



Iran after the Protests: A False Stability

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The protests in Iran underscored both the requirement for deep economic reforms and the tensions in the Iranian ruling elite. President Hassan Rouhani's reform proposals may generate further tensions, and the result of reforms may influence the shape of the Iranian political scene in the longer term. Although the protesters criticised Iran's engagement in Middle Eastern conflicts, it is unlikely that the authorities will decide to limit it. Yet, the Iranian government will strengthen efforts to ensure an EU guarantee for the nuclear deal.

Protests began on 28 December in Mashhad, the second most populous city in the Islamic Republic, and later spread throughout the country to around 85 cities. This made them the biggest protests since the 2009 Green Revolution. An estimated 25 people died and more than 3,700 were arrested due to the direct actions of security forces. The protests were rooted in the economy. Iran's structural problems, mainly the engagement of security services in the economy, have been blocking development in this area, and Rouhani's reform efforts are hampered by hardliners interested in maintaining the status quo. However, political slogans also appeared during the protests. The demonstrators criticised Iran's engagement in regional conflicts and voiced anti-government and anti-regime demands. Yet, this posed no real threat to the regime, which is protected by an efficient and consolidated security apparatus. Furthermore, the protests were not politically coordinated. This stems from the fact that there is no power willing to postulate regime change inside the Iranian political elites.

The Protests and the Iranian Economy. The demonstrations were a result of Rouhani whipping up Iranians' expectations. During last year's presidential campaign, he made many economic promises. He promoted the nuclear deal (JCPOA), claiming it would bring great financial benefits. Some economic indicators seemed to prove him right. According to the International Monetary Fund (IMF), Iran's GDP rose around 12.5% between March 2016 and March 2017 (the Iranian fiscal year). The lifting of some sanctions, which allowed oil exports to increase, contributed to this rise. The IMF's forecasts showed that, in the next fiscal year, Iran would experience 4% growth. The Iranian authorities also count on the higher inflow of foreign direct investments at the level of \$8 billion, based partly on the JCPOA, which encouraged foreign companies such as French Total to invest in Iran.

This improvement in the country's general economic situation has had no positive impact on the Iranians' standards of living. Since the start of the JCPOA, the unemployment rate has risen, currently standing at around 12% and reaching 26% among younger Iranians (in the cities in which protests took place, both indicators are even higher). The poverty level and income inequalities have also risen. Iranians' disappointment was further deepened by the budget, the draft of which was published on 10 December last year. This draft envisaged both a rise in the price of fuel and a reduction in benefits for the poorest Iranians, while at the same time raising spending on the Revolutionary Guards (the branch of the security forces which protects the Islamic Republic's system) and the religious foundations. This exacerbated social dissatisfaction. The Society of Devotees of the Islamic Revolution estimates that, since March 2016, Iran has

seen at least 1,700 smaller-scale protests. In this light, the December protests could be interpreted as indicative of a growing trend.

To diminish social dissatisfaction, the Iranian authorities have to make profound reforms. IMF estimates indicate that maintaining GDP growth at 4% will require the creation of around a million new jobs per year. This is an enormous challenge for the Iranian economy, which has been harmed by corruption, lack of transparency and low tax revenue, among other things. One source of these problems is that part of the country's economy is under the control of the Revolutionary Guards (the most conservative estimates suggest about 30% of the economy). This means that the reforms aimed at increasing transparency, sealing up the tax system or diminishing the participation of non-fiscal arms of the state in the economy will harm the economic interests of groups upon which the regime's stability relies.

Tensions in the Political Elite. The protests underscored another trend, which has been visible since the previous year's presidential election, that is, the growing rivalry in the political elite. That the demonstrations began in Mashhad raised speculation that the rallies were organised by Ebrahim Raisi, Rouhani's main opponent in the 2017 election. The city is a political base for Raisi, who has been constantly criticising Rouhani and his initiatives since losing the election.

The Rouhani camp seemed to be convinced about Raisi's leading role in organising the first protests. First Vice-president Eshaq Jahangiri not only claimed that the country's economic troubles served "some groups" as a tool to attack the administration, but he also warned critics not to "take up actions that others may use." Soon, the Revolutionary Guards also joined the dispute around the protests. The media, which are tied to them, have started to broadcast programmes critical of Rouhani. The materials were presented in such a way that the blame for the country's economic hardships was not put on the whole regime.

Tensions in the Iranian political elite are not a new phenomenon, but this time some indicators make them more interesting to follow. Most of all, though harmed by the lost election, Raisi is still considered as a favourite to replace the current Supreme Leader Ali Khamenei. Thus, his constant attacks on Rouhani are probably a tool to maintain this position. The Revolutionary Guards' actions, in turn, may indicate that they are trying to divert public attention from the costs generated by their operations and direct social dissatisfaction at Rouhani's administration. Neither is the severity of Rouhani's criticism of parts of the regime common. For example, when he revealed the draft budget he criticised the "fraudulent institutions" for causing the economic damage. Thus, he attacked the hardliners who have been blocking his reforms. What is more, Rouhani seems determined to carry out the reforms, considering them to be an indispensable condition for the functioning of the country. In these circumstances, quarrels in the Iranian elite may be sharper than usual.

Conclusions and Prospects. Rouhani's reform efforts will induce tensions in the Iranian political elite, since the required changes necessitate harming the economic interests of part of the political establishment. The success of the reforms will hang on Khamenei's support. There are some signals that the Supreme Leader understands the urgency of the reforms, for example his call to the Revolutionary Guards to withdraw from economic activities not connected to their mission (such as interests in the construction industry). Yet, it is most likely that the Revolutionary Guards will undertake only cosmetic changes that do not meet the Iranian economy's needs. Such a turn of events would result in maintaining the tensions among Iranian society, making further protests more likely.

Rouhani's reforms may have consequences for Iranian domestic politics. Their success could strengthen the moderates' position in the regime. This would not necessarily mean that he would be considered as a favourite to replace the current Supreme Leader, but would further undermine Raisi's position. On the other hand, Rouhani's failure would strengthen the hardliners, supported by the Revolutionary Guards.

It is highly unlikely that the protests will limit Iran's engagement in the Middle Eastern conflicts. The country's policy in this area is subordinated to the Revolutionary Guards and Khamenei. However, the Iranian authorities will intensify their efforts to maintain EU support for the nuclear deal in its current form.¹ The government will try to gain an EU guarantee for the JCPOA if U.S. President Donald Trump decides to withdraw from the agreement, and to enhance economic cooperation between Europe and Iran. EU Member States will have to strike an uneasy balance between their U.S. ally's endeavours and their will to maintain the JCPOA.

Possible economic reforms in Iran may improve investment conditions for European businesses, among them Polish energy companies.² Moreover, Iran's bids to gain political and economic support in Europe may lead to the formation of new instruments of EU influence. It may foster the bloc's attempts to seek a diplomatic resolution of tensions between Iran and the United States. An example in this respect would be a recent proposal by French President Emmanuel Macron, who suggested working on additional agreement to encompass the Iranian missile programme and respond to U.S. concerns in this area.

¹ M.A. Piotrowski, "President Trump's Ultimatum on Iran Nuclear Deal," *PISM Spotlight*, no. 4/2018, 17 January 2018.

² B. Bieliszczuk, "Iran: A Challenge for Polish Diplomacy and Energy Companies," *PISM Bulletin*, no. 78 (1018), 10 August 2017.