

5. Scenarios

This chapter translates the historical and conceptual analyses above into narratives of possible futures. To make the text as readable as possible, the amount of references has been kept to a minimum. The stories should not be judged on their probability¹, but on the way they uncover the different potentialities that might have a decisive influence on the Iranian regime in the future. The time frame in which these stories will unfold is somewhat flexible, but approximately five years. Like outlined in the introduction, there are strong indications that the coming years will constitute a 'critical juncture' in history. This is one of the rare occasions in which radically different scenarios can be crafted that have a relatively short running term, without losing their plausibility.

Globalisation 2.0

After its inauguration on January 20th 2009, the Obama administration defined two early priorities, one national and one international: radically transforming the domestic infrastructure, in order to maximize the use of renewable energy, and working towards peace in the Israeli-Palestinian conflict. In order to achieve the first objective, a number of actions is taken in the first two years, including:

- Conditioning a comprehensive bailout of the auto-industry on a radical change in production towards 'Plugin Hybrid Cars' (PHEV's) in different price segments. The percentage of PHEV's produced should rise from 10% in the first year to 100% in ten years.
- A large investment in the domestic power grid and gas stations to facilitate these PHEV's.
- Stimulation of production of renewable energy sources by:
 - Directly investing in a big sun energy park and a big wind park, in a joint venture with energy companies
 - Stimulating joint ventures between oil companies and energy companies for renewable energy projects
 - Establishing a 'feed-in tariff' for private solar energy initiatives
 - Stimulating Research and Development in both renewable energy production and energy efficiency
 - Subsidizing solar heating systems on homes
 - Reducing heating costs by isolating housing²

As these measures are part of a larger package of investments and tax cuts, intended to stimulate the economy, the American national debt increases further in the first term of the Obama presidency. The United States therefore remains dependent on the foreign demand for dollars to prevent monetary destabilization. Chinese and Gulf state leaders commit themselves to keep playing a stabilizing role in the monetary system by buying dollars, in exchange for an increased voice in International Organizations like the IMF and the G20 and the international sharing of technological breakthroughs in the field of renewable energy.

President Obama repeats his commitment to the security of Israel: "*Israel is, and will always be, the most important American ally in the Middle East*". "Still", he continues, "*I believe a*

¹ Although they should be internally plausible

² See administration,

for the energy agenda of the Obama

comprehensive peace with its neighbours, and especially with the Palestinian people, will be essential for the long-term security of the Israeli state". "Sacrifices are needed from both parties to achieve this goal, but with help from the International Community and the United States of America, it will be possible and it will happen."³ On his first visit to the region, he privately tells the newly inaugurated prime minister Benjamin Netanyahu that he is very worried about the future of the Jewish State. The economic crisis and the rise of extremism in the region might put serious strain on the presence of the United States in the Middle East and its ability to support Israel. The violent attack on Gaza has only further exacerbated this risk. A quick break-through in the peace process will be essential to turn the tide. After signalling the priority of the Israeli-Palestinian conflict for his administration, Obama chooses to take a low-profile approach to the conflict: "The world needs to give both Israeli and Palestinian leaders time and space to consider their positions, otherwise a wise settlement will be out of the question"⁴.

The first half year of 2009 in Iran is extremely tense, running up to the presidential elections of June 2009. The conservative factions use the Israeli attacks on Gaza in the beginning of 2009 as a pretext to crack down on human rights activists like Shirin Ebadi. Her arrest in May 2009 leads to protests from students and women activists that get harshly repressed by the Basij and the security service. The media is also further monopolized, even the 'Kagorazan' newspaper, close to Hashemi Rafsanjani, is closed⁵. The conservatives also stir the tension with the Arab regimes that are allied with the United States, especially Saudi-Arabia and Egypt. Both the reformists and the modern right decide to boycott the elections, as they do not see any space for a fair competition. This makes the presidential elections in June, like the parliamentary elections of a year earlier, a struggle between the conservative right and the neo-fundamentalists. Supreme leader Khamene'i heavily supports Ahmadinejad and with the help of fraud led by his interior minister and force from the *Basiji's*, he wins the elections. Although the official turnout is 65%, the real turnout is estimated to be between 25 and 30 percent.

The rest of 2009 and the beginning of 2010 are characterised by a continued deadlock between the president and the parliament. With an oil price fluctuating between 60 and 80 dollar, the administration manages to balance the budget, but structural problems like high unemployment, inflation and 'brain drain' remain. Regional tensions remain high, as Iran seeks to put more pressure on Israel and Arab regimes like Egypt, Saudi-Arabia and Jordan. On several occasions, Supreme Leader Khamene'i calls for the overthrow of these regimes and a regional attack on Israel. Negotiations on the Iranian nuclear programme, in which the United States directly participates, remain deadlocked. The global economy has seriously contracted, only China and India have seen a marginal economic growth, although unemployment has been rising there too. The promise of 'hope' and 'change' that accompanied the election of Barack Obama has all but faded, although large scale conflict and economic instability have not surfaced.

The momentum starts to change in March 2010, when Israeli prime minister Benjamin Netanyahu and Palestinian president Mahmoud Abbas announce their signing of a peace accord, a result of more than a year of closed-door negotiations. When ratified, this accord would mean the end of the Israeli-Palestinian conflict. Hamas has agreed to accept the accord if the Palestinian people would vote in favour of the treaty in a referendum. Defense minister

³ For Obama's foreign policy agenda, see:

⁴ Maley & Agha (2009) discuss the merits of a more thoughtful approach of the Israeli-Palestinian conflict

⁵ This happened around the end of 2008 (AFP 2008)

Barak announces the settlers in the West-Bank receive compensation if they agree to leave their homes in one month. When this period expires, the Israeli army forcefully evicts the persons that stayed in their homes. These actions have a destabilizing effect on the Israeli society, but the consensus behind the peace accord is large enough to prevent a civil war. The Palestinian refugees receive a substantial compensation to resettle in the Palestinian territories, paid for by the European Union, the United States, Russia, China and a global 'Peace Fund' of private donors. After the Palestinian people voted overwhelmingly in favour of the accord, Netanyahu and Abbas symbolically tear down the first part of the separation wall around the West-Bank. This wall will be replaced by an international peace force in the two years in which both states and peoples attempt to normalize their relations.

The Israeli-Palestinian peace accord is a 'critical juncture' in a number of respects. It transforms the regional relations and weakens the 'symbolic power' of radical Islamic forces, partly defusing the 'Greater West Asian Crisis'. A number of regional actors reject the accord as an 'imperialist dictate'. The Iranian state is unable to radically change its stance towards Israel in the short run, without losing face. Hezbollah also fails to recognize Israel. This makes Iran and Lebanon the only two regional states that do not sign a peace treaty with Israel in the remainder of 2010. Al Qaeda vows to continue its struggle too, until 'Al Quds' is a Muslim city again. These forces are in the defensive though, as they enjoy less popular support.

Obama tries to use the momentum of Iran's increasing regional isolation to put pressure on the regime to come to an agreement on its nuclear programme. Russia and especially China still block further Security Council sanctions though, as they still profit from Iran's oil exports and weapon orders. Ahmadinejad, Khamene'i and other conservatives focus their rhetoric on the injustice of the American influence in the region. Still, an increasing number of traditional conservatives support a détente. The presence of the Revolutionary Guards and the Basiji's on the streets prevents large scale unrests from taking place, but a tension can be felt, especially in the universities and in the regions where large ethnic minorities live.

In 2011 and 2012, the last years of the Obama presidency's first term, the 'renewable energy revolution' is starting to take shape. New energy companies have made record profits in recent years, as a result of government subsidies, reasonably high energy prices, technological breakthroughs and increased scale advantages of renewable energy production. Theirs stocks have also been booming, boosting markets throughout the world. Although several car companies have not survived the earlier economic crisis, others have successfully restructured towards producing electrical and semi-electrical hybrid cars. The world economy has recovered, although development has still been centred in the United States, Asia and some countries in South America, while other countries have lagged behind. Furthermore, internal differences in wealth have increased in most countries. Oil and Gas, especially from the Middle East, have remained important energy sources, as significant parts of global industry and transport still use conventional fuels.

Obama gets re-elected fairly unchallenged in 2012. In his inaugural speech in the beginning of 2013, he states the following: *'We have travelled far in the past four years and the road has not been easy. The world has shown its resilience in the face of grave dangers. An economic crisis has been reverted, an old feud has been buried, and we have made steps towards a sustainable future for our children. We should not forget though, that there are many challenges ahead of us. Global inequality is still high, children still die from hunger and disease, weapons of mass destruction still threaten the life of our planet and poverty has not*

been eradicated from this great nation. Therefore, this administration will double its resolve to confront these challenges in the next four years. In the past years, we have seen a 'New New Deal' that saved our economy, in the next four years we will execute a 'New Marshall Plan' to accelerate the road to a sustainable and prosperous future, for us, for our children and for our children's children.'

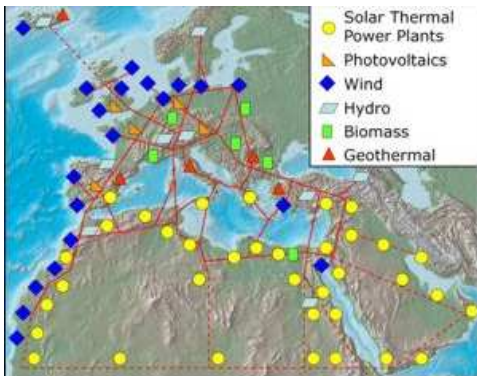


Figure 9: The 'Desertec Plan' in the EUMENA region (DESERTEC-UK 2009)

The second Obama administration leads a 'technology driven climate initiative', a plan that aims to diminish the emission of greenhouse gasses and end the world's dependence on fossil fuels. The most important part of the plan consists of huge regional energy projects in all parts of the world, modelled after the 'DESERTEC' plan in the EUMENA (Europe, Middle East, North Africa) region (DESERTEC 2009, see figure 9). This plan had been blocked earlier due to the tensions in the region, but the Mediterranean relations had improved substantially after the signing of the Israeli-Palestinian peace treaty. The initiative is centred on the transfer of technological knowledge to participating countries, in order to make it beneficial for local economic development. The new economic activity further boosts growth around the world, especially in Africa, the region that needs to catch up the most.

Iran is not included in the plan, due to the ongoing conflict over its nuclear programme. Its economy is generally stagnant, as it misses out on the regional boost in trade and economic growth. Real demand of oil is still significant, but the massive investments in other energy sources puts pressure on oil prices. The popularity of the supreme leader and of the neo-conservatives has further eroded and even some military figures are distancing themselves from the Ahmadinejad administration. In the parliamentary elections of 2012, the reformists and the modern right have unexpectedly won the majority of seats, as the conservatives' ability and willingness of manipulation has diminished. Grand Ayatollah Khamene'i has increasingly been withdrawing himself from public life from the beginning of 2012. In May 2013, only one month before the presidential elections, he dies of a lung disease. The Expediency Council, still headed by Ayatollah Rafsanjani, decides to postpone the elections until the succession of Khamene'i has been resolved.

The following months are very chaotic, as different political forces take the streets to fight over the future of the Islamic Republic. Violent street battles take place between the Basiji's and student groups. Millions of people take the streets in the larger cities chanting slogans against dictatorship and for freedom, holding portraits of Mohammad Khatami and the recently deceased Grand Ayatollah Montazeri. Other protesters vow to 'never bow to the will of the imperialists', holding portraits of Ahmadinejad, Khamene'i and Ayatollah Mesbah-

Yazdi. The Revolutionary Guards and the army generally keep aloof from the protests, fearing the escalating effects of repressive measures. Rafsanjani and the leaders of the conservative right faction and the reformist faction agree on the need to quickly re-establish authority to prevent further destabilization. Furthermore, they agree that the current constitution is not sufficient to resolve the political crisis. As Ayatollah Khatami enjoys by far the most popular support, he is assigned to function as *faqih* for one year. During this period the different factions will negotiate a new constitution. Radical elements in the neo-fundamentalist faction disagree with this policy and try to violently destabilize the new regime, by perpetrating suicide bombings and targeted assassinations. They lack popular support though and Khatami narrowly escapes a plot on his life.

In the beginning of 2014, Khatami announces the outcome of the negotiations between the leaders of the traditional conservatives, reformists and modern right factions. *'Islam will always be in the heart and minds of the Iranian people and the Iranian state. Still, we have heard the voice of the people that crave freedom in interpreting the holy message and following different religious leaders. Therefore, the government must first and foremost represent the will of our nation'*. The new constitution ensures freedom of expression, freedom of association, a democratically elected *Majlis* and president. A second chamber of parliament is created that consists of fifty clerics with the minimal title of *'hojatolislam'*, directly elected by the people. This chamber can block or delay parliamentary decisions and only be overturned by a two third majority in the *Majlis*. Other religious functions in the state, like the *faqih* and the 'council of guardians', are abolished.

The new regime quickly compromises about its nuclear programme, by accepting an old Russian plan to enrich uranium on Russian soil. In exchange, Russia promises to finish the Iranian power plants it has been building within one year. Europe agrees to give Iran an important place in the DESERTEC project. Many members of the 'Diaspora' agree to return to Iran. These economic incentives will make Iran the new economic power house in the Middle East, achieving growth rates around 10 percent in the next 5 years.

New Medievalism

After its inauguration, the Obama administration prioritises the quick revival of the American economy. The massive stimulation package focuses on tax brakes and infrastructure projects. Energy projects are included in the package, but on a relatively small scale. The 'Obamania' reaches new heights as the results in the second half of 2009 are encouraging: unemployment is falling again and the increased domestic consumption leads to positive growth figures in the second half of 2009. The oil price has remained between 40 and 60 dollars, stimulating industrial growth, but making energy investment and saving less urgent.

On the international front, the results of the new administration appear to be mixed. The redeployment of troops from Iraq has proceeded relatively peacefully so far, although violence appears to be slightly increasing. In Afghanistan, the capture of Osama Bin Laden is a new *'we've got him-moment'*⁶, the surge of troops in the country has also reduced the violence there and weakened the Taliban. Still, the authority of the central government remains weak as the administration is plagued by continuing corruption and internal strife. After the inauguration in April of Benyamin Netanyahu as prime minister of Israel, the situation in the Middle East remains tense. Although no large scale violence has taken place, the political processes remain in a complete deadlock.

⁶ Like the capture of Saddam Hussayn in 2003

In Iran, the political class is divided from left to right. The reformists fail to unite behind one candidate for the presidential elections in June, as both Mehdi Karrubi and Mir Hossein Mousavi⁷ participate. On the conservative side, the neo-fundamentalist Ahmadinejad and the moderate conservative Baqir Qalibaf, the mayor of Teheran, are the most prominent candidates. The reformist division presents an ideal opportunity for election fraud: both conservatives 'receive' just a few more votes than the other candidates, making the second round a conservative affair. Ahmadinejad appears to have lost too much support in his presidential term, as Qalibaf wins the second round of the elections with a fairly large margin. After his loss, Ahmadinejad lashes out against his former opponent: *'this victory proves the power of the special interests in this country and of those elements that want to sell out to the West and the Zionists'*. He vows to continue fighting for justice and against the 'enemies of Islam'. Some neo-conservative paramilitary groups do not accept the result of the elections and start riots and protests throughout the country. Although these protests are rapidly repressed, the deep divisions between different conservative currents is still simmering below the surface. Furthermore, this election is another sign that supreme leader Khamene'i is not able or willing to completely determine the outcome of presidential elections, as his favourite lost like in 1997, when Khatami was elected for the first time.

After his inauguration, Qalibaf radically breaks with the policies of his predecessor. He concentrates on balancing the budget and curbing inflation by cutting back on social spending and raising the interest rate. These measures are effective in lowering inflation, but partly due to the low oil price, economic growth is relatively low, unemployment remains very high and the government has got little room for investments. In order to acquire the necessary investment for economic growth, Iran's international isolation needs to be ended. By temporarily freezing uranium enrichment and opening an American interest section in Teheran, Qalibaf tries to rapidly improve the investment climate. Direct negotiations on a normalization of relations with the United States are started on a foreign minister level, executed by US Secretary of State Hillary Clinton and the newly appointed foreign minister Ali Akbar Velayati, who already served in the same post from 1981 to 1997. The new openness in international relations is only partly mirrored in the new administrations' domestic policy. Although social regulations are generally less strictly enforced, the space for dissenting political opinions remains essentially closed. Many activists and journalists remain behind bars and the media are still overwhelmingly controlled by the conservative factions.

As the US-Iranian talks progress, an agreement appears to come close in the beginning of 2010, but a series of events that start in the end of January will radically change the momentum. After a year of relative calm, a series of rocket attacks from militants in Gaza provokes a response from the Israeli air force in which 20 Palestinians are killed, mostly civilians. These incidents are the beginning of another violent episode in the Israeli-Palestinian conflict. Unlike a year earlier, Hezbollah decides to react with a series of rocket attacks that reach deep into Israeli territory. The ensuing war on two fronts results in even more bloodshed than a year earlier, provoking angry reactions around the world. In Teheran, a group of neo-fundamentalist militants occupies the US interest section, a symptom of the new wave of anti-Western sentiment among some parts of the population. Although security forces rapidly end the occupation, the newly built trust between the two countries is shattered. When supreme leader Khamene'i implicitly praises the militants and orders their release, the *détente* has officially ended.

⁷ Mousavi, the former prime minister, emerged as possible candidate in March 2009 (Karami 2009)

When the dust is settled in April, much speculation takes place on the question who initiated the new set of conflicts, and why. Some specialists say radical elements in Iran have encouraged Hezbollah to attack, in order to prevent the moderate forces from signing a peace treaty with the United States, which would have meant an important political victory. Others point at the Israeli government that might have been afraid of the consequences of a US-Iranian reconciliation for its own position in the Middle East. In Iran, the limits of the presidential powers have been reaffirmed, as well as the important role the neo-conservatives are still playing behind the scenes and the ultimate authority of the supreme leader. Still, the events have also weakened the regime in some respects, as its international reliability has come into question and the deep internal disunity has surfaced.

Tension around the world is rising during the summer of 2010. The fragile economic recovery is coming under pressure as oil prices have been on the rise from the beginning of the year. The Obama administration has decided that a tougher approach towards Iran is needed, after negotiations have failed. A consensus in the Security Council can not be reached, only the European Union agrees to sever its ties with Iran, instituting broad economic sanctions. These sanctions put pressure on the import of consumer goods to Iran, leading to a new rise in inflation. Under great pressure from the neo-conservative faction, Qalibaf decides to withdraw from the Non-Proliferation Treaty (NPT) and expel all International Atomic Energy Agency inspectors from the country. Banking on the unwillingness of president Obama to start a war, the Iranian establishment decides they will rush the nuclear programme, aiming to be able to produce and test a nuclear weapon in a few months time.

As many have feared, the Israeli government sees the Iranian withdrawal from the NPT as an existential threat. The Israeli air campaign starts in September 2010. The Israeli command defines two objectives: severely damaging the Iranian nuclear programme and weakening the ability of the Iranian state to recover as a major military-economic power in the short and medium term. Therefore, the attacks are mainly aimed at the nuclear programme and the oil industry.⁸ As expected, the Iranian leadership views the Israeli attack as at least approved by the United States. Therefore its military response does not only consist of missile attacks on Israel, but also targets the oil industry of the Arab Gulf states, that are US allies. Furthermore, the Revolutionary Guards navy manages to sink several Saudi 'mammoth tankers' with oil in the strait of Hormuz. As these attacks draw a military response from the United States, the conflict is rapidly escalating into a regional war. As a chain of interconnected events unfolds in the coming months, it becomes increasingly clear that September 2010 has been a 'critical juncture' that has profoundly changed the course of history.

As both states and investors around the world witness a sharp plummeting in the supply of oil as a result of the war, they react by rapidly buying the oil that remains available on the world market. This massive exchange of dollars for raw materials has the double effect of depreciating the value of the dollar and appreciating the price of oil. In a matter of hours, other market players react by selling their dollars for any asset available, to prevent their property from becoming entirely without worth. As a consequence, the dollar loses its value as an international commodity in just one day. The effects are swift and severe. Economic activity and trade around the world are virtually freezing in the following days, because

⁸ This analysis of the effects of an Israeli attack on Iran is mainly based on Rogers (2006). An aspect that has been added is the attack on Iran's oil facilities. Rather than trying to immediately eliminate all Iranian options for a military response, which would be very difficult considering the Iranian focus on 'asymmetric warfare' (Rooz 2008), an attack on the oil industry would be a logical way to hurt the regime, viable to achieve with air and missile attacks.

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companies, states and people have totally lost faith in the exchangeability of money. States call a state of emergency and start taking control of the distribution and rationing of food, to prevent food riots from taking place.

The global economic crisis eventually prevents the war in the Middle East from escalating further. After a US bombing campaign against military targets throughout Iran until the beginning of November, the Revolutionary Guards are weakened, but still able to launch rockets towards Israel and the Arab Gulf states. Although many analysts had predicted an upsurge in patriotism and support for the Iranian regime, the disastrous economic consequences of the war prevent such an effect from taking place. An imminent food crisis forces Qalibaf, backed by supreme leader Khamene'i, to propose an immediate ceasefire. The United States accepts the offer, in order to be able to cope with its domestic economic problems.

The destabilization of the global monetary system and the destruction of a significant part of the global energy production have dealt a heavy blow to the world economy, from which it will take decades to recover. This lack of capital accumulation also means a severe weakening of states around the world. Especially in developing states like China and India, a process of 're-ruralization' takes place, in which parts of the population move back to the villages their parents were born to work in agriculture, because of the huge shortage of urban jobs. Due to the lack of state authority, different communities start to organize their own security, leading to ethnic and criminal violence in countries, regions, cities and neighbourhoods with low levels of social cohesion.⁹

In Iran, the situation is particularly difficult, as large parts of its economic infrastructure have been destroyed and the country lacks the capital for reconstruction. Parts of the Revolutionary Guards disagree with the decision to accept a ceasefire with Israel and the United States. This leads to the disintegration of the Revolutionary Guards into rivalling armed gangs, some of which support president Qalibaf and his government, some supporting radical elements like Ahmadinejad and Yazdi. The result is a guerrilla war in the streets of different cities and a general disintegration of the state. Many people are displaced as a result of the violence. The weakness of the central authority enables ethnic minorities in different regions to function as autonomous political communities. They start to function as de-facto political entities with their own laws, culture and economic organization. In the cities, the same process takes place, as different neighbourhoods organize themselves on the basis of kinship and personal ties, keeping out any foreign elements. The extent to which the official Shi'a religious structure has lost its moral, political and economic power has become increasingly clear. Religious life is more locally organized and differs widely from region to region. In some places, especially around Qom, religious scholars still play an important political role, but in many other places, they are subservient to political leaders. The political situation around the country will remain volatile in the years to come, making the shape of a new status quo highly uncertain.

New Mercantilism

In 2009, the depth of the global economic crisis becomes increasingly clear. Although it has started in the United States, major economies like Japan, China and Germany experience a big fallback in production as well, accompanied by rapidly increasing unemployment. This development illustrates the extent to which the global economy has been integrated into an

⁹ See Dekker & Faber 2008, Kaldor 2005

interdependent system in the past decades. Throughout the world, states are forced to intervene, in order to keep the economy floating and save the most important companies from bankruptcy. The high point of this trend has taken place on 17 February 2009, when Barack Obama signed the 'American Recovery and Reinvestment Act' in Denver Colorado, a bill worth 787 billion dollar, designed to stimulate the American economy. The plan encompasses a broad range of investments in education, health care, energy and infrastructure, and a tax cut for 95% of working Americans. The unprecedented size of the stimulus package makes it the focal point of the world economy in the years to come. The global reactions to the plan are mixed. Although most people understand the necessity of saving the economic system from total collapse, the experience has a very bitter ring to it. Scientists and leaders from the United States have been preaching the gospel of fiscal responsibility and minimal state interference for years, only to completely abandon it when faced with a crisis at home.¹⁰ For many people these developments only illustrate the extent to which the globalised economic order has been designed to benefit some states to the expense of others.

The American stimulus plan essentially banks on the status of the United States economy as being 'too big to fail'. Next to economic recovery it is also aimed at improving the American competitive position in the short, medium and long term. In the short term, the extra government debt is expected to have a depreciative effect on the dollar, making American exports cheaper and discouraging imports. Furthermore, tax reductions should stimulate domestic demand. In the medium term, infrastructure projects are expected to generate jobs for American companies, which strengthens their position vis-à-vis foreign companies. 'Buy American' and 'hire American' provisions have been added to the plan to ensure most projects and jobs benefit American employers. Investments in infrastructure, education and technology are aimed at strengthening American competitiveness in the long run, for example by developing the expertise to lead in the field of new energy technology.

As the crisis progresses, it becomes increasingly clear that the situation favors big economies over small ones. Small states have much less space to sustain a large budget deficit to stimulate the economy, due to the risk of inflation and overcrowding of the credit market. This mechanism applies both to small 'Western' economies like Ireland and Latvia and developing countries like Venezuela and Thailand that do not benefit from the monetary buffer of currencies that dominate global exchange, like the dollar and the euro. Like other countries in the Middle East, Iran faces similar problems. Continuing high inflation is combined with rapidly rising unemployment, as many state projects can not be completed due to the low oil price. For political reasons, the government does not apply for an IMF loan, because such a move would have signaled weakness to the outside world.

The economic crisis is the background for a tense political situation in Iran, in the run-up to the presidential elections of June. The stakes are high, as the past years have led to a very polarized situation, in which no trust can be found between different political forces. Ahmadinejad and his neoconservative allies have tried to use their four years in office to strengthen their grip on power in any way possible. They have created a climate of fear by repressing minorities, journalists, students and human rights activists. They have tried to win over parts of the public by spending oil money on welfare programs and firing up nationalist sentiments in the country with a confrontational foreign policy. As their allies can mainly be found under the Revolutionary Guards and the *Basiji's*, both these forces have received a

¹⁰ The attacks on the World Trade Centre and the Pentagon in 2001 can be seen as the crisis that heralded the beginning of the trend of increasing state debt in the United States.

large part of the state budget. The announcement of the candidacy of Mohammad Khatami has been met with a thinly veiled death threat¹¹ from the director of the Kayan newspaper. Even though the traditional conservatives have had a big hand in Ahmadinejad's ascendance to power, they have become increasingly critical of the administration for different reasons. Ahmadinejad has not heeded any advice or criticism from their side, by ruling in an authoritarian way. Even parliamentary oversight has been ignored, while critical oversight committees have been dismantled and the central bank has been brought under direct government control. Economic policies have hurt the vested interests of the *bazaar* and the conservative clergy, by undermining trade relations and stirring up inflation. Furthermore, Ahmadinejad has directly tried to purge the government controlled newspapers of critical voices, even when those voices were traditional conservatives.

After Khatami and Moussavi announced their candidacy, supreme leader Khamene'i understands that his favorite candidate might be defeated once again. Ahmadinejad does not appear to stand a chance against both these candidates in free and fair elections. A reformist victory would be a direct security risk for the regime, as it would lead to a divided executive when both external tensions around the nuclear programme and internal tensions around the economic crisis are predicted to be reaching a climax. Khamene'i decides to use all his institutional powers to prevent this scenario from happening, even if this means that the factional balance of power will be irreparably damaged. In a carefully coordinated operation, different prominent personalities that oppose the Ahmadinejad presidency are arrested. Among them are Mohammad Khatami, who is accused of espionage for his foreign contacts, Akhbar Rafsanjani, who is suspected of corruption, and Shirin Ebadi, who is accused of belonging to the Baha'i faith. In a reaction, Khamene'i states the following: *'The imam has said that even the holy duties like prayer and ramadan are to be suspended if the survival of the Islamic state is at stake. It should therefore surprise nobody when those persons are arrested that have betrayed the principles of the revolution and sold out to the Zionists and the Global Arrogance'*.

In the following weeks, the Basiji's and the Revolutionary Guards strengthen their presence on the streets. Student protests are harshly repressed, as well as strikes by the *bazari* in different cities. Critical newspapers are closed and many bloggers are arrested. Allies of Rafsanjani in the Council of Experts and the Expediency Council resign in protest of his arrest. Potential rivals to Ahmadinejad that have not been arrested, like Moussavi and Qalibaf, refrain from participating in the presidential elections, for fear of being persecuted themselves. In this way, all serious competition has been eliminated, making the elections in June virtually irrelevant. Supported by the Supreme Leader, the new government starts to rule by decree, openly defying the critical parliament. The most important policy of the new government is the substitution of price subsidies on goods like foodstuffs and fuel for direct cash payments to disprivileged groups. This policy is intended to strengthen the clientalist relationship of disprivileged groups with the state. It also directly undermines the interests of the *bazaar*, as they no longer profit from the artificially depreciated prices. Oil prices have been steadily rising from May 2009 onwards, as economic state stimuli around the world start to bear fruit. This development has strengthened the Ahmadinejad administration that has been able to balance the budget.

China is facing a difficult situation in the end of 2009. It has lost some of its competitive edge, due to the appreciation of its currency and protectionist measures of rival states. The

¹¹ Which might have played a role in the withdrawal of his candidacy in March

depreciation of the dollar has also negatively affected the Chinese state, due to the value loss of its investments in the United States. Measures to promote domestic spending have not worked that well, due to the simultaneous rise in unemployment that has limited the spending ability of many Chinese. Furthermore, the rising costs of raw material seriously strain economic recovery. China's relationship with the United States has been deteriorating, especially due to a more aggressive American policy to protect intellectual property rights, that has significantly raised the costs of many Chinese companies and the state bureaucracy.¹² Images of riots in Tibet and the Muslim areas in the West have escaped the censorship of the Chinese state, which the communist party experiences as a national humiliation. Slowly, the Chinese leadership begins to conclude that its foreign policy approach that has been cautious and generally supportive of the status quo, needs to change.

One of the most important policy shifts is the promotion of the yuan as an international currency. Trade partners are encouraged to use the yuan in their commerce with China, which has become more attractive as the currency has increased in value. Especially in other East Asian countries like Thailand, Indonesia and Japan, the yuan is an attractive alternative to the dollar. Their own currencies have plummeted due to the decline in world trade, so they are looking for an alternative currency that is more stable. Countries that have issues with the United States, like Venezuela and Iran, have their own reasons to adopt the yuan as their main trading asset. The upgraded status of the yuan gives China the opportunity to give more aid to friendly states, with the guarantee that a significant amount of this capital will be spent on Chinese products. Simultaneously, the Chinese state funds start gradually re-allocating investments in US state obligations, in order to become less dependent on the American economy in the medium term. The Chinese leadership also concludes it might need to project its power more directly onto the Middle East, in order to secure the supply of energy sources. By 2010, China has doubled the financial and military aid to Iran, its main ally in the region. Relationships with other countries in the region, like Syria, Iraq and Turkey, are improved as well.

The rising oil prices and the increased support from China give the Ahmadinejad government some room to maneuver. It has taken an uncompromising stance in the dispute over the Iranian nuclear programme. The domestic situation remains tense, but large scale protests have been repressed. In the beginning of 2010, president Obama officially announces the failure of negotiations over the nuclear programme: *"In the last year, Iran has shown its unwillingness to ensure the International Community that the intentions of its nuclear program are peaceful. I regard this as a personal disappointment, as I have always believed that Iran has got a strong urge to improve its international standing. This does not mean that Iran has become an immediate threat to our security, but it does mean we need to show that defiance is not without costs."* The United States push for tougher sanctions in the UN Security Council. The Chinese understand that they have become highly dependent on the supply of oil and LNG from Iran. A disruption of this supply would spur the resource prices even higher, with the risk of a new economic downturn. Therefore, they block any sharpening of economic sanctions against Iran. The European countries, Saudi Arabia, Egypt and Jordan are among the states that resort to economic sanctions against Iran, although they realize that they have lost leverage in recent years, due to the deepened Iranian relationship with China.

In the middle of 2010, the situation has become comparable to the run-up of the Iraq war in 2003. Intelligence services around the world suffer from a severe lack of reliable information,

¹² See Atkinson 2008

as government control of the media in Iran has tightened and foreigners have had increasingly little space to maneuver. IEAE officials have been able to visit the country, but have generally been hindered as much as possible by the authorities. Whether the Iranian state is really trying to produce a nuclear weapon remains unclear, but the right in both Israel and the United States have got growing ammunition to ask for a military attack. In this situation, only the slightest incident could trigger a devastating war. As time passes by, an increasing number of commentators claim that a confrontation will be inevitable.

The Chinese decide that such a scenario needs to be prevented at all cost. The economic crisis that a war on Iran could trigger, might mean the implosion of the Chinese state. Therefore, China commits itself to an official alliance with Iran. This means Iran is the first country that officially falls under the 'nuclear umbrella' of the Chinese. To emphasize the seriousness of their commitment, twenty nuclear warheads have been secretly shipped to Iran. Israel realizes it can not do much to change the new status quo. Its defensive nuclear capability is still expected to work as a deterrent to Iranian attacks, and an offensive war would clearly be suicidal. President Obama reacts by installing trade sanctions against China. Another result is the rapid nuclearization of the Middle East. The United States decides to ship nuclear weapons to its main allies in the region, in order to prevent Iran from using its new status as a nuclear power to destabilize rival states.

Although tensions have been extremely severe in 2010, a military confrontation has not taken place. In the next years, the new security equilibrium stabilizes. Iran, Lebanon and Syria, supported by China, form one power block and Saudi Arabia, Jordan and Egypt, supported by the United States, another one. Countries like Iraq, Turkey and the Gulf states take a more neutral position. Tensions between China and the United States decline over the years, although their trade relations never reach the same level as in the 1990s and 2000s.

Inside Iran, the neo-conservatives have, at least in the medium term, established a domestic hegemony. Any person that speaks out too openly against Ahmadinejad or Khamene'i is detained, or in some cases put to death. Even conservative commentators, clerics and politicians are no longer immune to persecution. Many persons belonging to a minority religion or ethnicity have been forced to flee Iran, to escape persecution. Especially the Baha'i faith has virtually disappeared from Iran. Those that have chosen or been forced to stay, keep their identity hidden, to escape from state attention. The neo-conservative project of 're-totalarization' of the Iranian state and society has, at least in the medium term, been successful.

The Rise of East Asia

As the Iranian presidential elections are approaching in 2009, supreme leader Khamene'i is starting to realize he has been betting on the wrong horse. The popular approval of president Ahmadinejad has been constantly falling as a result of both mismanagement and economic decline. A situation in which an unpopular president faces an increasingly hostile population, an increasingly critical parliament and an increasingly deteriorating economic situation would be extremely risky for the regime. Therefore, the supreme leader decides the new president should have a larger popular mandate. When necessary, the unelected institutions of the state and the conservative parliament will contain too ambitious proposals for reform, like during the Khatami presidency.

The reformists understand that the presidential elections might be the last opportunity to prevent Ahmadinejad and his neo-conservative allies from establishing a permanent domestic hegemony. This realisation leads the reformists to unite behind one candidate: Mir Hussein Moussavi. His status as prime minister during the war years prevents him from being disqualified by the Guardian Council. The conservatives remain divided. Ahmadinejad has made too many enemies among the traditional conservatives, due to his authoritarian governing style and his attempts to undermine the economic position of the bazaar. Therefore, Baqir Qalibaf decides to represent those critical conservatives in the elections. This disunity in the conservative camp, combined with the full support of other reformist personalities like Mohammad Khatami, Mehdi Karrubi and Abdollah Nouri, enables Moussavi to win the presidential elections with a wide margin. His supporters react with restrained enthusiasm. Although they remember the limited success of the reformists during the Khatami presidency, some economic and social relief would already be extremely welcome.

In his victory speech, Moussavi calls for '*moderation, unity and progress*'. By asking some conservative personalities to join his cabinet, most notably his former rival Qalibaf as minister of domestic affairs, Moussavi aims to broaden the political base of his cabinet and entice the parliament to cooperate. The recruitment of many academics into the new administration should improve the technocratic performance of the state. By freeing some activists, easing the pressure on the media and ordering the police and security forces to be less intrusive, Moussavi shows his supporters that his administration is a clear break from the years under Ahmadinejad. Incidentally, the police and security forces that are run by the ministry of domestic affairs, and the Basiji's, run by the Revolutionary Guards, openly clash in the streets of the big cities. As a reaction to these accidents, supreme leader Khamene'i urges the Basiji's to lower their presence, to maintain an image of stability.

The new cabinet aims to devise a pragmatic foreign policy, aimed at reducing tension, improving Iran's international image and intensifying trade relationships. The most important part of this new strategy is the start-up of a negotiation process with the United States. Both parties know some issues, especially the status of Israel and the Iranian support for Hamas and Hezbollah, are impossible to resolve in the short run. Still, they are both eager to show tangible results of the negotiations, to silence domestic criticism. Therefore, a short term deal is agreed with regard to the nuclear programme in December. Iran stops further uranium enrichment until all the fuel is used by the power plant in Bushehr, which has been fully active since September. The nuclear waste will be processed in Russia, to prevent possible plutonium extraction.¹³ In return, the Security Council resolutions against Iran are postponed until further notice. Both president Obama and president Moussavi claim this deal as a proof of the success of their strategy. Obama points at the prevention of an attack on Iran, which would have had dramatic consequences for the stability of the Middle East, and therefore the energy supply of the United States. Moussavi emphasizes the value of a reduced isolation for Iran's economic relations.

The tentative accord is part of a string of foreign policy successes for the Obama administration. The new strategy has led to reduced violence in Afghanistan, the withdrawal of troops from Iraq has not caused an increase in violence and the situation in Pakistan has also stabilized. Although political solutions have not come closer, the situation around Israel has not escalated in the past years. The Hezbollah-led coalition that has won the Lebanese parliamentary elections in June is not interested in a new war with Israel, because it wants to

¹³ Plutonium can be used in advanced nuclear weapons

prove it is able to govern the country peacefully. The Israeli government has agreed to let more aid and trade into Gaza. Hamas does not want to start a new round of war, as they would be blamed by the people for such a new escalation. Initially, the Obama administration's foreign policy success is coupled with a rapid economic recovery. Different industries profit from the increased government spending, the banking sector starts lending again and the housing prices stabilize. The 'Big Three'¹⁴ car companies have survived due to a successful restructuring, producing luxury and middle class electrical cars. As the global economy as a whole starts to recover, 2010 is a surprisingly quiet and hopeful year. Still, like some critical economists keep repeating, under the surface there are several fundamental economic problems, that are bound to turn up in due time.

The oil price has been steadily on the rise from September 2010 onwards. Before this month, it has stayed below 60 dollars, but in February 2011, it has risen above the psychological line of 100 dollars. The steadily rising economic growth around the world has the inexorable effect of rising natural resource prices, even if around 8 percent of the global car park presently consists of electrical or hybrid cars. These rising resource prices have an inflationary effect around the world, but especially in the United States. Due to the high liquidity that has been created in the past years, in the different stimulus programmes, the dollar is rapidly losing its value. In July, inflation levels are reaching the critical level of 10 percent on a yearly basis. The dropping value of the dollar further inflates the price of oil and other natural resources. In just a few months, the oil price has almost doubled, reaching 180 dollars in July. The high inflation has the inevitable effect of a strong drop in trade and demand, leading to stagnation. Unemployment is rapidly increasing across the United States economy. Compared to 2008 and 2009, this situation is markedly worse. The government can not save the economy by bailing out companies and increasing its spending, as this would only further deflate the value of the dollar.

The United States is still vital for the world economy, as a market, as a source of technological innovation, as a financial centre and as a military power. The 'stagflation' crisis in this country therefore threatens to plummet the whole world into a deep crisis. An emergency meeting of the 'G20' is convened in September 2011, to address the issue. The leaders at this summit agree that only a fundamental restructuring of global economic governance can prevent a worldwide collapse. The European, Asian and South American countries agree that a new bailout of the American economy is necessary, but only after diminishing the world's economic dependence on the United States. The most pressing issue in this regard is the role of the dollar in the global monetary system. After two weeks of almost non-stop negotiation, it is agreed that a new global currency needs to be created that can only be used in international trade transactions. A new independent institution will oversee the exchange rates with national currencies. That this new agency resides in Hong Kong, is an indication of the status of East Asia as the new global economic centre. In the closing remarks of the summit, president Obama states the following: *'The United States has been the Leader of the Free World and a constant source of global stability for more than seventy years. Now, we need to recognize the world has changed. Other nations will need to step up the plate and take more responsibility'*. To keep inflation in check the Obama government needs to take some painful measures, like a package of cutbacks on government spending and an interest rate raise. A large part of the cutbacks is created by a rapid troop withdrawal from Afghanistan and the closing of several military bases around the world. Loans from China and India are used to prevent further economic contraction.

¹⁴ Ford, General Motors and Chrysler

The troop withdrawals from Afghanistan and other countries in the region increase the risk of a security vacuum in the 'Greater Middle East'. China and India partly manage to fill this vacuum, by supporting states with financial aid and weapon deliveries. The Israeli state finds itself in an extremely difficult position. The United States were forced to greatly cutback their economic and military aid to the country, and China and India refuse to deepen their relationship as long as no peace has been agreed with the Palestinians and the other countries in the region. Coupled with the deteriorating economic state of the country, the Israeli state faces a crisis that might threaten its existence. It sees no other option than starting a negotiating process with all relevant parties in the region, including Hamas and Hezbollah.

In Iran, the political situation has further stabilized. The army and the Revolutionary Guards have been purged from their most radical members and the *Basiji's* have been partly demobilized. Critical groups like students, minorities and women can make their voices heard, as long as they stay within certain boundaries. Openly criticizing the Supreme Leader, for example, is still not done. The government has managed to start a diversifying process of the economy, that is already starting to produce concrete results. Iran has become an important distribution centre for goods produced in India and China. The Iranian car industry has established joint ventures with Chinese and Indian companies. In this way it profits from one of the new driving forces of global economic growth: the production of small electrical cars, especially meant for urban transport. This situation is part of a larger global trend that fully emerged from 2012 onwards and can be characterized as the 'new age of mass consumption': global production is generally 'green' and specialized in producing large amounts of small and cheap products. These products are aimed at the huge urban populations around the world. The 'Chinese political model' has also become dominant. This model can be characterised as 'enlightened authoritarianism'. State elites stay in power by providing their populations with social stability, security from foreign threats and economic growth.