



## **The New Chinese Capitalist Economic Model vis-a-vis Iran: So Near Yet So Far**

by Ambassador Donald K. Bandler and Ralph Winnie, Jr.

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**The recent demonstrators in Iran opposed to Mahmud Ahmadinejad's electoral "victory" were supporters of the defeated candidate Mir-Hossein Mousavi, pro-democracy activists, and Iranian expatriates in Western Europe and the United States. This should provide a clear warning to Ahmadinejad and the Iranian Mullahs, who are responsible for maintaining his authority, that the Iranian government must address the social and economic concerns of its well-educated populace if it wants to stay in power.**

**Tehran is actively resisting efforts by its middle class, which is struggling towards a form of Western style capitalism and liberalization that incorporates elements of Iran's history and culture. Over time, this could help Iran to gain greater access to the markets that Western and Eastern technology affords.**

**Mousavi, who remains opposed to Ahmadinejad's approach, sees reconstruction of the Iranian economy as Tehran's first priority. While suspicious of the United States, Israel and Western democracies, Mousavi**

could point to the People's Republic of China's successful economic model and encourage the government and business sectors to embrace it as a vehicle to achieve economic prosperity and security within a controlled, orderly society. The PRC has enacted a stimulus package that allows money to be directly allocated to research and infrastructure projects -- notably nuclear power plants, high speed rail lines, freeways and secondary transportation grids.

By implementing a modified version of Chinese capitalism, the Iranian government could capitalize on the growing disillusionment among its citizens. After the recent bout of dissent and rioting in Tehran, the leadership recognized that their government could only maintain power and control with the active support of the middle class. Mousavi and other political leaders are aware that some



Iranian President [Mahmoud Ahmadinejad](#) (L) shakes hands with the [International Atomic Energy Agency](#) (IAEA) chief, [Mohamed ElBaradei](#) in Tehran.

elements of Western business offer opportunities for the Iranian people -- in contrast with the Iranian Mullahs who fail to acknowledge anything of value from the West. At the same time, however, the Iranian Mullahs have been actively using Iran's oil revenues to fund terrorism, religious battles as well as large purchases of military hardware and nuclear technologies.

Unlike Iran, the People's Republic of China has become a major economic player in the world community because, among other things, it does not have a regressive religious element that influences all aspects of society. While the Chinese and Iranian governments have traditionally been suspicious of the West, Chinese religions such as Confucianism and Daoism encourage active planning, pragmatism and self-reliance.

China's leadership views Iran as a country that may well wield significant economic and military power in Southwest Asia over the next few decades. In July 2009, Iran invited Chinese companies to participate in a \$47.8 billion project to build seven oil refineries and a 1019 mile trans-Iranian pipeline. In August 2009, Tehran and Beijing struck a deal for \$3 billion to help pave the way for China to expand two or more oil refineries.

Consequently, with the recent \$5 billion deal brokered by Chinese National Petroleum to develop the South Pars natural gas field in Iran, Beijing is estimated to have committed \$120 billion for Iranian gas and oil projects to offset its own shortages in that arena.

In Iran, by contrast, theology is often the initial and predominant focus, and is frequently measured by whether a given policy is in conflict with Islamic religious teachings. Every new idea, concept and technology must be filtered through that religious prism. This has resulted in a stagnating economy with high unemployment and underemployment, which has in turn precipitated a cauldron of unrest among Iranian students, intellectuals and its middle class. Mousavi recognized this, and has encouraged a modest form of liberalization that could bolster economic and political stability. However, the strong opposition to his program by Iranian Mullahs -- based in theology and fear -- has raised concerns that the tenets of Islamic law would be compromised.

At one point, Mahmud Ahmadinejad seemed to be lending support to an IAEA proposal to ship 2560 pounds of uranium abroad to France and Russia by the end of the year to be refined for civilian purposes as part a medical reactor in Tehran. Subsequently, Ahmadinejad treated this proposal as a victory for Iran. He claimed that the West had changed its policy from "confrontation to cooperation as a result of Iran's resistance to the United States and its allies." That said, as soon as the proposal was reviewed by Iran's Mullahs, it was decided that Ahmadinejad would reject the deal to ship uranium out of the country. This was confirmed by Saeed Jalili, Iran's chief nuclear negotiator, in a phone conversation with Javier Solana -- Secretary General of both the Council of the European Union (EU) and the Western European Union (WEU). Unfortunately, Iran's leaders rejected holding a meeting in Vienna to restart those negotiations.

The Mullahs would have viewed any attempt by the West to stop Iran's nuclear program as a violation of the basic tenets of Islamic law. They believe it is an inalienable right of an Islamic state to pursue its own course of affairs without any interference from non-Islamic countries. Moreover, Iran's leadership does not believe that their country would be treated as an equal partner because the Western countries do not respect Iran's political, economic and security interests.

Moreover, the Mullahs believe that the tenets of Islam dictate that Iran must neither compromise nor cooperate with the United States, Europe or Israel -- all of whom refuse to adopt Islam as the official religion and submit to *Sharia* law. Countries that adopt Judeo-Christian ideas, values and beliefs are deemed to be hostile and subversive.



**Many Iranians assume or believe that former strongman Akbar Hashemi Rafsanjani was the first to recognize the efficacy of the Chinese economic model. While not highly publicized, Rafsanjani's initiation of trade agreements and technical exchanges had a positive economic impact.**

**This was evidenced by the construction of Tehran's major subway, which was built by China International Trust and Investment Company (CITIC) -- a major engineering and investment firm. After CITIC won the bid and built the subway, Iran now successfully transports 700,000 passengers a day. Tehran saw that the Chinese economic system of modified capitalism could provide similar high tech and advanced infrastructure development projects. This stands in marked contrast to the efforts of other socialist governments that have attempted to do business in and with Iran.**

**Iran's oil and natural resources would lead to tremendous wealth and prosperity for the Iranian people under a Chinese system of modified capitalism. Mousavi and Rafsanjani believe that China would provide a security buffer against Russia, which has always coveted Iran's valuable natural resources. They appear to have now joined forces against Supreme Leader Ayatollah Ali Khamenei and President Ahmadinejad in opposition to the belief that Islamic theocracy is the final arbiter of economic and global policies.**

**By allowing hard-line conservative theology to dominate the political process, the Mullahs have retarded the development of Iran's economy and self-sufficiency. Moreover, it has damaged Iran's opportunity to follow China's successful experiment with capitalism.**

**Moreover, President Ahmadinejad has deeply alienated both reformist and conservative political leaders since his disputed re-election. He has tried to consolidate power and marginalize his rivals. That said, neither faction is willing to see him take credit for brokering a potential nuclear deal with the West.**

**How will Ahmadinejad and his government manage their relationships with Asia (notably China), Europe and the United States? Will increased**

**dissent, rallies in Iran sponsored by the growing pro-democracy movement, and pressure from the western countries establish, encourage and maintain more democratic practices? And how will the Chinese government and the western countries look upon Iran -- as a growing partner, a key player in the energy and technology arenas, or as a potential pariah state?**

**Ironically, it is worth noting that if Mr. Mousavi had been allowed to maintain his position and influence in Iran's government, his understanding of Chinese style capitalism -- combined with Iran's natural resources and strategic geo-political location -- might have already begun to make Iran a more formidable economic and strategic power.**

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