

# Political Structure and Economic Policy in Iran

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## Introduction

Iran's relationship with Western countries, including the U.S., has become tense due to its suspected nuclear development program and military support to the Syrian government. As the U.S. and the EU step up their economic sanctions, exports of Iran's petroleum, the nation's major export item, are declining. Iran is also experiencing severe depreciation of its national currency and acceleration of inflation. These have significant impacts on Korea as well. The stability in energy supply is at risk and the trade between Korea and Iran is significantly restricted. It appears that unless Iran's relationship with the U.S. and other Western countries improve, these circumstances are unlikely to change.

This does not mean, however, that Iran's importance in terms of foreign economic policy is diminished. Iran is one of Korea's major sources of imported petroleum as well as its largest export markets in the Middle East. Therefore, the current and future economic relations between the two countries should be analysed based on deep understanding of Iran's political and economic structures and their characteristics. In particular, since President Ahmadinejad's term is almost over while the conflict among major political powers intensifies, significant changes could happen in terms of Iran's international relations and economic policies.

The aim of this study is to examine the characteristics of Iran's political and power structure, the key trends of major political powers, and the contending issues in economic policies. This study then analyzes how Iran's political and power structures are related to main features of political powers and economic policies, drawing some policy implications for Korea.

## Political and Power Structures in Iran

Iran's political system is an Islamic democracy, a new form of democracy that combines Islam and democracy. Although it has strong religious overtones compared with countries that have adopted secular democracies, Iran cannot be compared to Vatican's system. This is because Iran's is not a system that exclusively guarantees the religious followers' rights where religious followers determine all national policies. Even though Supreme Leader who has the highest religious authority as well as Islamic Jurists participate in Iran's political system, the administrative and legislative bodies of the government are formed through direct elections by the people in accordance to the ideal of a republic.

The major task that confronted Iran as it brought down the pro-Western monarchy through Islamic revolution and started afresh as an Islamic republic was how to harmonize the ideals of Islam and republic. However, this issue was not dealt with right after revolution because Iran's national issues were resolved rather easily due to the help of Khomeini's strong charismatic leadership. Also because of the eight years of war with Iraq that followed the revolution, the country could not delve too deeply into the question of harmonizing Islam and a republicanism.

When the war ended and Khomeini died, the nation immediately became involved in debates surrounding the harmonization of Islam and democracy. The debates were focused on Supreme Leader's qualification and political structural balance between president and authorities of the three constitutional institutions that represent an Islamic system, namely, the Supreme Leader, Guardian Council, and the Assembly of Experts. The reformist groups claim that political power and functions of such authorities should either be reduced, pointing out that the constitutional bodies could distort the will of the people. Because of the reformist groups' criticisms about the Supreme Leader, the Assembly of Experts and the Guardian Council that have, thus far, carried Iran's Islamic system, the political stand-off between the reformist groups and the conservative groups, which support Khamenei as the Supreme Leader, has intensified since the election of president Khatami in 1997.

However, recently, the discord between the Supreme Leader and President Ahmadinejad are growing. While President Ahmadinejad makes a strong claim to the powers of the administrative body based on the fact that he was chosen directly by the people, the Supreme Leader is not willing to relinquish its supervision and control over the administrative body. Such discord between the Supreme Leader and the president can be seen as a structural issue in a political system where indirect Islamic system and direct republican system coexist.

## Trends of the Major Political Powers

The political competition in Iran can be divided from two major perspectives. The first

is between the conservatives and the reformists, which became more intensified since president Khatami took power in 1997. However as President Ahmadinejad was reelected in 2005 and in 2009, the reformist group's political influence waned substantially and so has the significance of the stand-off between the two political groups. On the other hand, the focus is now on the internal strife within the conservative group, namely, the discord between those who support the current President and those who oppose him. This surfaced through the 2012 parliamentary election with outcomes showing that the opposing faction that support Khamenei appears to have an edge. The future power structure will depend on the presidential election to be held this 2013.

The presidential candidates in 2013 took critical position with regard to President Ahmadinejad. They criticized the current president that he does not adequately recognize the authorities of Khamenei, the Supreme Leader. In terms of the economy, they were blaming him for the worsening economic conditions, including high inflation and unemployment. Moreover, the merchants in traditional markets and the middle class are venting frustrations over Ahmadinejad's raising taxes in order to advance his populist wealth redistribution policy.

On the other hand, the Western world's economic sanctions against Iran's nuclear development and the military threats posed by Israel are likely to contribute to expanding the conservative group's political influence. The core of the Iranian nuclear issue is whether the U.S. will agree to the 20% nuclear enrichment as consistently demanded by Iran. Iran has expressed its will to use nuclear power in a peaceable manner on many occasions and has insisted that it needs to maintain the nuclear enrichment rate up of to 20% in

order to resolve the unstable supply of domestic energy and radiological treatment of its cancer patients. However, the U.S. fundamentally opposes Iran's nuclear enrichment plans, demanding a complete shutdown of all nuclear facilities, which will make the dispute over Iran's nuclear development to continue. Moreover, as Israel is preparing itself for strong countermeasures, including military attacks, Iran's nuclear issues is not likely to go away easily.

Under these circumstances, Iran's unique political and power structure greatly limits Iran's choices. This is because Iran's political system is composed in such a way as to uphold values of the Islamic revolution and constitution through the Supreme Leader, the Guardian Council, Assembly of experts, the judiciary, and the Revolutionary Guards, all of whom are appointed by the Supreme Leader. Furthermore, Ahmadinejad, the current President, has strong faith in Imam Mahdi, and appeal to the Iranian people's nationalistic tendencies, which will make it difficult for the Iranian government to accept wholesale the demands of the Western countries, including the U.S. Such stand-off between Iran and the Western world will lead to greater anti-American sentiments among the Iranian people. This can fortify Iran's Islamic political system, which in turn will lead to reinforcing the power of the Supreme Leader and the conservatives who support him.

## The Issues in Economic Policies for Each Political Group

Each political group's economic policy issues boil down to the question of how the economic growth and international relations will be pursued while upholding their identity and economic independence as an Islamic

republic, which was built based on the Islamic revolution in 1979. Due to Iran's unique political and power structures, all economic policies must be approved by the Majles and are subject to checks and balances by the Supreme Leader, the Guardian Council, and the Revolutionary Guards, which make it difficult for political measures that could harm the values of Islamic revolution to be implemented. However, in the event the power base and economic positions differ between the Majles and the president or between the president and the Supreme Leader, there could be disputes that could escalate to a conflict.

To summarize the discourse of the political parties by issues, the first is how much control should the government exercise over economic activities. The 1980s was a time of war-time economy that came on the heels of the Islamic revolution where a great portion was under the government's control, which was safe from criticisms. However, as the war with Iraq was drawing to a close, there were increasing demands from the conservative merchant elites for deregulation in trading. Owing to this, Khamenei who received support from the merchant class and Rafsanjani's moderate group also expanded their power. Based on this, Rafsanjani was elected president in 1989.

The issues that came thereafter related to the expansion of private sector and growth of industrial activities. Some began asserting that privatization should be undertaken in order to reduce government regulations and adopt foreign investments and technology for industrial growth. These were mainly pursued as major economic policies in the 1990s during Rafsanjani's administration with the support of technocrats who received their education from abroad. In particular, for the economic reconstruction following the war, industrial development was seen as the task that must

be addressed with priority. However, the merchant elites were concerned that their market dominance would be weakened if the domestic manufacturing activities become more active based on foreign investments and technology. Accordingly, those Majles members supported by the merchant class and political groups that was centered around the Supreme Leader began criticizing Rafsanjani's economic policies promoted by the pragmatist technocrats.

The issues relating to privatization and industrialization became even more salient during President Khatami's administration after the end of the 1990s. President Khatami sought to increase political freedom through political reform and expand amicable relationship with the Western world through "dialogue between civilizations." It also felt that economic growth through its market opening to the outer world will help Iran's economic independence and political freedom. Accordingly, it sought to expand the private sector rather the state-controlled sectors, as was the case in the war-times, and pursued economic policies that encouraged foreign direct investment. However, such policies again fueled the fierce dissension from the conservative merchant class, just as during Rafsanjani's administration. It was criticized that improving international relations and joining globalization was tantamount to forfeiting Iran's economic independence. Furthermore, President Khatami constantly demanded political reforms, which placed him at odds with the Supreme Leader who preferred to maintain the political status quo.

The election of President Ahmadinejad in mid-2000s contributed to easing the tension between the president and the Supreme Leader. While Ahmadinejad eschewed the kind of war-time economic policies or economic isolation that marked the 1980s, he sought to

increase subsidies for the society's underprivileged, including the poor and the youth, through the expansion of government sectors and enhanced economic environments in the agricultural areas. But his economic policies was criticized as being populist from the late 2000s and as political and religious discord with the Supreme Leader became intensified, his political influence has waned.

Khatami's reform policy failure could be attributed to the success of the antireform coalition among moderate conservatives centered around the Supreme Leader and extreme conservatives centered around Ahmadinejad. Under the recent political circumstances, the coalition between these two conservative factions is no longer going to be easy. Also, based on the 2012 parliamentary election results, it appears that the political group that emphasizes the authorities of the Supreme Leader will take the political edge. On the contrary, the political influence of the pragmatists and reformists have substantially weakened. Therefore, Iran's conservative policies are likely to continue, emphasizing economic and political tools for achieving "economic independence" in order to overcome the economic difficulties that occurred due to international sanctions against Iran.

## Implications

Iran's political and power structure that was formed as a result of the consolidation between the Islamic system and republicanism on the heels of the Islamic revolution is having conclusive effect on the formation of various political groups and the economic policies of those in power. Although it may appear as though the division and coalition among major political groups are complex and each president is announcing his new pol-

icies, it is still difficult to go against the authorities of the Supreme Leader, which is based on the doctrine of rule by Islamic Jurists, and it is difficult to abandon the values of Islamic revolution, i.e., the rule of Islamic law and economic independence. Even the method as to how Iran comes out of its international isolationism and join the ranks of international economy is being restricted by Iran's unique political and power structures. Moreover, Iran's relationship with the U.S., which deteriorated since the Islamic revolution, is showing no signs of improvement. Instead, the international sanctions against Iran ratchets up, which in turn plays the role of preserving Iran's authoritative political system.

However, due to the nature of republicanism that is innate in Iran's political and power structure, major political powers are facing off against each other or forming coalitions based on their constituency and identity during the process of democratically electing the president and Majles every four years. When the differences among political parties are compared based on major political leaders, the Moussavi administration in the 1980s emphasized the state-led economy in order to maintain the war-time economic system shortly after the revolution, while, politically, pursuing Islamism that emphasizes Islamic revolutionary spirit. However, the Rafsanjani administration had to pursue the reconstruction of the economy after the war and had to improve Iran's relationship with the Western nations. Accordingly, economically, the administration needed the support of traditional merchant elites and also needed to foster the nation's industrial capitalists. In terms of politics, it emphasized the position of pragmatists rather than the ideological confrontation between the left and the right, making use of the technocrats. To the contrary, the Khatami administration placed significance on politics



rather than the economics. It asserted the need for checks and balances against the authorities of the Supreme Leader and demanded political reforms that expanded political participation. Its economic policies continued on the Rafsanjani administration's pragmatist policies but preferred even more foreign direct investments. The Ahmadinejad administration, since the mid-2000s, opposed the previous Khatami administration's reform policies, and with the backing of the Supreme Leader, espoused Islamic fundamentalism. In terms of economic policies, while it did not support state-controlled economy of the Moussavi administration, it expanded the subsidy policy for the poor in order to address social inequality through state intervention.

There is a possibility that in the future, the kind of discord between the Supreme Leader and the president that was present during the Khatami and Ahmadinejad administrations could become intensified. Although Iran's political is currently based on the coexistence of the Islamic system and the republican system, it is directly related to the question of to what degree the authorities and powers of the Supreme Leader will be recognized when, in fact, the Islamic system has the upperhand than the republic system. The reformists group centered around Khatami assert that while the authorities of the Supreme Leader are respected, there is a need for checking mechanism against the powers of Supreme Leader and Guardian Council and that political freedom shall be expanded even further. Although President Ahmadinejad is not in agreement with the reformist group, it is also at odds with the Supreme Leader with regard to the power of appoint of the president and decision-making power over economic policies. Accordingly, the Supreme Leader and Guardian Council have expressed deep concerns over the direct-election system for the presidency.

It also seems likely that the confrontation between the major political groups will continue even as regards economic policies. This could be seen in the fact that each political group's constituency is different from each other. While the Ahmadinejad administration will seek to reinforce its influence over the corporate sector managed by the Revolutionary Guards, the political group centered around Khamenei will seek to speak on behalf of the traditional large merchant class. In the case of the reformist group that has yet to procure a definite class-based foundation, if it grows to the point where independent interests of industrial capitalists in the private sector who need foreign direct investment and advanced technology can be represented, it will be able to secure a stronger constituency. It appears that discussions regarding privatizing and liberalization will become intensified in accordance with such disparate economic interests.

Iran's unique political and power structure and uncertain political policies are presenting many difficulties to Korean companies that are operating in Iran or are seeking to enter the Iranian market. Recently, they have been experiencing particular problem in the areas of logistics, settlement of sales proceeds, etc. On the other hand, Iran, with a population of more than 75 million, is the largest consumer market in the Middle East. It is also rich in energy resources, such as natural gas, which gives it a great potential as a plant construction market. The U.S., EU, and Japan recognize Iran's such strategic importance and are likely to seek expansion in trade with Iran in the mid- to long-term scope. Accordingly, Korea should also conduct a strategic assessment of the Iranian market and prepare a strategy for entering the Iranian market when the international sanctions ease up. **KIEP**