

IRAN: PROSPECTS FOR A COMMON TRANSATLANTIC AGENDA

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**MEETING BRIEFING PAPER:
“RECENT IRANIAN POLITICAL DEVELOPMENTS”**

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When examining developments in contemporary Iranian politics, it is important to be aware of the intimacy that most Iranians have with their own national past. This Iranian national consciousness is curiously *ahistorical*, by which it is meant that events which may have taken place 50 or even 100 years ago can be recounted as if they took place last week. An appreciation of this anecdotal, even traditional, perspective on history is vital if one is to gain a constructive insight into the Iranian worldview.

Iranians unabashedly regard themselves as heirs to an ancient ‘civilisation,’ with an imperial past and cultural contribution of which they can be proud. That they have slumped into the lower leagues of the world’s states is not, by their reckoning, the natural order of things, and they resent being part of the ‘third world.’ That this is so, is partly due to poor leadership and of course the perfidious intervention of foreigners, all the way back to Alexander. This extended national consciousness may strike Westerners as slightly ludicrous, but it is worth remembering that it is more popularly entrenched now in the Islamic Republic than it was under the shah. The modern history of Iran is thus largely defined against foreign intervention and the determination to secure ‘independence.’ Of course, the details of this narrative are largely defined by Iranian’s current political affiliation and are vociferously debated today by reformists and conservatives.

In the context of this national memory, this paper seeks to shed light on the nature of recent political developments in Iran. Beginning with the characteristics that define Iran’s patronage networks, it continues by exploring the composition of the reform movement in Iran. It concludes by analysing the movement’s consequences for Iran on both a domestic and international level.

The Mercantile Bourgeois Republic

Iran today is essentially a traditional state with modern pretensions. This fundamental reality lies at the heart of much of the misunderstanding between the West and Iran. Law, economy and political process, while recognisable at one level, function in different ways

below the surface. Familiarity of course breeds contempt, and Iranian politicians have made the most of the dismissive-ness of their protagonists. It would therefore be erroneous to conclude that this 'traditional state' is necessarily weak or inefficient, but it is also true that it lacks the exploitative capacity and systemic efficiency of modern bureaucratic capitalism. The Iranian state is highly personalised and riven with complex patronage networks of individuals who thrive, both economically and politically, in an environment which is inherently unstable. To them, instability is not a cause for concern, it is an opportunity to be exploited. Transparency, accountability, and due process are alien to this political-economic system and are seen as restrictive and limiting. This mentality dominates the Iranian political process and extends into foreign relations, so an appreciation of it is essential. As a system, it has long dominated the Iranian state, and was epitomised in the political settlement constructed by President Hashemi Rafsanjani from 1989 to 1997.

The characteristics of this political settlement were as follows: a highly personalised presidency orchestrating a dependent bureaucracy and administering a legal system founded on patronage and custom; autocratic yet populist; and allied with mercantile interests provided the capital to fund the presidency and other political activities. The mercantile bourgeois in return received political protection for their business interests, which centred on trade rather than investment. As an added benefit, the conservative clerical establishment, including the leader, offered religious sanction and legitimacy (cover) for this form of capital accumulation. As a consequence of this pact, many clerics and revolutionary institutions were drawn into commercial transactions of highly dubious integrity, tempted by the possibilities of easy riches and assured that no one would or could be held accountable. The more people that were drawn in, the more became complicit and therefore had a stake in a highly corrupt financial system. The more volatile the situation was the better, inasmuch as more money could be made quickly. Investors might like stability and certainty, but merchants and traders desired the opposite. Western businessmen who flocked to Iran in the 1990s were to discover this to their detriment. As noted above, these merchants viewed anarchy as a stepping stone to wealth and, by extension, power. They were protected by networks rather than laws and if every once and while, some hapless victim was thrown to the cynical masses, then this was a price worth paying. Even those not instinctively drawn to trade found it was the only effective means to make a living. Trade brought hard currency which only increased the value of such work. This hard currency was of course always deposited in foreign bank accounts (Iran was too unstable and insecure), encouraging a fall in the value of the Rial, which only reinforced the disparity in wealth which was emerging.

In time even traditional merchants complained that the system was *too* corrupting and that what was being conducted was not legitimate trade but the dispensation of monopolies through patronage and access to oil income. A good example of this system at work was the notorious *Bonyad-e Mostazafan* (Foundation of the Oppressed). A multi-billion dollar conglomerate which is neither accountable nor transparent, it nevertheless owned and managed some 40 percent of the Iranian economy. Responsible only to the Leader, it received subsidised hard currency (from oil sales) to import goods it could sell on to the Iranian public. Much of its profits were reinvested in lucrative deals abroad. This system of *managed chaos* remains at the core of the political economy with implications for both domestic and foreign policy.

Reform and Reaction

It is against this canvas that the challenge of the 'modernists' or reformers must be viewed. The reformers emerged from an alliance between the Islamic left and the emergent student movement in the late 1980s and early 1990s. It was fuelled by the philosophies of thinkers such as Abdolkarim Soroush, who argued against the bureaucratic centralism of the Rafsanjani presidency and its alliance of convenience with autocratic Islam. Central to its arguments was the view that the Rafsanjani settlement was simply increasing the disparities in wealth which the revolution was ostensibly against, and that despite Rafsanjani's protestations of investment in the infrastructure, the truth of the matter was that investment, whether domestic or foreign, was negligible. This was particularly problematic for Iran's haggard oil industry. Indeed without significant investment, revenues would decline, and crucially, the economy would not be able to grow and sustain the young population. Unemployment and the social discontent which would emerge would ultimately destabilise the entire revolutionary edifice. This economic argument was joined by a more idealistic political argument, popular with the young, that the revolution was intended to bring liberty to all, not wealth to a few. While economists argued that Iran had to move from being a mercantile economy lubricated by oil to a taxation economy, for which representation would be desirable and necessary, idealists argued that political representation was a good thing in itself and that economic development would follow. These arguments, among others, gained dramatic if unforeseen currency in the 1990s as an Iranian populace galvanised by the experience of revolution and war proved to be unusually receptive. The consequence was the surprise landslide victory of Seyyid Mohammad Khatami in the presidential elections of 1997.

Although the conservative mercantile establishment failed to take Khatami seriously at first, there is no doubt that the movement he represented was revolutionary in the sense that it sought to complete the transformation of Iranian society away from traditionalism, towards a society of laws, due process, accountability, and transparency. Those around Khatami understood well enough that the conservative establishment would not yield without a fight and that in order to succeed, they had to first persuade them that change was in their interest, and that if it failed they should use popular pressure from below. A few well-timed crowds could provide the threat necessary when logic had failed. The greatest example of this strategy could be witnessed in 1999 and 2000, when the dramatic student riots convinced the establishment not to oppose the administration of relatively free and fair Parliamentary elections in February 2000, which resulted in an unprecedented landslide for reformists. Khatami had convinced the more radical of his supporters that the best way to achieve change was through legal channels, and now with the Parliament in their hands, this promise was on the verge of yielding results. At this moment of triumph, the reform movement has faltered for a number of reasons.

Failure of the Reform Movement

Following the disabling of Saeed Hajarian, there was a massive *failure of leadership*, which both encouraged and was compounded by the imprisonment of a number key lieutenants (in particular Abdullah Nuri). Khatami found himself cut adrift and failed to show the resolution necessary to complete the project which he concluded would be too disruptive. In sum he feared the consequences of what he appeared to have started. Prevarication and indecision lost him his critical constituents who yearned for decisive leadership. Following

the 'axis of evil' speech by President Bush in 2002, many even despaired of Khatami's ability to secure a constructive dialogue with the West.

Part of Khatami's problems lay in his perceived *obsessive legalism*. Khatami wanted to lead by example and to follow due process as he saw it wherever possible. To resort to illegal measures, he argued, would in itself be a defeat for the movement. In a practical sense, this limited his room for manoeuvre and made him appear weak. While conservatives shut down reformist papers, Khatami refused to counter by attacking the conservative press, in the interests of 'freedom of speech.' At the same time, Khatami was not always helped by the descent into '*parliamentary cretinism*.' Far from championing the cause of reform, some reformist politicians succumbed to the temptations of mercantilism and became embroiled in highly publicised cases of financial corruption (for example, Behzad Nabavi's entanglement in the controversial 'Petropars affair,' which alleged corruption and bribery). Others who maintained their integrity failed to compromise whatsoever and as a result made no progress toward their reformist goals. Almost all became so involved in parliamentary battles that they became oblivious to their constituents' loss of interest. Their constituents argued that while politicians would fight for their own parliamentary interests, they were always happy to compromise on the interests of the people. This widespread perception made people unwilling to protest in the streets on behalf of their 'leaders,' and as a consequence this vital link between the people and the reformists was severed.

The consequences of this breakdown in trust were most clearly seen in the February 2004 Parliamentary elections, which did not end well for the reform movement. Not only did reformist leaders offer conflicting advice as to how to approach an election from which many of them had been barred, but it also became increasingly apparent that, short of providing decisive and dramatic leadership, their constituents were unlikely to show any interest. In the resultant confusion, voter turnout proved high enough for the conservatives to claim a moral victory although ominously, the figures remained the lowest for any election since 1979, and turnout in the urban centres was particularly low (Tehran was estimated at 28 percent). The conservatives could not claim a triumph, but the decisive boycott intended by some reformist leaders did not materialise either.

Domestic Consequences and Outlook

In the aftermath of conservative gains during the Parliamentary elections of 2004, it is too easy to dismiss the period of Khatami's presidency as a failure. Enormous strides were taken in the development of civil society and political consciousness during his presidency. Nevertheless, after 2000 the neglect of the links that were being constructed resulted in the immediate consequence that the opportunity to consolidate and institutionalise such developments was missed. Despite this setback, the genie cannot be put back into the bottle and arguably the social *structures* for democratisation are in place. Despite the best attempts of the conservative hardliners to de-politicise the public, there are strong indications that their systematic strategy of imprisonment, harassment, and persecution has had a limited impact. It is significant to note that despite all these pressures some 8,000 candidates registered to stand in the recent Parliamentary elections -- indicating that the enthusiasm for electoral politics was not diminished. Furthermore, while the conservatives effectively engineered a constitutional *coup*, they nevertheless effectively had to run on a 'reform' platform (*Abadgaran*). In essence, they understood that the attraction of reform had not diminished

and offered to implement reform more effectively, although they would concentrate on economic rather than political development. Nonetheless, the hardline establishment has successfully engineered an election result with little or no popular opposition. Consequently, it is likely to continue the very strategy which has seemingly restored its political fortunes.

As the conservatives lost ground in a number of institutions and among the public, they regrouped, with no hint of irony, in the main legal institutions -- the Judiciary and the Guardian Council. Using legal means, although with a very loose interpretation of the law, they have pursued a vigorous policy of persecution and repression, although they are always careful not to push the repression too far as to be a catalyst for corporatism among the public. Their strategy is one of pure patrimonial divide and rule, with selective imprisonments and to date no executions for political or religious offences (it looks as if Aghajari will now be pardoned). It is worth noting that following the purge of the Ministry of Intelligence, the Judiciary's budget was substantially increased (it is larger than that of the Presidency), and it formed its own distinctive intelligence unit. In the future, they will seek to restore their control of other institutions. This can arguably already be seen in the prominent positioning of former Revolutionary Guards officers within institutions (although one should be careful not to exaggerate this development). This conservative re-entrenchment will be assisted by the fact that the popular will is at present disillusioned and demoralised.

Nevertheless, while there is little doubt that the reform movement as presently conceived is over, the idea of reform -- and its revolutionary logic -- remain very much alive. If anything, people are more polarised and adamant than ever that modest reform will not be sufficient. As a result, they have become more radicalised against the autocracy and orthodoxy of the Islamic Republic. What is now needed is renewed leadership and organisation from the grass roots upwards. Popular anger remains widespread, and the conservatives will have to be careful not to become triumphalist. Wiser counsel will argue that having taken power back in such a controversial manner, it will now be important to be seen to deliver. There is, in short, no one else to blame. They will find that their only long-term solution is to reform the political economy of the country, although it should be stressed that the high oil prices will give them a very valuable respite. The reformers will in the short term be able to bribe their way out of economic difficulty, and they will no doubt tap into the reserves built up by the Khatami administration.

Conservatives will also have to face the reality that the language of politics has changed. One definitive trend of the Khatami period has been the emphatic re-emergence of Iranian nationalism. This will be a determining factor in future Iranian politics. A good example of this dynamic is the way in which certain politicians have been defined as 'Iraqi;' Ayatollah Shahrudi, the head of the Judiciary was even summoned to parliament to prove that he was Iranian. Conservatives will therefore increasingly resort to the language of patriotism (this will be particularly important when parliamentary debates over the ratification of the Additional Protocol, take place) to secure legitimacy, and to provide a veneer of unity for a nation that remains deeply divided.

To be sure, even with the economic respite, the situation is not promising in that conservatives have sacrificed considerable authority to retain their power. They know they are not popular, do not control all the state's institutions (the ministries of Interior and Intelligence are for instance bastions of reformist strength) and to add to their problems,

divisions are also increasing amongst themselves. Moderates and hardliners cannot agree on policy or indeed on the means they have used to retain power. Hardline Islamists will compete against nationalists, autocrats against those who want to reintroduce managed reform. Below all this debate will be a society of malcontents and in the absence of some sort of re-engagement with the public, the tendency will be to resort to continued repression which in turn will only aggravate tensions. What the establishment will need is a foreign distraction.

Regional and International Consequences

The last year has transformed Iran's situation in the region and has provided it with an opportunity for regional hegemony worthy of the last Shah. From a position of severe anxiety last April, as the political establishment witnessed the rapid collapse of the Baathist regime -- a good example, said reformists, of what happens when a regime is unpopular -- the Islamic Republic has now rediscovered the luxury of time, and in many ways has seized the strategic initiative from the United States. That this should have been achieved by default makes this transformation of Iran's regional position more remarkable. Viewed from Tehran, there is, for the first time in 150 years, an Iranian client in Herat, while on Iran's western frontier, the Iraqi state is in disarray, and by all accounts, Iranian infiltration in the south and influence in the north is increasing. It is too early to assess the precise direction and impact of this policy, and it would certainly be erroneous to suggest that it is the consequence of a systematic and coherent strategy. Yet at the same time it is clear that the 'chaos' of Iraq is something which the Iranians are familiar with and can manage, and it is a situation which the plurality of their own political system can exploit, in a way the West has failed to appreciate.

Iran's strengths: There are some basic reasons that Iran is in an advantageous position. In the first place, Iraqi society is familiar, many of them speak Arabic, enjoy familial relationships (Khatami is for instance related to Sadr), and crucially, understand how to manage and organise chaotic situations. Indeed, the divisions in Iranian politics and society are actually proving beneficial in dealing with the plurality of Iraq. Islamists and nationalists can both drive policy, and the resultant ambiguities also mean that various Iraqi factions can read into Iran what they choose. Islamists can relate to hardliners, moderates to Khatami and Montazeri while the nationalists will play the Aryan card with the Kurds in the north. Another beneficial aspect of this division of labour is that while the conservatives can deal with the details of personal networks, the nationalists (including in this case reformers), can seek to determine an overall strategy for the extension of influence. Both agree that they want a militarily weak, sympathetic Iraq (a loose federation would be ideal), but tensions also exist between the two sides, and an alternative outcome is for Iraq to become a battleground for domestic Iranian politics.

Dealing with the United States: This potential division in strategy can perhaps best be seen with respect to the United States. Put simply, hardliners are tempted to engage the U.S. in Iraq and to inflict, what in their view would be, a defeat. They perceive the current situation within the context of the 'clash of civilisations' and see it as part of an ongoing struggle. Some of Khamene'i's comments can be understood as placating this sentiment, which is very real in some quarters. The view of the majority, and certainly of most government officials, is that the U.S. needs to be dealt with, and the current quagmire might be the opportunity needed to bring the U.S. to the negotiating table on favourable terms. They argue that Iraq

will ensure that a 'regional parity' will develop in which the U.S. will be forced to seek Iranian help. As a number of Iranian diplomats have argued, the U.S. will find it difficult to disengage peacefully from Iraq without Iranian assistance. Dialogue, in an egalitarian sense, thus becomes a real possibility. Such an outcome of course depends very much on synergy developing between the Iranians and Americans, and there is obviously a chance that hardliners will seek to sabotage such an outcome. Potentially more problematic is the fact that even Iranian strategists will procrastinate too long and miss the opportunity afforded to them. This may certainly result from a failure to deal definitively with the nuclear issue. In other words, feeling that the pressure is off, the Iranians will alienate both the Europeans and the U.S. (Recent developments with respect to the British servicemen are indicative of an emergent conceit on behalf of hardliners).

The ideal scenario for Iran would be a loose federation nominally under the control of Baghdad, in which Iranian economic and political influence would be dominant. There are divisions of opinion as to the precise nature of the government. Some sort of democratic settlement in Iraq would clearly be of benefit to the reformists in Iran.

Iran & Europe: Relations with Europe are at a precarious point insofar as the Iranian people have in recent months developed a sense of distrust toward Europe. Last November the troika of EU foreign ministers which secured Iran's agreement to further nuclear inspections seemed to show that diplomacy, when well managed, could work to everyone's benefit. There was however one significant flaw in the European/Western strategy, and this was that the agreement in November placed a priority on security and stability (with regard to WMD and regional issues), over other broader issues. Put simply, in order to secure democracy for Iraq, it appeared to many in Iran, that the West, and Europe in particular, was willing to turn a blind eye to the Islamic Republic's suffocation of its people. Placing its trust in 'conservatives' (who could 'deliver'), the EU proffered an unusually muted response to the flawed elections of 2004, and as far as Britain was concerned, saw fit to send Prince Charles on a humanitarian visit in the midst of a political crisis. EU ministers should not underestimate the cynicism and anger that this response engendered among the Iranian public. This social disconnect is arguably a far more serious problem in the long term than the disagreements over nuclear inspections.

Conclusion

Although the leadership required to complete the reform process has not materialized, Iran offers the best possibility of a democratic settlement in the Middle East. The building blocks of democracy have been soundly developed despite the current stalemate. The political anger in Iran is probably more intense than ever, and even moderate conservatives have been appalled at the way in which the Guardian Council and Judiciary have behaved. How these tensions will resolve themselves in the near future depends in part on domestic and international factors.

In terms of the domestic situation, restructuring the economy to encourage foreign direct investment is one area that will have a profound impact on Iran's development. In the absence of significant investment, long term economic growth will be difficult to sustain. Much therefore depends on the conservatives' ability to take decisions on restructuring which the reformists failed to resolve. It had been thought that the fear of the rejuvenated Iraq would

spur the Iranian government onwards to facilitate foreign investment, but due to the breathing space provided by the high price of oil, the establishment now feels that they have the luxury of time, and it remains to be seen whether or not they will pursue policies which will promote foreign investment.

The possibility that the conservatives may attempt to renew restrictions on social and political activity to an extent which will provoke a severe social reaction is another domestic factor which must be taken into consideration. Some argue that this would provide an opportunity to really clamp down but others are more sanguine about the possibilities of crushing a popular uprising. Triumphalism, in short, will hasten a reorganisation of the reformist movement, which will not have as prolonged a sojourn from the political fray as conservatives may like.

At the very least, instability in Iraq will facilitate, and to some extent legitimise (in the interests of *national* security and integrity), further controls within Iran. This may in part be encouraged by the view that the West is more concerned about security than human rights; an argument that has been played on with some effect by conservatives who have suggested that they may be able to 'deliver' on the nuclear issue as long as pressure on democratisation and human rights is lifted. Of course the longer Iraq remains unstable, the less there will be need for compromise. The consequence, as in the domestic environment, is that conservative elements within the regime will behave provocatively towards the West, providing fuel for further crises, which will allow them to tighten their control at home. As long as this 'cycle of crises' is not disrupted (a delicate balance indeed), the conservatives' entrenchment can only be enhanced in the short term. In the long term, however, over-confidence and provocative behaviour may itself result in an international reaction which could prove destabilising.