Chapter Three

POLITICAL AND SOCIO-ECONOMIC ISSUES OF IRAN
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3-1. GEOGRAPHICAL SITUATION

Iran, a Middle Eastern country with an area of 1,648,000 square kilometres ranks sixteenth in size among the countries of the world. Iran is half the size of India, or is about one-fifth the size of the continental United States, or slightly larger than the combined area of the contiguous states of California, Arizona, Nevada, Oregon, Washington, and Idaho. Iran is located in southwestern Asia and between Iraq and Pakistan, opening onto the Persian Gulf and the Gulf of Oman in the south and the Caspian Sea in the north. Other neighbouring countries include Turkey, Turkmenistan and Afghanistan. Iran's borders extend for more than 2,000 kilometres, including nearly 650 kilometres of water along the southern shore of the Caspian Sea. Iran's western borders are with Turkey in the north and Iraq in the south. The Persian Gulf and Gulf of Oman littorals form the entire 1,770-kilometres southern border. To the east lie Afghanistan on the north and Pakistan on the south. Iran's diagonal distance from Azarbaijan in the northwest to Baluchestan va Sistan in the southeast is approximately 2,333 kilometres.\footnote{http://country-studies.us/iran/21.htm (24/12/05)}

Iran's territories are mostly arid and semiarid mountains and deserts, with the exception of the Caspian coast, which has a subtropical climate. Its mountains have helped to shape both the political and the economic history of the country for several centuries. The mountains enclose several broad basins, or
plateaus, on which major agricultural and urban settlements are located. The northern slopes of the Elburz Mountains are heavily wooded, and forestry products are economically important; the cutting of trees is rigidly controlled by the government, which also has a reforestation program. In the rivers entering the Caspian Sea are salmon, carp, trout, and pike; sturgeon are abundant in the Caspian Sea. The climate of Iran is continental, with hot summers and cold, rainy winters; the mountain regions of the north and west have a subtropical climate. Temperature and precipitation vary with elevation, as winds bring heavy moisture from the Persian Gulf. The country is divided into 30 provinces. In addition to Tehran, important cities include Esfahan, Mashhad, Shiraz, Bandar Abbas, Tabriz, Rasht, and Ahvaz.
3-2. BACKGROUND OF THE POLITICAL SYSTEM

Iran has a long and rich history. Some of the world's most ancient settlements have been excavated in the Caspian region and on the Iranian plateau; village life began there 4000 B.C. The Aryans came about 2000 B.C. and split into two main groups, the Medes and the Persians. As one of the earliest sites of human civilization, contemporary and rival to Sumer and Babylon, Iran began political life first as the city state Susa, then as the capital of one of the major ancient empires, federal Elam, for 2,500 years.

The practice of public administration in Iran formerly Persia, dates back as far as the fourth millennium B.C. as a prolonged political system the Achaemenid Empire developed a centralized administrative system that lasted from the forth to sixth centuries B.C. According to Eisenstadt (1963), "the bureaucracy of the Persian Empire was a formidable institution of administration and governance, and it was both effective and efficient". The organizational and administrative principles developed under the Persian Achaemenid Empire had significant influence on the Roman administration were adopted almost totally by the Islamic, the Ottoman and later the Iranian safavid rulers. Evidence of the influence of these principles can even be found in almost every contemporary government in the Middle/Near East, as the Persian Achaemenid legacy affected the entire region. The Persian administrative system, however, began to decline during the eighteenth and nineteenth

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centuries. A Shah, or king, ruled Iran from 1501 until 1979. The constitutional revolution of 1906-1911 established a parliamentary system modelled after European constitutional monarchies. Reza Shah as the last kingdom dynasty in 1920 captured the throne and established the Pahlavi dynasty. He was forced to abdicate the throne in 1941, and his son Mohammad Reza Shah began to reign. Mohammad Reza shah after 38 years reigning in Iran ejected by Iranian and Islamic Republic was established in 1979 for the first time in the history of Iran.

3-3. POLITICAL SYSTEM AFTER THE REVOLUTION

The constitution of 1979 that came into effect after the revolution, established a republic based on the Islamic ideology and values. The law underwent several amendments in 1989. As reflected in the constitution the power of the state is divided into three independent branches under supervision of the country's supreme leader (vali-eFaghih). The leader is elected by an assembly of Experts (Majlis-e Khobregan-e Rahbari) composed of knowledgeable clergymen who in turn are chosen by direct vote of the people. The leader exercises authority over the three branches of government and is commander in chief of the armed forces. According to the law in case the leader fails to continue his duties, a leadership council made up of the president, head of judiciary and a member of the Council of Guardian will temporarily performs his duties.

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4 - The Constitution of Islamic Republic of Iran, 1989, Chapter 5.
There are two other institutions, which play a key role in the state’s policy-making processes. These are Assembly of Expediency (Majma-e Tashkhis-e Maslehat-e Nezam) and the Council of Guardian (Shuray-e Negahban). The latter is composed of 12 members of whom six are Faghihs (Clergymen) assigned by the leader and six are lawyers who are elected by the Majlis (Parliament). The members of the Council who serve for six years are charged to oversee the conformity of legislations against constitution and Islamic values. At present, the Council is authorized to approve the presidential and parliamentary elections. If the Council rejects laws passed by the lawmakers and insists on its judgements, the case will be referred to the Assembly of Expediency for final decision. The Assembly also consults the leader on matters relegated to it by him. In the following the three independent branches which are under supervision of the country’s supreme leader will be reviewed:

3-3-1. The Legislature (Majlis-e Shuray-e Eslami)

Articles 62 of the Constitution of 1979 invest legislative power in the Islamic Consultative Assembly, the parliament, or Majlis. Deputies are elected by direct, secret ballot once every four years. Each deputy represents a geographic constituency, and every person fifteen years of age and older from a given constituency votes for one representative. The Majlis cannot be dissolved. According to Article 63, "elections of each session should be held before the expiration of the previous session, so that the country may never remain without an assembly." At

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5 - The Constitution of Islamic Republic of Iran, 1989, Chapter 5.
present, the number of deputies are 290 who serve for a four-year term, but it also provides for adding one more deputy, at 10-year intervals, for each constituency population increase of 150,000. Five of the 290 seats are reserved for the non-Muslim religious minorities: one each for Assyrian Christians, Jews, and Zoroastrians, and two for Armenian Christians.

The Constitution permits the Majlis to draft its own regulations pertaining to the election of a speaker and other officers, the formation of committees, and the holding of hearings. When the first Majlis convened in the summer of 1980, the deputies voted to have annual elections for the position of speaker. The speaker is assisted by deputy speakers and the chairmen of various committees.

The Majlis makes laws, approves the general policy of the state and authorizes budgets and socio-economic development plans and has the responsibility of approving the cabinet members. The Majlis not only has the responsibility of approving the cabinet members but also has the right to question any individual minister or anyone from the government as a whole about policies. Articles 88 and 89 require ministers to appear before the Majlis within ten days to respond to a request for interpellation. If the deputies are dissatisfied with the information obtained during such questioning, they may request the Majlis to schedule a confidence vote on the performance of a minister or the government.

Article 69 stipulates that Majlis sessions be open to the public, that regular deliberations may be broadcast over radio
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and television, and that minutes of all meetings be published. Since 1980 sessions of the Majlis have been broadcast regularly.

3-3-2. The Judiciary

Article 156 of the Constitution provides for an independent judiciary. According to Articles 157 and 158, the highest judicial office is the High Council of Justice, which consists of five members who serve five-year, renewable terms.

The Judiciary branch of the Government consists of courts that operate within the framework of written laws and Islamic principles. They are delegated authority to decide on claims and protect public rights against injustice. The head of judiciary who ought to be a Mojtahid (Knowledgeable Clergyman) is appointed by the leader. He supervises the High Council of Justice (Shuray-e Ali-e Ghazaee) and serves for a term of five years.

The responsibilities of the High Council of Justice include establishing appropriate departments within the Ministry of Justice to deal with civil and criminal offenses, preparing draft bills related to the judiciary, and supervising the appointment of judges. The minister of justice who is a member of Cabinet takes responsibility to coordinate the judiciary and the executive relations.

3-3-3. The Executive (Presidency)

The Constitution stipulates that the president is "the holder of the highest official power next to the leader, in the state political hierarchy." In effect, the president is the head of state of the Islamic Republic of Iran. Articles 113 to 132 of the Constitution pertain to the qualifications, powers, and
responsibilities of the president. The president is elected for a four-year term on the basis of an absolute majority vote of the national electorate and may be re-elected for one additional term. He is in charge of executing the constitutional law and coordinating the relationship between three branches of power. The president enjoys vast authority and in return is accountable before the people, the leader and the Majlis. He signs laws passed by the Majlis and endorses them to the cabinet members for implementation. The president directs the cabinet meetings, presents the annual budget and executive bills to the Majlis, signs treaties, contracts and agreements with other states, credential of the Iranian envoys, and admits the credential of envoys from other states. In addition, all cabinet enactments have to be approved by the president before implementation. Several vice-president assist the president to carry out his duties. According to the constitution, on the absence, illness, resignation or death of the president, a council composed of first vice president, speaker of the Majlis and head of judiciary will temporarily undertake his duties. The Council is in charge of carrying out the presidential election within the fifty days\textsuperscript{6}.

Under the Shah, the monarch as a chief executive appointed and dismissed the ministers. He supervised cabinet whose members were individually and collectively responsible vis-à-vis the parliament. The constitution of 1906 had also anticipated that the Shah himself was not accountable for decisions made by his ministers\textsuperscript{7}. In practice, the ministers were required to obey the Shah's written and oral commands. In the absence of real political institutions in the country, the

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\textsuperscript{6} - The Constitution of Islamic Republic of Iran, 1989, Chapter 9.
\textsuperscript{7} - Iranian Constitution of 1906.
monarch gradually became a tyrant. According to the constitution of the Islamic Republic, the president heads the cabinet, appoints and dismisses ministers by consent of the Majlis and is held accountable for their decisions and actions vis-à-vis the Majlis.

The president coordinates decisions made by individual ministers and with their help executes the government programs and policies. The ministers are held accountable to both the president and the Majlis and stay in office as long as they have the Majlis vote of confidence®. Figure 3-1 shows the political system of the Islamic Republic of Iran:

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3-4. ADMINISTRATIVE SYSTEM

Iran holds a centralised administrative and political system. The country is administratively divided into provinces (Ostan), which are further divided into districts (Shahrestan). A Shahrestan generally consists of a major town and several sub districts (Bakhsh). Each Bakhsh is made up of several townships or counties (Dehestan), which in-turn are divided into villages (Deh). The provinces are administered by governors general (Ostandaran) and districts and sub districts are headed by governors (Farmandaran) and lieutenant governors (Bakhshdaran) respectively. All chief executive officers in provinces, districts and sub districts are central government appointees. With the exception of Ostandaran who are appointed by the president on the advice of the interior minister, Farmandaran and Bakhshdaran are appointed by the minister of interior. Although the constitution of 1979 had anticipated creation of councils in Ostan, Shahrestan, Bakhsh and Deh to be administered by elected local authorities, until recent time the dream of lawmakers had not been realized. In 1999, the Ministry of interior took initiative and put into effect the councils elections throughout the country. With this accomplishment and by creating local governments the Islamic Republic of Iran for the first time in its entire history, has entered into a stage of practicing administrative decentralization.

At central government level, the bureaucracy consists of ministries, government agencies and public enterprises. Traditionally, the Iranian ministries have been major organizations of executive with a vast power vested in them to
perform executive functions. Since the constitution has just made the president and his cabinet members accountable vis-a-vis the Majlis, all other government organizations including public agencies and enterprises must be affiliated with one of ministries or the office of president.

Each of the Iranian ministries has its own internal hierarchy with several directorates general, departments or sections. In addition, each ministry supervises a number of semi-independent agencies and public enterprises affiliated to it. Furthermore, all ministries with the exception of the ministry of foreign affairs have field offices at the level of directorate general and department in provinces and districts respectively.\(^9\)

As mentioned earlier the leader has a power over the executive. This power is exercised through several means. The leader makes decisions on the state's overall policies, confirms the president once elected and dismisses him upon approval of two third of Majlis deputies, and oversees ways the state overall policies are implemented.\(^10\)

The responsibility of president in controlling the bureaucracy extends beyond execution of the constitution. He has authority to control the performance of individual ministers and if necessary dismisses them. In addition, he posses a managerial arm namely the Management and Plan Organization (MPO) to control the bureaucracy.

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The MPO is responsible for the state's overall management, manpower planning and personnel administration. Besides, it exercises a vast authority over the state's financial management including formulation, execution and control of the state's budget. The MPO is also responsible for formulation, execution and assessment of socio-economic development plans.

The Majlis (parliament) plays a major role in controlling the bureaucracy. It exerts a great control over the executive. This control is exercised through making law, vote of confidence for cabinet ministers, questioning ministers individually and collectively, authorizing and appropriating annual budget and approving the five-year socio-economic development plans. In addition, the Majlis oversees the financial performance of the executive through detailed auditing and investigation. This duty is performed by the state auditing office (Divan-e Mohasebat-e Keshvar). The article ninety of the Constitution also authorizes the Majlis to receive complaints relating to the executive performance from individual citizens.

In general, the judiciary is delegated authority to check laws are executed by the executive branch of the government. This responsibility is performed by courts as the main bodies of judicial system. There are different types of courts in the country. Each instructed particular duties from which the Supreme Court is a powerful judicial body with a great authority entrusted to it to control the administration. Still there exist two specialized judicial bodies for checking the performance of the bureaucracy: the court of administrative justice (Divan-e Edalate-e Edari) and the national investigation organization.
(Sazman-e Bazresi-e koll-e keshvar). The first judicial body deals with complaints, injustices and objections of the people concerning public of facials, organisations, and regulations. The second body is entrusted with the function of controlling ways the state's laws are executed by the administrative apparatus of the government.11

3-5. ECONOMIC SYSTEM AND TRENDS

With a large and fast-growing population and among the world's largest oil and gas reserves, Iran is a significant regional economy. The economy is heavily dependent on hydrocarbon exports, and economic growth is strongly influenced by oil market developments. Around 80 per cent of total export earnings are generated from oil revenues. A key goal of Iranian economic policy over the last 20 years or so has been diversification of the economy away from dependence on oil.

Of the variety of natural resources found in Iran, petroleum (discovered in 1908 in Khuzestan province) and natural gas are by far the most important. The chief oil fields are found in the central and southwestern parts of the Zagros Mountains in west Iran. Oil also is found in north of Iran and in the offshore waters of the Persian Gulf. Domestic oil and gas, along with hydroelectric power facilities, provide the country with power.

The petroleum industry is Iran's economic mainstay; oil accounts for 80% of export revenues, and Iran is a member of the Organisation of Petroleum Exporting Countries (OPEC). Major refineries are located at Abadan (site of the country's first

refinery, built 1913), Kermanshah, and Tehran. Pipelines move oil from the fields to the refineries and to such exporting ports as Abadan, Bandar-e Mashur, and Khark Island. In the late 1990s, Iran’s state-owned oil and gas industry entered into major exploration and production agreements with foreign consortia.

In sum, Iran’s economy is a mixture of central planning, state ownership of oil and other large enterprises, village agriculture, and small-scale private trading and service ventures.

Textiles are the second most important industrial product; Tehran and Esfahan are the chief textile-producing centers. Other major industries are sugar refining, food processing, and the production of petrochemicals, cement and other building materials, and machinery. There is an iron and steel plant at Esfahan and a fertilizer plant at Shiraz. Traditional handicrafts such as carpet weaving and the manufacture of ceramics, silk, and jewelry are also important to the economy. Besides crude and refined petroleum, Iran’s chief exports are carpets, fruits, nuts, hides, and iron and steel; its chief imports are machinery, metals, military supplies, food, and chemicals. Iran’s chief trading partners are Japan, Germany, and Italy. Khorramshahr, on the Shatt al Arab, is the country’s chief general cargo port; Bandar-e Anzali is the chief Caspian port. A network of roads links the villages with the larger cities; most of the principal routes are paved. The Trans-Iranian RR links N Iran with the Persian Gulf.
Agricultural products make up about 30 percent of Iran’s non-oil exports and contributes just over 20% to the gross national product and employs a third of the labour force. The main food-producing areas are in the Caspian region and in the valleys of the northwest. Wheat, the most important crop, is grown mainly in the west and northwest; rice is the major crop in the Caspian region. Barley, corn, cotton, sugar beets, tea, hemp, tobacco, fruits (including citrus), nuts, and dates are also grown, and livestock is raised.

Over the past decade, the authorities have attempted to address the economic problems and restore sustained economic growth. The First Five Year Development Plan (FFYDP), covering the period 1989/90-1993/94 (fiscal year ending March 20), initiated steps aimed at decontrolling significant part of domestic prices, raising public utility rates, removing some nontariff trade barriers, lowering income tax rates, starting to privatize public enterprises, and liberalizing the exchange system. The economy responded well and real GDP grew by an average of 7 percent during the FFYDP with significant improvements in the social indicators. Figure 3-2 shows the sectoral distribution of annual GDP Growth during 1995/96-1999/2000:

Figure 3-2: Sectoral Distribution of Annual GDP Growth 1995/96-1999/2000

![Figure 3-2: Sectoral Distribution of Annual GDP Growth 1995/96-1999/2000](image)

However, the main emphasis of the FFYDP was on infrastructure development and reconstruction programs which were financed by expansionary policies. The impact of these policies was exacerbated by significant drop in oil prices and the weakening of Iran's external position that was financed mostly by a large buildup of short-term external debt (due in part to Iran's lack of sufficient access to medium- and short-term credit), which eventually led to a growing stock of external payment arrears.

The broad liberalization direction of the FFYDP was reemphasized under the Second Five Year Development Plan (SFYDP), covering the period 1994/95-1999/2000. However, opening of the economy continued to progress at a slow pace despite the recovery of the oil prices during the first three years of the Plan. The period of the SFYDP was characterized largely by macroeconomic instability and declining economic growth. As a result, the authorities' policy priorities were shifted to rectify the macroeconomic and external debt imbalances, while the much needed structural reforms were delayed. Significant success was achieved in regularizing external debt arrears, and the accumulated short-term debt arrears had been largely amortized by mid-1998/99.

The sharp drop in oil revenue caused a significant widening of the budget deficit to 6.7 percent of GDP despite sizable compression of capital outlays. The deficit was largely bank financed resulting in an acceleration of monetary expansion to 26 percent in 1998/99 from 16 percent in 1997/98, and inflation picked up to an estimated 20 percent from 17 percent in
1997/98. At the same time, unemployment rate remained high at about 13 percent.

The recovery of oil prices during 1999/2000 significantly strengthened Iran's external and fiscal positions. Nevertheless, the supply response remained weak and the growth of real GDP increased marginally to about 2.4 percent. The average inflation rate remained broadly unchanged at 20 percent, reflecting in part, the large liquidity overhang at the end of 1998/99. However, inflation started to decelerate toward the end of 1999/2000. The strengthening of the external position was reflected by a large current account surplus of about US$4.7 billion with gross official reserves rising to US$5.6 billion or the equivalent of about five months of imports. External debt service payments were accelerated in order to regularize the re-phased debt obligations, resulting in a drop in the outstanding external debt to about 10 percent of GDP. The sharp increase in oil revenue and continued tight expenditure policy have resulted in fiscal surplus of about one percent of GDP in 1999/2000.

3-6. SOCIAL TRENDS

3-6-1. Population

Iran’s central position has made it a crossroads of migration; the population is not homogeneous, although it has a Persian core that includes over half of the people. Azerbaijani constitute almost a quarter of the population. The migrant ethnic groups of the mountains and highlands, including the Kurds, Lurs, Qashqai, Balochi and Bakhtiari, are of the least mixed descent of the original Iranians. In the northern provinces, Turkic and Tatar influences are evident; Arab strains
predominate in the southeast. Iran has also a large rural population, found mainly in agrarian villages throughout the country.

According to Iran’s Statistic Centre\(^{13}\), the population of Iran was 68,467,413 in 2005, which 45,560,253 were living in cities and 22,817,160 in villages. The capital of Iran is Tehran and its population was 12,150,742 in 2005. The languages of Iranian are Persian and Persian dialects 58%, Turkic and Turkic dialects 26%, Kurdish 9%, Luri 2%, Balochi 1%, Arabic 1%, Turkish 1% and other 2%.

One of Iran’s achievements during the past years has been reduction in the population growth rate, which in turn due to the downward trend of fertility rate. Changes in the population age-structure have brought about additional demand for education, health and income distribution reflects special attention paid to the social affairs during the recent years. The population under 20 and 25 years constituted 43.3 and 55.3 percent of the total population, respectively, so that youth coefficient, i.e. the ratio of population under 15 years to total population reached 29.7 percent. This ratio has been declining in recent years due to population control policies. Table 3-1 shows the population age structure for the years 2002-2004.

<table>
<thead>
<tr>
<th>Age group</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young population (under 15)</td>
<td>31.9</td>
<td>30.8</td>
<td>29.7</td>
</tr>
<tr>
<td>Population (15-64)</td>
<td>63.3</td>
<td>64.5</td>
<td>65.6</td>
</tr>
<tr>
<td>Old population (over 64)</td>
<td>4.8</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

\(^{13}\) - www.peiknet.com/Iran's population.htm. (12/10/05).

3-6-2. Labour Market Trends

Changes in the population age-structure after Islamic Revolution of 1979 and end of the eight years of Iran and Iraq war in 1988 and entering the volunteer youth, who were busy in the war have brought about additional demand for the labour during the recent years.

On the basis of the data released by the Statistical Centre of Iran, unemployment rate in the forth quarter of 2003 with 0.9 percentage point decline compared to respective figure of the previous year reached 11.3 percent. Unemployment rate in the first quarter was 11.6 percent. Reduction in unemployment rate in the review year was basically attributable to remarkable rise in investment, especially private sector investment and extending of job creation facilities.

Unemployment rate among male population declined from 10.1 percent to 9.8 percent, and among female population increased by 0.1 percentage point from 20.4 to 20.5 percent in 2003-2004. Rise in unemployment rate among the female is mainly owing to increase in female participation on the one hand, and shortage in creation of job opportunities for the female on the other.

On the basis of the sample survey done by the Statistical Centre of Iran in the review years (2003-2004), 20.9 percent of active population were employed in agriculture sector, 31 percent in manufacturing and 48.1 percent in services sector. The survey also shows that in the review years labour force productivity by various sectors of the economy indicates
growing trend of productivity in the economy, particularly in the manufacturing, agriculture and services sector\textsuperscript{15}.

\textbf{3-6-3. Income Distribution}

Obtainable statistics show that the proportion of income for the top 10\% is 21.19 times greater compared to the bottom 10\%. This data for the urban population is 14.2 time higher and for rural population 23.03 times greater\textsuperscript{16}.

Accordingly, the income levels for the top 20\% compared to the bottom 20\% is 10.51 times higher (7.86 times larger in the cities and 11.1 times higher in rural areas). The percentage of households below the poverty line in cities was 18.72 percent and 21.76 percent in rural areas during 1999.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
 & 2002 & 2003 & 2004 \\
\hline
Gini coefficient & 0.3985 & 0.4191 & 0.4156 \\
\hline
Share of 40\% of low-income households (percent) & 15.94 & 14.98 & 15.05 \\
\hline
Share of 40\% of medium-income households (percent) & 37.14 & 36.07 & 36.54 \\
\hline
Share of 20\% of high-income households (percent) & 46.92 & 48.95 & 48.42 \\
\hline
Ratio of richest 10\% of households to poorest 10\% & 14.7 & 17.1 & 16.0 \\
\hline
\end{tabular}
\caption{Income distribution inequality index in urban areas\textsuperscript{17}}
\end{table}

According to the Central Bank of Iran, in 2003-2004, the poorest 10\% of households in urban areas composed 2 percent and that of richest 10\% percent shared 32 percent of the country’s total income. The share of the first decile increased by

\textsuperscript{16} Hamshahri Newspaper, Nov 27, 2000, No. 2278.
5.3 percent and that of the tenth decile decreased by 1.2 percent, so that the ratio of richest 10 percent to poorest 10 percent declined by 5.9 percent from 17.1 times in 2003 to 16 times in 2004, indicating an improvement in income distribution in urban areas.

3-7. SUMMARY

This chapter has briefly explained the specific socio-economic and political issues of Iran. However, the chapter reviewed the geographical situation, political, administrative and economic system, and social affairs of Iran to give the necessary background to the reader.