



Centre for Air Power Studies (CAPS)

Forum for National Security Studies (FNSS)

49/17

IRANIAN PRESIDENTIAL ELECTIONS AND THE NUCLEAR DEAL

Wg Cdr Rohit Kaura
Research Fellow, CAPS

Introduction

The signing of Joint Comprehensive Plan of action (JCPOA) between Iran and P5+1 (US, UK, France, China, Russia and Germany) on July 14, 2015 after an intensive discussion for about twenty months ensured that the Iran nuclear programme would have solely peaceful connotations and in return Iran would benefit from the removal of international sanctions.¹ The JCPOA has the potential for significantly impacting many economic sectors in Iran and presents an opportunity for Iran's economic growth. The people of Iran have supported the deal and this is apparent from the last Presidential election wherein President Hassan Rouhani was re-elected for his second term.²

While one can interpret President's Rouhani's comeback as widespread public support for the deal, Iranians are yet to see many tangible economic benefits. Of course, things are beginning to look up. According to World Bank

estimates, Iran's GDP growth stands at 5.2 percent for the period ending March 2017. This was largely due to increased revenues from petrochemical sales and expansion in foreign direct investment (FDI).³ With large inhabitants of 80 million and along with the rise of the middle class, Iran's economy is showing signs of revival and has been gaining momentum, making it as one of the most rising economy in the world. Higher oil production and unfreezing of assets, after implementation of the JCPOA has added to the growth story.

Challenges

Despite the opportunities offered by the JCPOA, Iran's financial system continues to face certain issues. These include the already weakened central bank liquidity, a large number of non-performing loans, and due to prolonged isolation a lack of modern banking practices. President Rouhani has undertaken major reforms in banking and insurance sector which have shown



slow progress. But, despite easing of economic sanctions and while oil exports having been rebounded, the benefits are still not as perceptible as were expected. Inflation is still hovering around 10 percent and unemployment continues to be at peak levels.⁴

Iran has increased the production capacity from 1 million barrels per day (mbpd) to 4 mbpd. The increased production capacity has reached to levels witnessed during pre-sanction years. Iran holds 13 percent of the world's oil & gas reserves, however the production capacity accounts for only 4.7 percent. Iran needs huge capital inflows and advanced technology to build up its dilapidated oil and natural gas infrastructure. With the mandate now in his favour, President Rouhani would presumably go ahead to persuade foreign investors to pump in funds in the country's capital and infrastructure built up.⁵

For Rouhani to still prevail indicates the support of the people of Iran and their desire to put an end to international isolation. Wining the election may have been the easy part as Iranians supported reforms and were influenced by the promise of greater liberalization. However, the challenges from the domestic front, especially the hardliners and his political opponents who have the backing of the allied security forces and the ruling clergy, will be impediments to the reform process and it would certainly not be a cakewalk for the president.⁶

The nuclear deal was the highlight of Rouhani first term and had created the initial euphoria with the hope that it would address Iran's long isolation and would enable Iran in quick recovery of its economy. The initial optimism has evaporated and with fears of the Trump administration in tearing up the JCPOA and reinstatement of sanctions, President Rouhani has these major obstacles to be addressed. Further on the foreign policy front, change in Iran-US relations would lead the nuclear deal in jeopardy.⁷

The portrayal of Iran as all round source of evil and as the world's biggest sponsor of terrorism by President Trump in his narrative while on visit to Saudi Arabia is all rhetoric. The perception Trump has given to blame all setbacks in the Middle-East and Afghanistan on Iran would only widen rifts and escalate tensions without doing anything for peace. The provision of the perception that Iran has been responsible for each trouble in this region implies a degree of power and influence, which Iran lacks completely.⁸ With president Rouhani back in power for his second term, Trump and his team should work on building long term trust. The renewal of sanctions on Iran might trigger the hardliners in Iran which can destabilize the region and it can also lead the Iranian government to restart or carry on nuclear enrichment, which can be a situation of concern.

The current US policy of exaggerating Iran's threat promises, at best, to result in the sale of a hundred billion dollars or so of weaponry to Gulf States. But such economic gains for US would be trivial compared to the costs that they would incur should US policies further escalate tensions in the region.⁹

Conclusion

There has been a growing support by majority of Iranians to the JCPOA; however their initial exuberance has been tempered with reality. While the JCPOA will certainly help in long-term economic growth of Iran, the agreement is not a remedy for the entire nation's economic and social ills. The agreement has ended Iran's long international isolation and is a first step in a large complex process of addressing Iran's physical and economic infrastructure. The JCPOA is a step in the right direction; however, the growth in the economic and social arenas will depend a lot on President Rouhani's continued pursuit of a reformist agenda. The necessity to have a constructive interaction with the world cannot be overemphasized. Iran needs to strengthen its banking system so as to make foreign investments less risky. There are no quick fixes. Genuine economic growth will have to be a process of evolution, not revolution.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

Notes

¹ JCPOA Implementation- US treasury, https://www.treasury.gov/resource-center/sanctions/.../jcpoa_implementation. accessed on May 27,2017

² Rouhani Wins Re-election in Iran by a Wide Margin, <https://www.nytimes.com/2017/05/20/world/middleeast/iran-election-hassan-rouhani.html>, accessed on May 28,2017

³ World Bank forecasts 5.2% GDP growth for Iran in 2017, <http://www.tehrantimes.com/news/409962/World-Bank-forecasts-5-2-GDP-growth-for-Iran-in-2017>, accessed on 27 May 17

⁴ Iran's Economy Ministry, "Inflation to Rise Above 10%", <https://financialtribune.com/articles/economy-domestic-economy/65338/irans-economy-ministry-inflation-to-rise-above-10>, accessed on May 28, 2017

⁵ "Rouhani win seen speeding Iran push to lift oil output", <http://www.gulf-times.com/story/549887/Rouhani-win-seen-speeding-Iran-push-to-lift-oil-ou>, accessed on May 28, 2017

⁶ Hardliners In US And Iran Stand In Way Of Hassan Rouhani Reforms, <http://www.ndtv.com/world-news/hardliners-in-us-and-iran-stand-in-way-of-hassan-rouhani-reforms-1696402>, accessed on May 28, 2017

⁷ Kerry Takes to Twitter to Urge Against New Iran Sanctions Bill, <http://www.cnsnews.com/news/article/patrick-goodenough/kerry-takes-twitter-urge-against-new-iran-sanctions-bill>, accessed on May 26, 2017

⁸ The Trump administration's Iran policy is dangerous and flawed, <https://www.theguardian.com/commentisfree/2017/may/23/trump-administrations-iran-policy-dangerous-flawed>, accessed on May 29, 2017

⁹ As Iran and U.S. Leaders Trade Barbs, Big Deals Proceed, https://www.nytimes.com/2017/05/28/world/middleeast/iran-nuclear-deal-hassan-rouhani-donald-trump.html?_r=0, accessed on May 29, 2017