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Insights into the Future of Iran as a Regional Power

Highlights from the conference
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Insights into the Future of Iran as a Regional Power



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The Future of Iran as a Regional Power

The Islamic Republic of Iran is highly newsworthy today. It has had a status in international affairs for millennia, as one of the world's oldest and richest civilisations. In the last 50 years, however, it has gained renewed prominence by virtue of a number of developments, including its coming to the forefront as an energy superpower and as a revolutionary theocracy. As indicated CSIS Director Jim Judd, these factors have had important regional and international consequences, such as the rupture of relations with the U.S. and the movement to Canada of a significant Iranian diaspora. Iran also came to prominence because of its long and bloody conflict with Iraq, its emergence as an important regional player, and its support for various movements in neighbouring countries. The strident anti-Israeli position of the current government, which many in Israel call an existential threat, and the country's nuclear and missile programs have also elicited enormous interest and anxiety on the part of world powers. These developments have spawned a variety of policy responses around the world, some of which have involved multilateral institutions such as the International Atomic Energy Agency (IAEA) and the UN Security Council.

But despite its prominence on the international stage, said Mr. Judd, Iran remains for many "an enigmatic riddle", perhaps now more than ever. It is therefore critical that we obtain a better understanding of the country, its leadership and its aspirations. We are living today under a set of circumstances where both risks and opportunities associated with Iran have reached some degree of urgency, particularly with the very tight timeline estimates, at least in some quarters, on Iran's potential to produce nuclear weapons. These circumstances include the formation of a new government in Israel, the coming elections in Iran, electoral developments in neighbouring countries, and perhaps most importantly, a new administration in Washington. The latter has launched a number of initiatives in the Middle East and West Asia. These include the appointment of Senator George Mitchell as envoy for the Middle East Peace Process, the opening of a dialogue with Syria, and a new approach towards Iran, beginning with an unprecedented Persian New Year message from U.S. President Obama, the appointment of a very experienced envoy, Dennis Ross, as well as the appointment of Richard Holbrooke as envoy for Afghanistan and Pakistan, and the recent release of a new policy for these two countries. These are all positive developments in an area of historically high tensions.

Interestingly, Mr. Ross recently wrote that "if history tells us anything, it is that forging an effective strategy towards Iran is no easy task, and yet it has probably never been more important". It is not yet clear what that strategy should be, but there are a variety of opportunities for governments outside the region, including the U.S., to exploit recent developments to better engage Iran. Afghanistan is certainly one area in which Western and other countries share a number of coincident interests with Iran, particularly the stabilisation of the country, curbing the Taliban movement, and tackling the narcotics trade. Ultimately, the engagement strategy and its effectiveness will depend on a much better understanding of issues such as the institutions and policies of the Iranian government which, for too long, have been too opaque to many non-Iranians.

Executive summary

There is much that we do not know or understand about Iran. The “billion dollar question”, however, is clear, and concerns the stability and sustainability of the theocratic system over the long term. A state is stable to the extent that its resilience is greater than the load exerted upon it. During a two-day conference organised under the CSIS academic outreach program, a wide array of such endogenous and exogenous pressures on Iran was surveyed. If, on the whole, both the current government and Iranian society seem to feature a remarkable resilience, it is not always clear where this resilience comes from. That said, there seemed to be some consensus on what, broadly, the key pressures on the system are. Three in particular were identified: *the staying power of the Supreme Leader, the level of youth aspirations, and the strength of the economy.*

The Office of the Supreme Leader, at the helm of the complex system established by the father of the Islamic Revolution, Ayatollah Ruhollah Khomeini, is vested with significant powers and embodies the theocracy. In recent years, both the incumbent and the office have been challenged from numerous sides, particularly by the reformists under the presidency of Mohammed Khatami (1997-2005) and even at times, some would argue, by the younger, hard-line generation led by Mahmoud Ahmadinejad, the current president. Key to the future stability of the position, and therefore of the system as a whole, is the looming issue of succession. A power vacuum or a difficult internal struggle following the death of Ali Khamenei, the current Leader, could, for example, lead to a take-over by the Pasdaran, the official *guardians of the revolution*. That said, the system works by allowing a process of internal contestation between factions, within the boundaries established by the revolution, and could very well allow for a relatively smooth transition, as officials have a vested interest in their own survival.

Conference participants generally agreed that civil society in Iran is much less dynamic today than it was in the 1990s, when it both supported the rise of the reformists and developed in the wake of a nascent experience with pluralism. Today, there is a dominant perception amongst Iran’s youth that the revolution has failed to achieve its promises of social justice and empowerment of the dispossessed. But this frustration is accompanied by a parallel disenchantment with the reformists, whose promises of greater openness and of détente with the West have largely gone unfulfilled. As a result of these dashed hopes, there is much apathy, especially amongst the younger generations who fear that alternatives to the status quo may be worse. There is, in sum, much ambivalence towards both modernity and the theocratic system.

The performance of the economy was identified as the third major driver of the future of Iran. Few conference participants foresaw a very rosy picture. The Iranian economy remains overly dependent on hydrocarbons, while the political redistribution of significant portions of the national income to various domestic actors causes massive inefficiencies. As a result, the country suffers from high unemployment and inflation while its banking system is weak. To compound this bleak assessment, much uncertainty surrounds the future of its oil and natural gas sector. Because of insufficient investment in capacity, oil production has stagnated, while a population boom combined with large subsidies for domestic consumption have caused consumption to skyrocket. As a result, there is a distinct possibility that oil exports could virtually disappear in the mid to long term. That said, conference participants agreed that the both the Iranian economy and society have shown great resilience in the past in the face of

economic troubles, as was seen in the 1980s during the war with Iraq. Thus it is by no means guaranteed that economic troubles – especially if unaccompanied by rising popular aspirations – will lead to the collapse of the regime.

It is often heard in the West that the true intentions behind Iran's foreign policy are opaque. For many conference participants, however, what Iran wants actually is clear: it wants power, and it craves recognition by the international community of what it perceives to be its rightful status as a regional power. It is not clear, however, if the West – and Israel – are ready to grant Iran a seat at the table. Though many speakers believed that there remains a distinctive ideological element in the Islamic Republic's foreign policy, it was generally agreed that it is largely pragmatic. In Iraq, for example, Iran supports Shiite and Islamist factions, but also secular, Sunni, or Kurdish entities when it suits its interests. Much uncertainty surrounds the Iranian nuclear program, as Tehran's intentions and specific capabilities remain poorly understood. It is clear, however, that it is central to future Iranian power and assertiveness, as a nuclear-armed or nuclear-capable Iran could more assertively pursue its regional ambitions. Moreover, the nuclear program, like other tools of the country's foreign policy, is adeptly used by the government to buttress its own legitimacy and to whip up nationalist sentiment.

The conference and its objectives

On 30-31 March, 2009, CSIS hosted a two-day conference on Iran. The event, conducted under Chatham House rules, pursued two objectives: to continue to foster a community of interest on Iran in Ottawa, and to start imagining some of the future courses the Islamic Republic could take in the next ten years. The logic and structure of the event was built around four stages: expert perspectives, the identification of critical uncertainties affecting possible futures for Iran, the identification of scenario "seeds", and the selection and preliminary development of alternative futures scenarios for the year 2020.

The expert perspectives, first, were organised around four thematic modules: domestic politics, society, economics, and foreign affairs. Each module was followed by extensive plenary discussions. The first three worked towards the identification of critical uncertainties, or drivers that participants assessed will have particular salience in shaping the country's future. For each, a spectrum of uncertainty was identified, covering the range of directions in which each could evolve over the next ten years. The three critical uncertainties and their possible boundaries, as identified by the participants through forms filled after the first three modules, are:

The staying power of the Supreme Leader (weak to solid). The staying power of the Supreme Leader – both that of the individual currently holding the position, Ali Khamenei, and that of the office – will be a key driver of events in Iran in the coming ten years. At one end of the spectrum, this power could be low, implying, for example, a loss of legitimacy, a disputed succession, perhaps a loss of influence vis-à-vis the Pasdaran (the revolutionary guards), or centrifugal factional dynamics. At the other end of the spectrum, a solid staying power could imply a stabilisation of the Leader's legitimacy, no need for a succession for the next ten years, or alternatively, a smooth succession with no major vacuum or power struggle, the Leader's powers staying intact, and the Pasdaran being kept at bay.

Youth aspirations (low to high). The aspirations of Iranian youth, in the coming ten years, could range from low to high. At the low end of the spectrum, one could expect to find acquiescent youth willing to trade political for personal freedoms, token religiosity, and high emigration as a safety valve, whereas at the higher end, one could find a more vocal and activist stance, greater support for secularisation, and lower emigration.

Economic activity. The strength of the economy was identified as the third critical uncertainty shaping future outcomes in Iran. A weak economy could be caused by a prolonged spell of low oil revenues, and could be characterised by low foreign investment, high inflation and unemployment, and corruption, while a strong economy, caused in part by higher oil revenues, would witness greater diversification, higher foreign investment, less corruption, and lower inflation and unemployment.

On the basis of these three critical indicators, for each of which two measures are possible (e.g., *low* and *high*), eight possible scenario seeds were identified (e.g., power of the Supreme Leader – solid; youth aspirations – low; economy – strong). All conference participants voted after the third module, thereby selecting four scenarios as the most useful to understand the possible futures of Iran. These four are illustrated as follows:

Scenario	Staying power of the Supreme Leader	Level of youth aspirations	Strength of the economy
Increasing contestation	Solid	High	Weak
Eroding status quo	Solid	Low	Weak
Tipping point	Fragile	High	Weak
Revaluation of clerical power	Solid	High	Weak

In the fourth and last stage, at the end of the second day, four break-out groups were formed and each was tasked with developing these four scenarios. These were not fully-fledged scenario development exercises, but rather light “water color” sketches of possible futures. The task for each group was to describe what kind of Iran will have developed, ten years down the road, within their assigned boundary conditions. The results of this exercise are found in Part III. Finally, to conclude the conference, a prominent Middle East expert sought to synthesise the key Iranian foreign policy issues touched upon during the conference.

Highlights from the experts' presentations

Force, the Revolution, and the making of a political culture

The nuclear stakes

Things are never quite what they seem with nuclear programs, as one deals with much uncertainty. First and foremost, it is not even clear that Iran wants a nuclear weapon; it is, however, clear that it is moving in that direction. The issue is complex and intermixed with many others. Does Iran intend to put a nuclear warhead on a missile like the one North Korea launched in April 2009? Such a missile could easily reach Europe, and would carry numerous implications for the U.S. Iran does not seem to have reached that stage yet, but is clearly making successful steps in that direction. Again, however, there is much uncertainty concerning the country's intentions, progress and knowledge base: it is not clear, for example, how far it has progressed in developing a nuclear explosive device. What is known is that much of the required information is available on the black market, as was shown by the activities of the AQ Khan network.

Despite the uncertainty, it seems that progress has been made, but also that many steps remain before successful weaponisation can be achieved. It is thought, in particular, that the program is struggling to create a re-entry vehicle. Clearer assessments depend on a number of uncertainties. What are their standards for safety and reliability? Whereas South Africa placed great emphasis on these matters, Pakistan puts much less; in Iran's case, it is not clear. It does seem that for Iran, the highly-enriched uranium (HEU) route has succeeded faster than the plutonium one. Iran now has at least 4 000 centrifuges running at the Natanz Fuel Enrichment Plant, and may be closing in on 6 000; in January 2006, it had only 164. For most countries, this is sufficient for a nuclear weapon capacity. As such, within a year or so – if the government so chooses – it could start producing HEU.

Indeed, low-enriched uranium (LEU) production at Natanz had reached close to 1 000 kg by February 2009. Iran thus now has enough LEU to produce approximately 15 kg of weapons-grade uranium (WGU), which is sufficient for a breakout capability assuming an efficient set of cascades (and is comparable to the amount produced by Iraq in the 1980s). Were Iran to decide to initiate production of WGU, it is not clear how long it would need, however. This could take as little as a few months, which could be too rapid for the international community to respond: for a state like Israel, one year is the key timeframe. As a result, some countries may view a military option in such a short timeframe as the "only one". The speaker and other experts however, were not convinced that this would be effective.

This would be much less worrying if it were not for two other factors. First, a research institute had already been arguing in 2001-02 that the CIA's estimates regarding Iraq were greatly exaggerated. The current situation with Iran is very different, however. And second, Iran has a history of building two types of facilities. Some, such as the fuel enrichment plant at Natanz, were initially secret. According to the speaker, Iran's government intended to disclose their existence only once some progress had been done. But Iran has also in the past built secret sites that it had every intention of keeping secret, such as its primary research and development facility which was only revealed against its wishes. Today, in particular, it is widely believed that weaponisation work has been re-started, with much evidence suggesting that

the 2007 U.S. National Intelligence Estimate's (NIE) assessment that such work had been suspended is not applicable any more.

It is not clear how to come up with a compromise on Iran's centrifuge program, and attempts to reach one are fraught with obstacles. Iran, so far, has always answered in the negative – it is willing to talk about pace and inspections, but it insists that it will “do what it wants”. At the technical level, centrifuges are hard to verify; no agreement could guarantee that Iran is not maintaining secret centrifuge installations. In addition, an Iranian enrichment program precludes the possibility of a future nuclear weapons-free zone in the Middle East, as Israel would then refuse to drop its own program. The central dilemma is whether it will follow the South Africa or Pakistan model. The U.S. helped to create the Pakistani nuclear program in the 1970s; at that time, Islamabad committed to not enriching uranium beyond 5%, an agreement which obviously failed. South Africa, on the other hand, gave up its enrichment capability. In this context, the solution follows the South Africa path, by seeking to rid the Middle East of nuclear weapons capabilities, with no enrichment or reprocessing permitted (which is the U.S. position on the Korean Peninsula).

It is impossible to predict which direction Iran's nuclear program will take. One scenario would see Iran simply not making a decision. It would then become a “threshold state”, with a growing capability to make nuclear weapons, but no actual weapons. The international community would be left guessing, a solution that is advantageous for Iran, in part because it can be dangerous to openly obtain nuclear weapons. Iran could maintain an ambiguity surrounding its program, and eventually achieve weaponisation in secret. Another possibility, the least likely, would see Iran openly deploy a nuclear arsenal. A final scenario would see U.S. President Obama pursue the goal of no enrichment and no reprocessing in the Middle East, and of a nuclear weapons-free zone in the region. This would imply significant pressure on Israel and major verification mechanisms.

Understanding Iran's power networks

Iran's system is one of managed conflict and elite contestation, and works in part by excluding certain players. The system, however, is also one of managed inclusion: those brought in accept the basic platform, and, through a series of institutions, benefit from space for some contestation. A key part of this process is that institutions are not bound by a mandate, and have the capacity to obstruct decisions in the name of the revolution (or to protect their own prerogatives). The role of ideology holds a special place, and provides a veto power to certain groups who can ensure that changes never go beyond certain boundaries. These groups include the Council of Guardians, the Assembly of Experts, the Expediency Council, the Pasdaran, the *bonyads*, as well as the Supreme Leader, who, at the top of the system, is invested with tremendous authority.

The goal of the system is to provide for a series of opportunities for vetoes and negotiations in order to defend the premises of the revolution. As a result, it is very hard to back away from previously-taken decisions, including on the nuclear program, and it is very hard to innovate. The place of Israel in Iranian foreign policy illustrates how an informal process of negotiation takes place within the ideological premises of the revolution. When he was president from 1997 to 2005, Mohammed Khatami's official position was that Iran would accept any agreement that a majority of Palestinians would accept. This ambiguous policy was as far as any Iranian leader would go. President Mahmoud Ahmadinejad, on the other hand, has argued that the

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“Zionist regime” has to be removed. When this created a controversy internationally, his vice-president stated that the Iranian people were friends with the Israeli people. Judging this to be unacceptable, the Supreme Leader stepped in and forced the vice-president to back down. In sum, an informal process of negotiation both sustains and tempers a certain degree of contestation and ensures that red lines are not crossed.

How sustainable is this system, and under what conditions could it break down? Some argue that it is already breaking down as, under Ahmadinejad’s presidency, there has been a slow transformation from a system of managed contestation to a security-driven system with the Pasdaran taking over. The speaker, however, was far from convinced that this is occurring, though he agrees that the rise of the Pasdaran raises questions. Does this represent the emergence of a more conventional form of authoritarian rule? This would have implications for Iranian foreign policy, if the number of veto players is reduced. This would make the job of the Supreme Leader more complex, but more pivotal.

Does Ahmadinejad pose a challenge to this system? It is important to note that Mr. Khatami also challenged the system in his time. He was an outsider who, with his allies, proposed a more democratic and pluralist future for Iran, predicated on the “dialogue of the civilisations”. The balance of power began to shift, as the reformists took control of the *Majlis*. Ahmadinejad began the second iteration of this process of challenge to the system, as he and his allies in the Pasdaran felt maligned and isolated and wanted to fight corruption. Like Khatami and his allies, they sought to tip the balance of power in their favour, and increasingly challenged the Supreme Leader. There is, in the Iranian system, an interesting tension between the president, elected by the people, and the Supreme Leader. For an authoritarian system, there is a surprising degree of uncertainty. The electoral process, in particular, has led to a series of unintended consequences, especially in the wake of the elections of Khatami and Ahmadinejad to the presidency. Has the election of the latter led to the Pasdaran taking over the system from the inside? The speaker was dubious that this was the case. He also believed that it is likely that Mr. Ahmadinejad will be re-elected in June, as this is important for the system’s legitimacy and efficiency. That said, much uncertainty remains; Mr. Ahmadinejad did overreach around 2006-07, until the system recalibrated.

It has often been said that the Pasdaran, or more specifically its Quds force, work as rogue operators, without the knowledge of the National Security Council or of the Supreme Leader. This is dubious: there is a network linking these operators all the way to the senior levels of the government. Diplomatically, there is a tactical advantage in perpetuating the myth that these groups operate as rogues. They are, however, part of the intelligence apparatus and are linked to the state and to the Office of the Supreme Leader.

Is the Iranian system emerging not as one of conflict management, but as one that is increasingly security-driven? Ahmadinejad’s approach to economics is illustrative. After initially challenging the system, he eventually bought into it, and the system was “smart” enough to allow this to happen rather than let him challenge it. The economic costs of doing so, however, have been enormous. But this is how the system works, by incorporating challengers. It is the same with Iran’s oil industry, one of the least efficient in the world. If it were well-run and privatised, it would bring the country more benefits than nuclear energy. But it provides rents, and is essential to the system; it is politically efficient, yet economically disastrous. It is an open question how long this can last, or how or when the system will become more, or less, authoritarian.

The militarisation of politics: the past, present, and future role of the IRGC

In the 1920s, the nascent USSR's New Economic Policy had reached a critical point, with reforms not succeeding. The structure of the Soviet Union aimed to anchor the power of the Communist Party, and the reforms could threaten this. This raises an interesting question: why did reforms go in opposite directions in the 1920s and in the 1980s? The 1920s witnessed a retrenchment of the elites, while the 1980s failed to reinvigorate the ideology.

The Iranian government was facing such a moment in 2003-04, as Mr. Khatami was challenging the system. The picture was grim, and the reaction, either reform or retrenchment, could potentially be fatal. U.S. troops surrounded Iran, and Iraq had been defeated quickly, something Iran had not achieved in eight years of war. The IAEA had uncovered the country's nuclear program and was bringing it closer to the UN Security Council. The U.S., in sum, had become very dangerous, and Iran's government was in deep crisis. As a result, it chose, in late summer 2003, an assertion of reinvigorated ideological confidence, led by the Pasdaran. Thus began a slow, creeping movement towards more authoritarianism, though not towards totalitarianism.

The French revolution provides another interesting analogy. Within a few years, this revolution had reached a point where 'Saturn was devouring his children', with the creators of the revolution essentially devouring themselves, allowing a new crowd to move in. In the Iranian case, the revolution was both one of Shiism, and within Shiism. The newly established system of the *velayat-e faqih* – which some observers compare to the Western concept of the philosopher-king – was not the traditional form of leadership within Shiism, where there has historically been an uncomfortable relationship between religion and power. Mr. Khomeini's idea of *velayat-e faqih*, a deeply religious but revolutionary idea, emerged in Qom, leading to the revolution and destroying the entire sub-structure that gave senior clerics their legitimacy. By the early 2000s, this contradiction was beginning to destroy the revolution; this opened the door for a fundamentally new challenge posed by Mr. Ahmadinejad and his allies.

In the presenter's opinion, two individuals define this fight, Ali Akbar Hashemi Rafsanjani, a revolutionary icon, and Saeed Jalili. Mr. Jalili, currently the National Security Advisor to the president and allegedly the "mind behind Mr. Ahmadinejad", recently wrote a book on the foreign policy of the Prophet. The expert also found it significant that Mr. Jalili was born in Mashhad, and not in Qom, in 1965. Mr. Rafsanjani, a former president between 1989 and 1997, gave a speech at Tehran University on 23 February 2007. This was a highly defensive speech, in which he warned unnamed individuals not to question "our ownership" of the revolution, asking whether "they" had sacrificed as much blood. The message, targeting Mr. Jalili and his allies, was understood to be that the Qom ayatollah elite owns the revolution, especially through the blood spilt in the war with Iraq. It is their tireless commitment to the ideology of the *velayat-e faqih* that kept the faith in the difficult times of the war. As Saeed Jalili replaced Ali Larijani as nuclear negotiator in late 2007, several of his speeches were published, allowing the other side of the conversation to be disclosed. On 21 October 2007, for example, he argued that previous governments had strayed from Islamic teachings, but that principles should not be sacrificed in the name of pragmatism. Foreign policy should be based on a theological model of Islamic authenticity and on the Prophet's teachings. Mr. Jalili's book hence intended to serve as a blueprint for such a foreign policy.

For the Qom elite, the revolution was born in 1979; the war with Iraq in the 1980s was a painful diversion. For Jalili and his allies, however, this war was the defining moment and victory was surrendered by the timidity of the clergy. Mr. Jalili is thus essentially accusing Mr. Rafsanjani, who signed the cease-fire with Iraq, of not being true to the revolution. He believes that when the Pasdaran took over the war, they launched massive attacks and were on the verge of taking Baghdad, when Rafsanjani and the Qom elite pulled the plug. Jalili and his allies also believe that the Qom ayatollahs were not the vanguard of the revolution; rather, they jumped on the bandwagon of a movement that was already there. Ultimately, in other words, this is a fundamental dispute for the ownership of the revolution. Another series of events reinforced the position of Mr. Ahmadinejad and his allies. The NIE of 2007, in particular, was perceived as a U.S. climb-down that arose only because Iran did not blink. Other events such as missile tests in 2008 also contributed to making the Qom elite increasingly defensive. The fact that these events were followed by the West putting offers on the table seems to be a vindication. Mr. Ahmadinejad's message is now that toughness can be followed by skilful diplomatic manoeuvring.

What is this new identity emerging, through Messrs. Jalili and Ahmadinejad and their allies? Although it was subsequently contested by conference participants, the expert proposes the label of "neo-safavidism". The Safavids Shi'ified Iran in the 16th century, as existing Sufi and Sunni orders drifted into Shiism and became increasingly militarised and very dangerous to the neighbouring Ottomans. The Safavids also rejected existing Shiite pockets, especially those surrounding Qom such as the Qyzyl Bash orders. What we are witnessing today is an entirely new form of politics, returning to Safavid times and anchored in Mashhad while rejecting Qom. This is a neo-Safavid, populist, mystical and dangerous posture that represents an essential challenge to the system. Is this challenge overreaching on the part of Jalili, Ahmadinejad and their allies? Time will tell; but, in the speaker's view, it clearly is a challenge to the Supreme Leader.

First plenary discussion

A first question suggested that an important model to consider is that of China, where an entrenched party evolved away from an ultra-totalitarian model heavily influenced by ideology. What could bring institutional change to Iran, when the system is under threat? The Chinese managed breathtaking changes to the system, while retaining Communist Party power. Are there lessons to be drawn? A speaker indicated that Mr. Khomeini himself said that the needs of the Islamic state trumps certain religious laws. A first speaker rejected the applicability of the China model, arguing that China's economy is export-oriented, whereas Iran's oil prevents diversification. Another speaker agreed that there are many differences between Iran and China. He did see a group of people in Iran's government being very nervous, with certain parallels with China: over-mystification to the point of self-destruction and constant worries over regime survival. A third intervention argued that another interesting comparison was between the People's Liberation Army (PLA) in China and the Iranian Revolutionary Guard Corps (IRGC). The latter is not a monolithic force; they have many concerns such as their business interests. The PLA also was initially ideological but has transformed itself into a modern military and a force for moderation.

A second question raised the nine-step roadmap proposed by a prominent think-tank, which argues that a nuclear Iran is not inevitable. The questioner suggested an additional element, concerning the role of the Supreme Leader. Khamenei must be the only leader in the world

today who has never travelled outside his country. This is a key problem: international politics is based on the interactions of leaders, but others cannot take even a basic measure of him. The questioner therefore suggested a tenth element: marshalling international pressure to encourage the Supreme Leader to travel, perhaps to Dubai. This could allow him to see what Iranian capital has done to build up the emirate, and how this money could have been used in Tehran. A first speaker agreed that negotiations are absolutely necessary, and supported the Obama administration's proposal to deal directly with Iran. Even Kim Jong-il of North Korea sometimes travels to China and Russia. A second intervention specified that the Supreme Leader is technically the head of government, but he also works under tremendous constraints. As a result, his capacity to innovate is limited. The separation of the position of *marja* (source of emulation) from the legitimacy of the Supreme Leader himself was significant, as it made the leader a political leader only.

A last question addressed the impact of religious ideology on political decisions. The questioner provided a quote from Mr. Khomeini: "we don't love Iran, we love God". According to this quote, Iran will stand on its principles, and practical threats are secondary. What is the impact of this mysticism? A first speaker argued that this important question addresses the core of the issue, whether the quasi-apocalyptic thinking of Ahmadinejad and his allies is genuine, or whether it is a populist tool. According to this speaker, it is a genuine belief which is triggering a dynamic that the president cannot control. A second speaker cautioned that it is always very difficult to distinguish between genuine beliefs and the instrumental use of religion. To accept the thesis that the apocalyptic beliefs of Mr. Ahmadinejad are genuine is dangerous and has serious implications. A third answer proposed that the government in Tehran made many practical decisions in the past when stimulated by outside pressure, including on the nuclear program. In 2003, the foreign ministers of France, Germany and the UK had found Hassan Rouhani, then the nuclear negotiator, very receptive to suspending enrichment, an idea he ultimately accepted. Under a great deal of international pressure, Iran responded as other states would in such circumstances, and not on the basis of religion. This implies for the Obama administration that there is hope of settling the issue; this, however, will not occur in six months, but only following a long-term struggle.

Iranian Society

Persians and others: understanding Iran's minority politics

There is a natural tendency to reify countries and to think of them as unitary and homogeneous. This is usually wrong, but is especially misleading in the case of Iran, where there are significant internal ethnic, linguistic and religious differences. There are Turkic-language groups (such as the Azeri and Turkmen) as well as others (e.g., the Arabs, Lur, Kurdish, and Baluchi) who are distinct from the core Persian, Farsi-speaking population which lives mostly around the central plateau and who is mostly Shiite. Many of these groups have compatriots across boundaries. There are also considerable organisational differences between them. Farsi-speaking populations tend to be urban or village dwellers, whereas many others are tribally organised into regional political units which serve as defensive mechanisms. Tribes and minorities often assert their independence when given the opportunity. As it happens every time the centre collapses, the Islamic Republic, after the fall of the Shah in 1979, had to conquer minority groups militarily. Tribes, in sum, are not a minor factor: they can be inactivated or activated as political units. Despite this diversity, Shiite Islam is a major

unifying factor in Iran, comprising about 90% of the population. The remaining 10% includes Christians, Jews, Bahá'ís, and Sunnis. This diversity is not cause for celebration for Iran's rulers, as it is not consistent with the mandate of the Islamic Republic, whose *raison d'être* is the advancement of Shiite Islam. Non-Persians may be suspect for their questionable loyalty to the state.

The Baluchistan part of Sistan and Baluchistan province is the most "alien" region of Iran: it is farthest from the centres of power, its climate is extremely arid, and its population deviates from the Persian majority in religion, language and ethnicity. It is the least developed part of the country, and abuts Pakistani Baluchistan, with its larger Baluchi population. Iran has followed the Chinese model in its dealings with the region, by flooding it with the majority population, Shiite Persians. Tehran has endeavoured to transform the region into one of the centres of university education in Iran, in a region that did not even have primary schools prior to the revolution. Today, the University of Baluchistan in Zahedan is the second largest in Iran, with branches throughout the region. Its students and staff include Persians from all over the country. As a result, what were until recently small oasis towns have grown into large cities. Governance in the province, however, is largely by Shiite Persians, for Shiite Persians. Shiite missionaries are sent to the region to convert the Sunni Baluchi, while the latter are not favoured for jobs. There is also a substantial military presence, increased in recent years because of Jundullah, an insurgent group that has been attacking Iranian security forces. Jundullah is not a mass movement, but it is an indication of discontent and could grow into something more serious. The Supreme Leader has accused the U.S. of supporting it, including in his reply to Mr. Obama's recent overture to Iran.

The situation in Iranian Baluchistan is an extreme case, but it does reflect the problems of minorities in the country. All have suffered from arrests, disappearances and executions, allegedly for opposing the Islamic Republic. The situation of minorities has not gone unnoticed outside Iran. Baluchi nationalists in Pakistan, for example, have denounced the occupation of "West Baluchistan", while Saudi newspapers have decried the mistreatment of Sunnis and Arabs in Iran. In this context, it is quite possible that Iranian interference amongst Shiite populations in its Arab neighbours could be met by counter-measures. Indeed, the ambitions of Kurdish, Baluchi and other nationalists, both inside and outside of Iran, might begin to draw support from regional Sunni powers if Iran's external initiatives tread too heavily on their toes. The danger for the Islamic Republic, therefore, is that its minorities, perhaps with external encouragement and support, could turn from resentment to outright rebellion and insurgency. Since the founding of the Islamic Republic, the "others" in Iran have not had much of a say; they might find new ways to speak.

Civil society aspirations and dissent

Civil society is usually defined as the intermediary space between the individual and the state. In practice, however, things are much more complex, as the state can operate through civil society while civil society can operate through the state. In Iran, for example, the *bonyads* are part of civil society, but they are state-endorsed civic associations. (The Basij enjoys such endorsement but, in contrast, is an official paramilitary organisation.) Not all civic associations are "good", as was witnessed in Rwanda in 1994. Not all manifestations of civil society, in sum, are democratic, and not all forms of dissent are part of civil society; dissident civil society, the topic of this presentation, can have different forms. In Iran, civil society predates the take-over of the presidency by the reformists in 1997 and can be traced back to the late Qajar period in

the 19th century. A 'public sphere' in Iran goes even further back, to the Safavid period in the 17th century when Shah Abbas created Isfahan. New public spaces then emerged along with a new Shiite collective identity.

Shiite Islam plays a major role in shaping Iranian civil society. Shiism, however, is going through a major crisis of legitimacy. Dissent within the Shiite establishment since the 1960s as well as increasing fragmentation within Iranian Shiism has led to increased competition amongst factions with diverse understandings of Shiite authority. Shiite dissident activities should thus be seen within the context of, and in relation to, other dissident civic associations, such as the students and women movements. Shiism is important for both cultural and organisational reasons. Culturally, it is important because Shiite Islam has played a central role in shaping Iranian collective identity since the 17th century. Organisationally, Shiite Islam also shapes civic society as socio-economic and civic-familial network ties have evolved since Safavid times around Shiite traditions such as the bazaar and the clerical families, with their distinct understandings of self and reality. Shiism also played a major role in the Islamic revolution, having reinvented itself through symbols of martyrdom into Mr. Khomeini's version of Shiism.

Shiism has since been a major source of legitimacy that has allowed clerics to use its language to mobilise the people. Its ideals and practices were reconstructed by mid-ranking clerics to justify political action and to pave the way to the revolution. It was reinterpreted by putting more emphasis on martyrdom and reinvented in modernist terms to challenge the Shah. Lay intellectuals also contributed by demonstrating how Shiism offered the best solutions for Iranian society. As a result, Khomeinism won the game in 1979; for the four to five years that followed, it had a monopoly on Shiite Iran. The government got rid of clerics who did not adhere to the ideology of the *velayat-e faqih* – or, at least, to how Khomeini advanced the system. Ayatollah Shariatmadari, for example, had his religious credentials taken away from him by direct order of Ayatollah Khomeini, as did Ayatollah Montazeri after he challenged the brutality of the regime.

The death of Mr. Khomeini in 1989 marked the rise of a more technocratic version of Shiism with the presidency of Mr. Rafsanjani and the prominence of lay intellectuals such as Abdolkarim Soroush. Following the war with Iraq, the emphasis was put on socio-economic development, yet a new generation increasingly criticised the dominant version of political Islam. The election of Mr. Khatami to the presidency in 1997 marked another watershed, with the rise of the reformists opening up a dialogue on how to render Shiism more open and pluralistic. Two major forces drove the reform movement. There was, first, an explosion in Shiite civic activism. Around 10 000 non-governmental groups emerged and became highly critical of the Islamic Republic, challenging its ways of ruling the country. At the same time, new media of communication, in particular the Internet and the mobile phone, were increasingly used by those groups, including by clerics, to propagate their version of Shiite Islam. Even Ayatollah Montazeri published his memoirs on line, in which he described how the system of the *velayat-e faqih* would look like if he were in power. The state, however, struck back, closing down many websites and Internet cafes. At first it emulated the Cuban model, using censorship, before evolving more towards the Chinese model of counter-attacking with its own websites. The rise of Ayatollah Ali al-Sistani in Iraq, who is very active on the Internet, triggered reactions in Iran's rulers. That said, many Iranians have learned to go around the filters, while blogs have proliferated. As women and student movements have increased their use of the web, *cyber-Shiism* has proliferated.

It is essential not to refer to Shiism in Iran as a monolith. It is increasingly fragmented, with alternative perspectives more and more available especially thanks to new interactive media of communication. Shiism in Iran also suffers from a legitimacy crisis. The issue of the succession to the current Supreme Leader will be critical. Increased challenges to the position are likely: the less qualified and the more political is the new leader, the less legitimacy he will have. Costs to the office's legitimacy will also come from the increasing stability of Najaf in post-Baathist Iraq. Najaf will not necessarily challenge Tehran, but will play a determining role in the future evolution of Shiite Iran. An explosion or a new revolution is unlikely in Iran. There is a possibility, however, for an implosion of the state, with the institution of the *velayat-e faqih* gradually losing legitimacy because of the crisis of spiritual and political legitimacy. But whatever future direction Iran takes, Shiite Islam will continue to play a critical role.

Civil society, repression, and demographic tendencies

The situation in Iran today can be characterised as “the Iranian divorce”. Society has profoundly changed in the past 30 years and is now post-Islamist. The theocratic political structure is, however, still Islamist in its major features. As a result, there is a deep rift between the two, yet the paradox is that there is no major protest movement in Iran today. There have been two major social movements in the past 30 years, the revolution and the reformists in the 1990s. The latter gave rise amongst the youth to a huge sense of relief and hope of a more open and pluralistic society and of the building of bridges with the rest of the world, especially the West. Ultimately, however, both movements failed. The revolution, with its utopia of paradise on earth and of an end to social injustice, has led to disenchantment and frustration amongst younger generations. The reformist movement of the 1990s similarly raised hopes that have since been dashed. As a result, the Iranian people are fearful of further mobilisation given the disappointments produced by both the revolution and the reformists. This frustration has also been bred by the repression of social movements, of which there have been four major types since the 1990s.

The student movement played a very important role in the late 1990s. For the first time, a popular movement in Iran was proto-democratic instead of being predominantly Marxist, Islamist or radical, as past movements had been. It has, however, been heavily repressed since 1999 and is today partially radicalised and a minority phenomenon.

The intellectual movement initially delivered a message of Islamic pluralism, and is still doing so today. This message, however, has not been renewed for the past decade. The population has digested the arguments made by the likes of Mr. Soroush and Mohsen Kadivar that the *velayat-e faqih* is not deeply rooted in Shiite *fiqh*. These intellectuals, who argue that Islam and democracy are not at loggerheads, have often been jailed and repressed, and are not inspiring new social movements as they did in the 1990s.

Ethnic movements massively supported Mr. Khatami in 1997 and 2001, believing he would provide them with some cultural autonomy. Though he probably hoped to do so, for many reasons he did not succeed. Today, ethnic movements are largely repressed.

The women movement is the only movement that remains active today, as was witnessed by the campaign for one million signatures. This development is indicative of genuinely grassroots civil society activity, something that is rare in other Islamic societies.

On the whole, the paradox of Iranian society is that despite its deep resentments, it is not featuring serious protest movements. Those who want change have not succeeded in organising themselves, whereas those who reject pluralism are highly organised. Perhaps 80% of the population wants more pluralism and modernism, with only 15-20% opposing such change. Compounding the situation is the fact that daily life in Iran is not that repressive. There is a huge gap between what the government pretends to exert in Islamic terms and what people really live in their private lives, for example in terms of alcohol consumption. There is punctual repression, but on the whole it is not incommensurable. This is the Iranian divorce, between a political structure which dominates and sometimes represses and a daily life with many problems, but mostly economic ones. As a result, protest is very weak.

Second plenary discussion

A first speaker asked about possible competition between the religious centres of Qom and Najaf. How could Iranian influence evolve given that a key source of Iranian power projection is its leadership role in Shiite Islam? A first answer rejected the view of Najaf as a counterweight to Qom. There has been collaboration between the two, and both are intermeshed: Mr. Sistani has his financial centre in Qom and is tied to Mr. Khomeini through the marriage of their grandchildren. It is important to remember that the Najaf model of Shiite authority predates the current Qom model. Mr. Sistani believes that clerics should not be directly involved in administering the state and should only be public spiritual guides. In the very long term, the more democratic Najaf version will predominate, but as a result of cooperation, not confrontation.

A second question asked about the issue of the enduring legacy of social change brought about by the revolution. For a first speaker, the secularisation of Iranian society has happened in a paradoxical manner. Awareness of the outside world amongst younger generations, especially young women, is superior today than it was under the Shah's regime, with the population better educated and society more culturally homogeneous. At the same time, resentment, especially amongst cultural minorities, is greater today than it was thirty years ago. No society in the Middle East is more mature for democratisation, yet at the same time no society faces more obstacles.

A participant then raised the issue of the growing role in society of the Basij. Are there splinter groups not controlled by the government? Could the Basij derail efforts at dialogue with the US? A first speaker answered that the Basij sometimes seem to have a life of their own, as when they attacked the UK embassy in Iran a few years ago. It is true that the government does not always know what they are doing. In theory, for example, all their guns should be registered but in practice this is not always the case. Another speaker emphasised the distinction between the Basij and the Pasdaran. The Basij have no power of their own as they are institutionally part of the Pasdaran. Some of its members truly believe that the *velayat-e faqih* has to be defended, whereas others join for the opportunities. Members do not get salaries but receive many benefits, such as quotas in universities and trips to pilgrimage sites and to Mecca. The country's major problem, however, is not the Basij but the Pasdaran. It has become an economic giant, about 20% of *Majlis* members are former members, and it is possible that in the case of a major crisis it could try to overthrow the government.

Finally, a participant asked about the importance of nationalism. Iranians all seem to be in favour of their country's nuclear rights. Is there a potential for the leaders to appeal to this?

A first speaker emphasised that Iran's leaders have already appealed to nationalism, as the revolution itself had a lot to do with sovereignty. This is a Shiite Islamist version of nationalism, focussing on independence and scientific prowess. Another intervention observed that there are often strange bedfellows in the Middle East. The major fear of secular elites in Iran is that the country's territorial integrity might break apart as a result of ethnic demands for autonomy, and in that respect they support the Islamic government. In addition, the mixture of Islam and nationalism is not peculiar to Iran, as most Muslim-majority countries today play with the two. Regarding the nuclear issue, many Iranians believe that there is a double standard. Why should the West accept Pakistani and Israeli nuclear bombs, and oppose their acquisition by Iran, a 2 500 year-old civilisation? For many Iranians, this question goes beyond the nature of the regime. This nationalistic glue is quite strong in the context of the nuclear program. If the U.S. attacks Iran's nuclear facilities, most Iranians, including secular opponents, would unify around their government.

Iran's youth today

It is a misnomer to refer to 'Iran's youth' as it is not unified. The upper and lower classes differ while secular families are different from traditionalist ones. There is a major rift between urban, secularised youth, which probably represent a majority, and those in smaller towns who are not as secular and who are more anxious towards modernity. The speaker referred to empirical research conducted between 2003 and 2005 in three Iranian towns. He identified a number of common features amongst these youth: they were disillusioned, depoliticised, and against the Islamic Republic, and were generally very different from the revolutionary youth of 30 years ago. Back then, youth saw martyrdom in a dramatic way and sometimes identified with it. Now, even in Qom, a traditionalist city, he found no existential side to martyrdom. The youth did not identify with it and rejected it as a personal experience. The ideology of the oppressed (*mostazafin*) was also initially central to the revolution. In 2003-05, however, he found no expression of *mostazafin*, in a social-religious sense. This is in sharp contrast to other Muslim states, especially Arab ones, where feelings of oppression and humiliation are deeply entrenched.

One type of young people encountered was those who are ambivalent to modernity. On the complicated question of sexuality, amongst the traditionalist youth of Qom, and also of Tehran, he encountered the idea that marriage is the most important thing related to sexuality. Young boys believed they could flirt and have relationships before marriage, but not their sisters. Amongst girls, even amongst the traditionalists, there is a deep sense of inequality, a new development amongst this group. Premarital relations are seen as illegitimate by a majority of girls, yet a majority also indulges in them. This ambivalence is seen in their discourse: many cheat on their parents, which is much easier with cell phones, but often with deep feelings of guilt. The study also found very ambivalent views toward marriage, even amongst traditionalist families in Qom. This is a new phenomenon: the youth want to negotiate and do not want the family imposing a marriage. Many young girls also had some years of university or pre-university study and thus, unlike before, share more cultural settings with boys where they can discuss or negotiate.

That said, ambiguities are present. For example, an overwhelming majority reject polygamy, yet there remains ambivalence with regards to democracy. Most believe that all Iranians should be equal, but that a Sunni, Christian or Jew could not be President. Contradictory feelings

are pervasive. When asked whether *vox populi* should be *vox dei*, the youth often begin by answering in the affirmative but argue that the law should not contradict the Qur'an. This ambivalence is part of the modernisation process; at the same time, it gives indirect backing to the theocracy.

What's on Iranians' minds?

Understanding oil and political stability in Iran

The International Monetary Fund (IMF) has ceased in the last few years to release raw data on oil and the economy in Iran. Although such specific data is scarcer, other available factors must be kept in mind. There are some things that, nevertheless, can be known. First, there is a prevalent idea that Persia and Turkey have been objects of foreign economic interests, which has led to a degradation of their sovereignty over the years. In Iran's case, in 1952 Prime Minister Mossadeq visited U.S. President Harry Truman in the White House, seeking a 50-50 profit-sharing deal similar to the ones reached with Venezuela and Saudi Arabia. President Truman did not necessarily oppose this idea and was standing off pressure from Britain to support a coup to remove Mossadeq. In the wake of Mossadeq's nationalisation of the National Iranian Oil Company (NIOC), however, the new Eisenhower Administration ultimately did support the overthrow of the Iranian prime minister.

Levels of oil production in Iran reached approximately six million barrels of oil per day (mbd) in the late 1970s, but declined precipitously following the 1979 Islamic Revolution. Production climbed to two thirds of pre-revolution levels fairly rapidly, to about four million mbd, but declined again following the onset of the war with Iraq in September 1980. It is when declining oil production and the hardships of war caused economic distress that Tehran behaved most aggressively, provoking Iraq to try to unify the country behind the new regime. The Islamic Republic has since never reached pre-1979 oil production levels. Moreover, there has been a steadily increasing domestic demand for oil, which eats away at export capacity. The ratio of oil export revenue to government revenue in Iran is high, as it is in other resource-exporting countries. With the limited data currently available, it can thus be estimated that approximately 17% of Iranian government revenue is dedicated to oil subsidies (or about US\$60 billion for a total government budget of approximately US\$300 billion).

Experts had predicted in 2005 that with foreign investment inadequate to sustain the capacity additions needed to compensate for an 8-10% decline rate, Iran would possibly run out of oil exports by 2013. This prediction turned out to be wrong, as production has in fact stabilised at about four million mbd. That said, the dramatic rise in domestic consumption has continued, and has been even more pronounced for natural gas. In the long term, therefore, there is a gun loaded at the government's head as export capacity in both oil and natural gas is being gradually eroded by increases in domestic demand. Three reasons can be given to explain the stagnation of Iran's energy exports. First, of course, is inadequate reinvestment. The second reason, a function of the first, is the very harsh terms Iran offers to foreign partners. This derives from the constitutional prohibition to sharing resources, as is usually done in production-sharing agreements. It is no accident that the two countries with constitutional prohibitions against such agreements, Iran and Mexico, are those in which the West has interfered the most, indicated the expert. For that reason, building and maintaining capacity has been problematic in both countries. Finally, the third reason for the stagnation of energy exports has been the subsidisation of domestic consumption.

There has been talk recently of Iran exporting gasoline, perhaps by 2012 when Chinese-financed refineries start production. The ending of domestic subsidies for gasoline in 2006 may have been unpopular, but it did reduce the level of imports. In addition, it proved not to be the crisis some had anticipated. In the long term, however, gas is more problematic than oil, as there is serious opposition by some conservatives to gas export schemes by either pipeline or as liquefied natural gas. Various export schemes are favoured by technocrats as well as by some nationalists and insiders who would stand to gain from the creation of new export markets. Yet domestic subsidies have led to high growth in internal demand and to the development of highly sophisticated distribution networks, especially in cities. The *Majlis* recently sought to raise the domestic price of natural gas, but this proved politically untenable. Some proposed compensating by establishing targeted subsidies for the poor, but others, especially economists, objected on the basis that this would worsen already high inflation rates of about 20%.

In this context, the speaker simply could not see Iran having the capacity to fulfill any commitment to exporting gas, in particular to an eventual Iran-Pakistan-India (IPI) pipeline. Furthermore, now that gas prices have collapsed, we have witnessed some unusual behaviour on the part of Iran. A few years ago, when prices were higher, Iran could have reached a deal with more advantageous terms for the IPI, but it did not succeed in doing so. Now that prices have collapsed, Iran has actually raised its demands, causing Pakistan to walk away from negotiations. Interestingly, this behaviour is similar to that of 1980. Furthermore, a price recovery is unlikely in the next five years due to a variety of factors, including the introduction on the market of new, giant liquefied natural gas tankers which are creating a more fungible global gas market. Unlike oil, which is sold on a totally fungible market (meaning that a fall in production anywhere is felt in prices worldwide), most gas is still transported through pipelines. New gigantic tankers, however, many of which are being built by Qatar, will make the gas market more fungible.

Black, grey and white markets: Iran's economy

The economic logic in Iran since the revolution has been one of a politically-motivated redistribution of the national income, while the economic system has been one of rent-seeking, dominated by powerful insiders. These insiders include the foundations, the *bazaari* (the traditional merchant class), the Pasdaran, and some networks close to the government.

The *bazaari* are the most important insiders. Because Iran's economy is import-oriented with an archaic distribution system, their profits have been huge. Their political influence allows them to obtain import licenses from the Ministry of Commerce, while they control part of the illegal imports. Low import tariffs and the absence of taxes on illegal imports further benefit them. Unsurprisingly, they oppose the imposition of a value-added tax (VAT) as it would reduce their profits and impose unwanted transparency. Under the presidency of Mr. Ahmadinejad, their influence has decreased, as witnessed by the president's proposition to impose a VAT.

The foundations, next, do not pay taxes and are not controlled by the government, except by the Supreme Leader, and have tremendous political influence. They use this influence to get low-cost financing and to speculate on imports, the stock exchange or the housing market. One foundation, the Islamic Financial Institute of the Foundation for the Disinherited (SINA), was created without the authorisation of the central bank and is now a key player on the Tehran Stock Exchange (TSE). It benefits from strong political support within the current

government, with most of its managers being former Pasdaran members. The Pasdaran, for their part, developed their presence in the Iranian economy after the Iran-Iraq war, and even more after the election of Mr. Ahmadinejad in 2005. They have since obtained contracts in the construction and energy sectors and suspicious deals with the TSE, and are heavily involved in illegal imports.

The government uses both official and unofficial tools to distribute rents to these insiders. Through fiscal policy, the foundations have received increased budget allocations, despite general decreases in government revenues in the most recent budget. The government also increased public capital expenditures by 64%, with many construction contracts allocated to companies tied to the Pasdaran. Iran's government also makes use of quasi-fiscal or unofficial tools of income redistribution. These include privatisation schemes favouring insiders and monetary policy, with a decrease in interest rates in 2007-08 allowing companies linked to the Pasdaran and to foundations to secure low-cost financing. Trade policy has also been used, with for example an appreciation of the exchange rate since 2006 and low tariffs and weak import controls allowing for huge profits for insiders. This policy of redistribution has contributed to a huge fiscal deficit, resulting in high inflation and to a decrease of the purchasing power of wage-earners. Income inequalities have increased in urban areas since 2005, something the public is acutely aware of. The system also cannot create enough jobs, with the official unemployment rate around 12%, and the real rate suspected to be much higher.

The outsiders to this system include fixed-wage workers such as public sector employees and teachers, and many inhabitants of underdeveloped regions such as Kurdistan, Baluchistan and Khorassan. It is estimated that about 35% of the population lives under the poverty line, which has led to an increase in petty criminality and prostitution. That said, people can protect themselves against inflation, for example by speculating on foreign currencies or on various goods, thanks to wage increases in the public sector or subsidies (which remain high), through the informal economy (which corresponds to about a third of the official economy), and through family solidarity. In addition, the populist policies of the current government, such as its free distribution of cash and loans, have helped mitigate some of the negative effects of inflation.

There are, in sum, two sides to the Iranian economy. The official 'face' defends the values of the revolution such as social justice and nationalism. The model, however, also has a dark side, with the government financially supporting some groups because it needs their backing. There is a contradiction between these two aspects. The legitimacy of the regime is decreased when the public perceives that there is too much redistribution, and high inflation reflects these contradictions. That said, the system works and is resilient. High inflation has never led to hyper-inflation, and Tehran has been skilful at playing the appeasing card of nationalism.

The Iranian government faces both short- and long-term challenges. In the short term, it must face the contradictions of the present government. There is a willingness to reform (as, for example, the government has tried to privatise parts of the public sector), while at the same time there remains a policy of supporting insiders and some rural areas. In addition, the government must deal with the drop in oil prices, as a result of which it cannot distribute as much as it has done of the oil revenue. President Ahmadinejad will have to deal with the risk of a rise in the fiscal deficit and in inflation; in addition, economic difficulties for an increasing part of the population may lead to social tensions and a drop in support for the government, as political redistribution may become less accepted. In the longer term, according to the speaker,

there has to be a change in the collective values the regime defends. In addition, political redistribution is less and less accepted, especially amongst the youth who want to change from a relationship-based to a law-based system. Modernisation is also likely to call for a greater separation of the political and economic spheres. Greater integration in the world economy would be a positive move in this respect.

The presidential elections of June 2009: stakes and potential outcomes

The history of 20th century Iran is shaped by the revolutions of 1906 and 1979 with phases of authoritarianism and populism. Today's Islamic Republic is the product of the development of the Iranian state; it is neither sudden nor a Western import, and is closely associated with its own experience. It is not clear, said a presenting expert at the conference, whether today's Iran has the institutional ability to follow a reform-oriented path. On the one hand, the last three decades, with local and national elections, have had an impact: an entire generation has experienced the elections and participated in the mechanics of modern democratic practice. On the other hand, the revolution has not produced a democracy but rather a citizenry that *understands* democratic practice. This was an unintended consequence of the revolution.

Political reforms from above often do not grow roots in developing countries. In Iran, however, the opposite has occurred: state behaviour does not always reflect democratic norms, but the population has turned the corner. Indeed, Iran has moved further on the path of democracy than many secular regional states. The explanation for this phenomenon spans a century of developments. The 2005 elections illustrate this, as they were characterised by a current struggle for freedom and by longer-run debates over state-society relations. This highlighted the fundamental problem of democratisation: how to maintain a balance between the needs of state-building and the demand for democracy.

The presidential elections in June 2009 bear some similarities and differences with the 2005 elections. The reformist camp, in the presenter's eyes, has not yet put forward a viable program following the withdrawal of former president Khatami from the race. The defeat of 2005 was anticipated as soon as 2004, as the reformists had been displaying contradictory and vacillating attitudes, such as boycotts and divisions. Their eleventh-hour endorsement of Mr. Rafsanjani further widened their identity crisis. The principlists, though certainly not a coherent group, were more efficiently organised and debated domestic policy while submitting to the Supreme Leader on foreign policy.

In 2009, the reformists again do not seem to have promising prospects, with two candidates, Mehdi Karrubi and Mir-Hossein Moussavi. Mr. Karrubi, a former speaker of the *Majlis*, is viewed by both camps as a spoiler, as his refusal to step down in 2005 proved damaging to the reformists. This time, he has attracted prominent reformist support, for example from former Tehran mayor Karbaschi. Mr. Moussavi was prime minister from 1981 to 1989 and is best remembered for preventing a total economic collapse during the war with Iraq. He has historically been associated with the left, including with some factions who eventually became reformists. In 1997, some reformists had attempted to nominate him but he declined in order to let Mr. Khatami run. He serves on the influential Expediency Council but has been mostly absent from the political limelight since 1989. This has produced a pressing need for him to clarify his agenda he has yet to articulate specific policy positions beyond criticising President Ahmedinejad. In general, his views seem to resemble those of Mr. Khatami but, unlike the latter, he is not associated with being ineffective, and some analysts say that he could mobilise reformists more efficiently. Through his membership of the Expediency Council, he has built

inroads to the centre, and has reportedly received the support of the Supreme Leader's brother. Several new factors are important for the 2009 elections: new developments amongst hard-line circles, economic difficulties, and relations with the U.S. The Ahmedinejad presidency has witnessed, first, new changes within hard-line factions, with a consolidation of conservative power, including in the *Majlis*. That said, the early support Mr. Ahmedinejad enjoyed is no longer guaranteed. The *Majlis*, whose speaker is now Ali Larijani, routinely questions his policies. Mr. Larijani is not expected to enter the race as he is consolidating his new role. He has brought about more power for the *Majlis* and benefits from the support of the Supreme Leader; he also has ties with the security apparatus and the clerical circles. Mohsen Rezaee has now entered the race, positioning himself as the facilitator of a unified principlist coalition, an initiative which can be interpreted as his way of attempting to restore party politics.

Economic difficulties also contribute to the creation of a different context. In fact, if Mr. Ahmedinejad loses, it will be largely because of the economy. The decline in oil revenues since late 2008 has had a sobering effect on the government's otherwise maverick policies, said the expert, while a downturn in the housing market, high inflation, and a reversal of large construction contracts have adversely impacted employment. Though the global recession has not yet hurt the country's economy too much, the economy will be a major issue in the elections.

Finally, relations with the U.S. seem to be less of an issue than economic policy, perhaps because decisions concerning such major foreign policy issues must pass through the Office of the Supreme Leader. The Leader's recent response to U.S. President Obama's Persian New Year message should perhaps be seen as a clear policy statement aimed at domestic audiences. It was a signal that only he could make major decisions and that Iran's foreign policy is ultimately determined by the country's interests. The stakes include an acceptance of Iran's nuclear program, recognition of its regional position and the lifting of economic sanctions. Because all signals point towards a gradual transformation of Iran from a revolutionary to a status quo power, indicated the presenter, "the choice is with the international community as to how to forge a policy towards Iran". According to him, there are two possible directions: a return to the revolutionary style or integration in the international community.

Though it is too soon to predict the outcome of the 2009 presidential elections, the pragmatic conservatives seem to be in a strong position. In the 2008 parliamentary elections, elements of the once-united right began to express dissatisfaction with Ahmedinejad, and began looking to form a more pragmatic conservative coalition. This group, led by Mr. Larijani, managed to gain control of the eighth *Majlis* and has proven an effective challenger of the president. This group therefore has its own aspirations for 2009 by supporting Messrs. Rezaee or Qalibaf. Mr. Qalibaf launched his bid in November 2008, employing western-style campaign techniques to promote his pragmatic agenda. He accepted interviews with foreign and domestic media in which he criticised Mr. Ahmedinejad. He has ample leadership skills acquired as the commander of the IRGC's air force, as chief of police, and as the incumbent mayor of Tehran, and an unchallenged reputation as an effective manager. While Mr. Qalibaf has now withdrawn from the presidential race, before doing so he tried to forge a balancing act between his secular style and his loyalty to the Supreme Leader. He failed in 2005 to make it to the second round, but has since expanded his support base in the bazaar, the clergy, the Supreme Leader's circle, and the IRGC. That said, Mr. Ahmedinejad's chances of retaining his position cannot be ruled out.

Third plenary discussion

A first intervention focussed on the troubled state of Iran's economy. It suffers from high inflation, unemployment, low savings, a weak banking system, an important black market, and a high dependence on oil exports. What will happen when Iran runs out of oil exports? When could this occur? A first speaker emphasised the difficulty in foreseeing levels of oil production in Iran. That said, one should not underestimate the resilience of the current government and of the Iranian people, as was shown during the war with Iraq. In addition, increasing gas production could offset decreasing oil revenues. A second speaker generally agreed, and insisted that he was not pessimistic about the future prospects of the Iranian economy.

The discussion then moved on to the potential impact on Iran of the current global economic and financial crisis. The decrease in oil prices is already creating problems, as is the general decrease in the price of raw materials. In addition, the politicisation of the economy reduces its ability to absorb shocks. As one speaker argued, giving zero-interest loans to "friends" of the government can only lead to disaster. In addition, the president's use of the oil stabilisation fund as a slush fund to finance projects by government insiders previously allowed him to win political support, but he will now be constrained in his ability to do so. If oil prices stay low, he may have no choice but to finance the growing deficit with money creation, which will worsen the already high inflation. That said, other factors should help Tehran, such as the country's important foreign exchange reserves of approximately US\$60 billion.

Moving on to the forthcoming presidential elections, a questioner asked about Mr. Ahmadinejad's populist style. A speaker agreed that his "Robin Hood" image remains one of his main strengths; he is still known to eat bread and cheese on the floor and to take afternoon naps on his office floor. Many other senior politicians in the country are much more articulate and educated – but Iranians do not necessarily seek to elect a literary critic to the job. President Ahmadinejad has become increasingly criticised, including from within the conservative camp, for running a permanent campaign.

A last intervention argued that because foreign policy is controlled by the Supreme Leader, the June elections will not have an impact on the nuclear file or the country's regional role. It is not clear, however, what impact the elections could have on the country's human rights situation. Should he win, would Mr. Moussavi challenge the impunity of the security and political elites? Would he promote the rule of law? A first speaker agreed that the basic premises of foreign policy, including the nuclear program, are unlikely to change whoever wins the elections, though perhaps the style and rhetoric could enjoy "cosmetic surgery". In the case of Mr. Moussavi, much of his domestic program remains ill-defined, as he has so far largely ridden on Mr. Khatami's ticket. That could imply more social freedoms, but it remains uncertain.

Where to? Iran's regional power and geopolitical ambitions

Iran and the world: what does the Islamic Republic want?

Despite all the attention that Iran receives, its foreign policy remains an enigma to many observers. It can be very disorienting: it is a country that cultivates a revisionist orientation while simultaneously trying to integrate the world order. It seeks peace and stability in the Middle East, but at the same time it supports various militias; it promotes a dialogue of civilisations one day, and talks of wiping Israel off the map the next. This prompts a recurring question: what does Iran want? Like any other country, in the speaker's opinion, it wants to survive and preserve its national sovereignty, but it also has a more forward stance dictated by its history and hostile environment. It wants to join the club of great powers and be recognised as a legitimate regional superpower, thereby reducing the role of other powers in what it sees as its backyard. This is nothing new: in its 5 000 years of history, it has never ceased to be motivated by a quest for power and greatness, as when the Safavids competed with the Ottomans for the control of the Muslim world. Indeed, nostalgia of past grandeur has always motivated leaders, from Mr. Mossadeq to the Pahlavis. The Islamic Republic put new life in the country's eternal desire for more power as, more than others, the clerics want their rightful place in the pantheon of regional powers. The clergy realise, however, that they have to pursue power politics prudently and pragmatically. Even Ayatollah Khomeini was, by the late 1980s, arguing that the national interest must take precedence over revolutionary and Islamic principles.

Iran's aspirations in the past 20 years have therefore been articulated according to a very realist framework not entirely but largely free from ideological considerations, such that whenever values conflict with interests, the latter have primacy. President Khatami, for example, is not the idealist he is often said to be. He called for a dialogue of civilisations, but at the same time he bargained hard for the recognition of Iran as the foremost regional power in the Middle East. At the beginning of this decade, Iran felt empowered and thus emboldened and now hides its ambition less and less: it wants to be legitimately viewed as an international great power. Recognising this ambition brings greater coherence to the seemingly contradictory aspects of Iran's foreign policy, given that Tehran "masters the art of saying the opposite of what it does, in order to better obtain what it wants". The West has a hard time realising that Iran craves recognition, insisted the speaker. The West also looks down condescendingly on Iran's power politics and misunderstands them. The rationale behind Iran's strategic reasoning can only be understood if analysed as a whole. Instead, too many in the West tend to focus on the trees – Iran's support for Hezbollah, for example – thereby missing the proverbial forest, Iran's grand strategy.

It is necessary to keep sight of the broader stakes. The nuclear program, for example, is not an end in itself, but a means to an end, i.e. achieving great power status. It is a perfectly understandable endeavour, given the country's hostile environment and need for energy. That said, its principal utility for now is its use as a formidable instrument of propaganda, playing to patriotic and anti-Western sentiment in Iran and the region. It is a trump card that can be used in a variety of settings, but one must always keep in mind Iran's great power aspirations. Most misunderstood is its policy of influence with regional Shiite populations. This pan-Shiite policy, which is still far from the so-called Shiite crescent strategy feared in Arab capitals, has allowed

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Iran to reach interesting goals: it has reinforced its links to the Alawite regime in Syria, and has increased its role in Afghanistan, Iraq and Lebanon – thus giving it a virtual border with its enemy, Israel.

This pan-Shiite policy has been complemented by an ambitious pan-Islamic policy, through which it has sought rapprochement with the Sunni *ummah*. Iranian leaders, including the Supreme Leader, repeatedly invoke what Mr. Ahmadinejad calls a pole of Islamic power. This translates, for example, in Iran's observer status in the Arab League and its support for Sunni movements like Hamas and Islamic Jihad. By doing so, it is directly harming Israel and imposing itself as a key player on the regional chessboard. Iran's regional influence has increased so much that some now talk of a *Pax Iranica* in the region. The pragmatism of Iran's neglected but successful *weltpolitik* is seen in its ties to Moscow, which show that relations with Muslim movements in the Caucasus are secondary. In Latin America, Iran has taken advantage of the neo-Bolivarian front to develop relations with Venezuela, Ecuador, Nicaragua, and Bolivia.

This is a multi-faceted and cleverly calculated foreign policy which pragmatically uses all available assets, including oil, pipelines, Shiism, Islam, anti-imperialism, *third-worldism* and public diplomacy. All are oriented towards the achievement of the single goal of improving the power and status of Iran while securing government and ensuring its survival. This approach has paid off; observers should therefore expect Iran to continue down this path, said the expert. In sum, what Iran wants is quite clear, despite attempts by its leaders to blur the lines and the refusal by the West to understand: it wants regional power. What the West wants, however, is not clear. Is it order, access to hydrocarbons, or using Iran as regional policeman? The West, therefore, must define what it wants before developing a coherent policy.

The U.S.-Israel-Iran dynamic: force, rivalries and ambitions

It is easy to forget that Iran and Israel were actually close allies in the past. This first came through then-Israeli prime minister David Ben Gurion's doctrine of the periphery and was cemented in close security alliances driven primarily by common threats from Egypt, Iraq and Soviet penetration. The perception is that all this changed dramatically with the Islamic Revolution of 1979. Certainly, much did change in 1979, but the geopolitical context itself did not. The Arab threat even increased soon after, as Iraq, funded by most Arab states, attacked Iran. The strategic logic for continuing collaboration therefore continued to exist.

In this context, the speaker indicated, Israel did everything it could after 1979 to reach out to the clergy. It did have an ace up its sleeve: access to U.S. spare parts which Iran was in dire need of. Even the Shah had been careful in not making his relations with Israel very public, as he was afraid that it would unnecessarily attract Arab anger. Israel was frustrated by this, but accepted it as long as the substance of the relation was unaffected. This dilemma provided the clergy with a new tool, however: by rejecting the Shah's "failed" regional approach, they could hope to bridge the Arab-Persian and Shiite-Sunni divides. The best tool to create a common denominator was the anti-Israeli card. There was, therefore, an ideological and a strategic incentive to use this card. The Iranian response was "to have its cake and eat it, too": it used anti-Israeli rhetoric, while it sought backstage relations. Israel was again dissatisfied, but what was paramount for it was that Iraq not win the war with Iran, which would have created for it a nightmare of the eastern front.

Two key developments in the early 1990s led to the disappearance of the rationale for strategic cooperation, the collapse of the Soviet Union and the defeat of Iraq, the last Arab army that could pose a threat to both Israel and Iran. Today, Israel and Iran are the two main regional powers, with no buffer in between. In the early 1990s, many in Iran recognised the failure to export the revolution, and of the revolution in general. Mr. Rafsanjani, elected president in 1989, then sought to secure the government and to achieve what he saw as the country's rightful status. For this, however, Iran needed to improve its relations with the West. This necessitated an opening up to the U.S. Although many in Iran thought this would happen after the first Gulf war, it did not. Israel feared that such a rapprochement, as well as one with the Arabs in the context of the Madrid peace talks, would be at Israel's expense. A new dynamic was thus established: instead of reaching out to Iran, the U.S. opted for the Oslo peace talks and for dual containment. This was interpreted correctly in Iran as an effort to create a new order in the region by prolonging Iran's isolation and by supporting Israel. It is at this time that Iran really started supporting Palestinian rejectionist groups. From Iran's perspective, if the peace process could be derailed, then no other objective of Israel and the U.S. could be achieved.

If the inter-state tension had been driven by ideology, the presenting expert said, a different relationship would have been observed throughout the 1980s when Iranian ideological zeal was at its highest and less conflict in the 1990s when this zeal decreased. Instead, the opposite occurred, implying that geostrategic interests, not ideology, determined the conflict. After 1993, there was a sense in Tehran that strategic and ideological interests now coincided, that the country could advance its strategic interest by concealing it as ideological. Is it possible to rearrange these interests again? During the Khatami period (1997-2005), there was discussion in Iran of adopting a "Malaysian profile" on Israel, by criticising it on occasion but not engaging in direct confrontation. During the Camp David II talks in 2000, for example, Iran adopted a completely different profile than it had in 1994. Back then, due to its fear that it would be in a prolonged state of isolation should the peace process succeed, even moderates in the government were praising Hamas, making it clear that they agreed with the actions of rejectionist forces. In 2000, however, Iran was silent, for two reasons. First, the Israeli prime minister, Ehud Barak, then knew that by withdrawing from Lebanon, he was reducing Iran's room for manoeuvre. Also, Iran had by then improved its relationship with Saudi Arabia, other Arab states and the EU, and it did not want to damage these improved ties.

Today, it is very difficult to find motivations for Iran to move again towards the Malaysian profile. One factor that could, however, change Iran's position is the status of its relationship with the U.S., especially if Washington recognises Iran as a regional player. What is driving Iran is not power hunger, but a sense of role deficit because it is not a member of any real security group. Iranians know very well that they cannot change their relation with the U.S. without changing their posture on Israel, but there is today greater flexibility in Iran towards the U.S. than towards Israel. Any future arrangement between Iran and the U.S. would probably allow some level of enrichment on Iranian soil, which would be very difficult to accept for Israel. There is a certain strategic paralysis on the Israeli side, as it is extremely difficult for any Israeli politician today, for domestic political reason, to admit that Plan A has failed and that the country needs to pursue Plan B. But what should be done when Iran crosses Israel's red lines? Tehran has already done it many times, for example by having 3 000 centrifuges.

Iran's relations with Iraq and Afghanistan

What does Iran want, and how does its behaviour in Iraq and Afghanistan illustrate its objectives? First, Iran is a pragmatic regional power, and not a revolutionary or transformational one. Revolutionary elements and rhetoric remain and there is much debate on how the country should behave, but overall its behaviour is pragmatic, stressed the speaker. Second, the Islamic Republic is a rational, calculating power, not an irrational one. As the Supreme Leader said in a recent speech, Iranians are not an emotional people. Third, Iran can play a constructive role in the region, even though it can also be destabilising at times, especially for U.S. interests. Iran's intentions can also be separated in three categories. The first and foremost is to ensure the survival of the regime and of the *velayat-e faqih*. The second is to protect Iran's national security interests, such as its border and maritime security, territorial integrity, and energy security. Finally, it seeks to pursue regional objectives that allow it to achieve the goals of its first two intentions.

Iran's actions in Iraq are a good case study of how it pursues its regional objectives. There was concern in Tehran in 2003 with the talk in the U.S. of 'remaking' the regional order. In addition, the newly empowered Shiite of Najaf in Iraq were quietist (i.e., advocating non-interference in politics) and could potentially threaten the Iranian government. The threat, however, was lessened by several factors, in particular the fact that many political groups in Iraq, such as the Islamic Supreme Council of Iraq (ISCI), the Islamic Dawa Party (IDP), and some of the Kurds, were sympathetic to Iran, as well as by the insurgency, as the U.S. was perceived as getting bogged down. Iran aided some of the insurgents, especially militias linked to Moqtada al Sadr. This may seem counterintuitive, but should be seen as a way of extending its deterrence against a future U.S. attack. Iran never wanted to overrun the new Iraqi government. Nonetheless, Iran was for a time seen as the principal threat to U.S. forces in Iraq, notably through the spread of explosively-formed penetrators (EFPs). This threat has decreased in the last two years, largely because of the ceasefire between Sadr and the central government, which Iran played a major role in brokering in early 2008.

Why did Tehran do this, if it was supporting the insurgency before? Primarily, the vision of an Iraq that would threaten Iran did not materialise. Ayatollah Sistani is not an immediate threat to the system in Iran while Tehran has been respectful towards him. Iraq is also not seen as a launching pad for a U.S. invasion anymore, as a clause in the recent status-of-forces agreement between Iraq and the U.S. forbids Iraq from being used for attacks on a third country. Overall, Iran's objectives in Iraq are largely pragmatic. It understands that it cannot export the revolution as this largely failed elsewhere, except perhaps in Lebanon with Hezbollah. It wants a friendly, Shiite-dominated country, but not necessarily one ruled by the system of the *velayat-e faqih*. It will not threaten Iraq, and could cooperate on economic, religious or security issues. Illustrating this pragmatism, Iran is allied to ISCI, the most clerical of the main parties in Iraq, but also with the IDP and with Iraqi President Talabani's Kurdish party. This could all change, however, especially if Israel attacks Iran, in which case Tehran could again increase the pace of its activities in Iraq.

Afghanistan is a different case, as it does not pose the same kind of ideological and political threat to Iran. Tehran had close ties to the Northern Alliance there prior to 2001, and helped establish a new government in late 2001. It has mostly played a positive role, especially in the Western province of Herat, for example by providing US\$500 million in aid. Some argue that there is evidence that Iran helps the Taliban. This, said the speaker, should be viewed as

a signal to the U.S. that Iran retains a deterrence capacity in Afghanistan, too, but it does not mean that it wants the Taliban back in power. Iran and the Taliban have been opposed to each other since the latter's rise to power, having almost gone to war in 1998. Today, Afghanistan presents a unique opportunity for cooperation with the U.S., as Iran does not view it from an ideological perspective.

Fourth plenary discussion

A first participant addressed the point made earlier that the West needs to make clear what it wants from Iran, and argued that the answer is plain: an Iran that is predictable, that plays by the rules, and that stops wanting to change the system. In Iraq, Afghanistan and Lebanon, Iran is supporting the governments, but also supports rejectionist groups that work to undermine those same governments. A second speaker retorted that we must question why Iran behaves the way it does. Its rhetoric does challenge the system, but its actions challenge the fact that it is not given what it sees as its rightful place in the system. As a result, it tries to make it as difficult and costly as possible for the international community to deny it what it perceives as its place. The question, then, should ask what the West wants. Is it willing to give Iran its rightful place at the table? Can the U.S. accept the reality of the Islamic Republic as a significant power?

A second question raised the issue of the challenges the international community would have in pursuing dialogue with a country that has often pursued its ambitions through violent means. How could Iran and the West, for example, find common ground in Afghanistan? A first speaker agreed that there is significant distrust on both sides. Failed attempts at dialogue have left scars in Iran, especially in the wake of its openings on Afghanistan in 2001. Tehran had hoped that there would be a strategic shift in its relationship with the U.S. but was rewarded six weeks later by being included in the "axis of evil". Iran also sent a letter to the U.S. in 2003, but did not receive an answer. This has greatly increased its suspicions. Another speaker emphasised that the reconversion of a revisionist, revolutionary state is not an easy task. It takes a lot of face-saving; flattery on the greatness of Iranian civilisation is a useful start, but is not enough. The main obstacle will be the country's theocratic institutions. Finally, a third answer touched on the issue of Iran's objectives in Afghanistan, where it has basic national security interests such as stability and the stemming of drug smuggling. Iran does support terrorist groups, but it sees this as part of its military doctrine: because it has weak conventional forces, proxy groups are useful.

A final intervention argued that the aftermath of the attacks of September 2001 have given much strength to Iran, as enemies in Iraq and Afghanistan were eliminated. There are some differences between Messrs. Khatami and Ahmadinejad. The former, with his allies, concealed enrichment, tried to have congenial relations with Arab governments and a neutral stance towards Israel, and tried to promote a dialogue of civilisations. Mr. Ahmadinejad, on the other hand, has done the exact opposite: enrichment begun anew, he gave privilege to the Arab "street" (and not to Arab governments), and he opted for a confrontational attitude towards the West. Ideological reasons certainly account for some of this behaviour, but this shift can be primarily explained by *realpolitik*, as Iran has been strengthened.

The Big Picture

Developing a synthesised vision of Iran

The last session, chaired by a prominent Middle East expert, sought to synthesise the key foreign policy issues touched upon during the conference. Iran is often described as opaque, enigmatic, or irrational. However, such confusion suggests a lack, in some observers, of empathetic understanding of the Iran's culture and the way it operates—causing such observers to miss the country's own internal logic.

The West, stressed the expert, has viewed Iran through a series of “highly imprecise conceptual optics”, which contain partial truths but none of which capture the whole.

Islam versus the West. This view was very strong immediately after the Islamic Revolution of 1979 when, for the first time, political Islam had burst forth on the international scene. The phenomenon was not well understood, as was clearly seen in the context of the U.S. hostage crisis, when Islam was reified as a great threat to the West.

Iran versus the West. The U.S. quickly decided, however, that it simply could not lump together such a broad phenomenon as “Islam”. This second view has been an underlying theme of many U.S. administrations since, in particular that of George W. Bush.

The nuclear file. It is now the touchstone of Western concerns, and is driven perhaps in the first instance by Israel. It also raises a fundamental question: can two nuclear states deter each other? The idea of a balance of terror still seems to apply to a considerable degree to the India-Pakistan conflict, but from Israel's perspective such a balance is highly undesirable. However, one cannot ignore the considerable likelihood that Iran will possess a nuclear weapon in the future; even if Israel destroys it, said the expert, the knowledge cannot be destroyed. If Iran is destined to have nuclear weapons, what kind of policies should the West and the U.S. adopt? The expert pointed out that “the U.S. does not lose sleep over British or French nuclear weapons, and does not think much of Russian or Chinese ones anymore”, because the nature and intentions of these regimes are now much less worrisome. The challenge with Iran may be to facilitate its transition into a state that is better integrated internationally and therefore less worrisome. This does not necessarily mean a democratic transition, as Iran could well remain partially authoritarian. The point is not that the West should simply “yield”, but that it must realistically prepare for the eventuality of a nuclear Iran and assess how to deal with it.

The Shiite-Sunni axis. Immediately after the revolution, the West feared the Shiites were the threat, not the Sunnis, a perception that has changed over time. It should be remembered that Ayatollah Khomeini never described the revolution as being Shiite in nature, but saw it in Islamic or universal terms. Early on, he reached out to the *mostazafin* of the world, the dispossessed. But as the war with Iraq broke out, Iran found that all the Persian Gulf states, and most of the world, supported Iraq's Saddam Hussein. Iran then moved to support some Shiite communities in the Gulf, partly to remind its neighbours that it had the ability to destabilise them in the face of

their hostile posture. Indeed, in the early revolutionary fervour in Iran, some radicals did speak of revolutionary change in the region. The expert expressed his astonishment, however, when some Sunnis in Saudi Arabia, Egypt or Jordan talk of a Shiite “threat” or “crescent” today. For authoritarian Sunni governments with little public support, the very image of a revolutionary power or of populist movements such as Hamas or Hezbollah is threatening. Even though Hamas is Sunni, Saudi Arabia is appalled by the support it enjoys amongst many Palestinians and amongst Sunni Arabs across the region who may not like Iran or Persians, but who are impressed by those who stand up to the U.S., Israel, and their own entrenched governments. President Ahmadinejad, in particular, is very popular amongst Arab populations. Thus the Sunni-vs.-Shiite lens is a misleading one.

Arab vs. Persian. How much does Iran actually threaten Arab interests? Beyond the UAE’s symbolic interest in the two islands occupied by Iran, there is no history of Iranian take-overs or invasions of Arab lands, said the expert. The Iran-Iraq war, for example, was clearly started by Saddam Hussein. It is therefore hard to find an actual threat posed by Iran to the Arab people, nor do Arab populations worry a lot about Iran itself where there are no Shiite communities.

The peace process. Iran has made considerable gains by being the only regional state (with Syria) that supports Hamas. If regional powers were to become democratic, it is likely that they would adopt sharper postures towards Israel. Such a stance would deprive Iran of its monopoly of regional support for the Palestinian cause, from which it currently derives much street popularity.

Energy corridor. The expert views Washington as caught in a basic dilemma as it seeks to prevent Iran *and* Russia from benefitting from the flow of needed gas or oil to Europe. Europe indeed is little interested in its origin as long as its sources are diversified. U.S. policies thus “distort” the economic foundation of normal Gulf politics. The U.S., the EU, Russia, and Turkey are all on different wavelengths.

Eurasian politics. Russia and China have good relations with Iran, with China now its first trading partner. Both have supported Iran as a means of weakening American geopolitical goals in Eurasia, particularly under the last Bush administration; they envision an Iran that can check the U.S. and “complicate” its life. In the expert’s opinion, for the past 20 years at least U.S. policy has suspended the natural development of regional geopolitics, i.e. the organic manner in which relations between Saudi Arabia, Iran, the Gulf states, Turkey, and other countries in the region would have evolved. Regional politics would evolve more naturally, he stressed, if they were not partly filtered through the ill-conceived strategic goals of the U.S.

Following this presentation, a discussion raised the issue of Iranian exceptionalism. How can Iran become a responsible player? Iran has created a political system in which the Supreme Leader does not act as a “normal” leader: he is isolated from the world and world leaders. This issue is about more than style—it *is* a form of Iranian exceptionalism and offers a concrete impediment to accepting Iran as a legitimate player in the regional system. The leadership does not accept dealing with other players in the region as equals. Iranians regularly accuse others, especially the U.S., of arrogance but according to an experienced practitioner, “they

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[the Iranians] are themselves amongst some of the most difficult and prickly to deal with". If Iran wants to become an accepted geopolitical player, stressed the presenter, this should change.

Another speaker argued that one cannot make the assumption that Iran is pursuing nuclear weapons; rather, what it is pursuing is the *ability to make them*, which it has achieved. This speaker would be very surprised if the government made the strategic choice to build nuclear weapons. To do so, it would have to expel IAEA inspectors, or build the weapons in front of them; in either case, the international community would quickly find out. Iran's withdrawal from the non-proliferation treaty (NPT) would raise serious questions about the treaty, and could spark a regional arms race.

A speaker agreed with this perspective, arguing that Turkey would likely follow suit, not to gain an actual tool of deterrence but to share in this symbol of power. A third intervention provided a different view, arguing that a nuclear-armed Iran could feel sufficiently secure to become a more normal regional player.

A final discussion addressed Iran's status as a regional hegemon. For one speaker, Iran is inevitably the natural hegemon in the Gulf, because of its power and size. For another, however, Iran is a very significant player, but not *the* regional hegemon. Its economy is weak, its youth are alienated from the ruling elites and the country suffers from serious capital flight. The country is fundamentally fragile, which makes it difficult for it to expand in the region.

Annexes

Annex A

Iran in 2020

Alternative Future Scenarios

On the basis of the expert presentations and ensuing discussions, participants in the conference formed break-out groups to examine the significance of what they identified as the most important factors (*drivers*) and critical uncertainties influencing the future of Iran. While the event did not allow for the development of full-fledge scenarios, interaction amongst participants produced a number of key ideas. Extrapolating on the latter, the report offers four “embryonic” alternative future scenarios for Iran. Those are not meant to forecast and are offered in support of future discussion on Iran.

Gradual decay Eroding status quo	
Staying power of the Supreme Leader	Solid
Youth aspirations	Low
Economy	Weak

In 2020, the power of the Supreme Leader is deep-seated and pervasive, thanks in large part to Ali Khamenei’s successor, who gradually rendered his position more dynamic since 2016. The position’s ongoing strength is not only increasingly rooted in a more vigorous role for the Supreme Leader but in his own personal reputation, as he begins to be likened by various analysts to an “Iranian Deng Xiaoping”. The smooth transition, with limited internal struggles, was spurred by a vested interest on the part of senior clerics in the survival of the system, when they feared a take-over by the Pasdaran.

Iranians under the age of 50 have not known other political cultures than the Islamic Republic’s. If there is relatively little support for the theocratic system, the dominant perception is that available alternatives – another revolution, or the Iraq or Afghanistan models – would be worse than the status quo. As a result, youth activism is limited. Iranians may have low political aspirations in this scenario, but in certain quarters their social and economic aspirations differ starkly from those of the government. This breeds “low-intensity social rumblings” in an environment that remains repressive.

Oil and gas prices have barely increased since the initial wave of economic depression in mid-2008. Iran’s oil and gas reserves specifically appear to be dwindling, and a lack of economic diversification prevents Iran from shedding its status as a rentier state. As a result, the economy remains oil-dependent and weak, and has increasingly constrained the government’s ability to pursue domestic and international priorities.

Continuous erosion of the country's status quo leads to a gradual deterioration of the situation. Observers in Western countries and Asia, almost mystified by the country's remarkable political resilience, are beginning to ponder whether a tipping point may be nearing and what it may look like.

Historically, states suffering from an unstable domestic situation and with strong external power projection capabilities can, in turn, be destabilising internationally. Contrary to expectations, since it acquired nuclear weapons in 2013, Iran's foreign policy has become more aggressive, stiffening regional security. The country has intensified its attempts at spoiling the Middle East peace process and increased its use of asymmetric tools, such as its support for opposition groups in the Gulf region. For the Iranian government, these measures are meant to achieve two objectives: to stimulate a "rally around the flag" effect, by whipping up nationalist sentiment in the face of domestic uncertainty, while ensuring that no other country in the neighbourhood gain prominence.

Building pressure, masterful adaptation Increasing contestation	
Staying power of the Supreme Leader	Solid
Youth aspirations	High
Economy	Weak

In this scenario, too, the staying power of the Supreme Leader in 2020 remains solid. It is quite possible that there has been a power transition. A change to the individual holding the office can be very unpredictable, and it is likely that there has been a chaotic struggle to replace Ali Khamenei. Throughout such a contestation, however, the Office of the Supreme Leader, and thus the stability of Iran's government, has been paramount.

High political aspirations for Iran's youth can easily be at odds with a powerful Supreme Leader, but it is important to remember that such aspirations are not monolithic. Here, the aspirations of the Basij have increased, a development which has had different implications than the increase in the aspirations of student movements associated with the reformists.

The economy has weakened as it has in the first scenario. As oil prices stagnated, and as the oil-dependent economy shunned reforms, the overall economic situation has deteriorated. Economic downturns, however, have not necessarily by themselves caused problems in the past in Iran. During the 1980s war with Iraq, for example, the population showed great resilience in the face of significant economic and social hardship.

With the economy deteriorating and with rising youth aspirations, the government has increasingly resorted to the use of force and coercive measures to preserve stability. Despite social and economic upheavals, however, the government manages generally to maintain the status quo, due to its ongoing staying power.

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The country's ability to project force abroad has decreased, as a weaker economy limits the state's resources. This has implied a worsening of relations with the U.S., as the Tehran continues to stoke nationalist feelings to compensate for growingly precarious standards of living and to placate rising popular aspirations. The vicious circle is hard to escape: internal crackdown on opposition to the regime multiply and, in turn, lead to rising popular mobilisation and, in the West, denunciations of human rights abuses.

Recognised and respected Revaluation of clerical power	
Staying power of the Supreme Leader	Solid
Youth aspirations	High
Economy	Strong

Again, the current Supreme Leader is firmly in position in 2020. The office has not seen an increase in its legitimacy, but very much remains in control of key institutions, especially the security apparatus, the judiciary, and other unelected entities. The use of nationalism as a vehicle for influence and political control has increased, and serves as a substitute for declining clerical influence. Nuclear development, in particular, is used to buttress government legitimacy.

With youth aspirations reaching high levels, various movements have increasingly challenged the government, pushing for democratisation and modernisation. Most plausibly, there is far more socio-economic resistance on the part of Iranian youth, more demands for social liberalisation, as well as renewed activism by women's movements and organised labour.

What still appeared in 2010 to be a protracted global economic depression made way for a slow but steady recovery of economic activity by the second quarter of 2012, marking the end of one of the longest recorded economic crises. Iran's economy was strengthened by 2015 by high oil and natural gas prices, as well as by increased foreign direct investment and research and development. With an improved fiscal situation and decreasing unemployment, Iran is in a better position to finance its regional ambitions, thus achieving the status of a regional economic power. The "Made in Iran" label is now widely seen in various markets around the world, serving Iran's neighbours a reminder of their relative lack of economic vigour. Moreover, Iran has become a nuclear power, and it uses the nuclear program for economic purposes and to assert its regional influence.

The country's strong economy supports progressive change within Iranian society, in a non-violent, bourgeoisie-led manner. As the economic situation continues to improve, young Iranians use the political space increasingly to debate several issues, including liberalisation and democratisation.

With the economic resources needed to finance its objectives abroad, Iran has increasingly been accepted as a legitimate and “normal” regional player. Key regional actors, such as Saudi Arabia and Israel, have grudgingly come to accept this reality, though not without considerable frictions.

A Gorbachev moment, or regional conflagration Tipping point	
Staying power of the Supreme Leader	Fragile
Youth aspirations	High
Economy	Weak

In 2020, a multitude of factors have conspired to weaken Iran’s Supreme Leader, both the individual and the institution. Those include a poorly managed transition following Ayatollah Khamenei’s death in 2015, the collapse of patronage networks due to a sagging economy and corruption, a challenge to the institution by the long emboldened Pasdaran, increasing challenges by a well-educated population, and mounting factionalisation within the government.

Since 2009, youth aspirations have grown according to one of two possibilities. According to the first one, youth aspirations rose in the wake of increased government repression in the wake of a take-over by the Pasdaran. A second possibility sees an increase in mobilisation following a return of the reformists to power. This leads to clashes between a resurgent reformist and a weakening Supreme Leader.

If memories of the economic crisis that started in 2008 are now long gone in most parts of the world, which now enjoys modest but steady growth, Iran’s situation is rather different. The fundamental reason for the weakness of its economy is its dependence on oil and natural gas. The country’s vast foreign exchange reserves did buy the government some time but, generally, hydrocarbons have not been able to compensate for the economy’s basic shortcomings. Thus economic decline, combined with the country’s democratic culture, has upset the people, leading to either an evolutionary or revolutionary moment.

The tipping point has followed either of two forms. According to a first possibility, it was provoked by a take-over by the Pasdaran, faced with rising popular mobilisation and economic mayhem. In a second possibility, the state-society gap continued to build until an exogenous or endogenous force caused the structure to fall. This is the Gorbachev moment, if it is accompanied by a new leader coming to power.

There are significant foreign policy implications in both cases. The eventuality of a Pasdaran take over, in particular, could lead to a more aggressive foreign policy. Especially frightening would be the IRGC playing the nuclear card, likely to assert once more Iran’s image and pride at home. This would elicit an equally aggressive answer from Israel or the U.S., and regional powers would seek to increase their involvement. Saudi Arabia, in particular, would try to

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foment dissent by supporting Arab or Sunni groups. Regional conflict and tension would then likely result in a tightening of control by the government, especially if the Pasdaran have taken over. Under the eventuality of a Gorbachev moment, however, Iran could be recognised as a regional power. With a new regime in Tehran and a Shiite-led government in Iraq, a new centre of gravity in the Middle East would be created.

Annex B

Conference agenda

Jointly sponsored by Foreign Affairs and International Trade Canada, National Defence Canada, and the Privy Council Office

30 March 2009

9:00 - 9:15 *Welcome, objectives and structure of interactive conference*

9:15 - 9:30 *Opening remarks: why explore the futures of Iran*

9:30 - 10:45 **MODULE No. 1 – FORCE, THE REVOLUTION AND THE MAKING OF A POLITICAL CULTURE**

Expert presentations

Understanding Iran's power networks: who decides of what and how?

The militarisation of politics: the past, present and future role of the military and the Iranian Revolutionary Guard Corps

The nuclear stakes

10:45 - 11:00 **Break**

11:00 - 12:00 **Interactive discussion in plenary**

12:00 - 13:00 **Lunch**

13:00 - 14:15 **MODULE No. 2 – IRANIAN SOCIETY**

Expert presentations

Persians and Others: Understanding Iran's minority politics

Civil society aspirations and dissent

Demographic trends and the youth factor: political impact across generations

Insights into the Future of Iran as a Regional Power

- 14:15 - 14:45 Break
- 14:45 - 16:15 Plenary discussion
- 16:15 - 16:30 Summary of day
- 16:30 - 16:50 Keynote address: *Iran's Youth Today*

31 March 2009

- 9:00 - 9:15 Review of first day and day's objectives
- 9:15 - 10:30 MODULE NO. 3 – WHAT ON IRANIAN'S MINDS?

Expert presentations

Black, Grey and White Markets: Iran's Economy

Iran's vulnerability to fluctuating oil prices

The presidential elections of June 2009: stakes and potential outcomes

- 10:30 - 10:45 Plenary discussion
- 10:45 - 11:00 Break
- 11:00 - 12:00 Plenary discussion
- 12:00 - 13:00 Lunch
- 13:00 - 14:15 MODULE NO. 4 – WHERE TO? IRAN'S REGIONAL POWER AND GEOPOLITICAL AMBITIONS

Expert presentations

Iran and the World: what does the Islamic Republic want?

The U.S.-Israel-Iran dynamic: force, rivalries and ambitions

Iran's relations with Iraq and Afghanistan

- 14:15 - 14:45 Plenary discussion
- 14:45 - 16:00 Break-out group discussion (*concurrent*)
- 14:45 - 16:00 *The "Big Picture": Creating a Synthesised
Vision of Iran*
- Presentation and discussion (*concurrent*)
- 16:00 - 16:15 Reports back to plenary
- 16:15 - 16:30 Wrap-up of interactive conference

Annex C

Academic outreach at CSIS

Intelligence in a shifting world

It has become a truism to say that the world today is changing at an ever faster pace. Analysts, commentators, researchers and citizens from all backgrounds—in and outside government—may well recognize the value of this cliché, but most are only beginning to appreciate the very tangible implications of what otherwise remains an abstract statement.

The global security environment, which refers to the various threats to geopolitical, regional and national stability and prosperity, has changed profoundly since the fall of Communism, marking the end of a bipolar world organized around the ambitions of, and military tensions between, the United States and the former USSR. Quickly dispelling the tempting *end of history* theory of the 1990s, the 2001 terrorist attacks on the United States, as well as subsequent events of a related nature in different countries, have since further affected our understanding of security.

Globalization, the rapid development of technology and the associated sophistication of information and communications have influenced the work and nature of governments, including intelligence services. In addition to traditional state-to-state conflict, there now exist a wide array of security challenges that cross national boundaries, involve non-state actors and sometimes even non-human factors. Those range from terrorism, illicit networks and global diseases to energy security, international competition for resources, and the security consequences of a deteriorating natural environment globally. The elements of national and global security have therefore grown more complex and increasingly interdependent.

What we do

It is to understand those current and emerging issues that CSIS launched, in September 2008, its academic outreach program. By drawing regularly on knowledge from experts and taking a multidisciplinary, collaborative approach in doing so, the Service plays an active role in fostering a contextual understanding of security issues for the benefit of its own experts, as well as the researchers and specialists we engage. Our activities aim to develop a long-term view of various trends and problems, to challenge our own assumptions and cultural bias, as well as to sharpen our research and analytical capacities.

To do so, we aim to:

- tap into networks of experts from various disciplines and sectors, including government, think-tanks, research institutes, universities, private business and non-governmental organizations (NGOs) in Canada and abroad. Where those networks do not exist, we may create them in partnership with various organizations;

- stimulate the study of issues related to Canada's security and intelligence apparatus, while contributing to an informed public discussion about the history, function and future of intelligence in this country.

The Service's academic outreach program resorts to a number of vehicles. It supports, designs, plans and/or hosts several activities, including conferences, seminars, papers, presentations and round-table discussions. It also contributes actively to the development of the Global Futures Forum, a multinational security and intelligence community which it has supported since 2005.

While we do not take formal positions on particular issues, the results of some of our activities are released publicly on the CSIS web site: www.csis-scrs.gc.ca. By publicizing the ideas emerging from our activities, we seek to stimulate debate and encourage the flow of views and perspectives between the Service, organizations and individual thinkers.