

Republic enemy

US policy and Iranian elections

*As the US president-elect considers a policy departure over Iran, the Islamic Republic is facing similar challenges to those that triggered its 1978-79 revolution. **Ali Alfoneh** and **Alex Vatanka** look at three possible scenarios for the country's future and what each will mean for its stability.*

KEY POINTS

- Iran will be one of the primary foreign policy challenges for Barack Obama.
- Although the new US president will be able to affect the forthcoming Iranian presidential elections to some extent, his influence may be marginal.
- Nonetheless, Obama's policies could lead to outcomes converse to those most desired by the future administration in Washington.

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One of the key foreign policy challenges facing president-elect Barack Obama when he takes office on 20 January will be the issue of Iran.

With Iranian presidential elections due in June 2009 and declining global oil prices widening the Iranian government's financial deficit, United States policy towards the Islamic Republic could influence the choice of its next president.

Obama has already outlined what seems like a policy departure from his predecessor. Whereas President George Bush favoured confrontational rhetoric, describing Iran as a member of the "axis of evil" in January 2002, Obama has emphasised negotiation and multilateralism in his campaign speeches, and in November 2007 even said he would offer economic inducements and a possible guarantee not to seek regime change.

This has raised hopes that relations between Tehran and Washington, which were tense throughout the Bush administration – particularly after the 2005 election of President Mahmoud Ahmadinejad – could improve under the new president.

However, in reality Obama may not only find his policy on Iran constrained by domestic and Iranian politics, but may also find his policies resulting in outcomes his administration does not desire. In particular, engagement with the

regime may encourage the election of an anti-Ahmadinejad principalist, rather than the reformist that Washington would most like to see in power. While beneficial for Iranian stability, this may not lead to the benefits in reducing tension with Iran so desired by Obama.

Risk in December 2008

Before devising policy options, the Obama administration must assess the risk to Iran's current stability. This can be analysed through five major risk groupings: political, economic, social, security and external.

Political situation

As the Islamic Republic is preparing to celebrate the 30th anniversary of its founding, Iran's political leadership is facing similar challenges to those that triggered the 1978-79 Iranian Revolution. Mohammad Reza Pahlavi's socio-economic modernisation schemes, known as the 'White Revolution', in the 1960s rapidly changed the structures of Iran. The Shah, however, never managed to liberalise the political system to accommodate the transforming society, and a social-political revolution became reality.

Similarly, since the revolution, rapid social changes have occurred, but there has been little political liberalisation. This tension has created a quandary for the Iranian leadership: tolerate a period of potentially destabilising political transformation or adopt a policy of political repression, which could weaken the regime's legitimacy and potentially pave the way for another popular revolution.

It is against this background that Iran prepares for the 12 June 2009 presidential elections – the 10th since 1979. Yet with fewer than seven months until the elections, little is known about who will apply for candidacy and unclear who the Shura-ye Negahban (Guardian Council), which has to approve all candidates, will allow to run for the presidency.

More than electing individuals into office, participation in elections in Iran serves as ritual renewal of *beyat* (Islamic allegiance) to the Supreme Leader, Ayatollah Ali Khamenei, who

ultimately has the final say on all major policy decisions. Khamenei is not elected by popular vote, but chosen by the *Majles-e Khobregan* (Assembly of Experts), which is made up of 86 senior Shia clergymen.

The political role of the Supreme Leader is one of indirect, but vital, oversight: securing continuity in government affairs by preserving inter-factional balance. As such, rather than intervening personally in elections, the Supreme Leader uses the Guardian Council, a 12-member body that is directly or indirectly appointed by the Leader, to filter out undesired candidates, orders the Islamic Republic of Iran Broadcasting to favour the desired candidate, mobilises the *Sepah-e Pasdaran-e Enqelab Islami* (Islamic Revolutionary Guards Corps: IRGC) and the *Nirou-ye Moghavemat-e Basij* (the Basij Resistance Force) voting block and the like.

In the 2005 election, Khamenei tacitly supported Mahmoud Ahmadinejad as a counter-measure to the reformist movement exemplified by the economic liberalisation of former president Ayatollah Ali-Akbar Hashemi Rafsanjani (1989-1997) and political liberalisation under Mohammad Khatami (1997-2005). With Ahmadinejad's first term in office nearing its end, the question is whether Khamenei's political investment in the Ahmadinejad presidency has paid off, and if so if it is deemed sufficiently satisfactory for the Supreme Leader to once again put his weight behind Ahmadinejad's bid to remain in office.

In reality, Ahmadinejad's first term has been a mixed experience for Khamenei. On the one hand, Ahmadinejad's populism has managed to revive a degree of revolutionary spirit among an otherwise apathetic public. A brilliant communicator, Ahmadinejad has won global infamy by denying the authenticity of the Holocaust and claiming to have divine blessings, and even personal contact with the Shia Messiah, Mahdi the Imam of the Era. Global notoriety has in turn contributed to the popularity of Ahmadinejad's frequent provincial trips. Millions of curious Iranians rally to see the president, who supporters call *Mo'jzeh-ye Hezareh-ye Sevvom* (the

Miracle of the Third Millennium). The rallies also attract the regimented youth of Iran – more than half Iran's population is under 30 years old – serving in the ever-growing Basij Resistance Force. Too young to have served in the war against Iraq (1980-1988), the Basijis long for adventure, recognition and glory, which resonates with Ahmadinejad's promise of fighting the *nirou-ha-ye Sheitani* (Satanic powers) – Israel and the US.

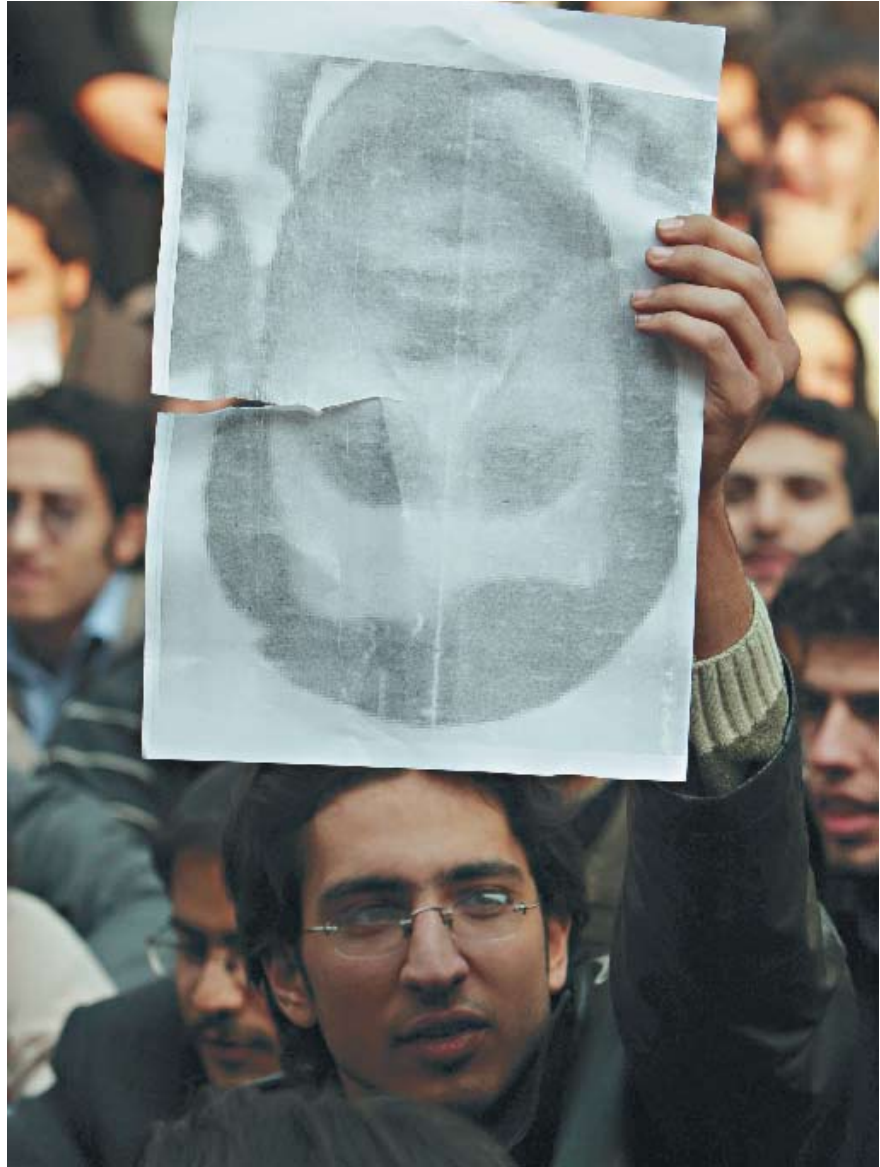
On the other hand, Ahmadinejad's unorthodox statesmanship and frenzied management style have caused various problems. Dismantling the important bureaucratic organisations, the rapid turnaround of the Islamic Republic's administrators, and adventurous foreign policy statements – to mention a few examples – have severely damaged state bureaucracy and alienated the technocratic elites.

Populism also contributes to Iran's political isolation and since Ahmadinejad's presidency there have been three UN Security Council resolutions sanctioning Iranian businesses. This in turn alienates the mercantile class, both the traditional merchant class at Tehran's old bazaar and new merchant class that operates outside the bazaar and emerged during the Rafsanjani and Khatami presidencies. Ahmadinejad's policies are in the long term also bound to harm the *mostaz'af* (unprivileged) class of Iranians, whose interests he claims to represent.

With such a varied first term, it is not yet clear that either Khamenei or the electorate will support Ahmadinejad again. It is too early to speculate about alternative candidates, but certain strategies appear feasible for the opposition. Among the conservatives, former IRGC officers, such as the Speaker of Parliament Ali Larijani, Tehran Mayor Mohammad-Baqer Qalibaf, Secretary of the Expediency Council Mohsen Rezaee and even Ahmadinejad's former interior minister Mostafa Pour-Mohammadi, may form an alliance to challenge Ahmadinejad's monopoly on the so-called *usul-garayan* (principalist faction); and all these men are presently pondering to run as candidates.

Alternatively, the business elite could rally around Hassan Rohani, a mid-ranking cleric who is appreciated inside Iran and in the West for his moderate views, and a long-time former head of Iran's Supreme National Security Council. Rohani is a protégé of Ayatollah Rafsanjani, who remains one of the most powerful men in Iran as he is the chairman of the Expediency Council and the Assembly of Experts. Mohammad Hashemi Rafsanjani, brother of the former president, may also provide an alternative for the business elite.

While the principalist faction is divided between supporters and opponents of Ahmadinejad, the reformist camp is also divided between two major candidates: former president



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An Iranian student holds a photo of Mahmoud Ahmadinejad upside down to show his disapproval of the Iranian president's policies during a demonstration in Tehran in 2006. Growing domestic economic hardship could lead to popular mobilisation and a rise in social unrest.

Mohammad Khatami and former speaker of the parliament and chairman of the *E'temad-e Melli* (National Trust) faction, Mehdi Karrubi. In the event that they both choose to participate in the 2009 elections, the principalist faction will have a considerably better chance to prevail.

Economic situation

One issue that will surely dominate the 2009 election relates to economic policy, as Ahmadinejad's government has so far been less than convincing in meeting domestic and external economic challenges. Domestically, the government's oil wealth redistribution,

expansionary monetary and fiscal policies – including subsidies and subsidised lending partially financed by withdrawals from the foreign exchange reserves – and pseudo-privatisation schemes are increasingly being blamed for having caused a major rise in inflation, capital flight, unemployment and leaving the country vulnerable to external shocks, such as declining oil prices. Externally, the global financial downturn has led to a sharp decline in oil prices, which in turn affects the heavily oil-dependent Iranian economy. Coupled with the ongoing nuclear stand-off, Iran continues to face serious difficulties in attracting foreign

investments, which is most needed in the energy sector.

Since 2000, the Iranian economy has experienced growth and the trend has continued from 2005 when Ahmadinejad came to power. The International Monetary Fund registered gross domestic product (GDP) growth at 5.8 per cent for 2006 and 2007. According to the Central Bank of Iran, GDP is projected to expand by 7.8 per cent in 2008. High oil prices for most of Ahmadinejad's term in office, expansionary monetary and fiscal policy steps by his government, agricultural recovery and growth in Iran's non-oil sector all contributed to this trend.

However, Ahmadinejad's election slogan of "bringing the oil money to the tables of the people" has had serious negative effects. Ahmadinejad has continued earlier government policies of subsidising consumer goods, food products and petrol rather than investing the record oil revenues in long-term economic projects.

The government has also forced the banking sector to engage in subsidised lending within the frameworks of *tarh-ha-ye zoud-bazdeh* (rapid result generating schemes) to stimulate employment, along with subsidised lending for rural development schemes, lending to young couples establishing families through the *Mehr-e Reza* Foundation, and increased lending of *Bonyad-e Maskan* (Housing Foundation) subsidising housing schemes. Few expect these loans to be repaid.

According to the Central Bank, such policies have led to a growing budget deficit. In 2008, while government revenue is projected at IRR70,024 billion (USD7.14 billion), expenditure is expected at IRR108,088 billion (USD11.02 billion), a deficit of USD3.88 billion. Some Iranian economists see a correlation with the growth in the budget deficit and the rate of inflation, which according to the Central Bank has reached 20.7 per cent. Independent Iranian economists have suggested even higher rates.

Ahadinejad's proposed *tarh-e tahavool-e eqtesadi* (grand economic reform scheme) aims at transforming state subsidies into cash distribution and introducing oil dividends in Iran, which could revolutionise the country's economy. It is a policy that foreign economists claim is far superior to the present system of subsidies, but it is unclear if the president has the political influence and authority to go against vested economic interests of the elite. If not, the Iranian state may end up paying oil dividends and continue state subsidies, a development that would clearly be unsustainable.

At the institutional level, Ahmadinejad began his term of office by dismantling the flagship of economic planning in modern Iran, the

independent Planning and Budget Organisation, which was split up and subjected to presidential control. Ahmadinejad also abandoned the concept of five-year development plans, a planning process dominant since the revolution. Disinclined to accommodate criticism, the president systematically purged the bureaucracy, including economists, whom he appointed but who challenged his decisions. Meanwhile, three Central Bank directors general have left office in protest against presidential decrees on subsidised lending by the banking system.

Privatisation schemes also remain subject to controversy. While declaring readiness to privatise publicly owned companies, most privatisations are in reality a handover of ownership of companies to other governmental organisations, such as the IRGC taking over the Oriental Oil Company in July 2006 and the Basij Resistance Force taking over the Tabriz Tractor Factory in May 2008. Lack of transparency in the financial

‘In the short term, the most urgent socio-economic challenge is declining oil prices’

sector hardly stimulates the private sector to invest in companies that the government seeks to privatise.

Such realities in Iran have made foreign destinations attractive for Iranian private capital. The United Arab Emirates provides a particularly business-friendly alternative for most Iranian investors, and according to a June 2008 US Congress study, Iran's foreign investments in Dubai "may have neared USD300 billion". This loss of capital in turn hampers job creation in a country where 750,000 young people enter the job market each year. The Central Bank reports an unemployment rate of 9.6 per cent, but the rate is likely to be higher and distribution of unemployment is uneven regionally. In an economy where the state is the largest employer, underemployment and inadequate income also remain major challenges. Meanwhile, economic growth and government investment remain uneven in the country, often fuelling anxiety among provincial communities, particularly in Kordestan, Khuzestan and Baluchistan.

Social situation

In the short term, the most urgent socio-economic challenge is declining oil prices, as this has an immediate impact on social stability. Revenues from oil exports account for 80 per cent of Iran's foreign currency income and more than 60 per cent of the state budget. Frustrated officials publicly warn that if oil prices remain under USD70, a widening budget deficit is

guaranteed, which in turn will have broad ramifications – from the state's ability to subsidise basic commodities such as petrol, sugar and bread to its capacity to maintain current oil production levels.

In the past three years, high oil prices have been a godsend to the over-spending president. Ahmadinejad frequently travels to remote areas of the country and impoverished urban quarters. There is no doubt this boosts his standing in the eyes of the poor and provincial populations who often complain of neglect from Tehran-centric government officials. Still, Ahmadinejad's plentiful promises during these trips, which local provincial officials often criticise as untenable, will increasingly become a political liability as his capacity to transfer cash directly to select recipients is impeded owing to shrinking state revenues. According to 60 Iranian economists who wrote an open letter to the president on 7 November, the government has in the latest three

fiscal years spent USD142.6 billion of oil revenues, which is USD95.7 billion over budget. Despite these warning signs, Ahmadinejad's government shows no indication of changing tack.

Inability to mollify the poor and rural communities would represent more than just the loss of a political support base, but depending on the severity of the economic conditions to come, it can mobilise large segments of disgruntled working class communities. It is this mobilisation that can lead to social and political unrest. There is little doubt that, from the regime's perspective, economic-driven public anxiety is particularly precarious to tackle given its likely magnitude. Since June 2003, when the last wave of politically inspired student protests took place, almost all significant acts of public dissent have been by workers and civil servants, including unpaid factory workers, teachers, bus drivers and car owners attacking petrol stations in protest against the government's attempt to abolish subsidised petrol.

At the same time, the Iranian state has the difficulty of reconciling relatively rapid social change since the revolution with the lack of political reform. Iranian society is now urban, as the rural population continues to migrate to cities, such as Tehran, Esfahan, Mashhad and Tabriz, in search of employment. According to the Central Bank of Iran, 49.6 million Iranians live in urban areas and 21.9 million in rural areas. By contrast, in 1979 an estimated 60 per cent of the population lived in rural areas.

In terms of education, literacy is now almost universal, at 97.2 per cent for the six to 29 age groups, as reported by the Statistical Centre of Iran. Record numbers are attending higher education institutions, and women comprise about

60 per cent of all university students.

There have also been improvements in public health as the Islamic government is continuing the Shah's policies to improve healthcare outside Tehran. There has also been an explosion in access to information via radio, television and the internet.

In other words, the Islamic Republic is facing an urban, educated, healthy and informed population, but has yet to deliver political liberalisation to accommodate prevailing societal realities, while economic difficulties threaten living standards.

Security situation

Despite periodic public protests, which tend to be narrow in scope and localised, the Iranian authorities are on the whole capable of maintaining law and order across the country. However, a limited number of armed groups do operate inside Iran, primarily in the border areas. A handful of violent or terrorist attacks have occurred in recent years in the province of Khuzestan, and at times elsewhere, such as the 12 April bombing of a religious centre in Shiraz.

At the moment, two ethnic militant groups frequently attack security forces. In the north-west, on the border with Turkey and Iraq, the Kurdistan Free Life Party (Partiya Jiyana Azada Kurdistanê: PJAK), which was founded in 2004 and is an offshoot of the Workers' Party of Kurdistan (Partiya Karkerên Kurdistan: PKK), carries out raids against government forces and infrastructure such as the gas pipeline to Turkey. The PJAK's official political aim is not independence for Iran's estimated seven million Kurds, but greater political freedom and cultural rights for Iran's non-Persian populations.

The rebel group, which launches its attacks from makeshift bases in the Qandil mountains inside Iraqi territory nominally under the jurisdiction of the Kurdish Regional Government (KRG), has declared a strategy of co-operation with other minority groups in Iran, especially Balochis. It may also have sought US support, although Washington has never admitted any collaboration with PJAK, as the group's close ties to the PKK, designated a terrorist entity by the US Department of State, makes such an alliance difficult to facilitate. In early November 2008, Iraqi Kurdish media reported that the PJAK had opted to cease its activities against Iranian targets and will instead reconfigure its armed assets and join the PKK in its operations against Turkey, although whether this occurs remains to be seen.

In the southeast, the ethnic Baloch militant group known as Jondollah (Soldiers of Allah) has since 2003 conducted targeted assassinations and kidnappings of Iranian military personnel and government officials dispatched to Baluchistan. Members of the group traverse between Iran's Baluchistan, Pakistan and southern

Afghanistan, and have therefore proven elusive for government forces. The group's leader, Abdolmalek Rigi, rejects any secessionist aspirations and echoes similar grievances against the central government as the PJAK.

However, while the PJAK and Jondollah are ostensibly Sunni groups, the PJAK's socialist roots force it to exclude sectarian motivations as part of its drive against Iran. On the other hand, Jondollah has sought to compensate for its lack of ideological platform by emphasising the Sunni faith of its soldiers, and Rigi has repeatedly lambasted the Islamic Republic as a Shia-chauvinist system that tramples on Sunnis. Ahmadinejad's Shia-centric political philosophy made him unpopular in Baluchistan from the outset. He received his lowest share of the vote in the province in both rounds of the 2005 presidential elections. Jondollah's manpower is uncertain, seemingly because its ranks include tribal fighters and foreign mercenaries (most likely ethnic Baloch from Pakistan) who participate in armed raids on an ad hoc basis.

Armed drug traffickers, operating along eastern border regions with Afghanistan and Pakistan, pose more than just a security challenge. Drug addiction, estimated at between two and four million of Iran's 71 million population, poses an enormous social burden on a state that is already struggling to meet public demands. Since 1979, Iran has executed thousands of drug traffickers – the largest group among the country's prison population – while an estimated 4,000 security forces have lost their lives in the same period in anti-drug operations.

External situation

Since 2001, Iran's regional foreign policy perceptions have significantly changed. Overall, regional threats have become geopolitical opportunities, notably in the cases of Iraq and Afghanistan. Meanwhile antagonistic relations with Washington combined with an unprecedented US military presence on its borders make Tehran uneasy and cautious to avoid an armed confrontation with an extra-regional power that is the guarantor of security of many of Iran's smaller neighbours and most specifically the states of the Gulf Co-operation Council.

Before the US invasions of Afghanistan and Iraq, the primary driver behind Tehran's regional policy was to reduce its regional isolation, a direction that was set by then-president Rafsanjani and accelerated by then-president Khatami. Now the staunchly anti-Iran regimes of Saddam Hussein and the Taliban have been replaced by governments that include many individuals close to or sympathetic towards Tehran, Iranian foreign policy demonstrates a heightened level of confidence. This confidence, which is often reinforced by tacit public consent sustained by popular nationalism that is rarely scrutinised, is

not limited to regional affairs but is impacting Iran's attitudes towards the US, the European Union and also the UN, where deliberations are still ongoing about Iran's refusal to comply with UN Security Council resolutions.

On a regional level, the Islamic Republic seemingly pursues a strategy that seeks to avoid direct military confrontation, particularly with US forces stationed in the Middle East and in the waters of the Persian Gulf. It tends to favour the use of soft power, allies and proxies whenever possible. This is clearly evident in Iraq, where Iran has emerged as arguably the most influential external power among Shia and Kurdish Iraqi political interests. In Iraq and Afghanistan, Iran is also promoting economic integration, which it undoubtedly believes it can shape in the long term given the size of its population and economy. While keeping its options open by demonstrating a high degree of pragmatism in foreign policy, the ultimate objective is clearly to make Iran the undisputed regional power.

A discernible pattern in Iran's approach to foreign policy is that it is effectively cautious and evolving, often devoid of Islamist ideology in practice. While Ahmadinejad's confrontational foreign policy rhetoric captures international attention, Tehran's two most contentious policies – its plan to complete a full nuclear cycle on home soil and its involvement in Iraqi affairs – were in full implementation prior to his administration taking office in August 2005. This is due to the fact that major strategic foreign policies are not the prerogative of the president, but decided in the Supreme National Security Council, where the Supreme Leader has the greatest influence. Given Ayatollah Khamenei's dominance, presidential administrations can differ in style and nuances in shaping foreign policy, as was the case with the Khatami and Ahmadinejad presidencies. Khamenei's preferences are especially dominating concerning his 'red lines', a reference to US-Iran relations and Tehran's position with regard to Israel. On this issue, the Supreme Leader remains highly sceptical of US intentions and no major Iranian concessions in this regard will be forthcoming unless Khamenei is assured that his interests are accommodated by Washington.

Risk factors	December 2008
Political risk	Moderate
Security risk	Moderate
Economic risk	Significant
External risk	Significant
Social risk	Moderate
Total risk	Moderate

Three future scenarios

With a new US administration entering office in January 2009, the effects this will have on the Iranian presidential election may be muted, but distinct. The three scenarios below outline the possible outcomes of the Iranian election given various domestic and external factors.

Scenario one: Ahmadinejad wins a second term

Probability	Moderate
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One result the new US president will fear will be a re-election of Ahmadinejad. Despite a mixed performance in his first term, this remains eminently feasible

Since the Iranian president first emerged in 2004 as a presidential candidate, Ayatollah Khamenei has tacitly, and at times overtly, backed him politically. This has been true even at times when Ahmadinejad's unpopularity with many in the ranks of the regime turned the president into a liability for Khamenei and the Islamist regime as a whole.

The latest political embarrassment was the 4 November impeachment in parliament of Ali Kordan, the minister of the interior, who had lied about his educational qualifications. Despite weeks of persistent demands by members of parliament for Kordan to resign, Ahmadinejad dismissed his critics in typical fashion, but did not face a public rebuke by Khamenei. Nonetheless, Khamenei, the ultimate guardian and arbiter in

the Islamic Republic, could still view Ahmadinejad as preferable to alternative candidates in the 2009 elections. The president's bold rhetorical stance towards the US has reinforced the popular and ideological support for Ahmadinejad, and by proxy Khamenei, who may well suspect that a break with Ahmadinejad's policies by reformist and anti-Ahmadinejad principalist candidates could undermine the authority of the Supreme Leader's office, or that such candidates would pursue radical political and economic change as was witnessed during the Rafsanjani and Khatami presidencies.

As a result, Khamenei could pressure the Guardian Council to disqualify reformist and centrist candidates and use state resources to promote Ahmadinejad, paving the way for a second term for the incumbent president. Such a scenario would be most likely should the Obama administration continue the policies used by the Bush administration – of diplomatic pressure and economic sanctions – reinforcing Iranian suspicions of the US.

However, the result for Iran in the short to medium term may be destabilising. Difficulties with

economic reform and a growing budget deficit would undermine government subsidies and create financial difficulties for the poorer members of society, while continued confrontation with the US would ensure ongoing sanctions that would harm the mercantile class.

Ironically, this might actually be beneficial for the US and Israel, as Iranian economic challenges mitigate against an expansive foreign policy. In addition, a failure to liberalise politically and continued economic strife are likely to weaken the authority of the Islamic regime, furthering Washington's long-term goal: regime change.

Risk factors	Scenario one
Political risk	Moderate
Security risk	Moderate
Economic risk	High
External risk	High
Social risk	Moderate
Total risk	Significant

Scenario two: A reformist comeback

Probability	Low
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An alternative to the return of Ahmadinejad would be a reformist comeback. This is the theoretical and less probable alternative to scenario one, should Obama continue the Bush administration's attempts to mobilise the international community to increase economic and political pressures on Iran for its refusal to halt the enrichment of uranium. Such policy continuity could convince the Supreme Leader that Ahmadinejad's confrontational tactics have proven fruitless.

While Khamenei's instinct is still likely to be to meet Washington's intransigence by paving the way for a second term for Ahmadinejad, Iran's political isolation, combined with growing domestic economic hardship, could lead to popular mobilisation and a rise in social

unrest. Fearing socio-political upheaval, as in 1978-79, and facing extensive demands from within the ranks of the regime to let reformist candidates contest the presidential elections as they had so successfully done in 1997, Khamenei may concede.

In this scenario, the Guardian Council would not disqualify candidates en masse as it did in 2005, and a consensus-candidate from a reformist faction could score a major victory with the promise of softening foreign policy rhetoric and implementing gradual political liberalisation. Khamenei could give his reluctant approval to the reformist agenda as he fears the alternative could be another violent revolution.

Although this would likely diminish economic and external risk, as the reformists mitigate Ahmadinejad's previously confrontational

rhetoric and encourage economic reform and easing sanctions, the political threat to the regime could increase. With political liberalisation also a likely outcome of a reformist candidate, increased calls for greater representation are a possibility. This heightened risk to the regime is exactly what makes such a scenario improbable.

Risk factors	Scenario two
Political risk	Significant
Security risk	Significant
Economic risk	Significant
External risk	Moderate
Social risk	Moderate
Total risk	Moderate

Iranian police officers stand guard as people queue to buy petrol before the start of rationing in Tehran in 2007. The global financial downturn has led to a sharp decline in oil prices, which in turn undermines the heavily oil-dependent Iranian economy.

Scenario three: Khamenei drops Ahmadinejad

Probability

Moderate

The alternative policy option for Obama is exactly that which he outlined during his campaign: engagement.

Should Obama effectively override domestic concerns and opt for direct negotiations with Iran, renouncing Washington's 30-year policy to isolate the Islamic Republic, Tehran could be reassured as to Washington's intentions. Indeed, as part of these negotiations, the US may assure Tehran that it will no longer follow a strategy aimed to bring about regime change in Iran and recognise Khamenei's authority.

From Khamenei's point of view, this much-desired US shift towards his country would come at a time when the Iranian economy is facing a crisis due to a prolonged slump in oil prices. The fear of political mobilisation

reaching unprecedented levels as the state is unable to provide for the basic needs of significant parts of the population would be one driver of a possible shift in Iranian politics.

In addition, Ahmadinejad's confrontational foreign policy may also encourage a shift in support, as opposition to his presidency at home is matched by serious damage to Iran's regional and international standing and economic interests. In such a scenario, Khamenei may conclude that Ahmadinejad is no longer only a political liability, but is endangering the survival of the Islamic system, and consequently revoke his support for the president. An anti-Ahmadinejad principalist, tacitly backed or tolerated by Khamenei, would subsequently be the most likely candidate to defeat the incumbent president in the June 2009 elections.

Such a scenario would allow for greater engagement with the US and an alleviation of Iran's economic difficulties. However, it

would not introduce the reformist president that would be so favoured by Washington, and therefore, while being the most stable situation for Iran, would have the consequence of extending the Islamic regime's longevity further. Despite temporary improvement, this could lead to further long-term tension with the US, as a stable Iran continues to pursue its nuclear programme and finds itself emboldened in the region.

Risk factors	Scenario three
Political risk	Moderate
Security risk	Moderate
Economic risk	Significant
External risk	Significant
Social risk	Moderate
Total risk	Moderate

CONCLUSION

Thirty years after the establishment of an Islamic Republic, the regime in Tehran continues the economic reforms that were launched by the Shah. Iran's foreign and security policies also reflect the ambitions of the previous imperial regime, which also sought to make Iran the dominant power in the Middle East. The difference between the two political systems is the Islamic Republic's ability to deal more competently with the rapidly transforming domestic dynamics of the Iranian society.

Rather than establishing an overt single-party system as the Shah did in 1975, the Islamist regime has created an illusion of political choice for the Iranian public. In practice, Ayatollah Khamenei, through the Guardian Council, has stifled any concrete attempts to significantly challenge the status

quo. However, this cannot be maintained given the growing opposition to President Ahmadinejad from within the ranks of his own principalist faction.

This, combined with likely significant economic difficulties to come in months ahead, will pave the way for a number of presidential challengers to Ahmadinejad emerging. Given the tough economic realities and the damage caused to regime harmony by Ahmadinejad's confrontational politics, Ayatollah Khamenei is likely to opt to abandon his support for the beleaguered incumbent president but would still prefer an alternative candidate emerging from the principalist faction. For Ayatollah Khamenei, the top priority is to avert popular mobilisation against the clerical-led system, and the endurance of the Islamic Republic. While

stabilising for the regime, this bodes ill for relations with the US, irrespective of any attempts by Obama to engage Iran. ■

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