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Will the Protests in Iran Affect the Regime's Priorities?

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During the recent waves of protests in Iran, much criticism was voiced against the country's involvement in regional conflicts, particularly given the difficult economic situation within Iran itself. Demonstrators called for resources to be diverted from overseas to benefit the Iranian population. The large protests have since declined, but there are still some semblances of protest, indicating the resistance among portions of the public to continue sustaining the economic hardships. This article discusses the implications of the economic situation for the Iranian regime's national priorities, including its support for elements engaged in undermining regional stability in the Middle East.

Situation Report

On January 3, 2018, after six days of rioting that took the lives of more than twenty people, the commander of the Iranian Revolutionary Guards, Muhammad Ali Jafari, announced "the end of the current revolt." The wave of protests has indeed ebbed, but there are still signs of protest in various locations throughout the country, expressed in part by religious and government buildings being set on fire and strikes in important sectors, including oil and the steel industry, where salaries have not been paid for a number of months. The protests broke out due to the economic distress, shown by high unemployment, price increases of dozens of percent for essential goods, low salaries, and long delays in salary payments. This background contrasts with the relatively positive macro data. In addition, there has been a sharp increase in imports of luxury goods that benefit parts of the population, particularly those close to the regime.

Just two weeks before the riots began, Iran hosted a delegation from the International Monetary Fund (IMF). The IMF's views are important to Iran for its integration into the global economy, its ability to raise capital, and foreign investment. Following the visit, the IMF issued a fairly optimistic announcement regarding economic growth in Iran, noting that growth had begun to spread to sectors outside oil. The IMF also expected that Iran would approve the rise in fuel prices (in order to limit the subsidies) – a move that would raise prices in the economy even more. However, the IMF announcement includes recommendations that involve structural and cultural changes, which the regime is not keen to introduce. For example, the IMF asked Iran to enhance its efforts to develop the private sector, and reform state-owned enterprises and improve transparency about

corporate beneficial ownership. The Iranian regime is known to base its strength on holding and operating hundreds of state-owned enterprises and on indirect control of many companies identified with the security forces. The IMF asked Tehran to accelerate the reform in its financial system (including steps to prevent money laundering) and to extend its collection of taxes. It also recommended more employment of women, by restricting legal and social obstacles and pay gaps, subsidizing child care for low paid women, and creating work opportunities for women.

In recent years, notwithstanding economic distress, the Iranian regime has spent billions of dollars funding its ambitions to extend Iranian influence in the Middle East. In a speech on January 3, 2018, IDF Chief of Staff Gadi Eisenkot noted that in recent months Iranian investment in the Palestinian arena has increased due to Tehran's drive to gain influence there. Iranian aid to Hamas and Palestinian Islamic Jihad in Gaza has increased to \$100 million, and elsewhere in the region, elements receiving Iranian funding or aid include Iranian forces in Iraq and Syria, Hezbollah, Shiite militias in Syria, the Syrian military, Houthi rebels in Yemen, and various associations engaged in subversion in several countries in the Middle East. On August 13, 2017, the Iranian parliament approved an increase in the Revolutionary Guards' budget for actions outside the Iranian borders, and the budget for ballistic missiles. These expenses compound the major damage sustained by the Iranian economy in 2012-2015, during the period of severe sanctions imposed on oil exports and the banking system due to the nuclear project. (According to an estimate from the US Treasury Department in July 2015, the loss in revenues in the oil industry alone exceeded \$160 billion.)

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The wave of protests could show the Iranian regime that the most sensitive period in terms of internal stability is not necessarily the height of an economic recession, but rather the period of reforms intended as a way out of it. The expectations of the Iranian public for economic benefit rose following the lifting of sanctions on oil production and the banking system two years ago, which led to the considerable improvement in macro data, stemming from a sharp rise in revenues from the export of oil and the start of improvement in the non-oil sector. In addition, as noted by the IMF, the trend is for growth of about 4.2 percent annually (3 percent per capita). However, improvements at the macro level have yet to trickle down to the micro level (the economic situation in the street), and the adjustment will in any case be a long and complex process.

Against this background, it is possible to imagine the next moves by the Iranian regime using two equations. The first concerns the division of resources between present and future, that is, between current expenses and investments, including reforms (that affect the future). The second equation is the division of current expenses between domestic and

foreign expenses. An important factor is what resources will be available to Iran. This depends inter alia on energy prices, which are hard to forecast, and foreign investment in Iran, which depends in part on foreign relations and the extent to which investors are worried about the reinstatement of sanctions. Clearly, the greater the resources, the less of the impact caused by economic constraints, even if priorities change.

In the division of resources between present and future, within the next year at least, Iran will probably increase its resources for civilian consumption, even at the expense of investments and implementation of reforms recommended by the IMF intended to bear fruit in the future. Perhaps the first signs of this can be identified in reports of the government's decision to postpone the plan to increase fuel prices at this stage and to reduce allowances, as was planned for the next financial year (which begins on March 21, 2018). At the same time, the regime is expected to increase its efforts to raise capital abroad for investments.

As to the division of resources between domestic and foreign uses, while the objectives outside Iran are very important for the regime, presumably priority will be given to the welfare of the local population, at least until the economic situation at the micro level improves; this is in view of the increased risks to internal stability. This also depends on the level of unrest in the Iranian street and how seriously it is seen by the leadership. The economic constraint could therefore find expression in the resources allocated by Iran to realize its Middle East ambitions, as it prioritizes its regional objectives. Expenses on overseas activity could also arouse disputes between different parties in the regime. However, since the goal of establishing Iran as a regional power is a strategic objective for the regime, it is doubtful whether Iran will make a significant change in its foreign involvement policy. In addition, if it encounters a security challenge, the economic constraint would probably not obstruct the military activity. As for the nuclear project, the regime will probably be very cautious while complying with the JCPOA, or at least refrain from risking the exposure of breaches on its part, particularly in view of President Trump's negative view of the agreement.

So far Iran's citizens have paid a very high price for the regime's nuclear ambitions and search for regional influence (these two are closely related in the Iranian concept of security, which makes nuclear power in Iranian hands even more dangerous). While the regime is determined to achieve its overseas objectives, it can be assumed that within the coming year at least, the emphasis could well be placed on the internal arena, while restricting expenses intended for overseas activity, including areas affecting Israel's security. In the long term, Iran's basic economic features are relatively good, so that successful management of the economy is the factor that will determine whether the economic constraint will be reduced – which will reduce the impact of Iran's foreign and

security strategy – or increased, thus serving as the basis for internal instability and further waves of protest.