

Iran election protests foretell economic downturn

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Tehran's business community doesn't want Ahmadinejad to prevail, but the election turmoil is likely to crimp investment and slow down Iran's economy.



Iranian supporters of defeated reformist presidential candidate Mir Hossein Mousavi carry his image as they demonstrate in the streets June 15 in Tehran. Getty Images

As hundreds of thousands of Iranians protest the results of the June 12 presidential election, many business people undoubtedly sympathize with the demonstrators even though they are deeply worried about instability. After four years of rule by the mercurial Mahmoud Ahmadinejad, it seems, few in the Tehran business community have much good to say about the President. "I don't think this guy knows what he is going to do when he gets up in the morning," Hussein Abdoh Tabrizi, an investment banker and former head of the Tehran Stock Exchange, told me when I visited Tehran two months ago.

During that 10-day trip, I met with fund managers in suits, shoemakers chowing down fried trout in a grubby restaurant, real estate developers in shiny new office towers, and many others involved in business at all levels. Virtually all of them said they wanted to see Ahmadinejad's chief rival, Mir Hossein Mousavi, win the vote. Some thought U.S. economic sanctions, which add to their costs, were more likely to be eased with Ahmadinejad out of office. Others said he was a lousy steward for the economy, ordering the central bank to lower interest rates, handing out easy cash to favored constituencies, and failing to follow through on promised projects.

"A very dangerous situation"

So far, though, the outcome—for business, at least—seems to be even worse than a simple victory by Ahmadinejad. Though the incumbent was declared the winner, Mousavi and his supporters believe the vote was rigged. In the short term, the turmoil will surely hurt the economy, since few will invest until things settle down.

And if Ahmadinejad prevails, which seems likely, the result may be a prolonged downturn. After years of strong growth fueled by government spending and high oil prices, the Iranian economy was already heading for a slump this year because of lower oil prices and a real estate bust. "This is a very dangerous situation," property developer Amir-Mohamad Mazaheri

told me. "There will be 3 to 4 million construction workers looking to any activity to support themselves."

Ahmadinejad's incoherent economic policies aren't likely to change. Many expect him to ram profligate spending programs through parliament, including direct cash payments and subsidies for rural people and the urban poor, where he draws his support. Economists worry that such handouts will stoke inflation and strain Iran's public finances. He's also likely to continue allowing imports of cheap goods from China and elsewhere in Asia, putting more heat on struggling Iranian manufacturers and spurring higher unemployment.

Business talent may leave Iran

Lately the President has shown a penchant for accusing high-ranking officials of corruption. Such attacks have left business people wondering whether it's safe to remain and invest in Iran. "Rising tensions between [the President's rural supporters] and the urban upper and middle classes might result in an outflow of talent," says Samuel Ciszuk, an analyst consultancy IHS Global Insight (IHS).

Iran's crown jewel, the oil industry, would likely suffer as well. The country badly needs foreign know-how to develop its gas reserves, which are second only to Russia's, and to offset the decline of its aging oil fields. But even companies such as Royal Dutch Shell (RDS) and Total (TOT), with years of experience in Iran, are reluctant to go ahead with long-pending projects while Tehran is at loggerheads with the West over its nuclear program.

That's not to say an Ahmadinejad victory would rule out any kind of accommodation with the West. The White House has said the outcome of the election won't change U.S. policy much, so that means talks could still go forward. The Supreme Leader, Ali Khamenei, is likely "to authorize exploration of the new U.S. position towards Iran and talks may get under way in the autumn," says Richard Dalton, a former British ambassador to Iran.

Some may feel that Iran's ruling clerics may be hastening the demise of the regime by blocking the more liberal Mousavi from taking power. But a new regime likely won't come particularly soon, and any change now might be more violent—scant comfort to business people and just about anyone else simply trying to make a living.

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