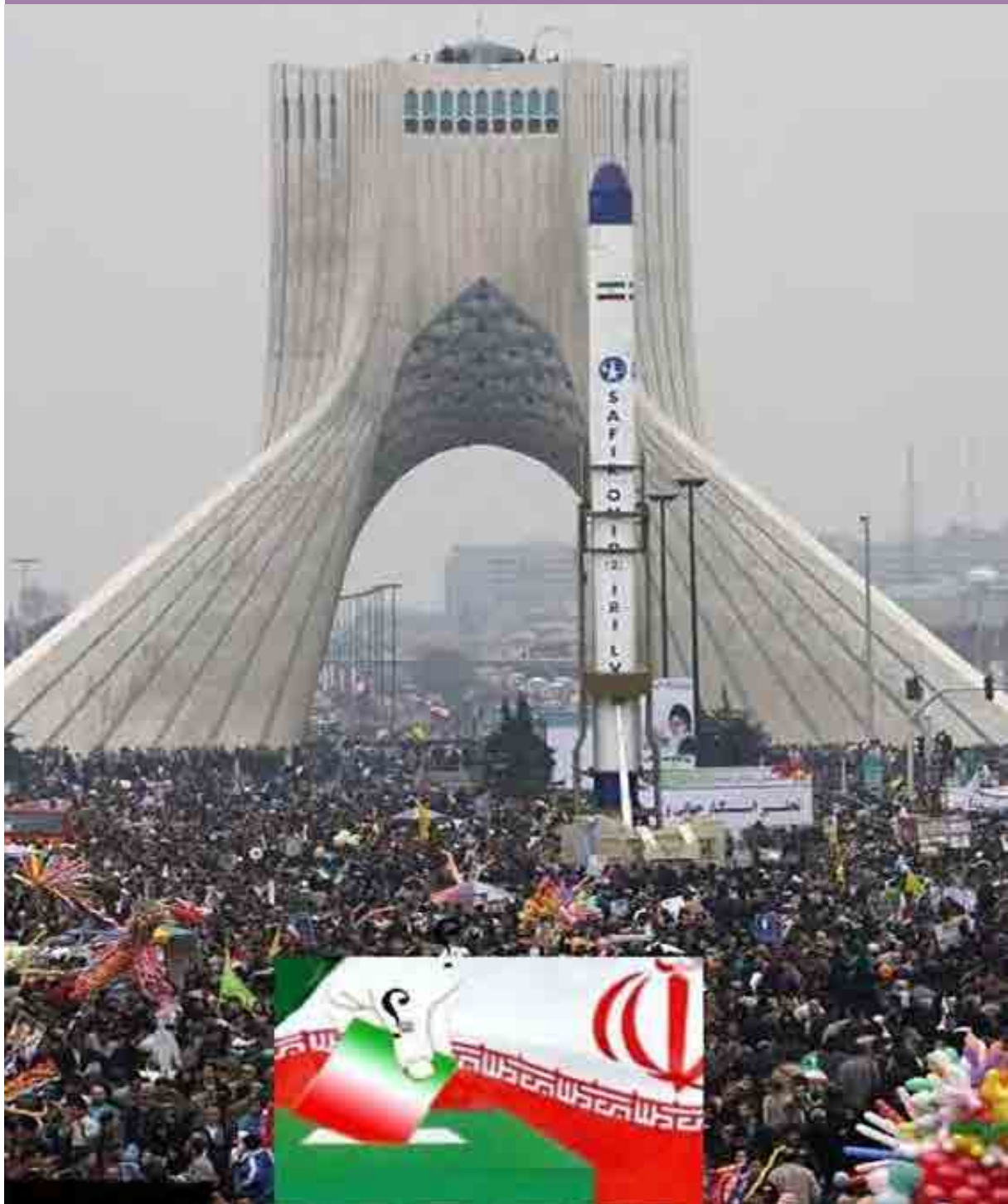


## IRANIAN PRESIDENTIAL ELECTIONS JUNE 2009



## **DURHAM UNIVERSITY**

### **Centre for Iranian Studies**

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Founded in 1999, The Centre for Iranian Studies is a subsidiary research body of the Institute of Middle Eastern and Islamic Studies at the University of Durham. Its central aim is to facilitate and encourage debate, research and the growth of Iranian Studies in the UK.

To achieve this, the Centre encourages links and exchanges between academics and academic institutions in the UK and Iran and hosts lecture series, seminars, workshops and conferences. Furthermore, the Centre for Iranian Studies facilitates the publishing of policy-relevant studies in Policy Briefs aimed at addressing Iranian affairs in a highly academic fashion.

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## Iranian Presidential Elections June 2009

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## Slogan vs. Manifesto: Analyzing Election Campaigning in Iran

Iran's next presidential elections will be held on June 12, 2009, and besides many politicians who indicated their inclination to run for the presidency if certain conditions were met, Mir Hossein Mousavi and Mehdi Karubi have made it public that they will compete against the current president Mahmoud Ahmadinejad in the upcoming election.

However, what is missing from all candidates' and hopefuls' agendas so far is an election manifesto. By the term "election manifesto" I mean a tangible plan that each candidate would present to the electorate as his election pledge, a plan both political and economic that is concrete and details as opposed to abstract and general.

Historically presidential election campaigns in Iran are mostly based on personality and slogans rather than programmes. In Iran slogans have taken the place of manifestos. Slogans are general, catchy and could be interpreted or explained differently before and after the elections. This can be better understood by the following examples from recently organised election campaigns in Iran.

A key slogan that was used explicitly by Mohammad Khatami during his election campaign in 1997 was to promote, strengthen and support "civil society". As a matter of fact, it was this slogan that rallied educated middle class Iranian's behind him. However once in office and under immense pressure from the hardliners' camp, he provided an unfamiliar definition of "civil society" hitherto unknown to anyone. In a famous speech at the Islamic Summit Conference in Tehran, 9 December

1997, he surprised every one by stating that what he meant by "civil society" was the "the City of Prophet Muhammad".

*While the Western civil society, historically as well as theoretically, is derived from the Greek city-states and the later Roman political system, the civil society we have in mind has its origin, from a historical and theoretical point of view, in "Madinat ul-Nabi."*<sup>(1)</sup>

If during his campaign Khatami had provided a program that explained how he was going to support civil society in Iran, he could not easily have bent his words and used the term "civil society" in a sense different from that in which it is commonly understood. But he has not, which gave him the liberty of not being accountable to what he said in his election campaign after being elected.

I am certainly not denying that Khatami was a president with a

***"Historically presidential election campaigns in Iran are mostly based on personality and slogans rather than programmes"***

reformist agenda. Instead I am questioning the transparency of that agenda during his first election campaign. When one does not provide people with a written document that explains in detail what exactly you are going to do once being elected as a president, you are in fact making yourself unaccountable to the electorate.

Another instance, this time from a Principalist President Mahmoud

Ahmadinejad. When Ahmadinejad launched his bid for the 2005 presidential election, his campaign pledges included "bringing oil money to people's tables".<sup>(2)</sup> Many poor working class people voted for him because of his general promise to improve their living standards but they forgot to ask Ahmadinejad how exactly he is going to deliver on his promise. Ahmadinejad did not say whether he was going to reduce taxes or increase them, nor did he provide a fiscal policy to which he could be held accountable. Instead he merely said that he will "bring oil money to people's tables". He did not even bother to provide his own interpretation of the promise he had made (like Khatami). In fact, after feeling secure enough in the position of power, he denied using such a slogan altogether.

Personality is an important factor in election campaigns everywhere. With all else being equal, candidates who hold charisma have better chances of getting elected than those who are not charismatic. In this sense elections in Iran may not seem that different from elsewhere. Both Khatami and Ahmadinejad did possess some charismatic characteristics that helped them win elections. However, what makes election campaigning in Iran different from that in the US for example is the accountability factor.

In America Barack Obama was under criticism by some prominent Democrats in the Congress for failing to keep his promise of pulling out all combat troops from Iraq by next April. Obviously, not every president can keep his or her election promises but in many countries the success or failure of the presi-

dent is compared against his or her election manifesto. The more promises they can fulfil the more credit they will receive. However in Iran it seems that presidents can get away with almost anything since they are not accustomed to stating their agenda and program in a precise fashion.

Until now there are three major candidates who have directly or indirectly expressed their willingness to enter the 2009 election race in Iran: the current president Mahmoud Ahmadinejad, the former premier *Mir-Hossein Mousavi* and the former speaker of *Majlis Mehdi Karroubi*. However the candidate whose late entry to and early departure from the election race has left everyone in the state of shock (i.e. former president Seyed Mohammad Khatami) must not be forgotten.

I would like now to examine each candidate's electoral behaviour in order to elucidate the above discussion and put it in the context of today's Iran.

**President Mahmoud Ahmadinejad** is the top Principalist nominee. As President he enjoys access to state funds and this gives him a huge privilege over his competitors. His numerous visits to almost every province in the country have exceeded the shape and scope of a normal presidential mandate and are largely considered as an exploitation of public money for personal gains. Furthermore, while the Iranian national television is constantly broadcasting president's speeches in near and far cities, the other candidates are deprived from holding a University hall meeting under the excuse that the official time for election campaigning has not yet arrived.

Mahmoud Ahmadinejad is the only candidate with a current presidential record. People can actually judge his policies and their effectiveness and decide whether to vote for him or not. In the economic domain his seemingly bizarre decisions such as cutting interest rates

below the rate of inflation and dismantling the Management and Planning Organization (which was historically charged with mapping out long term economic strategies) made him unpopular with many middle class Iranians. Giving out cheap loans and affordable housing to many lower income people and distributing shares of the major state owned companies among the poor families, however, have made him widely popular among the impoverished and lower income segments of the society.

In addition Ahmadinejad's "economic transformation plan" could be viewed as his election manifesto (at least in the economic terms). The plan which includes reforms in taxation and subsidies is supposed to give more freedom to the private sector and reduce the country's reliance on oil revenue.<sup>(3)</sup> This plan was passed to parliament for approval but the recent decrease in the price of oil and the subsequent fall in the state revenue have brought it to a deadlock.

Ahmadinejad's record as a president in addition to his economic plan can give the average Iranian electorate a solid glimpse of the next four years if he is re-elected. In an interview with Iranian national television and in an effort to respond to the criticisms made by former president Khatami against his economic plan, he said "those who use words such as "servitude" in relation to cash payment instead of subsidies should say what solutions they have to present?"<sup>(4)</sup>

**Seyed Mohammad Khatami** who has been the reformists' top candidate ruled as the president of Iran from 1997 to 2005. Even though he pulled out of the presidential race in 16<sup>th</sup> of March 2009, he spent a considerable amount of time during the last three years contemplating and operating on becoming a tenet of the Sa'dabad Palace for the third time. Therefore, for the purposes of my argument, I cannot afford to turn a blind eye on his activities. Before analysing Khatami's politi-

cal manoeuvres during the last three years, I would like to have a look at the bittersweet experiences of a president who used to be a symbol of reformism.

During his first two years in office President Seyed Mohammad Khatami was successful in expanding the freedom of both citizens and press. His "dialogue of civilizations" initiative was very well received in the western world and his attempt to crack the "tall wall of mistrust" between Iran and America was admired by most Iranians and many Americans, especially in the Clinton administration.

However, two years after Mohammad Khatami's overwhelming victory in 1997 his conservative adversaries (who had since been in a state of shock,) began to lick their wounds and put together a new strategy aimed at dismantling and blocking the reform efforts of Khatami. In the absence of strong reformist will to use the power of masses the conservatives took the initiative by gathering their most loyal elements inside and outside the Majlis in a formation later nicknamed *Setade Zedde Eslahat* [The Counter-Reform Headquarter].

Unfortunately for the reformists the eager conservatives involved in the Headquarter were for the most part successful in their mission. It seemed that Khatami's honeymoon of freedom and reform was going to end early.

After the student uprising of July 1999 and the "mass closure of pro-reform papers" in the subsequent years he became a handicapped politician who could not even protect his own ministers, let alone ordinary Iranians. The reformist lost the Majlis, the city councils and the presidential elections to their opponents.

Yet despite all his failures, Khatami is still a charismatic figure and is still seen by many Iranians as the only viable alternative to Ahmadinejad's rule.

It seems that Ahmadinejad's mismanagement of the economy, his cavalier attitude towards students and human rights activists and the way he deals with the free press and publications has alienated many of his initial supporters and made them wish for another period of Khatamisim. However, Khatami's withdrawal from the election bid and his endorsement of Mir-Hossein Mousavi has disrupted all these premature dreams.

### **Khatami's Approach to election campaigning:**

Khatami has always been more concerned with the theory of reform than its practice. After his presidency Khatami became active in two major fields. The first one was to promote his message of dialogue among the civilisations along with a broader audience. To achieve this purpose he made many trips to different countries around the world and held numerous lectures in which he was professing the idea of dialogue among the civilisations as an alternative to Samuel Huntington's "clash of civilizations".

The second part of his post-2005 strategy was to clarify his version of reformism and explain what his perception of reformism was.

In order to accomplish this task, Khatami gave two conferences so far. Both were organised by the BARAN institute. BARAN is an acronym for [Foundation for Freedom, Growth and Development of Iran] *Bonyade Azadii Roshd va Abadanie Iran*, a research centre established by Khatami and a number of his former colleagues after the end of his second term.

Khatami's speeches in these two conferences went on endlessly about the philosophy of reform and how reform and religion should be compatible. For example:

"The reforms that we speak about, democracy, civil society, growth

and development, all these can be achieved through religion."(5)

And:

"In today's world the long distance between morality and politics has been disastrous".(6)

Another important statement he made was that "a movement can only become sustainable if it derives from the centre of the masses' demands, decisions and apprehension". (7) He added, "There was a time that I did not want to touch on Dr. Shariati's idea's because he has many opponents and proponents, however he did do a very important job...he believed that the language of elite must be levelled with the language of the masses, of course the role of Imam in this [discourse] was very important and Dr. Shariati was very successful in this job, students and university lecturers sat next to workers and farmers and all

### ***Khatami has been more comfortable degrading Ahmadinejad's record than providing a new policy of his own***

understood each other's language." (8)

It seems that Khatami has realised that the language used by reformists up until that time was no match for Ahmadinejad's populist agenda. Therefore he was in agreement with a discourse that is both reformist and populist!

However, what has been completely absent during all of Khatami's recent lectures and conferences is a proposal or manifesto, which clearly and concisely states the policies he plans to implement once in power: "A Road Map for Reform".

For reasons that will be discussed later in the conclusion of this paper Khatami was reluctant to offer a detailed plan; instead he was doing his best to criticise the job done by

his nemesis, President Ahmadinejad. In a 2008 meeting with a number of Bushehri intellectuals and notables he criticised Ahmadinejad for his over-reliance on oil revenues. (9) In another meeting in March 2008 this time with the notables of the Bakhtiari tribe in a statement that was received as a harsh attack at Ahmadinejad's distributive policies he said that "people do not need to be given donations from their own pockets, our society is above that."(10)

To cut a long story short, Khatami has been more comfortable degrading Ahmadinejad's record than providing a new policy of his own. It is always easier to react to an unpopular policy in a negative way than to propose genuine policies in a positive way. Similarly it is less risky to announce vague but attractive slogans than to announce a list of feasible election promises. This pattern of behaviour (as we will see later) is prevalent among all election contenders.

**Hojjatol-Eslam Mehdi Karroubi** was the speaker of the Iranian Majlis from 2000 to 2004 and one of the

founders of the Association of the Combatant Clerics, an Islamic organisation that was created out of the Combatant Clergy Association in 1989. Karroubi left his organisation when members of the Association refused to support his bid for president in 2005.

In the 2005 presidential election Karroubi was probably the only candidate who made an obvious election promise: a monthly payment of 50000 Iranian *tomans* (about 50 US dollars) to every Iranian citizen if he was elected president. Middle class Iranian's underestimated this pledge and reduced it to the level of an amusing joke. Ironically a promise that was taken lightly by many Iranians brought its owner more votes than Dr. Moein's human rights and democracy agenda. Despite this relative success he did not make it to the sec-

ond round. Karroubi blamed election fraud and irregularities for this failure.

After his defeat in 2005 presidential election and in an attempt to fulfil the shortcomings of his previous campaign, he decided to form a political party. This decision was made in view of the fact that his former organisation lacked the will and the capability of effectively supporting him during the elections. Therefore he established his own party, the National Trust Party (NTP) *Hezb-e Etemad-e Melli*. In addition to this he published a daily newspaper of the same name where he and other high ranking members of his party express their views.

For a while Karroubi became an outspoken critic of the reformist agenda. He accused reformists determined in their political views of fanaticism. In return members of the Mosharekat Party and the Organisation of the Islamic Revolution Mojahedin accused him of political opportunism and lack of sound judgment. They blame Karroubi for splitting the reformist electorate in 2005 and accused him of taking this gesture only to please the establishment and avoid marginalisation.

Whether we see him as a pragmatist or opportunist, Mehdi Karroubi has managed to expand his party administration both in the capital Tehran and provinces further a field. The NTP emerged above expectations in the 2007 Assembly of Experts election and enjoyed an average performance in municipal and Majlis elections. These achievements, though very modest, brought some confidence to NTP headquarters and encouraged Karroubi to run for president one more time.

### Election Campaigning Activities

So far, Mr. Karroubi's approach to the presidential election contest has not differed significantly from that of other candidates. It seems that the same pattern of reaction instead of action, and slogan instead of

manifesto, is repeating itself in the case of Karroubi.

In a meeting with a group of artists and media activists he stated that "it is not possible to protect the sanctity of society by sticks and clubs, it is [only] through accurate and rational planning that society can be guided toward prosperity and excellence."<sup>(11)</sup>

It is yet to be seen if Karroubi is going to practice what he preaches and would actually provide his supporters with a plan for after his being elected. But so far there are no signs of such decision.

**Mir-Hossein Mousavi** was Iran's Prime Minister from 1981 to 1989. He was the last premier of Iran before the position itself was eliminated in the amendment of constitution in 1989. Currently Mousavi is a member of the Expediency Council. He is also the head of Iran's Academy of Art.

As Prime Minister Mir-Hossein Mousavi was very much for state-intervention. During his time in office he expanded state control over economy. Subsidisation of food and basic commodities, expansion of state's role in the foreign commerce in addition to policies of land redistribution and land reform are all examples of his leftist tendencies.

In the 1980s the Iranian political spectrum was divided into left wing and right wing. Initially the left and right were all gathered in the Islamic Republic Party (IRP), but gradually the disagreements between the two factions became unbearable and ranged from differences over the state's role in the economy to serious disagreements over the authority of the *Vali-e Faqih* or Supreme Jurisconsult. Eventually in 1987 the party was dissolved and the right and left wings of the party gathered around other organisations. While the right wing reorganised itself around the already existing Combatant Clergy Association the leftist faction reas-

sembled themselves around the newly established (1988) Association of Combatant Clerics that was established.

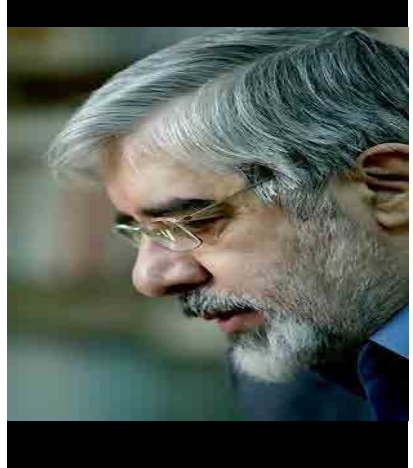
In 1985 Seyed Ali Khamenei (currently the Supreme leader of Iran) was elected as a president. A year before that the conservatives had won a relative majority in the second Majlis election. Mosavi's allies did not hold the majority any more and the rightwing of the Majlis was preparing a vote of no confidence to his government. However, at the time it was Ayatollah Khomeini's intervention which stopped the rightwing conservatives from achieving their objectives.

In 1989 Iran's constitution was reviewed and amended. One of the amendments was to eliminate the position of Prime Minister. Since then Mir-Hossein Mousavi has retreated from the frontline of Iranian politics into academic artistic activities. His main positions since 1989 have been membership of the Expediency Council and the heading Iran's Academy of Art.

### Mousavi's approach to the upcoming presidential election:

In 2005 Mir-Hossein Mousavi was approached by both Khatami and Karroubi to become the reformists' united candidate yet he disappointed his former friends and colleagues by refusing to enter the election.

Mousavi: A man of reform



Surprisingly, in 2009 Mousavi insisted on running for president despite the fact that Khatami was already a candidate. Eventually Khatami preferred not to compete against his friend and former colleague Mir Hossein Mosavi. Keeping his promise of “either me or Mousavi” Khatami urged Mehdi Karroubi to unite his front with Mousavi in order to stop a vote split in the reformist campaign.

In his first statement after Khatami’s withdrawal announcement, Mousavi presented himself as a principalist and a man of reform. He praised Khatami’s record as a reformist president and promised to support the development of civil society. (12)

Furthermore, a group of Mousavi’s allies have established an organisation called the Association of Monotheism and Cooperation (AMC) *Jameyat-e Tauheed va Ta’avon*. Recently they became very active in organising conferences and gathering support for Mousavi’s nomination (13). Another step that was taken by AMC presumably on behalf of Mousavi was the publication of 163 page “manifesto” named “The Guideline for Living as a Muslim” *Olgou-i-r Zist-e Mosalmanni*. (14) I have to say that for a moment upon first hearing about this “manifesto” I was very happy since I thought that finally the deadlock had been broken and someone had finally realised the importance of writing a manifesto.

To my surprise however I found out that this “manifesto” was not what I expected. To be fair the document offers an assessment of the socio-

political pathologies and shortcomings of the past thirty years. The document is full of preaching about what went wrong but when it comes to policy recommendations it does not go beyond general advice. (15)

### Conclusion:

1. Election campaigning in Iran has always been about personality and/or ideology and rarely about election pledges. The notion of manifesto as “official statements of the intended policy issued by political parties by the time of elections” (16) is a strange notion both to Iranian politicians and the electorate.

So far in Iran, the documents that were published at the time of elections were more concerned with locating problems rather than proposing solutions.

We know that a manifesto does not necessarily include detailed policy recommendations. “They can be politically quite irrelevant, neither read by anyone nor influencing elected party members, as with the ‘platforms’ issued by the US political parties.” (17)

However the concern of this paper is not over definitions: instead what is important is to analyse the nature of presidential campaigning behaviour in Iran in order to find the reasons behind the candidates’ reluctance to issue detailed election promises.

Whether we classify these documents a manifesto or not is not of significance here. In other words, the concern is over the lack of substance, not the form.

2. Among the presidential candidates in Iran there is a high tendency to use catchy slogans and mottos instead of presenting detailed election promises.

Slogans can be eye-catching and appealing, yet at the same time general and vague. It is easier to get away with an unfulfilled vague slogan than a detailed election promise. Therefore accountability is one factor which many candidates are trying to avoid when refusing to provide manifestos that include policies with numbers and figures.

3. One of the major problems with the Iranian opposition parties and individuals is that they are more comfortable degrading the government’s record than offering an alternative policy. It seems that policy recommendation does not have a serious role for Iranian political parties. Yet one of the main functions of political parties anywhere is to recommend policies.

At the moment it seems that reacting to anything that Ahmadinejad says or does is the only thing that the Iranian opposition is good at. Criticising Ahmadinejad is what reformists do best. However what they don’t do is to propose a policy of their own next to any policy of Ahmadinejad that they are rejecting. For example Ahmadinejad’s attempt to distribute the shares of the major state owned company among all Iranian citizens, was despised as unscientific and ill prepared by many reformists, yet they failed to provide any alternative policy which demonstrates how to privatise the state owned companies in Iran.







To summarise this idea, *re-actionism* instead of *pro-actionism* is the common denominator of all opposition parties in Iran and whilst it is understandable that opposition parties have to define their relation to government policies (whether approvingly or disapprovingly) what is not understandable is their failure to propose alternative policies and take the initiative of proposing precise policy recommendations in their own hands.

5. Some reformist candidates are so obsessed with their own agenda that they fail to notice that Iranians' main concern today is the economy. (18) In the last presidential election Dr. Mostafa Moein who was the top reformist candidate did not even bother to touch on economic issues. He came fifth while Mehdi Karroubi, who made the famous \$50 promise, came third in the race. In my opinion, presenting an economic pledge in the upcoming election seems to be a priority for any candidate who stands a chance of winning the contest.

6. The entire situation becomes clearer when we know that this time even some of the Islamic Republic's prominent clerics have noticed that there is something wrong with

the election campaigning style of Iran.

In remarks seen as highly critical of the way the election campaigning is taking place, Ayatollah Mahdavi Kanni the Secretary General of the Combatant Clergy Association stated that "When both the masses and elite want to elect someone, they read his plan and if the announced program was of use they will elect him.

Subsequently elections can not be won with the use of foul language or sabotage of the personality. Let us suppose that the vulgar party has won, what will they do after the election? Swear at [others]?"(19)

In a similar fashion, Hojjatol Eslam Nategh Nouri another high ranking cleric in the regime said that "a party shouldn't be clawing at others and should not always cry the "anti" slogan...another point is that [the party's] positions with regard to economy, culture, domestic and foreign policy must be clear."(20)

Finally we should keep in mind that the presidential election is in June 2009, and the candidates still have plenty of time to offer their election manifestos or pledges. We are right

to be sceptical, however, if the history of election campaigning inside Iran is anything to go by.

However if only one candidate proposed a detailed plan (be it for the economy, finance, domestic or foreign policy) the other candidates will have to respond to his action and in responding they will be forced to propose their own policies.

*Ariabarzan Mohammadighalehtaki*

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Photos: M. Sadegh Dalvandi, Soltanabad.net, Montaghd.com



Photo by M. Sadegh Dalvandi  
Iran Presidential Election Advertisement  
Arak - May 28 2005  
Soltanabad.net Montaghd.com

## Greatest Challenge for the Next President

### Economic asperities outbalancing Iran's nuclear ambitions and its antagonism towards the United States

With a typical defiant and combative manner, the Islamic Republic of Iran (I.R.I) celebrated the 30<sup>th</sup> anniversary of the 1979 revolution by displaying the prowess and achievements of the past 3 decades. Masses of military personnel and civilians demonstrated in streets carrying models of Iran's latest technological achievement, the homemade *Safir* satellite (1); while Ahmadinejad sanctimoniously decreed Iran the world's 'Real Superpower' (2). Some demonstrators were also keen to express the never-ending conflict with United States. Not content with the usual slogans of "Death to America" the more militant demonstrators dressed several donkeys with the American flag (3), emphasizing that the I.R.I will not compromise on its' opposition against U.S, come what may.

But beyond the bravado and defiant front, those who were in Iran this winter noticed a disturbingly grim mood gripping the country. The social atmosphere and political situation leave much to be desired, but the greatest challenge threatening Iran's stability lies within its exhausted economy. In an overall view, Iran's economy is in a very bad shape and similar to many countries suffers from recession. While this is officially denied by Iranian government, recent reports of Iran's Central Bank indicate a sharp decrease in new investment endeavors, increase of imports and decline of the stock market: all signifying growing stagnation within the economy. However, Iran has been coping with stagflation since late 2005; sooner than even the earliest signs of the current international recession. The dire state of Iran's economy is quite evident within its internal markets, namely the housing sector. In the past, real-

estate was considered a safe investment with low costs and high interest. Since 2006 prices of real-state and housing went sky-high while the capability to buy went to an all time low (4), creating a dull market. In addition, ordinary Iranians had to deal with other detrimental financial issues. According to official estimates, Iran has the highest inflation rate in the whole region at 25.6 percent (5). Many experts are skeptical of this figure and estimate the inflation to be somewhere between 35 to 40 percent. There is no doubt, however, that in the last 2 years foodstuffs have experienced more than 40 percent inflation (6). Iran's shrinking middle class and lower income classes in particular, the base constituency of Ahmadinejad,

#### *“Current economic challenges could overshadow Iran's nuclear ambitions”*

were the main recipients of these shocks while at the same time government subsidies suffered from decreased value due to inflation.

#### **Challenges for the next president:**

Iran's current economic predicament is a product of decades of poor planning, inefficient bureaucracy and massive mismanagement. These problems have been amplified by the erratic policies of Ahmadinejad and the isolation caused by the nuclear dispute. The next Iranian president will have to address the following issues sooner rather than later:

#### **Ahmadinejad's economic legacy:**

Ahmadinejad's reckless injection of oil income into the Iranian economy has created a serious problem of liquidity, and recent decreases in

oil prices have put Iran in even more immediate danger. Until mid 2008, assessments suggested that high oil prices would shield Iran's weakened economy for the next 3 to 5 years.

Now with oil prices stabilizing in the range of \$35 a barrel, Iran faces an enormous budget deficit of \$44 Billion (7) which will put ordinary Iranians through suffocating hardship in year 2009-2010. The government has no alternative other than to decrease capital expenditure; development projects will suffer as will government's ability to provide employment. Even if government cuts its capital expenditure to zero, it still faces a deficit which leaves the state with the politically dangerous necessity of decreasing subsidies. Ahmadinejad's disastrous economic policies and the extent of their long-term effects are subject to independent reviews, but arguably his absolute disregard

for planning and the creation of financial ambiguity have harmed Iran in both the short and long-term.

The strongest opposition against Ahmadinejad's popular schemes comes from apolitical technocrats who form the backbone of country's administrative management, and it is from them that Ahmadinejad faces continuing "organizational resistance" in all levels of structural management. Ahmadinejad initially sacked many high-level directors and ministers unwilling to accept his crude policies but soon resolved to disband Iran's oldest and most fundamental agencies responsible for central planning altogether. For example, the "Budget and Management Bureau" was reduced to a vice-presidency in October 2006 and the "Council of Currency and Allocation" was dissolved in July 2007.

Ahmadinejad granted the authorities of these bureaus to provincial governors and various Cabinet Sub-Committees where he could practice direct control.

Furthermore, Ahmadinejad's administration deliberately obscured financial estimates and statistics through many accounting hat-tricks, particularly by decreasing the usually extensive annual budgeting to brief summary books. This sham-bolic method of budget writing initially aimed to bypass parliament monitoring and increase government's power on allocation and expenditure, but it has also significantly contributed to the current deficit problem (8). The latest controversy over this financial ambiguity was in February when Iran's "Supreme Audit Court" confirmed that over \$1 Billion of Iran's 2006's surplus oil income is missing! (9) Due to these circumstances Iran's economy is a perfect example of the so-called "Dutch Disease".

#### **Iran's Energy Situation and need for new investment:**

In spite of having the second largest gas reserve in the world and the availability of foreign partners willing to risk investment, Iran has yet to reach higher mass-production capacity and has extreme difficulties with fulfilling its existing contracts and even in satisfying its own high domestic demand. Iran's difficulties in utilizing its vast gas resources are due to technical and managerial shortcomings. The Iranian government also allocates much of its immediate reserves to support and subsidize old unprofitable industries and wasteful pet projects.

Furthermore, Iran faces pressing concerns in its oil industry. Since late 2004, Iran's oil experts have persistently warned about Iran's diminishing oil income. They argue that, should existing trends in upstream output continue, the amount of oil Iran would be able to export would be gradually eroded over the coming decades, leaving the gov-

ernment starved of revenue. According to *Mohammad-Reza Nematzadeh*—until recently under-secretary of Oil Ministry- and *Kamal Denshyar* -current chairman of Parliament's Energy Committee—only a few years ago Iran produced 6 million barrels of crude oil per day. By the end of 2007 this was reduced to 4 million barrels and at the current rate will further drop to 3 million barrels by 2013. The more pressing problem is that in light of the current high and heavily subsidized internal consumption, Iran's oil income will soon be overrun by costs of internal consumption. Without drastic measures, Iran may even become a major oil importer within the next 15 years(10).

Iran's current energy situation is not the result of the nuclear standoff's imposed sanctions or Ahmadinejad's populist policies but is due to decades of subsidized internal consumption, diminishing upstream oil production, technological inability

### ***Without drastic measures, Iran may even become a major oil importer within 15 years***

and lack of new investment. Therefore, Iran needs huge investments in various parts of its energy sector. In 2005 *Bijan Namdar-Zangeneh*, Khatami's Oil Minister, stressed Iran's need for \$150 billion of investment in a 10 year period in order to avoid crisis(11). Zangeneh's successor in Ahmadinejad's government, *Kazim Vaziri-Hamaneh*, confirmed this estimate and in 2006 announced that although close to \$38 billion had been invested in the oil industry since 2003, another \$120 billion investment should be allocated to this sector before 2013 (12). Hamaneh's tenure as Oil Minister was short and he was dismissed for resisting Ahmadinejad's interventions and popular policies. Along with Hamaneh, *Mahmud-Reza Shoraka*, Chief of "Central Budget and Planning Bureau", resigned in protest as well. Shoraka had also warned that without the

necessary investment, Iran will fail to increase its oil production and along with high internal consumption Iran's income of crude oil will drastically decrease. It is fair to state that the current state of Iran's energy sectors is unsustainable.

#### **The nuclear debacle:**

I.RI leaders have persistently boasted that U.S led sanctions are ineffective on Iran's state of economy. The case could have been made that while Iran enjoyed high income from oil and gas production, these sanctions had only a limited effect. The sharp decrease in oil prices since November 2008 have altered this previous balance. The energy sector's low profit coupled with the current huge deficit makes Iran very vulnerable to current sanctions and any future extensions in the years 2009-2010.

Major English, German and Japanese banks have complied to U.N Security Council Resolution 1737, mainly to avoid U.S treasury punitive measures. In the past the Islamic Republic has endeavored to balance U.S antagonism by building

closer ties with Russia and China. Indeed, China and Russia were able to decrease the severity of Resolution 1737. Iran also viewed China and Russia as potential investors which would compel both countries to provide political support to Iran in return of lucrative deals. In 2007 Chinese company CNOOC signed a gas agreement worth of \$16 Billion (13). And since February 2006 Iran has been in extensive negotiations with the state-owned China Petroleum & Chemical Corporation to finalize an energy deal potentially worth \$100 billion for development of Iran's Yadavaran oil field (14).

However, the nuclear debacle has affected Iran's trade relations with even the politically friendly China and Russia. Since 2007, *Assadollah Asgharulady* chairman of Iran-China Chamber of Commerce has constantly protested against restric-

tions imposed on Iranian entrepreneurs by Chinese banks (15). Iranian leaders are fond of talking about Iran's special relations and strategic alliance with China and Russia, but in reality neither of these countries has demonstrated any willingness for such an alliance or for infinite support of the Iran's nuclear program. Russia's limited support has been rewarded by major concessions over the energy resources of Caspian Sea, a long-term loss for Iran's national interests. Similarly, "Beijing provided a degree of support for Iran against U.S pressure, but has also limited its commitment to Iran to minimize the adverse impact of ties with Iran on China's links with the United States and the Arab and European States, and on China's international reputation in general."<sup>(16)</sup>

Unless Iran agrees to a political compromise on its nuclear project the U.S will certainly try to exploit Iran's energy vulnerabilities. Iran's dependence on petrol exports for internal consumption will be an obvious target for U.S efforts. The U.S will also increase its pressures to dissuade potential energy investors in Iran. With the current state of the economy, continuing the usual attitude of non-submission will be highly risky for Iran.

#### **Socio-political risks for the next Iranian president:**

All signs and surveys confirm that financial difficulties are the main concern of ordinary Iranians and will be the most important factor in the 2009 presidential elections. However, none of the candidates have highlighted this as their main priority or have provided specific planning for tackling these numerous problems. Other than the historical roots of this approach, the main issue is that no candidate dares to disclose either the extent of economic reality, or the necessary course of action to the public. Facing the immediate problem of deficit and low oil prices, the state is left with no option other than to drastically decrease subsidies.

Ahmadinejad has delayed this move due to the resulting political unpopularity and repercussions of such an action on the eve of election. Understandably, no candidate wishes to announce that his first act as president will be the diminution of decades of government subsidies. Nevertheless, at the current time this policy seems inevitable.

The same realities suggest an extremely dangerous horizon for any Iranian government in the years 2009-2010. Historically, all political upheavals were triggered in times of financial difficulties. In contemporary Iran this has usually been manifested with an initial oil boom and government mismanagement causing high inflation: this was the case in the 1978 revolution. <sup>(17)</sup> However, the current situation is more similar to the Rafsanjani presidency in early 90s, when financial downtime caused by low oil income and high inflation triggered violent unrest in cities of *Mashhad*, *Qazvin* and *Islam-Shahr*. These so-called 'blind riots' had no clear political motives and leadership; they were social protests born out of political frustration and financial hardship. Similar revolts will probably occur in late 2009 and

### ***Iran's dependence on petrol exports for internal consumption will be an obvious target for U.S efforts***

may have further complications for the Islamic Republic of Iran. A prelude to this occurred in June 2007 when the government's sudden implementation of petrol rationing caused brief but costly riots in Tehran. A new president with high approval rating can hope to postpone the immediate socio-political threats but will have to break from many longstanding policies –of business as usual– if he wishes to tackle the growing financial perils in the next 2 to 3 years. Equally, Ahmadinejad's re-election will cause immediate social upheaval and may even pave the way

for another revolution.

#### **Conclusion:**

At the moment Iran faces a \$44 Billion deficit and is in need of \$120 Billion if it wishes to structurally reform its energy sector. Furthermore, according to the current Minister of Labour and Social Affairs, Iran needs to invest \$3,700 billion to realize the outlined objectives of its extensive "20-Year Vision plan" <sup>(18)</sup>.

Despite the need for new investment, Islamic Republic leadership has not yet demonstrated a willingness to surpass the political and ideological barriers hindering foreign investment. The constitutional prohibition over foreign ownership of national energy reserves still stands and consequently so does the 'buyback' contract model; obliging IOC's to surrender control of oil and gas fields after becoming operational. There is relatively little incentive for IOC's to take a risk on investing in Iran when the returns are so limited. The current standoff over Iran's nuclear programme has also added to Iran's energy problems. Oil majors such as Shell and Total have become concerned that the political risks of investment are not worth Iran's buyback terms. It is evident that Iran has to change its policies if it wishes to attract new investors. However, for the past 30 years, the Islamic Republic has championed national right and control over natural resources, using it as a means for political legitimization. Changing this policy in open will be embarrassing and can put the initiator in serious political difficulties.

The next Iranian President is therefore left with the imperative decisions of diplomatic compromise and fundamental changes in financial planning and decision making. A compromise over the nuclear program will provide Iran with some breathing space, alleviate internal recession and encourage

new foreign investment.

Much relies on direct negotiations with U.S and the fact that both sides have much to gain from successful and extensive negotiations. A fragmented and partial compromise will only go so far given that the U.S effectively controls the limit of imposed sanctions on Iran and that much depends on severity of U.S punitive measures for those who wish to invest in Iran. As far as the need for new investments is considered, the United States is the prime candidate outweighing all other contenders.

In the long-run Iran has no other choice other than to compromise on its commitment to the controversial nuclear programme.

In the face of current economic challenges it can no longer afford high stakes gambling, as the country appears to slide towards a crisis.



The necessity of direct negotiations with United States is desirable



*Ehsan Abdoh*

Ahmadinejad's re-election may cause significant social upheaval and unrest.

**Endnotes:**

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Photo: Iranian Students News Agency (ISNA)



Will voters want a dramatic change for Iran in 2009?

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## **Past and Future CIS Events**

### **Ferdowsi Lecture**

#### **Iranian Theocracy & Democracy: Convergence of Contradiction?**

Date: 10 December 2008

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Venue: Room 102, Al-Qasimi Building, Durham University

Speakers: Prof. Charles Melville, Dr. Mohammad Rasekh, Dr. Ali Paya and Prof. Jalal Dorakhshah

### **Public Lecture**

#### **Human Rights: A Universal Language? Challenge and Obstacles in Iran**

Date: 16 February 2009

Time: 12:00

Venue: Room 102, Al-Qasimi Building, Durham University

Speakers: Ms. Roya Kashefi, Head of the Human Rights Committee at the Association des Chercheurs Iraniens

### **Professor A.K.S.Lambton Memorial Lecture**

#### **Sex, Drugs and Rock n'Roll: Ethics, Law and Clerical Authority in post-revolutionary Iran**

Date: 04 March 2009

Time: 15:00

Venue: Room 102, Al Qasimi Building (Durham University)

Speaker: Professor Robert Gleave

### **Iranian Nouruz Party**

Date: 14 March 2009

Time: 18:30

Venue: St. Aidan's College, Durham University

### **Iranian Culture Week**

Date: 27 April 2009—1 May 2009

Time: TBA

Venue: St. Aidan's College, Durham University

### **Farabi Lecture**

#### **Iran and the International System**

Date: 2-3 June 2009

Time: TBA

Venue: St. Aidan's College, Durham University

Speakers: TBA

### **Lecture: Iran's Presidential Elections of June 2009**

Date: 4 June 2009

Time: TBA

Venue: Room 102, Al-Qasimi Building, Durham University

Speakers: Dr. A. Mohajerani, Minister of Culture, Under President Khatami

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