

GOVERNANCE

Iran awaits its new president

As a regime insider, Rouhani is well placed to forge unity among the various centres of power in the Islamic Republic and push through vital reforms

MARK WATTS

Hassan Rouhani's landslide victory in the 14 June presidential election came as a surprise even for those closest to the Iranian political sphere. Considered an outsider by many during the run-up to the election, Rouhani took 50.7 per cent of the vote, with about 72 per cent of the electorate turning out to cast their ballot.

Many Iranians are optimistic that the president-elect will be able to help turn around an economy racked by falling oil export revenues, rising unemployment and soaring inflation. Rouhani also gives more hope to those wishing for an end to the stalemate in nuclear negotiations between Tehran and Washington.

His success marked an unexpected defeat for Iran's conservative hardliners, which made up the remainder of the candidates, with Rouhani offering a more moderate agenda.

Regime insider

Although Rouhani is seen as a reformist compared with the other presidential candidates – whittled down to eight from the 680 registered candidates screened by the Guardian Council – he is still very much a regime insider. Rouhani is a member of the Assembly of Experts (a body of 83 clerics with authority to appoint and theoretically dismiss the Supreme Leader), the Supreme National Security Council and a former member of the Majlis (parliament).

"This is not a vote for him, but a vote against the conservative group ... a vote against what the regime was standing for," says Fariborz Ghadar, senior adviser at the Center for Strategic and International Studies in Washington. But Rouhani's status as an insider could be a help rather than a hindrance as he will have to juggle the various centres of power in Tehran to push through any reforms.

"It's an amazing set of obstacles that he has to face, but he has a chance to make things work," says Ghadar. "He has to work with the conservative national institutions, the judiciary that he has not been close with, the Guardian Council, the powerful television and radio organisations, the Islamic Revolutionary Guard,

KEY FACT



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Source: MEED

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the hardline clerics and the right-wing press." The second four-year term of Mahmoud Ahmadinejad was characterised by deep divisions between the president and Supreme Leader Ayatollah Ali Khamenei and his conservative backers in parliament, as well as the Revolutionary Guard.

Rouhani's place among the establishment could give him the means to form a consensus of conservatives, centrists and moderates in parliament, as well as winning the support of the Supreme Leader and other powerful figures in

Tehran's elite. "A more unified approach means that Rouhani can actually implement reforms as, especially at first, he will not be fighting off the critics," says James Ingram, country manager for Iran at US consultancy IHS.

"The most notable change will likely be in the personnel associated with the Rouhani administration. Many of the people close to and installed by Ahmadinejad will now be replaced, and a number of figures from the [Mohammad] Khatami and even [Ali Akbar Hashemi] Rafsanjani administrations – as well as newer faces – will be installed."

Foreign policy

In terms of foreign policy, the return of experienced diplomatic figures from previous governments would be seen as a positive move by the West, if it marks the end of the aggressive posturing that characterised Ahmadinejad's eight years as president.

Rouhani has been positive about finding a solution to the standoff with the West over nuclear negotiations, which has resulted in increasingly harsh sanctions that have crippled Iran's economy.

In an interview the day before the election with London-based Arabic newspaper Al-Sharq al-Awsat, Rouhani said: "Iran has nothing to hide. However, in order to proceed towards settling the Iranian nuclear file, we need to reach national consensus and rapprochement and understanding on an international level. This can only happen through dialogue."

IRAN KEY ECONOMIC INDICATORS

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013f | 2014f | 2015f |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Population (millions) | 71.3 | 72.2 | 73.2 | 74.3 | 75.2 | 76.1 | 77.1 | 78.1 | 79.1 |
| Nominal GDP (\$bn) | 307.4 | 350.6 | 360.6 | 419.1 | 495.9 | 548.9 | 429.2 | 362.3 | 388.2 |
| GDP per capita (\$) | 4,312 | 4,857 | 4,927 | 5,638 | 6,599 | 7,211 | 5,568 | 4,639 | 4,908 |
| Real GDP growth (annual change, %) | 6.4 | 0.6 | 4 | 5.9 | 3 | -1.9 | -1.3 | 1.1 | 2 |
| Total government debt (gross, % of GDP) | 17 | 13 | 15 | 17 | 14 | 11 | 11 | 13 | 16 |
| Current account balance (% of GDP) | 10.6 | 6.5 | 2.6 | 6.5 | 12 | 4.9 | 3.6 | 1.9 | 0.2 |
| Unemployment (%) | 10.5 | 10.4 | 11.9 | 13.5 | 12.3 | 12.5 | 13.4 | 14.7 | 15.5 |
| Inflation (%) | 18.4 | 25.4 | 10.8 | 12.4 | 21.5 | 30.6 | 27.2 | 21.1 | 20.6 |

GDP=Gross domestic product; f=Forecast. Sources: IMF; MEED

On 17 June, in his first news conference after winning the election, he said Tehran is now ready to be more transparent about the development of its nuclear programme. Rouhani, who was the country's chief nuclear negotiator in 2003-05, said Iran would not suspend uranium enrichment, but was ready to work towards "constructive interaction with the world".

"He's got a posture and experience with the West that the West like, and if he can convince the conservatives and the Supreme Leader that some kind of arrangement in the nuclear area can be made, then I think it can be done," says Ghadar.

Iran maintains that it has the right to develop nuclear technology for domestic energy purposes and that its facilities have passed inspections by the Vienna-based International Atomic Energy Agency (IAEA).

As of February, Tehran has offered to reopen talks on the condition the US upholds its right to enrich uranium for peaceful purposes; a condition to which the US has been reluctant to agree, given Iran's record of hiding facilities and its refusal to let the IAEA inspect certain operations.

Not all positive

Not all commentators on Iranian are positive that Rouhani can improve the prospects for a nuclear deal with the West after the stalemate reached between Iran and the P5+1 (the US, China, France, Germany, Russia and the UK) at talks in Kazakhstan in February.

"The essence of Iran's role will not change. It will be more secretive ... less open," says Hossein Askari, Iran professor of international business and international affairs at the US' George Washington University.

"Rouhani is a clever man and not bombastic in the least. These are policies that are long-standing and they will not be changed by him or anyone like him, who has had a big hand in developing these policies anyway."

Hopes of the US easing the pressure on Iran were dealt an early blow as the Iran Freedom & Counter-Proliferation Act (IFCA) 2012 came into force within a month of Rouhani's election victory. The new sanctions, which were signed into law on 2 January, introduced sweeping new barriers to international involvement in Iran's energy, shipping and shipbuilding industries.

To find a solution on the nuclear issue, Rouhani will have to reach a consensus with the Supreme Leader and powerful conservatives in the government before a compromise can be reached with Washington. Ayatollah Khomeini's public stance during the Ahmadinejad administration was that the sanctions are man-



Rouhani: Seen as a reformist by the West

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ageable and can be dealt with by diversifying Iran's economy and reducing its reliance on oil export revenues.

Khomeini's goal is to weaken support for the sanctions internationally and rectify Ahmadinejad's economic mismanagement, while continuing to advance the uranium enrichment programme.

But the current economic situation suggests that any mismanagement under the previous leadership cannot be easily reversed, particularly in light of the further tightening of the sanctions regime, with the introduction of the IFCA.

According to the central bank, inflation is now running at above 30 per cent and food prices are estimated to have risen by 60-70 per cent last year, driven by a sharp devaluation of the Iranian rial. At the same time, oil exports have dropped to a near 30-year low, while export revenues fell 27 per cent in 2012, despite higher international oil prices, according to the Washington-based Energy Information Administration (EIA).

Iran's economy shrank by 1.9 per cent in 2012 due to the stranglehold of sanctions on the oil sector and is forecast to decline by a further 1.3 per cent this year. Unemployment is around 13 per cent, not counting women or the university student population, which has swelled with Iranians choosing to take up free education rather than remain unemployed.

"Rouhani wants the private sector to operate on its own with less restrictions and he is now

arguing for the reduction of subsidies," says Ghadar. "But the domestic economy is in a mess with sanctions and bank restrictions that are hitting the population very hard."

Middle East policy

While some commentators believe Rouhani's appointment improves the chances of Iran reaching an agreement with the West on the nuclear dispute, there is thought to be little appetite for a change in foreign policy towards the Islamic Republic's allies in the Middle East.

Tehran remains a staunch supporter of Bashar al-Assad's regime in the Syrian civil war, sending Revolutionary Guards to help the Syrian military.

Hezbollah, the Iranian-sponsored Lebanese political and paramilitary group, has reportedly also helped Syrian government forces fight the opposition.

"It is extremely unlikely that the election of Rouhani will impact Iran's support for Al-Assad in the Syrian civil war," says Ingram. "This is a key issue for the Supreme Leader and so no change is expected."

While Syria, Iran's strongest ally in the region has descended into crisis since 2011, Tehran is now fostering stronger ties closer to home following the US' withdrawal from Iraq.

Relations between Tehran and Baghdad have strengthened considerably in recent years, with Iran estimating that trade increased tenfold between 2003 and 2010 to \$8bn. It is expected to hit \$12bn by 2013, with Iran also leading several reconstruction projects in Iraq.

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"We are seeing stronger ties with Iraq and bilateral trade increasing year on year. The governments are close and Iraqi politicians frequently visit Iran," says Ingram. "Both countries need each other, with Iran helping keep Shia militant groups in check, while trade with Iraq is useful for Iran, especially given the sanctions."

When Rouhani takes office on 3 August after the vote is ratified by the Supreme Leader, the president's ministerial appointments should give some indication of his priorities for the term ahead. Speculation about what reforms the new president will be able to push through is widespread, but nothing will be clear until he gets his feet under the table. 