Chapter 2

Literature Review and the Theoretical Framework

Multi dimensionalities of the subject such as the role of domestic factors and international politics and also its relation with foreign policy and global oil market have provided different perspectives for analyzing the subject. Thus the subject can be surveyed under the titles of domestic view, foreign policy approach, international politics and global oil market.

2.1. Review of Literature

2.1.1. Domestic Factors

Some scholars have reviewed energy policy of Iran according to the domestic factors and oil decision making. Based on this approach the domestic politics shapes Iran's energy policy. This approach describes the role of internal politics that have formed the Iran's energy policy. These factors include: Government's Structure and Key Decision Makers, Supervision of the Ministry of Oil, Interest Groups and Organizations and, Oil Production and Consumption that have impact on energy decision making process.

Mohammadbaghr Heshmatzadeh (2001) in his book "Iran and Oil; sociology of political sociology of oil in Iran (1979-1997)" has described this view and discussed about some internal factors such as power of groups, role of religious people and power of some institutions in Iran's energy policy. He believes that oil and politics are not two separate issues in Iran's foreign policy and emphasizes that after revolution internal factors have dominated Iran's energy policy apart from changing the role of Iran in global oil market.

In addition, Jahangir Amuzegar (1997) in his work, Iran's Economy under the Islamic Republic, has supported this approach and argued that oil diplomacy of Iran is influenced by ideology of government. He has described that Iran's economy has been affected by factors such as the revolutionary ideology. From his point of view, Islamic ideology of Iranian government is not based on international idealist schools that are
known as one of the most important schools among the international relations theories. Rather, it is based on the Islamic ideology.

According to this approach some scholars such as Javad Suri (2004), in his work "Influence of Globalization on Iran Foreign Policy", argues that the result of ideology approach is in conflict with the international system. In fact, he believes that Iran does not follow international rules and therefore it has faced problems in its communication with global economy and politics.

2.1.2. International Factors

In opposition to the idea which considers domestic factors as the main elements in shaping Iran’s energy policy, another approach argues international factors as the main determinant of Iran’s energy policy decision making process. Based on this approach (international factors), state behaviors are not the independent variables, but they are driven by the international system. As a result, states behaviors become dependent variable, while international system is the independent variable.

For example, Sandra Mackey (1998) in her book, “The Iranians: Persian, Islam and the Soul of a Nation”, and Anoushiravan Ehteshami (2002) in his book, The Foreign Policy of Iran, discussed the effect of International system on Iranian foreign policy and concluded that it can be seen in the case of oil prices. They believe that the increment and decrement of oil prices have played strong role in shaping the Islamic Republic energy policy because Iran uses its high oil revenues for building its military power and supporting radical groups in other countries as witnessed in early 1980s and early 2000s.

They also discuss energy policy of Iran as if it is dependent on global oil market, international politics, role of regional powers and international powers, particularly the U.S. Roger Howard (2007), in his book, “Iran Oil: The new Middle East challenge to America”, explains that over the next decade Iran will look at diplomatic relationships with Asia. Furthermore, because of U.S trade embargoes on Iran, it is only the U.S’s rivals such as China who are able to fully exploit Iran’s natural resources, thus powering a new alliance of countries which will act as a counterweight to U.S.’s global power.

In the present study, the role of international and domestic factors in drawing energy policy of Iran will be studied. Further, the relation of energy policy with the
foreign policy will be determined for a better understanding of Iran’s energy policy towards China and India.

2.2. Iran’s Energy and Foreign Policies Relation

Iran’s energy policy has been studied by different scholars who have written about states’ behaviors in the international politics. Although some of them have asserted that Iran’s energy policy should be considered independently from its foreign policy but based on another approach there is relation between foreign and energy policy and therefore they cannot be studied separately.

Based on the first approach, energy policy is independent variable from foreign policy. Followers of this approach argue that although foreign policy has influenced by the energy policy but energy has not led the foreign policy of Iran. For instance, Vaezi is one of them who emphasized in his work (2009), “Iran’s Constructive Foreign Policy under the 20-Year Vision Plan”, on Iran’s foreign policy while talking about political factors. He argues that the development of the country is dependent on providing suitable international conditions through interaction and constructive orientation. And for that, creation of an environment without any tension in foreign relations and profitable global facilities like high technology and international financial facilities is very important. He argues foreign policy provides facilities to improve Iran’s energy relations.

On the other hand, some followers of this approach have argued that although energy is important factor in foreign policy of Iran, the output of diplomacy is a result of different elements such as politics and ideology. As mentioned above Amuzegar, in his work (1997), “Iran’s Economy under the Islamic Republic”, describes that Iran’s foreign policy is influenced by an important factor which is its revolutionary ideology.

Also, Seifzadeh (2003) in relation to Iran’s policy has mentioned that the achievement of the national interest in different policies is Iran’s aim. In his book, “A Conceptual Framework for Strategy and Foreign Policy of Iran”, he argues that Iran’s foreign policy is following its national interest just like other countries but its foreign policy as a continuous form of its domestic policy is challenging the international politics.
In opposition to this approach, Maleki, the director of the International Institute for Caspian Studies in Tehran in his book, “Decision Making Process in Foreign Policy of Iran”, has described that although Iran’s foreign policy structure has been influenced by democratic idea and ideology but, Iran has not acted as a dragon breathing ideological fire across the world, Iran has acted as a traditional entrepreneur and reliable trader.

With attention to energy, Maleki (2006) argues in his another work, “SCO&IRAN: Iranian Security Dream”, that the combination of strategic location and rich energy resources made Iran a focal point for the great powers’ competition throughout the modern period. This fact has profoundly affected Iranians’ perceptions of the world and of international relations. He describes that Iran is situated at the heart of the world’s most important petroleum hub and also controls crucial transportation routes entering the landlocked countries of Central Asia with the high seas.

The second approach considers Iran’s foreign policy as a dependent variable on energy policy. Proponents of this approach consider that specific geo-strategic location of Iran and its hydrocarbon resources give it the special role in the international relations in terms of regional as well as international player. Kayhan Barzegar as an example is one of the followers of this approach in his work "Understanding the Roots of Iranian Foreign Policy in the New Iraq" (2005) has argued about energy as one of the key factors of Iran’s foreign policy. According to this approach energy leads foreign policy of Iran and oil is a source of government power and is playing strategic role in Iran’s relations with other countries. Also energy has a profound role in terms of strengthen the economy security, and the most important in increasing military power.

This opinion draws attention to the confrontational as well as co-operational relation with the West and particularly to the U.S. in terms of energy. Hooshang Amirahmadi in “Iran’s development: evolution and challenges” (1996) argues that during the Shah period, Iran’s relation with the West and European countries was based on energy issues. Also, Amirahamdi in another work “The Political Economy of Iran's Oil Policy” has discussed about Iran situation in the international system. He believes that Iranian government leads its foreign policy towards East and in this diplomacy its
tools is energy. He believes that Iran can not achieve its national interest only in relation with East in his opinion; Iran needs West as well as East relations.

Taeb, Professor of Tehran University also in his work “The Important Elements Determine Energy Policy Making of Iran” (1995) has argued that energy and foreign policies of Iran have affected each other. He explains how depending on the oil revenue has led the government to consider energy relations as main aims in its foreign policy. In addition, Sariolghalam in his work “Foreign Policy of Islamic Republic of Iran” (1992) has argued that Iran pursued the foreign policy westwards in accordance with its national interest. Thus, the emergence of new market of China, India and Japan has drawn attention to Iran because of its economy as well as political considerations.

2.3. Theory of Domestic Explanations

Domestic approaches look at each state individually because these domestic explanations believe that each state behaves differently as a result of its domestic political factors. These explanations argue that states’ behaviors are different because each state has different domestic factors that can affect on its foreign policy. For example, while domestic political oppositions are strong in one state, leader’s orientations are strong factor in the other, and interest groups are powerful in third state, and so forth.

The scholars who have discussed about role of domestic factors have different approaches about the factors, for example Snyder’s (1991) in his book “Myths of Empire: domestic Politics and International Ambition” argues that interest groups and organizations can play strong role in different political structures. However another follower of this approach Hagan (2004) “Opposition, Ruling Strategies, and the Domestic Road to War: Political Explanations of Foreign Policy and the Great Powers since 1815” gives the important role to opposition actors who challenge the position and/or polices of the ruling groups or coalition.

James N. Rosenau in his work "Pre-Theories and Theories and Foreign Policy" (1966) as one of the followers of domestic explanations and as the most opposition to realist/systemic tried to make connection between international systems and domestic systems by introducing the idea of a penetrated political system when he argues that “where nonmembers of a national society participate directly and authoritatively, through
actions taken jointly with the society’s members, in either the allocation of its values or the mobilization of support on behalf of its goals” (Rosenau 1966:65).

Rosenau argues that there are different levels of causation that shape states behaviors such as individuals’ role, government structure, international relations, and international systems. Although he recognizes there are numerous domestic and international factors that can and do influence foreign policy behavior, these influences are necessarily channeled through the political apparatus of a government that identifies, decides, and implements foreign policy. Policy is made by people configured in various ways depending on the nature of the problem and the structure of the government.

In this case, Margaret G. Hermann in her book “How Decision Units Shape Foreign Policy: A Theoretical Framework” (2001) has argued that two questions must be addressed if we are going to get inside the “black box” of government to understand the relevance of leadership to foreign policymaking: (1) What types of actors make foreign policy decisions? (2) What is the effect of these decision units on the resulting foreign policy? Hermann has replied these questions according to the decision unit dynamics framework. Unit dynamics includes three models: predominant leaders, single group, and coalition (Hermann 2001).

The predominant leader’s model type is “likely if the regime has one individual in its leadership who is vested with authority”. Single group exists “if the government is not structured around a single individual, there may be a designated group that is responsible for dealing with the occasion under consideration”. And, the coalition model exists when the unit is “composed of multiple autonomous actors. That is, two or more entities [individual leaders, groups of policymakers, bureaucratic agencies, interest groups] have the power to commit or withhold the resources of government” (Hermann 2001:58-61).

Therefore, with attention to Rosenau approach and Hermann model beside the international factors, domestic political explanations also will be used in this study to examine the changes in the Islamic Republic energy policy. These domestic political factors are: 1) decision structure (the Supreme Leader, the President, the Parliament, Guardian Council, and Expediency Council 2) the Oil Minister, 3) interest groups and organizations 4) oil and gas production and consumption.
2.4. Theory of International System

Neorealism or realist/systemic, which is also part of structural theory and defensive realism, stands in the main idea that, state is the major actor in the world politics. However, state behaviors are not the independent variable, but their behaviors stand on the opposite side because international system drives states behaviors. So, states behaviors become dependent variable, while international system is the independent variable (Waltz 1997: 913).

Among Neorealism/realism explanation, Kenneth Waltz in his book "Theory of International Politics" (1979) argues that international system drives, affects, and shapes states behaviors. Throughout his systemic theory, Waltz argues that domestic elements are not important and are not helpful to understand states behaviors even though states come to its polices according to its internal process. In this matter, Waltz (1979) argues that "Each state arrives at polices and decides on actions according to its own internal process, but its decisions are shaped by the very presence of other states as well as by the interaction with them" (Waltz 1979: 65).

And to support his argument and show the importance of the international system and the interaction among states in shaping states behaviors, Waltz (1986) adds that "International-political systems exhibit dual control. Behaviors and outcomes change as interactions among system’s units become sparser or denser, as alliances shift, as nations adapt their policies to one another. These are changes within the system, and often systems dynamics are identified within, and limited to, such changes. What really matter, it seems, are changes in the behavior of states and in their alignments" (Waltz 1979: 342).

Therefore, international structure has specific characterization that affects states behaviors. According to Waltz, the international system is anarchy where is no international government and authority over states and governments. Waltz argues that in this world of anarchy, which is “self-help system, units worry about their survival, and the worry conditions their behavior”, states “take care of (themselves)” (Waltz 1979: 105 and 107). He argues “this world of anarchy leads states to be ready to response to the behavior of other states, since there is no protector that states can depend on an emergency time. Therefore, “because some states may at any time use forces, all states
must be prepared to do so – or live at the mercy of their militarily more vigorous neighbors, (and he explained), among men as among states, or the absence of government, is associated with the occurrence of violence” (Waltz 1979: 102).

According to these neorealism arguments, one would believe that the Islamic Republic foreign policy was influenced by the international system since the revolution in 1979. As a result, the Islamic Republic behaviors and actions were/are coming in response to the international factors. However, while the international system has many and different political and economic factors, in present study will look to fourth international factors to study their affects on the Islamic Republic energy decisions making in the last twenty-seven-year. These international factors are: 1) World Energy Demand and Specific Geographic of Iran, 2) The United States Sanctions, and 3) Iran’s Nuclear Policy.

These international factors will be used to examine the Islamic Republic energy policy since 1979. Although these theories can be used for studying about Iran’s energy policy but for understanding the energy relations between Iran – China and Iran – India theory of Complex Interdependence Model will be used.

2.5. Iran’s Energy Policy towards China and India

The South Asian and East Asian regions include two major powers – China and India in terms of economic strength. Rising of power China and India is in the same time with deadlock in negotiations between Iran and the EU-3 (Great Britain, France and Germany) over Iran’s nuclear program, a tendency evolved in Ahmadinejad’s government to review the country’s foreign policy orientations and to establish closer links with countries particularly China and India. This is in view of the fact that some Iranian politicians believe that the structure of international relations will be categorized into two distinct systems, the Eastern and Western. If such a thing occurs, they believe that Iran will be successfully able to go ahead with its nuclear program. This is because the inner circle of the Iranian think that Iran's policy towards East Asian countries will be shaped by the latter's energy requirements and in that situation, Tehran will take advantage of differences between Russia and China and the U.S. Some experts consider this approach to Iran’s foreign policy as tactical and as a sign of protest to the arrogant
behaviors of some Western powers, especially with regard to Iran's nuclear dossier others argue that this could represent a strategic change in Iran's foreign policy. The government of President Ahmadinejad is following the second approach.

During the first months of coming to power, high ranking officials in Ahmadinejad's government made several official visits to Asian countries, but according to the analysis by scholars of the Center for Strategic Research (CSR) (2008), "A review of the content of these visits reveals that Iran pursued an economic approach rather than a strategic one. In fact, despite showing an interest in forming alliances with Eastern countries, there was no sign of strategic planning." (Ahadi and Ameri 2008).

In this scenario, the questions arise are whether Iran can find it opportune for a mutually beneficial alliance with the East Asian countries specially China and India? Could interdependencies relations be created between them in terms of energy? Could energy contribute in determining their interdependence relations? If yes how and in what manner. For a clear understanding of this issue, some scholars have discussed about it and looked at it from different views.

2.5.2. Economic Interdependence

Some analysis were done by some scholars, results came out show energy as strategic factor in Iran's policy towards China and India, can be the main factor for relationship based on economic interdependence between Iran – China and Iran- India. These scholars believe that Iran’s relations with China and India is based on interdependence and due to its energy relations can provide strategic relations with them. This opinion is result of the continuation of the present policies of Western powers toward Iran. Thus, U.S and E.U pressure not only isolated Iran but also more importantly has shifted Iran's strategic orientation towards the East. These scholars argue that shifting Iran's relation from West to East Asian countries it essential for the West to adopt a pragmatic policy toward Iran.

It has to be considered that some of followers of this approach are looking balance of power in Iran’s foreign relations. According to this idea Iran can remove dependence on the West and enforce a balanced foreign policy. In addition, Iran relations based on economic interdependence with China and India can avoid them from
conflict with it. Based on this approach oil and gas are the main advantage for Iran to achieve its strategic relation with these countries.

According to this opinion some scholars such as Ahadi and Ameri (2008) in their book *"Iran & look to the East policy"* argue that energy can be considered as main and strategic factor in Iran’s relations with China and India if the expansion of Iran’s relations with Asian and Eastern countries in the framework of bilateral and multilateral or regional cooperation will happen.

Mahmood Vaezi (2006) also in his work *"An Asian Dialogue on Energy Security: A Model for Interdependence"* describes that interdependence is emerging among the Persian Gulf, East Asia and South Asia regions. He argues, Persian Gulf states can manage strategic concerns about energy security, while East Asian countries can meet some of the strategic needs of Persian Gulf countries on issues related to development and security. He considers important role for Iran as the second oil producer in the region.

In addition, some scholars argue that Iran-India energy relation is on the basis of interdependencies between two countries. Because both are powerful in their regions and therefore their relations have to be based on their strategic interests. Muni and Pant (2005), who are also studying India's Energy policies and its attempts to develop relations with Iran, in their book *"India's Search for Energy Security"* argue that Iran-India relation is based on oil and gas trade and they can create strategic relation based on energy.

Robin Wright (2004) also as one of supporters of this idea in his work *"Iran's New Alliance With China Could Cost U.S. Leverage"* describes that although China expanded plans to bolster energy supply security by accelerating the build up of oil reserves as it faces flattening production growth, and trimmed its target for relying on clean but costly natural gas, oil supply from out of the country is the main strategy of China. Therefore oil supplies from African countries and the West Asian countries is main strategy of it in energy security. Because of this strategy Iran can create strategic relations with China based on energy and as second oil producer in the region.
John W Garver as another follower of this opinion in his book “China and Iran: Ancient Partners in a Post-Imperial World” (2007) describes Iran – China relations as historical relationship. He argues that China stands as Iran's staunches ally on the UN Security Council, as well as its primary source of advanced technology and military assistance, built on centuries of close economic relations. He believes that successive governments of these two ancient and proud nations have reaffirmed their common interests in seeking an Asia free of Russia expansionism and U.S. unilateral domination. Garver covers the evolution of Sino-Iranian relations through several phases and explores the contentious debates over Iran's nuclear programs and China's role in assisting these programs and supporting Iran's efforts to modernize its military and oil industry infrastructure.

2.5.3. Supply and Demand

However in opposition to this idea, some scholars argue that the energy relation between Iran and China is not based on interdependence. Chang (2008) as one of them in his work “China's Policy toward Iran: Arms for Oil” argues that China-Iran relationship depends on “arms for oil” formula, providing weapons in exchange for oil from Iran and their relationship according to energy is based on supply and demand. He argues that other political interest between countries especially Iran and China play role in this relationship and their relationship is also result of some of non-economic elements like Iran's conflict with the United States of America.

Regarding Iran-India energy relation, Kronstadt and Katzaman (2007) explain that Iran-India energy relations are perceived on supply-demand system because India needs energy and Iran as one of the major oil exporters and gas preservers in the region has relation with India and both are trying to improve this relationship. They explain that Iran-India energy relation can not create strategic relations between two the countries, because Iran-India relations are likely to derail the further development of close and productive U.S.-India relations on a number of fronts.

However there are different approaches for energy relations between Iran and China, and between Iran and India but for studying about Iran's attempts to create
strategic relation based on economic interdependences between its self with East countries, Complex interdependence theory can be good use.

2.5.4. Complex Interdependence Model

Joseph Nye emphasizes a single theory can't demonstrate international relations. Liberalists were not able to expect the damage of World War, and realists judged that Cold War was very stable by power of balance, but they could not expect the end of Cold War. According to this issue, it has to be considered that energy relations between Iran-Chin and Iran-India also can't be explained by neorealism or domestic explanations theories. It is because Iran tries to create strategic relations based on economic interdependency to achievement its aims.

According to interdependence in economic interdependence, states and their fortunes are inextricably tied together. Two nations who traffic with each other become reciprocally dependent: for if one has an interest in buying, the other has an interest in selling: and thus their union is founded on their mutual necessities. This relationship between two countries is known by economic interdependence.

The concept of economic interdependence was popularized through the work of Richard N. Cooper. With the analytical construct of complex interdependence in their critique of political realism, "Robert Keohane and Joseph Nye go a step further and analyze how international politics is transformed by interdependence" (Crane and Amawi 1997: 107-109).

It is important to stress that Keohane and Nye explain changes in the world politics (along with increasing importance of the international organizations and interdependence among countries) during 1970s that was the decade, which most political and economic considerations were shaped by the Cold War politics and mentality. It seems that the world is experiencing a growth of economic exchange between nations that has its roots in the end of the Second World War.

According to the theory of Keohane and Nye, complex interdependence has three main characteristics. First, there are multiple channels that connect societies, including informal and formal government-to-government ties, multinational corporations, and multilateral organizations. This contradicts the realist notion that states only act as
coherent, sovereign units. These multiple channels suggest the various levels of contact that national leaders, both formal and informal, have with one another, continuously increasing opportunity for dialogue and the building of relationships between the significant interstate players. In addition, multinational corporations and financial institutions can directly affect the relationships between states. Since these firms are often limited very little by government control, they are playing an increased role in international relations. This increased role is due to the fact that these firms employ citizens of multiple nations, pay taxes in multiple nations, and have an increased influence on a nation's relationship with its business community. These firms are transcending state boundaries (Keohane and Nye 1987).

Second, there are multiple issues on the agendas of states that are not necessarily arranged in a hierarchy. Thus, military security does not always dominate a nation's agenda, as the realist theorists would believe (Ibid). Many issues arise from what used to be considered simple domestic policy, as described in the previous paragraph. These issues are important to numerous aspects of a national government, not just the foreign policy offices. Different issues often create opposing coalitions within a national government and within a domestic society, so domestic politics does not always stop at the state's border (Wang 2000).

The third major characteristic of complex interdependence is the decreased role that a state's military force plays in international politics. Based on complex theory, military force is no longer the best means of achieving a nation's goals. The effects of military force are extremely costly, economically, politically, and in human terms. Furthermore, the results of military force have become much more uncertain, with too high a risk. Of course, military power can still be used as a deterrence tool by nations, but since the end of the Cold War, this tool has taken a secondary role to economic sanctions and diplomatic pressure when attempting to deter or compel another nation to act in the powerful nation's interest. Complex interdependence determines that military force has decreased in importance in a nation's toolbox, when compared to the complexity of issues that have risen since the end of the Cold War (Keohane and Nye 1977).
In addition, Keohane and Nye characterize interdependence in two ways: (1) by making a qualitative distinction between sensitivity and vulnerability in this interdependence, and (2) by focusing on the symmetry of the joint dependence between states. They argue that asymmetrical, vulnerable interdependence generates a new set of constraints and incentives beyond those created by relative military power. They do not argue that economic influence dominate military power, but they do claim that the costs associated with military foreign policy options may make economic bargaining options preferable (Keohane and Nye 1977).

Conclusion

In the review of available literature and construction of the theoretical framework, due attention has been paid to some important points such as how energy policy is shaped and how energy relations can be determined by Complex Interdependence among oil and gas exporting and consuming countries. Domestic factors and international factors have been considered as main factors that have impact on energy policy making process of countries. It is worth noting that the scholars who are followers of domestic explanation have been using the theories of James N. Rosenau (1966), or Snyder (1991) and Hagan (2004).

In addition, those who believe that international factors have played important role in energy decision making process of countries have followed realism and Neorealism. Among them, theory of Kenneth Waltz (1979) has been used widely by the scholars. In addition, there is a belief that energy relation between oil and gas exporter and consumers can be based on either supply and demand system or on interdependence model. Under the light of these opinions, the present study will try to review Iran’s energy policy towards China and India. With this aim in mind, in the following chapter, review of Iran’s energy policy background will be studied.