deal and curb runaway inflation to around 10%, more fundamental legislative reform remained limited. The Rouhani cabinet rightfully feared that any parliamentary bills would face fierce

² Daniel Brumberg and Farhi Farideh, eds., *Power and Change in Iran: Politics of Contention and Conciliation* (Bloomington; Indianapolis: Indiana University Press, 2016).

³ Evaleila Pesaran, *Iran's Struggle for Economic Independence: Reform and Counter -Reform in the Post-Revolutionary Era* (London and New York: Routledge, 2011).

⁴ Rafsanjani's sudden death in January 2017 will impact the 'moderate' reformist coalition significantly, although it is not yet clear how. At least, pressure to take a more decisively reformist stance will grow.

opposition from a conservative faction eager to discredit the reformists. In particular, Rouhani was elected with the mobilising support of workers' organisations, and their opposition to any serious economic reform plan could be employed against the incumbent government. Nevertheless, any conservative opposition would be more political than ideological, as there is a broad consensus within parliament on the need for economic reform.

The only significant bill to pass parliament between 2013 and May 2016 aimed at 'removing obstacles to competitive production and improve the financial system.'⁵ The bill obliged the government to settle outstanding loans, exempted several major state-owned economic organisation from labour regulations, increased support for industrial investment and eased short-term work contract regulations.

Since the new parliament started work on 28 May 2016, it has been actively discussing several key pieces of legislation, the more fundamental of which will inevitably have to wait for approval until after Rouhani's re-election in spring 2017.

Notably, on July 16, 2016, the Iranian *majles* approved a law rejected only one year earlier, calling for the construction of seven new Free Trade Zones (FTZs) and twelve new Special Economic Zones (SEZs), almost doubling the current figure to 42. In the region, this expansion would take the number of trade zones in Iran far beyond Arab non-oil states such as Egypt or Jordan, and even beyond the trade-focused polities Turkey and Dubai. The benefits of this expansion remain uncertain. Iran's FTZs and SEZs have often been criticised for their role in promoting smuggling as well as their inability to attract foreign investment.⁶

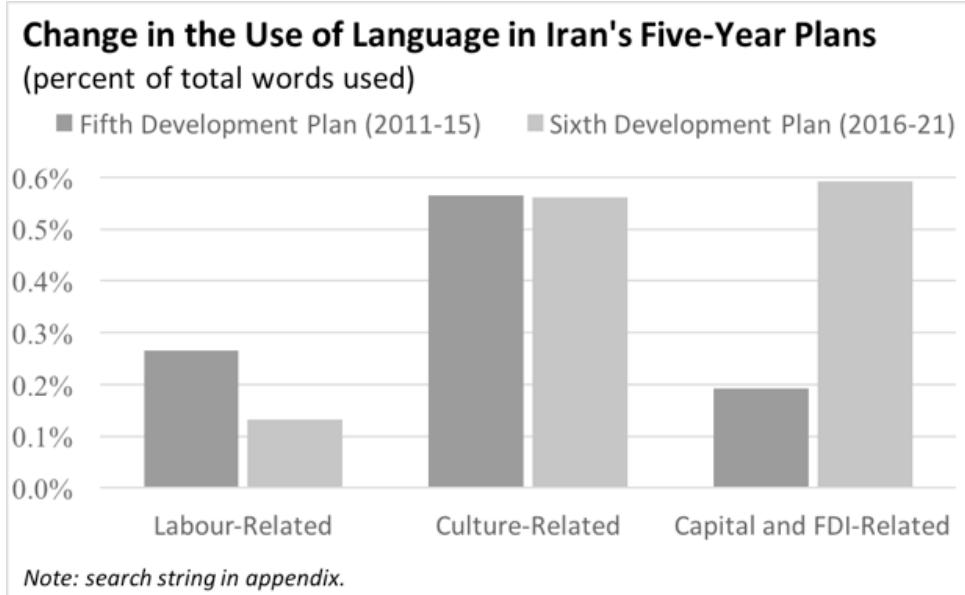
Moreover, parliament approved the general outlines of the sixth Five-Year Development Plans in August 2016, the details of which have not yet been approved as of January 2017. In Iran, five-year plans are general policy directions on social, economic, and cultural topics that have the force of law. They are the result of multi-lateral consultations between Iran's highest political and planning institutions. Therefore, Five-Year Development Plans are an important expression of cross-factional consensus on long-term economic and socio-cultural policy.

A quick semantic comparative analysis of the fifth and the sixth Development Plan indicates two trends: a shift to attracting global capital and upping managerial standards to international norms; and simultaneously, largely shunning welfare and labour issues, such as the cooperative economy, trade unions, and workers. Even if this

⁵ 'Qanun-e Raf'-e Mavane' Tulid-e Reqabat Pazir va Erteqa-ye Nezam-e Mali-ye Keshvar,' approved Ordibehesht 1, 1394/April 21, 2015

⁶ Hassan Hakimian, (2011). "Iran's Free Trade Zones: Back Doors to the International Economy." *Iranian Studies* (2011), 44/6: 851-874, accessed: March 24, 2017, <http://www.tandfonline.com/doi/full/10.1080/00210862.2011.570525?scroll=top&needAccess=true.>; Arang Keshavarzian, "Geopolitics and the Genealogy of Free Trade Zones in the Persian Gulf." *Geopolitics* (2010), 15: 263 – 289.

was already minimal in the previous plan, a further decrease is significant in so far as it indicates a shift away from revolutionary discourse and towards a more managerial, liberal and technocratic approach to economics. Finally, attention to cultural concepts, such as investment in mosques and preserving 'Iranian-Islamic' values, has remained largely constant, indicating that there has not been a significant policy shift on that front.



Alongside foreign investment, the plan also takes aim at the labour market. Iran's labour market has been broadly regulated by the 1991 Labour Code: a general piece of legislation covering the majority of employment regulations. The World Bank and IMF have regularly blamed this code for imposing unreasonably high costs and regulatory rigidity on employers.⁷ However, no Iranian government has been able to substantially reform the 1991 code, opting instead for the elaboration of exemptions.⁸ The sixth plan does exactly that: it rules that in order to tackle high youth unemployment, employers are exempt from paying insurance and unemployment benefits for graduate interns for up to two years, paving the way for cheap and flexible employment of graduate students.

Regarding labour code reform, however, the current parliament has already

⁷ For example: IMF (2002). "Iran Article IV Consultation - September 18, 2002."

⁸ For a full discussion, see Zep Kalb, "The Law as Exception: Capitalism, Informality and Labour Reform in Iran." *Development and Change* (forthcoming).

been much more determined than most of its predecessors. Labour code reform is being actively discussed, even if it will not be approved before the upcoming presidential elections. Although workers' organisations have demanded tripartism and multilateral consultations conforming to International Labour Organisation conventions, the current reformist parliament differs from earlier reformist parliaments in that it aims to increase the role of the state decisively. In particular, the government wants to be able to assert majority control over yearly minimum wage negotiations and labour disputes, rather than leaving this to a tripartite committee.

In the absence of a coherent conservative opposition to these reforms, organised labour has been left alone in voicing its concerns. This opposition has been relatively weak. The Workers' House, Iran's main trade union confederacy loosely controlling 7,000 plus enterprise-level unions and worker representatives, has historically had a close alliance with economic liberals allied to Rafsanjani. With its political allies in power, the Workers' House has found it difficult to follow decisive oppositional politics. This weakness is also reflected in the increasing assertiveness and independence of some of its subordinate unions.

Nevertheless, the Workers' House has enough leverage over parliament to demand its involvement in any reform bill. Yet, while any final labour code review will include concessions to the Workers' House, the government is not likely to concede to its demand of liberalising trade union regulations, over which the Ministry of Labour still exerts significant influence. A key question also remains about whether the government will formally legalise the right to strike.

Conclusion

The new reformist coalition, which has consolidated its position after the reached nuclear deal and subsequent removal of sanctions, has shown a determinedness to push through more fundamental economic reforms that will open the Iranian economy to foreign investment and streamline regulations, many of which are inefficient, outdated, or contradicting existing regulations. Labour opposition, while weak, will influence the content of these changes.

Political risk for the current 'moderate' reformist coalition comes from two fronts: first, the potential benefits that conservatives might reap from Donald Trump's Middle East policy, which will imply a more decisive anti-Iran stance, as reflected already in his executive order on migration from a set of majority-Muslim countries that includes Iran. While the conservatives are unlikely to back economic populism as they did during the Ahmadinejad presidency from 2005 to 2013, they are keen to play the nationalist/foreign intervention card. A second risk comes from more democratically-committed reformists, particularly allies of former president Khatami, who might put pressure on parliament and the government to diverge from their economic path, potentially fueling intra-elite conflict. Simultaneously, labour institutions, including the Workers' House and the teachers' and nurses' unions, would benefit from the form of tighter cooperation they pursued in earlier reformist governments. While extremely active in mobilisation, many of these civil society organisations are still too cautiously focused on their own cause, allowing elites to

play them against one another. Labour union cooperation and unity, both in relation to economic reform and the government, will help inform elites about the social, economic, and political costs of economic and labour market reform.

Appendix:

Search string consists of the following words: Labour-related: *[kargar+; tashakol-ha+; ta'avon+; senf+; refah+]*, EXCEPT *vezarat-e refah; edalat-e etjema'i; kam-dar-amad+; faqr]*. Culture-related: *[islam+; masjed+; farhang+]*. Capital-related: *[beyn ol'mellal+; sarmayeh-gozar+; reqabat+; khosusi; gheyr dulati; hadafmand+]*.