W(H)ITHER ECONOMIC REFORM IN IRAN?
AN EVALUATION OF THE 2002 FOREIGN INVESTMENT ACT

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ABSTRACT

Not long after the 1997 triumph of the 'Second of Khordad Front', and as part of a broader project of political and economic reform, Iran's policy on foreign investment was relaxed. With falling oil revenues, rising unemployment, a serious budget deficit and a weakening currency, the Khatami administration embarked on a cautious movement towards opening up the Iranian economy to the outside world. And in the summer of 2000, the majles *Economics Committee presented a proposal to introduce a new Foreign Investment Act, in the hope that by encouraging foreign investors to participate in the Iranian economy, growth rates might be increased and jobs might be created.*

This paper traces the steps that were taken towards revising Iran's foreign investment legislation, and evaluates the legacy of the new law that was eventually passed in 2002. It also considers the extent to which 'anti-reformists' have been able to re-define and re-direct the 'reformist' economic policies of the Khatami period, touching on the fate of foreign investment under the Ahmadinejad presidency. Overall, the paper highlights the various factors that have played a part in shaping Iran's experience of foreign investment, often pushing economic reform in unexpected directions.

In May 2002, a long-running dispute between the Iranian *majles* (parliament) and the Guardian Council, a non-elected body of twelve jurists responsible for ensuring that all legislation conforms both to Islamic and to constitutional law, was finally brought to a close. The subject of disagreement? A revised version of the 1955 Law for the Attraction and Protection of Foreign Investment (LAPFI), which had been put forward by Khatami's 'reformist' government over two years before. The cause for contention? While the majority of deputies in the *majles* had supported the government's bill to update this law in the hope that a resultant influx of foreign investment, technology and know-how might encourage the economic growth and development that the

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country so desperately needed, the Guardian Council had voiced concerns that it would jeopardize the country's independence and leave the economy open to possible domination by foreign interests. In the end, when all attempts to reach a mutually agreeable solution were exhausted, the bill was referred to the Expediency Council. However, although this arbitrating body ruled in favor of the *majles,* passing the proposed bill into law as the Foreign Investment Promotion and Protection Act (FIPPA), by no means can it be said that the fate of economic reform in Iran was assured.

In fact, just as before, actors from across the political spectrum continued to participate in various debates over economic policy throughout the Khatami period and into the Ahmadinejad presidency. Most notably, disagreements over the specific question of the country's future economic stance towards the outside world persisted long after the Expediency Council's approval of the 2002 Foreign Investment Act. Such disagreements have largely been made possible by the ambiguous nature of the powerful discourse of economic independence that was used by Iranian revolutionaries in their movement to bring down the Shah's '*gharbzadeh*' ('Western-struck') regime over thirty years ago.[1] Due to a lack of consensus on how to define the term 'economic independence', there has been an ongoing struggle between those who maintain that independence will only be realized through economic growth powered in part by investment from abroad, and those who argue that any encouragement of such investment will only lead to exploitation and a betrayal of Iranian interests.

Of course, there is a significant degree of heterogeneity within each of these broad camps, and points of crossover between the two can also be identified. Most importantly, all participants in this debate are agreed on the need to ensure some form of 'economic independence', even if their individual views on how this should be achieved might differ. But overall, it can be argued that the various 'reformist' supporters of the new Foreign Investment Act have been seriously challenged by a loose alliance of 'anti-reformist' groups in their efforts to open up the Iranian economy to global capital, rendering the process of economic reform both unclear and uncertain. Considering that 'anti-reformists' of one kind or another have always made their strength felt, not only in the Guardian Council but also in the *majles* and the presidency at various points over the past thirty years, it seems unlikely that any economic policies submitting entirely to the demands of foreign capital will be pursued by the Iranian state in the future. However, this is not to say that 'reformist' calls for a more open economy will have no influence at all. On the contrary, the inherent tensions

[1] For further discussion of this discourse, see Evaleila Pesaran, 'Towards an Anti-Western Stance: The Economic Discourse of Iran's 1979 Revolution', *Iranian Studies*, 41:5 (2008), pp. 693-718.

between the desire to remain independent and the need to achieve growth, felt by 'reformists' and 'anti-reformists' alike, are sure to result in continually fluctuating foreign investment policies for many years to come.

Pointing to recent contestations between 'reformists' and 'anti-reformists' on questions relating to the national economy, this paper seeks to examine both the underlying roots and the future prospects of Iran's foreign investment policies. With this aim in mind, it will review the steps that were taken towards revising the 1955 Law for the Attraction and Protection of Foreign Investment, and it will evaluate the legacy of the new piece of legislation that was passed in 2002. Showing how those groups opposed to any further opening-up of the Iranian economy to the outside world often seek support for their cause by re-igniting powerful memories of foreign exploitation, the paper will highlight just how complex and unpredictable Iran's dealings with foreign investment continue to be, long after the approval of the Foreign Investment Act of 2002.

GROWING CALLS FOR ECONOMIC REFORM

Iran's first Law for the Attraction and Protection of Foreign Investment (LAPFI) had been introduced in November 1955, in the wake of the CIA-organized coup that removed the nationalist Mohammad Mosaddeq from his post of prime minister and reinstalled Mohammad Reza Shah Pahlavi to the throne. While initial preparations for the LAPFI had been made during Mosaddeq's premiership, ensuring that provisions were included in the law to protect the country from economic exploitation by outside forces, nevertheless it was perhaps unavoidably also influenced by the fiercely pro-Western stance adopted by the Shah after 1953. Therefore, it was surprising that any post-revolutionary group should call for this relic of the Pahlavi era, which already gave to foreigners the same rights and privileges as those enjoyed by domestic investors in Iranian industry, mining, agriculture and transport,[2] to be revised and directed further in the favor of foreign investors.

And yet, this was exactly what certain sections of the Iranian political elite began to call for not long after the cessation of the Iran-Iraq war, when President Ali Akbar Hashemi-Rafsanjani's economic team identified the need for increased flows of foreign capital into the Iranian economy in their

[2] For full text of the law, see Bahman Ayyar Rezaei, *Majmu'e-ye Qavanin-e Eqtesadi* [*Comprehensive Economic Rules and Regulations*] (Tehran: Baztab Publications, 1378/1999). For a detailed analysis of the various provisions set down by the law, see Ministry of Economic Affairs and Finance, *Sarmayeh-ha-ye Fiziki-ye Khareji va Ravesh-ha-ye Jazb-e An* [*Physical Foreign Investments and Methods of Attracting Them*] (Tehran: Office for Economic Affairs, Ministry of Economic Affairs and Finance, Spring 1374/1995), pp. 310-317.

program of post-war reconstruction. In 1994, Morteza Mohammad-Khan, then Minister of Economic Affairs and Finance, stated his government's policy of attracting foreign investment. Stressing that, "in reality, there is no barrier to foreign investment in Iran,"[3] Mohammad-Khan indicated the strength of his government's desire to reassure foreigners of the country's suitability for investment. He went on to announce that, "in order to present greater facilities to investors,"[4] a new plan for attracting foreign investment had recently been presented to cabinet with a view to replacing the 1955 LAPFI.[5] But in 1994, the dominant view of foreign investment in both the *majles* and the Guardian Council was one of opposition. Fears of the onset of both foreign debt and a 'cultural invasion' from abroad ran high. Consequently, when faced with so many other issues to discuss and pieces of legislation to consider, this bill was largely disregarded.

Proposals to revise the LAPFI did not emerge again until six years later, following the election of a majority of 'reformist' deputies into the *majles* on 18 February 2000. And yet many of these deputies who now supported the revision of Iran's foreign investment law under the Khatami administration had only recently opposed the previous government's proposals to increase the use of foreign capital; so why was it that they came to endorse a more relaxed stance of foreign investment at this time? What prompted these 'reformists' to push for an interpretation of the revolutionary goal of 'economic independence' that would allow them to encourage the open pursuit of economic growth powered in part by the flow of investment from abroad? That they did so in the face of strong opposition from those who were located in powerful institutions such as the Guardian Council, and who had always espoused a far more protectionist interpretation of this goal, makes questions such as these particularly intriguing, and worthy of consideration.

One possible argument to explain their apparently sudden 'U-turn' is that, faced with serious economic problems, which were only made more challenging by the drop of average crude oil prices from $27.54 in 1996 to $16.69 in 1998,[6] the 'reformists' had no choice but to compromise their ideal of an independent economy and accept the need for foreign investment. On the other hand,

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[3] *Resalat*, 15 Tir 1373/6 July 1994.
[4] Ibid.
[5] This plan was presented to the fourth *majles* in October 1994, and again the intention to present a plan to attract foreign investment was announced to the fifth *majles* in August 1999, but on neither occasion was the plan investigated or even discussed. See Islamic Consultative Assembly, *Surat-e Mashruh-e Mozakerat-e Majles-e Shawra-ye Eslami* [*Record of the Debates of the Islamic Consultative Assembly*] (Tehran, Majlis Publications), for 1 Aban 1373/23 October 1994 and 13 Mordad 1378/4 August 1999.
[6] All prices given in 2007 US dollars; see British Petroleum, *BP Statistical Review of World Energy June 2008*, http://www.bp.com/product landing.do?categoryId=6929&contentId=7044622, accessed 27 July 2008.

perhaps they had adopted a hostile attitude to some of the policies suggested by the Hashemi-Rafsanjani government simply out of a desire to steer clear of anything that was in their eyes a symbol of 'the opposition' that was in power, and when they themselves acquired positions of authority in the post-1997 period, they became keen to make their own mark on the Iranian social and economic scene. Whatever the reason, alongside their efforts to increase the political participation of the Iranian people on the domestic front, Iran's 'reformists' were increasingly in favor of encouraging the economic participation of foreigners as well as of Iranians living abroad, in order to help resolve the economic problems facing the country during the Khatami period.

Even before the February 2000 elections for the sixth *majles*, the 'pragmatic'-minded of Iran's economic and political actors had started to think quite seriously about the need for foreign investment. Articles in the press increasingly discussed foreign investment as a possible solution to the country's economic ills, and *Eqtesad-e Iran* led the way by devoting an entire special issue to the matter.[7] This monthly called for the state's position on foreign investment to be more clearly defined, and for foreign policy to be brought in line with economic policy in such a way that the government might enjoy greater bargaining power when negotiating with foreigners for new investment deals in the future. It argued that the more Iran distances itself from the rest of the world, and the less the domestic economy is able to answer the needs of its own investors, the more the country will be obliged to "lay out the red carpet for foreign investors."[8] In conclusion, this voice of Iranian industry hoped that the 'reformist' approach, in which engagement with the global economy was to be accompanied by a protection of national interests, would lead to a positive outcome for all.

At the same time, various government research centers had begun to examine in depth the status of foreign investment in Iran, considering the various reasons for its absence in the recent past. At the end of the fifth *majles*'s term, the Majlis Research Center carried out several assessments of the approach to foreign investment pursued in the First and Second Five-Year Development Plans.[9] One

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[7] *Eqtesad-e Iran*, Azar 1378/November-December 1999.
[8] Ibid.
[9] Majlis Research Center, *Piramun Sarmayeh-gozari-ye Khareji* [*About Foreign Investment*] (Office for Economic Investigations, Majlis Research Center, Ordibehesht 1379/April-May 2000), Report Code 2403336; *Majles-e Panjom: Chalesh-ha-ye Emruz, Cheshmandaz-e Farda* [*The Fifth Majles: Today's Challenges, Tomorrow's Outlook*] (Majlis Research Center, Ordibehesht 1379/April-May 2000), Report Code 3901350; *Majles va Pezhuhesh* [The *Majlis and Research*] 28 (Mehr-Aban 1378/September-November 1999); *Arziyabi-ye Sarmayeh-gozari-ye Khareji Dar Barnameh-ye Avval va Dovvom* [*An Evaluation of Foreign Investment in the*

of these noted that while, "in the not so distant past, foreign investment was seen as a form of imperialist domination, … now the positive aspects have been understood."[10] It listed both the benefits and the downsides of foreign investment, but acknowledged that at least investment from abroad was preferable to borrowing from abroad. The report concluded that although the attraction of domestic investment should be the top priority, the laws relating to foreign investment did need to be made more transparent so that capital from abroad might be used where local investment was lacking. And the general view propounded by all Majlis Research Center reports was that as long as it was carried out in a fair and just manner that assured Iran's national interests, then investment from abroad was tolerable.

In particular, it was acknowledged that the current situation of greatly reduced oil prices had left the government with very little choice but to consider taking steps towards encouraging foreign investors to participate more extensively in the country's industrial and development projects.[11] Foreign investment would be a good way to inject much-needed foreign exchange into the economy, which could be used to supplement domestic investments. Furthermore, it would serve to instill a spirit of competitiveness that might help Iranian industrial goods to sell more widely in the global market; it would result in a transfer of technology and know-how; and it would create new employment opportunities for the mass of jobless Iranians.[12] And in order to secure this vital investment, certain changes to the framework of laws relating to foreign investment had to be implemented. For unless it was clear to the foreign investor under what conditions his funds would be accepted, and to what restrictions he might be subjected, it would be difficult to encourage him to invest at all.

The main weakness of the 1955 LAPFI was considered to be its lack of transparency.[13] For example, the basic key terms of the law, such as 'foreign investment', 'foreign investor' and 'investment plan', were not clearly defined.[14] Nor was it made clear whether or not foreign investors could give credit or other kinds of financial assistance to Iranian companies, instead of taking on a specified

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First and Second Plans] (Office for Economic Investigations, Majlis Research Center, Ordibehesht 1378/April-May 1999), Report Code 2404249.

[10] Majlis Research Center, *Arziyabi-ye Sarmayeh-gozari*.

[11] See especially Majlis Research Center, *Majles va Pezhuhesh*, p. 225.

[12] Ibid., p. 226.

[13] *Entekhab*, 22 Ordibehesht 1378/12 May 1999.

[14] Behruz Hadi Zonuz, *Sarmayeh-gozari-ye Khareji dar Iran* [*Foreign Investment in Iran*] (Tehran: Farzan Ruz Publications, 1379/2000), p. 264.

percentage of Iranian shares, and still be protected by the provisions of the LAPFI.[15] Additionally, there were ambiguities related to the time period within which the initial investment was required to be brought into the country once a contract had been signed.[16] Considering these problems and various others besides, many were increasingly calling for particular changes that might clarify the LAPFI. However, it was by no means the case that a general consensus had been reached on the matter. On the contrary, as will be seen by examining the discussions that were held on the subject of the proposed new law, a range of views persisted.

DEBATING PROPOSALS FOR THE NEW LEGISLATION

In the summer of 2000, the *majles* Economics Committee presented its proposal to introduce a Plan for the Attraction and Protection of Foreign Investment. Mohammad Shahi-Arablu, the deputy head of this committee, noted that sensitivity to foreign investment was so high in the country that he and his colleagues had been obliged to wait until the Third Five-Year Development Plan was passed before they felt ready to submit the new proposal to the *majles* for general discussion.[17] It was only once the country's economic objectives were clarified in this Plan that the relationship of financial needs to foreign resources could be established with any certainty. He reminded the *majles* deputies that the Third Five-Year Development Plan called for the realization of an economic growth rate of at least six percent and the creation of 765,000 jobs each year, and he argued that, "if we don't reach [these targets], we can be certain that we will be confronted with difficulties at home … and problems of national security."[18] In short, he maintained that it was more desirable to accept the presence of foreign investors in the economy now than to risk being faced with serious political crisis in the future.

However, there were several *majles* deputies who contested his argument. Mohammad Mir-Mohammadi, who sat on the Planning and Budget Committee, stood out as one of the most vocal opponents to the proposed course of action. He argued that the proposal under discussion could never be a panacea for all of Iran's economic ills. Furthermore, he cautioned his colleagues about the potential dangers of pursuing increased foreign investment, pointing to the negative experience of Brazil in particular. He suggested that an influx of foreign investment into Iran would lead to

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[15] Ibid., p. 265.
[16] Ibid., p. 269.
[17] Islamic Consultative Assembly, *Surat-e Mashruh-e Mozakerat*, 6th Term, Session 25, 2 Shahrivar 1379/23 August 2000.
[18] Ibid.

indebtedness, not the creation of employment. Nevertheless, he conceded that if the correct safety nets were put in place, some benefits might be secured. He noted that foreign dominance in the sense of foreign occupation was no longer a risk for Iran; instead, foreign domination took the form of the consumption of foreign goods and the 'brain drain' of young people. Therefore, he argued that, "it is more damaging … for our youth to seek employment elsewhere than for us to accept foreign investment."[19] As such, he indicated that in such a 'reformist'-dominated *majles*, opposition to the plan would be focused on its precise details rather than on the general idea of foreign investment as such.

Indeed, throughout the *majles* debates of the plan for a new foreign investment law, which was put forward by the Economics Committee in April 2001, most critiques were related only to certain aspects of the proposals being made. But there were also concerns about the disadvantaged position in which the proposed law might place domestic Iranian investors. For example, Mir-Mohammadi asked, "At what cost are we willing to attract foreign investment?"[20], and insisted that the *majles* ought to help domestic investors before taking steps to aid investment from abroad. And in a similar vein, Hasan Sobhani, himself a member of the *majles* Economics Committee, stressed that foreigners should not enjoy any benefits that continue to be denied to Iranians. But in spite of the various objections raised by Sobhani, Mir-Mohammadi and others, on 16 May 2001 the *majles* passed the proposed plan for a new LAPFI with very few changes.[21] Afterwards, Sobhani complained that any attempt to alter the plan had been interpreted as no less than a direct attack on the government and the 'Second of Khordad' movement.[22] According to him, there had been little chance of success for those deputies hoping to amend the plan and bring it more in line with what they perceived as the country's 'national interests'.

Indeed, while some members of the predominantly 'reformist' *majles* had remained skeptical of the purported benefits of this proposed plan, the majority had paid little heed to their concerns. It was with a deeply-held, inflexible belief in the need for foreign investment that this majority had voted in favor of the new legislation. However, when their approved plan reached the 'anti-reformist' Guardian Council, the skeptics' concerns were raised even more loudly, and further critiques were

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[19] Ibid.
[20] Islamic Consultative Assembly, *Surat-e Mashruh-e Mozakerat*, 6th Term, Session 106, 25 Ordibehesht 1380/15 May 2001.
[21] Islamic Consultative Assembly, *Surat-e Mashruh-e Mozakerat*, 6th Term, Session 107, 26 Ordibehesht 1380/16 May 2001.
[22] Author's interview with Hasan Sobhani (Tehran, 4 December 2005).

made besides. In June 2001, the Guardian Council ruled that several points of this plan to attract and protect foreign investment were incompatible with the country's constitution, and therefore could not be passed into law.[23] According to this body, the plan would lead to foreign domination and the penetration of foreigners in the Iranian economy; it afforded Iranians living abroad benefits that were denied to Iranians at home, and supported foreign investors at the expense of domestic investors; it facilitated the removal of the country's foreign currency by non-Iranians; and it weakened a "correct and self-sufficient economy" by handing over concessions and monopolies to foreigners.[24]

Such a view was supported in several of the 'anti-reformist' newspapers. *Kayhan*, for example, focused on the difficulties faced by domestic investors, and argued that efforts should have been made to support Iran's own budding private sector before turning to foreigners in the hope that they might solve the country's various economic problems.[25] It also pointed to the fact that investors are not philanthropists, and said that the hoped-for technological advances would probably never be transferred to Iran from abroad.[26] Furthermore, *Jomhuri-ye Eslami* discussed the economic dependency, plunder of natural resources, flight of foreign exchange, cultural damage and growth of consumerism that had resulted from Iran's previous experiences of foreign investment.[27] Finally, it considered the possible security threats that could arise if foreign spies and political agitators took on the guise of businessman interested in investing in Iran.[28] Of course, many 'reformists' were quick to defend the plan against such opposition, and deputy Ali Zafarpur[29] appeared as one of the boldest of these defenders when he argued that the Guardian Council's decision to dismiss the plan simply revealed its continued attachment to a "mentality of one-hundred years ago".[30]

So, when it came to the question of foreign investment in Iran, it was possible to place the Guardian Council, as representative of the 'anti-reformist' camp, in direct opposition to the *majles*, as representative of the 'reformist' camp. There were exceptions of course: some 'reformists' declined to defend the *majles* proposal and some 'anti-reformists' appreciated its potential benefits. But in general, these two institutions represented opposing camps, each one apparently unwilling to

[23] *Hambastegi*, 26 Azar 1380/17 December 2001.
[24] *Abrar-e Eqtesadi*, 26 Khordad 1380/16 June 2001.
[25] *Kayhan*, 9 Khordad 1380/30 May 2001.
[26] *Kayhan*, 24 Azar 1380/15 December 2001.
[27] *Jomhuri-ye Eslami*, 3 Ordibehesht 1381/23 April 2002.
[28] Ibid.
[29] Also a member of the *majles* Committee for Industries and Mines.
[30] *Abrar-e Eqtesadi*, 26 Khordad 1380/16 June 2001.

change its position on the matter. In spite of the initial setback experienced in its mission to make the dream of increased foreign investment a reality, the predominantly 'reformist' *majles* refused to give up. On the contrary, it simply went back to the drawing board and prepared a slightly revised proposal for presentation to the Guardian Council.[31] It was noted by Ali Hashemi, president of the *Kargozaran* faction in the *majles*, that if the *majles* were to alter the plan in full accordance with the Guardian Council's criticisms, the essence of what they had been trying to achieve with this law would be lost entirely.[32] However, the Guardian Council was similarly determined to hold firm to its original evaluation,[33] and therefore it was not possible for a compromise agreement to be reached.

In fact, even though numerous meetings were held between various representatives of the Guardian Council and the Economics Committee of the *majles* in an effort to reach consensus,[34] still the Guardian Council rejected the LAPFI plan a total of three times. In the end, the *majles* proposal had to be sent to the Expediency Council,[35] so that this arbitrating body could make a final decision on whether or not the new plan served the 'national interest'. And on 25 May 2002, to the great delight of the 'reformists', the plan was approved and entered into legislation as the Foreign Investment Promotion and Protection Act (FIPPA). With Ali Akbar Hashemi-Rafsanjani, Iran's pragmatist par excellence at its head, it was perhaps unsurprising that the Expediency Council should have made such a decision at this time of economic difficulty. However, it was to some degree a hollow victory: the final piece of legislation failed to clarify all of the ambiguities of the

[31] This second version of the LAPFI plan was passed by the *majles* in November 2001. See Islamic Consultative Assembly, *Surat-e Mashruh-e Mozakerat*, 6th term, Session 157, 13 Aban 1380/4 November 2001.
[32] *Hamshahri*, 26 Khordad 1380/16 June 2001.
[33] The Guardian Council rejected the second version of the plan that was submitted by the *majles* in November 2001 with even more criticisms than it had made of the first. During this round of evaluation, it made the argument that the plan did not include any safety nets to deal with the possibility that foreign investors in Iran might be acting as spies or as representatives of the Israeli government. Defenders of the plan responded that this second dismissal simply showed that the Guardian Council was determined to oppose any kind of foreign investment with no real justification, as the attempt to present the *majles* plan as unconstitutional was unfounded. They insisted that all the appropriate safety nets were in place, especially given that any potential investors would be obliged to undergo full governmental inspection in order to receive the necessary approval. See *Khorasan*, 19 Azar 1380/10 December 2001 for further details of these arguments made by both sides.
[34] *Iran*, 28 Azar 1380/19 December 2001.
[35] The Economics Committee of the *majles* had argued that if the changes called for in the Guardian Council's third review were carried out, "nothing of the plan will be left". Therefore, they said that there was no option but to refrain from making any new changes, and instead refer the third version of the plan to the Expediency Council. See Islamic Consultative Assembly, *Surat-e Mashruh-e Mozakerat*, 6th term, Session 206, 20 Esfand 1380/11 March 2002.

previous law,[36] and suggestions were made that the Expediency Council had purposely left certain aspects of it vague in order to avoid unduly antagonizing the Guardian Council.[37]

Two years of debate over this law had highlighted the fact that foreign investment continued to be a highly sensitive and contentious issue for Iranians of all political tendencies. Even the 'reformist' supporters of the FIPPA sought to present foreign investment as something that would serve the interests of the nation, emphasizing its ability to transfer modern technology to the industrial sector, increase productive output, and reduce unemployment. The opponents of the proposed law, on the other hand, perceived it as a serious threat to the independence of Iranian economy, society and even culture. But participants on both sides of the divide were equally influenced by the discourse of 'economic independence' that had played such an important role during the pre-revolutionary and early revolutionary periods; it was simply that they each interpreted this discourse in a different way. And so, the Expediency Council's final judgment on the law was perhaps no more than a halfway house between the inclusive interpretation of the supporters of foreign investment, who accept the need for engagement with the outside world, and the exclusive interpretation of its opponents, who remain concerned about the dangers of foreign exploitation and betrayal.

FOREIGN INVESTMENT AFTER FIPPA

Nevertheless, following the Expediency Council's approval of the FIPPA, those who had supported this piece of legislation anticipated that the flow of foreign investment into Iran would increase markedly over the coming years. To their delight, whereas the amount of foreign investment that was both submitted and approved under the terms of the LAPFI during 2001-2002 had totaled less than $68 million, government statistics indicated a jump in this figure to almost $213 million for the following year, while as much as $1.4 billion of foreign investment was authorized in 2003-2004.[38] These investments were to be made in diverse projects, ranging from textile and ceramic production to spare parts and automobile manufacturing, as well as in various activities related to the mining and petrochemical industries.[39] And although the official data concerning the various foreign investment permits that are awarded each year in Iran do not necessarily correspond with the

[36] *Eqtesad-e Iran*, Mordad 1381/August-September 2002.
[37] See, for example, *Aftab-e Yazd*, 14 Mordad 1381/5 August 2002.
[38] Data provided by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), Ministry for Economic Affairs and Finance, Aban 1384/October-November 2005.
[39] OIETAI data, Aban 1384/October-November 2005.

foreign investment entering the country in practice,[40] nevertheless the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI) at the Ministry for Economic Affairs and Finance insisted that foreign investment levels in the country experienced an upward trend during the three years after May 2002.[41]

Of course, as the government body in charge of promoting, regulating and conducting all aspects of Iran's foreign investment and external finance activities, it is unsurprising that the OIETAI should present a confident image to the outside world. In the foreword to its handbook on the FIPPA regulations, the OIETAI stresses that, "FIPPA's replacement of LAPFI has further enhanced the legal framework and operational environment for foreign investors in Iran,"[42] because it wants to encourage new investors to get involved. And indeed, the new legislation does introduce various provisions that are aimed at attracting a larger volume of foreign investment. These include the streamlining of the investment licensing application and approval process,[43] the possibility for acceptance of investments made by foreign state-owned enterprises,[44] and the lack of restriction on the percentage of shares that can be held by the foreign investor.[45] Furthermore, the FIPPA

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[40] Mohammad Khazai, President of the OIETAI and ex-officio Deputy Minister for Investments and International Affairs at the Ministry of Economic Affairs and Finance, said that, "In the past, only half of those projects approved for foreign investment in the country have actually been carried out". *Hamshahri*, 8 Aban 1381/30 October 2002.

[41] Author's interview with Mohammad Khazai (Tehran, 22 October 2005).

[42] Ministry of Economic Affairs and Finance, *Law and Implementing Regulations Concerning Promotion and Protection of Foreign Investment* (Organization for Investment, Economic and Technical Assistant (OIETAI), Ministry of Economic Affairs and Finance, September 2005), p. i. All references to FIPPA come from this source.

[43] All foreign investors who would like to enjoy the benefits provided by the FIPPA must first apply to the OIETAI, which sits in the Ministry of Economic Affairs and Finance, for an investment license. Article 6 of the FIPPA states that, "for the purpose of investigation and making decisions on [foreign investment] applications, a Board under the name of the "Foreign Investment Board" shall be established under the chairmanship of the Vice Minister of Economic Affairs and Finance, who is ex-officio the President of the Organization [OIETAI] … The Organization, after preliminary review, shall submit the investment applications, along with its own recommendation, to the Board within a maximum period of 15 days as from the date of the receipt of the applications. The Board must review the applications within a maximum period of one month from the date of submission, and notify its final decision in writing".

[44] Whereas Article 1(c) of the 'Implementing Regulations' of 1955 LAPFI, in Rezaei, *Comprehensive Economic Rules*, had required that capital must be "privately owned without any foreign government participation", Article 4 of the 2002 FIPPA states that, "Investment by a foreign government or foreign governments in the Islamic Republic of Iran shall be dependent upon the approval of the Islamic Consultative Assembly, on a case by case basis. Investments by foreign government companies are deemed private".

[45] Article 4 of the Implementing Regulations of the FIPPA states that, in the case of FDI, "There is no restriction on the percentage of foreign shareholding". In a similar vein, Article 2(b) of the FIPPA states that as long the foreign investment "does not entail grant of concession by the Government to Foreign Investors", whereby "concession means special rights which place Foreign Investors in a monopolistic position", it will be able to enjoy the privileges of FIPPA.

recognizes and protects not only foreign direct investment (FDI), but also other types of project finance such as 'buy-back' contracts, where any equipment and services provided by the foreign partner are only re-paid through the export and sale of the final product.[46] As such, the new legislation broadens the range of economic activities in which foreigners are able to invest with the permission and protection of the Iranian government.

This inclusion of 'buy-back' contracts within the terms of the FIPPA is significant, as it offers an additional reassurance for any international oil companies hoping to invest in the Iranian petrochemicals sector. Given the estimated $70 billion that the National Iranian Oil Company (NIOC) claims it needs in order to modernize the country's oil infrastructure over the next ten years,[47] and given that international oil companies cannot invest in Iran other than by means of these 'buy-backs', any additional incentive that can be made available to the foreign investor is likely to meet with the approval of the NIOC. Without the attraction of foreign finance and technology, Iran will find it hard to make the necessary improvements to its oil fields, and as such it will run the risk of losing out on the much-needed increase in oil revenues that this would make possible. Indeed, even Hojjatollah Ghanimifard, the NIOC's Undersecretary for International Affairs, who in 2001 published a book reviewing and criticizing the West's 'dominance over Iranian trade',[48] recognized the need to secure foreign capital through 'buy-back' contracts for further investment in the Iranian oil industry at this time.[49]

Nevertheless, in spite of the legal protection offered by the FIPPA to potential oil investors, the NIOC has not achieved the high levels of foreign investment that it really needs.[50] President Khatami's Oil Minister, Bizhan Zanganeh, may have declared in June 2001 that slogans should not be allowed to get in the way of serious economic matters,[51] but in practice the NIOC and its 'pragmatic' supporters have not been in a position to make changes to specific policies on foreign investment in the

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[46] Article 3 of the FIPPA states that, in addition to foreign direct investment, "Foreign investments in all sectors within the framework of "Civil Partnership", "Buy-Back" and "Build-Operate-Transfer" (BOT) schemes, where the return of capital and profits accrued is solely emanated from the economic performance of the project in which the investment is made, and such return of capital and profit shall not be dependent upon a guarantee by the Government or government companies and/or banks" will also "enjoy the incentives and protections available under this Act".

[47] Roger Howard, *Iran Oil - The New Middle East Challenge to America* (London: I.B. Tauris & Co. Ltd, 2006), p. 31.

[48] Hojjatollah Ghanimifard, *Naqd va Tahlil-e Tasallot-e Eqtesad-e Jahani bar Tejarat-e Iran [A Survey on World Economy's Dominance of Iranian Trade*] (Tehran: Commerce Printing and Publishing Co., 1380/2001).

[49] *Eqtesad-e Iran*, Esfand 1382/February-March 2004.

[50] See Howard, *Iran Oil*, pp. 30-36.

[51] *Kayhan*, 22 Khordad 1380/12 June 2001.

country's oil industry. These policies must be formed in accordance with the Islamic Republic's general approach to dealing with the outside world, and here suspicions have of course remained. Consequently, the undeniable drawbacks and ambiguities of the FIPPA have been overshadowed by a more general atmosphere of uncertainty, and together these enduring challenges have meant that foreign investors have been reluctant to take the plunge into participation in the Iranian petrochemicals sector. This situation is of great concern for the future of Iran's economy, as without the necessary investments in the exploration, development and extraction of the country's natural resources, the primary source of state revenue will dry up sooner than expected.

Furthermore, other sectors of the Iranian economy that could potentially contribute to economic growth have not benefitted sufficiently from the new Foreign Investment Act either. Overall, although it has opened up many of the doors that were closed under the LAPFI, the FIPPA has not eradicated all of Iran's various restrictions on foreign investment. Most importantly for foreign investors, the ownership of real estate by foreign nationals continues to be prohibited,[52] and disputes over foreign investment are still largely limited to domestic courts.[53] The first restriction is most problematic for those foreign investors hoping to put their money into any kind of activity that might require long-term access to land in Iran. But it is also a source of concern for joint companies, which have both Iranian and foreign shareholders, as it is unclear whether or not these entities are prohibited from land ownership as well. The second restriction is equally troublesome, even though the FIPPA introduced a new clause that allows for the settlement of some disputes outside of Iranian domestic courts, because the law still does not give equal access to international courts for all foreign investors. And as those investors whose governments have not entered into bilateral agreements with Iran are distinctly disadvantaged in this area, it is unlikely that they would be attracted by the new legislation.

In some respects, the FIPPA can even be described as more restrictive than its predecessor. While Article 1 of the 1955 law had required that only those foreign investments that are "for

[52] Both Note 1 of Article 3 of the LAPFI and Note 2 of Article 2 of the FIPPA specify that the June 1921 'Law for the Ownership of Immovable Property by Foreign Nationals' should remain in effect. The implications of this are explained in full in the latter document: "Ownership of land of any type and to any extent in the name of Foreign Investors is not permitted within the framework of FIPPA".

[53] Article 3 of the LAPFI, Rezaei, *Comprehensive Economic Rules*, states that, "In case of disputes, investigation of claims for fair compensation guaranteed by the Government shall be undertaken by competent Iranian courts". Article 19 of the FIPPA states that, "Disputes arising between the Government and Foreign Investors with regard to investments under FIPPA, if not settled through negotiations, shall be referred to domestic courts, unless the law ratifying the Bilateral Investment Agreement with the respective government of the Foreign Investor provides for another method of settlement of disputes".

development, rehabilitation, and productive activities in industry, mining, agriculture and transport"[54] would be able to enjoy the facilities of the LAPFI, the 2002 law sets down more demanding criteria for the admission of foreign investment. In addition to the above requirements carried over from the previous law, Article 2 of the FIPPA states that foreign investment must "Bring about economic growth, upgrade technology, enhance the quality of products, increase employment opportunities and exports", and it must not "pose any threat to the national security and public interests … cause damage to the environment … disrupt the country's economy … [or] jeopardize the production by local investments."[55] However, it is not clear how the Foreign Investment Board, which evaluates all applications for foreign investment,[56] is supposed to ascertain whether or not a particular proposal meets these requirements in practice. Furthermore, this task is rendered particularly difficult by the fact that the law does not state precisely how many of these requirements are to be met by the foreign investor.

In short, it can be seen that the FIPPA has disappointed on two fronts: not only does it fail to provide sufficient incentives for foreign investors, but also it fails to secure the necessary benefits for those Iranians who are seeking foreign investment. If the mechanisms by which foreign investment is to serve national interests are not specified, neither Iranians nor foreign investors will profit from the law. Ambiguity and uncertainty will simply be too great, and even the 'good' kinds of foreign investment that might have led to increased production and employment will not be forthcoming. As Iranian economist Behruz Hadi Zonuz pointed out in his 2003 evaluation of the country's foreign investment situation,[57] the necessary inducements for a transfer of advanced technology and know-

[54] Rezaei, *Comprehensive Economic Rules*.

[55] This addition to the FIPPA followed on from a Council of Ministers ruling of 28 Mehr 1378/20 October 1999, entitled "Rule for the Acceptance of Foreign Investment Covered by the Law for the Attraction and Protection of Foreign Investment" (Bank-e Ettela'at-e Qavanin-e Keshvar, Ruling No. 19945). This ruling stipulated that foreign investment must meet with requirements of Article 138 of the constitution. In particular, it must raise employment as well as secure one of the following aims: increase non-oil exports, complete production chains in the country, discover new ways to exploit underground resources and products, increase competitiveness, raise the quality of products and services, and reduce prices in Iran.

[56] Article 6 of the FIPPA states that, "For the purpose of investigation and making decision on applications referred to in Article (5), a board under the name of the 'Foreign Investment Board' shall be established under the chairmanship of the Vice Minister of Economic Affairs and Finance who is ex-officio the President of the Organization comprising, of Vice Minister of Foreign Affairs, Vice President of the State Management and Planning Organization, Vice Governor of the Central Bank of the Islamic Republic of Iran and vice ministers or relevant ministries, as the case requires."

[57] Behruz Hadi Zonuz, *Tarh-e Motale'ati-ye Tashviq va Tarvij-e Sarmayeh-gozari-ye Mostaqim-e Khareji va Chegunegi-ye Ijad-e Vahed-e Khadamat-e Sarmayeh-gozari-ye Khareji Dar Sazman-e Gostaresh* [*Consultation Plan for the Encouragement and Promotion of FDI and for Establishment of a FDI Service Unit at the Development Organization*] (Tehran: Centre for Economic Research, Allameh Tabataba'i University, Ordibehesht 1382/May 2003) vol. 1, p. 82.

how are noticeable in their absence from the FIPPA. Indeed, World Bank data show that, for 2005, the net inflow of foreign direct investment (FDI) into Iran was only 0.016% of the country's GDP.[58] Given that data from the Economist Intelligence Unit indicate that world FDI inflows reached as much as 2.2% of global GDP in the same year,[59] it is clear just how much Iran continues to lag behind the rest of the world.

MOVING AGAINST REFORM?

Many sympathizers of the 'reform' movement placed much of the blame for Iran's poor performance in the area of foreign investment firmly on the shoulders of those who had so vehemently opposed the new law, and not on the law itself. Suggestions were made that the actions of both "those who shout revolutionary slogans against foreign investment" and "those who are allied to the bazaar"[60] had contributed to the disappointing outcome of the FIPPA and the continuation of economic difficulties in Iran. With such groups working to intensify an anti-foreign atmosphere in the country through their rhetoric and their actions, many argued that it was not surprising that Iran's position in international foreign investment rankings remained so low. Others, such as the political analyst Sadeq Ziba-Kalam, also held the self-proclaimed supporters of foreign investment partly responsible, because of their weakness in the face of this opposition. In particular, Ziba-Kalam pointed to the Expediency Council, which he suggested had produced a vague piece of legislation on purpose, in fear of retaliation from the 'anti-reformists'.[61] He argued that only clear regulations accompanied by a stable political environment would secure the required increase in foreign investment.

But it did not look like any such stable environment would be forthcoming in the near future. On the contrary, from the moment the FIPPA was approved by the Expediency Council in 2002, the rumblings of discontent with the direction that the Islamic Republic was taking under the leadership of President Mohammad Khatami became more and more audible. In particular, believing that the 'reformists' were moving the country away from the principles of the revolution, various disparate

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[58] Source: World Bank, *World Development Indicators database* (April 2008), http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&HF=N&WSP=N, accessed 10 June 2008.

[59] Economist Intelligence Unit, *World Investment Prospects to 2011 - Foreign Direct Investment and the Challenge of Political Risk* (London: EUI, 2007). The same report ranks Iran 80th out of 82 countries, based on its projection for Iran's percentage of the world total of FDI inflows during the period 2007-2011.

[60] *Hambastegi*, 26 Azar 1380/17 December 2001.

[61] *Aftab-e Yazd*, 14 Mordad 1381/5 August 2002.

groups found that they had something in common. Under the general label first of the *Abadgaran* ('developers') and then of the *Osulgarayan* ('principlists'), they began to work together to reverse the undesirable aspects of 'reform'. Benefitting from the Guardian Council's disqualification of more than 2000 'reformists' out of a total of 8146 candidates hoping to run in the seventh parliamentary elections,[62] these 'anti-reformists' won a majority of seats in the next *majles* on election day in February 2004. Having promised their supporters that they would develop a renewed and truly 'revolutionary' Islamic Republic in Iran, the deputies of the seventh *majles* moved quickly to work against the 'un-revolutionary' economic policies of their 'reformist' predecessors.

In September 2004, just four months after the inauguration of the seventh *majles*, these 'anti-reformist' deputies introduced a bill that would require the government to obtain parliamentary permits before signing contracts with foreign investors. This bill was to act retrospectively, giving the *majles* the power to block even those contracts that had already been signed. And in as little as eight days, not only had the majority of *majles* deputies voted in favor of it, but also the Guardian Council had given its approval and officially passed the proposed bill into law. By acting on the matter in such haste, the 'anti-reformist' groups that dominated these two institutions revealed just how eager they were to put their own stamp on the country's future economic policies. Furthermore, by presenting their law as an amendment to certain articles of the Third Five-Year Development Plan, a plan that would come to an end in less than six months, these groups showed the extent to which they opposed the various liberalization policies that had been adopted by the 'reformists' over the previous four years.

The new law was applied specifically to contracts that the Khatami government had signed with two Turkish consortia. The first contract, with the mobile telephone group Turkcell, was to develop a second mobile telephone network in Iran as a private-sector alternative to the state-owned Iran Mobile company. The second contract, with the Turkish-Austrian group Tepe-Akfen-Vie (TAV), was for the construction and servicing of Tehran's new Imam Khomeini International Airport, a contract that had already been informally cancelled by the expulsion of TAV from the airport by the Revolutionary Guards only hours after its May 2004 opening ceremony. Perhaps the Revolutionary Guards had been encouraged to take this bold step by the success of the 'anti-reformists' in the recent parliamentary elections. Indeed, by approving the September bill so speedily, the new *majles* deputies did seem to endorse the actions of their armed allies. And now, with this new law in place,

[62] For details of these disqualifications and the 'reformist' responses to them, see *Ettela'at International*, 12 January 2004; *Iran*, 15 Bahman 1382/4 February 2004; *Iran*, 18 Bahman 1382/7 February 2004.

the seventh *majles* had the power to refuse the permit required for the government to continue with either of these contracts, rendering them both formally cancelled.

To justify the proposed imposition of such serious restrictions on these particular contracts at such a late stage, the sympathetic Majlis Research Center prepared a special report.[63] This report argued that while the contract with Turkcell might well be able to provide foreigners with huge financial gain, it would be of no benefit to Iran.[64] In fact, it was presented as a wholly undesirable agreement, leaving Iran's sensitive communications network vulnerable to outside control and even foreign espionage.[65] As for the TAV contract, the Majlis Research Center report alleged that one of this consortium's member groups, Akfen, was headed by Turkish army generals, and was even reputed to have Israeli representatives. To allow such a company to service one of the country's international airports, it argued, would be to endanger the national security.[66] In short, neither contract was in the national interest; and as such, the *majles* was well within its rights to bring both to a swift end.

In light of these concerns, the TAV workers were indeed removed from the Imam Khomeini International Airport and replaced with domestic workers. And Turkcell was also removed from the negotiating table for a second mobile phone operator in Iran, replaced with a South African telecommunications company by the name of MTN, which in October 2005 accepted the more restrictive terms of contract that had been introduced by the seventh *majles*.[67] While Turkcell had initially been offered a seventy percent stake in the 'second operator' contract by the Khatami government, MTN was happy to accept only forty-nine percent. The remaining fifty-one percent of the partnership was shared between the Defence Ministry's *Sa Iran* and the Iran Informatics Development Company, which was affiliated to the parastatal revolutionary foundation, *Bonyad-e Mostaz'afan*.[68] Such an outcome clearly benefited these two state-tied companies, as they now gained twenty-one percent more of the consortium for a second mobile telephone operator than they would have received under the Turkcell deal. And domestic interests similarly profited from the removal of foreigners at Tehran's new airport. But given the negative impact that such an overturning of the law would clearly have on Iran's international reputation, heightening feelings of

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[63] *Iran*, 6 Mehr 1383/27 September 2004.
[64] See *Iran*, 2 Mehr 1383/23 September 2004.
[65] *Iran*, 4 Mehr 1383/25 September 2004.
[66] Ibid.
[67] *Iran*, 30 Mehr 1384/22 October 2005.
[68] *Hamshahri*, 7 Mehr 1383/28 September 2005.

uncertainty and insecurity, foreign investors were henceforth strongly discouraged from participating in the Iranian economy at all.

The Guardian Council had already gone some way towards preventing the Khatami government and its 'reformist' supporters in the sixth *majles* from achieving the success they had hoped for in terms of attracting foreign investment. Because of the warnings of this 'anti-reformist' body about the dangers of foreign exploitation, not only was the final approval of the Foreign Investment Promotion and Protection Act delayed, but also the content of the law was perhaps not as favorable to the foreign investor as it might have been. And when 'anti-reformists' in the seventh *majles* then moved to cancel two of the Islamic Republic's most important foreign investment contracts, with companies which had in all likelihood been encouraged by the new FIPPA, it appeared that the economic policies of the Khatami period were being swiftly reversed. Not long after that, with the election of Mahmud Ahmadinejad to the presidency in June 2005, the 'anti-reformists' achieved dominance across the government, the *majles* and the Guardian Council, giving them power to put their own stamp on Iran's foreign investment policies even more effectively. And with the support of the Revolutionary Guards, they would now be able to influence the future direction of foreign investment in Iran in accordance with their own views on the need to protect the country from both economic mistreatment and security risk.

However, the 'anti-reformists' did not necessarily reject foreign investment altogether. Instead, they had blocked the TAV and Turkcell contracts not out of a desire to block all foreign investment as such, but rather with a view to restricting only those investments that threatened to damage their vested interests and impinge on the country's economic independence as they saw it. The very fact that *Sa Iran* and the Iran Informatics Development Company had been happy to work with MTN, a South African company, indicated that they would tolerate certain foreign partners of their own choosing. Nevertheless, the considerable damage that had been wrought on Iran's reputation in the international economic arena by this unexpected attempt to restrict both the type and the source of foreign investment has certainly made it difficult for much foreign capital to come Iran's way since September 2004. Indeed, under President Ahmadinejad, while the impact of the period of 'reform' continued to be felt in the sense that the need for increased foreign investment was still accepted throughout the Islamic Republic's Fourth Five-Year Development Plan (2005/06-2009/10), the conditions placed on that investment were much heavier. Having pledged to conduct all international relations on Iranian terms and in Iranian interests, Ahmadinejad's government created a difficult environment for the foreign investor.

CONCLUSIONS

Most members of the 'reformist' camp had held high hopes that their efforts at economic reform would be not only effective, but also enduring. Their pursuit of economic liberalization took place alongside a bold push for the liberalization of civil society in the Islamic Republic, motivated by the belief that such a commitment to both the social and the economic aspects of reform would reward them with the prize of sustainable development for Iran. In particular, placing considerable emphasis on the importance of clear and transparent laws, they argued that the revision of Iran's out-dated foreign investment legislation would have a favorable impact on Iran's ability to attract investment from abroad, and in turn to solve the country's economic problems more generally. But this paper has shown the extent to which such an optimistic view was misguided. Not long after the approval of the 2002 Foreign Investment Act, a new 'anti-reformist' *majles* reversed much of what its predecessor had achieved. Even if foreigners had grown aware of the various investment opportunities being offered in Iran after 2002, their confidence was knocked by the fate of the TAV and Turkcell contracts after 2004. Economic reform in Iran certainly seemed to be withering.

The roots of this variation between the 'reformist' and the 'anti-reformist' approaches to economic policy can be found in each group's interpretation of the ambiguous discourse of 'economic independence' that had developed in the lead-up to and consolidation of the revolutionary movement to overthrow the Shah. While all those supporting the creation of the Islamic Republic had hoped to end their country's dependence on foreign powers for economic survival, there existed no concrete plan as to how the new state should go about ensuring both independence and national development in practice. For this reason, when it came to the question of foreign investment, opposing positions could all be presented as helping to realize the revolutionary aim of independence. 'Reformists' argued that updating the 1955 law would better enable Iran to realize her goal of independent development, while 'anti-reformists' warned that the proposed law would jeopardize the country's independence, leaving her vulnerable to possible domination by foreign interests in the future. During the period of 'reformist' dominance in the *majles*, the 'anti-reformist' camp acted through the Guardian Council to dent their opponents' efforts to open the country up to the outside world. And when they gained dominance first in the *majles* and then in the presidency, they had the opportunity to do so even more effectively.

In expressing their concerns about the potential implications of the 'reformist' stance on foreign investment, the 'anti-reformists' referred to Iran's previous experiences of exploitation at the hands of foreign powers. They reminded Iranians of the humiliation that had been felt during the nineteenth century, when the country's Qajar rulers had ceded territory as well as economic and commercial privileges to the Russians in the 1813 Treaty of Golestan and the 1828 Treaty of Torkmanchai, and had then gone on to hand over considerable economic dispensations to the British with the 1872 Reuter Concession and the 1890 Tobacco Concession. In so doing, they seemed to be warning their audience that the 'reformists' were directing the country towards a re-enactment of such bitter losses. They also focused on reviving the passions of Iran's 1979 revolution, stressing the importance of independence, social justice and the protection the 'downtrodden' (*mostaz'afan*) in their efforts to undermine the activities of the 'reformist' camp. In so doing, they often managed to protect their own economic interests, as was evidenced by the outcome of the TAV and Turkcell contracts. But, their appeal for popular support underplayed the possibilities of group benefit and instead stressed the need to prevent any possible takeover of the domestic by the foreign.

However, it should be noted that the 'reformists' also cherished this goal of protecting Iranian national interests. They did not want to allow foreigners to dictate Iran's economic activities, and neither were they ignorant of Iran's complex historical relationship with the outside world. For this reason, the new foreign investment law that was sent to the Expediency Council for approval in 2002 contained within it various safeguards to protect against any negative consequences arising from the future inflow of foreign investment into the Iranian economy. Neither 'reformists' nor 'anti-reformists' wanted to submit entirely to the demands of foreign capital. But at the same time, neither group was entirely opposed to the idea of foreign investment if that investment could be shown to be to the benefit of the Islamic Republic. As a result, it is the existence of tension between the two inter-related camps, as well as the unpredictability of when one camp will suddenly reverse the actions of the other, that makes it difficult for the foreign investor to have much confidence in the Iranian system. Such a lack of confidence is then only worsened by the imposition of Western sanctions and the expression of inflammatory remarks by Iranian leaders on the international stage, causing economic reform to wither even further.

To some extent, then, the 'anti-reformists' have been able to re-define and re-direct the 'reformist' economic policies of the Khatami period. However, they have only been able to do so because of the environment of uncertainty and instability that continues to pervade economic policy in the Islamic Republic. Such an environment was largely brought into existence by the revolution itself, when economic issues became intertwined with and almost inseparable from the political and security concerns of the new regime. The 'anti-reformists' on their own are not responsible for the withering of economic reform in Iran; rather, the ambiguous and politicized nature of the post-revolutionary economic system is much more to blame. With each of Iran's rival factions stressing a different part of the multidimensional legacy that had been handed down to them by the revolution of 1979, the Iranian approach to foreign investment has twisted and turned ever since. So, when asking the question “Whither economic reform in Iran?”, the most that can be said is that its future direction is sure to be both complex and unpredictable. And in the meantime, the country struggles in the knowledge that increased investments to facilitate the growth of both oil and non-oil revenues will be vital for its very survival in the long-run.

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