

IRAN AND POLITICAL RISK IMBROGLIO: A CRISIS FOR BUSINESS RESILIENCE



Executive Summary

Reports are emerging that the Supreme Leader Ali Khomeini is critically ill which has furthered the pre-existing political risks emerging from political infighting and likely instability. Pertinent to Iran in the current scenario are risks emerging from sectarianism, admonishment by terror groups, and constitutional authoritarianism though in degrees of relevance. In this Strategic Viewpoint, such political risks will be analysed and incorporated to answer- how will they turn into a crisis for Business Resilience?

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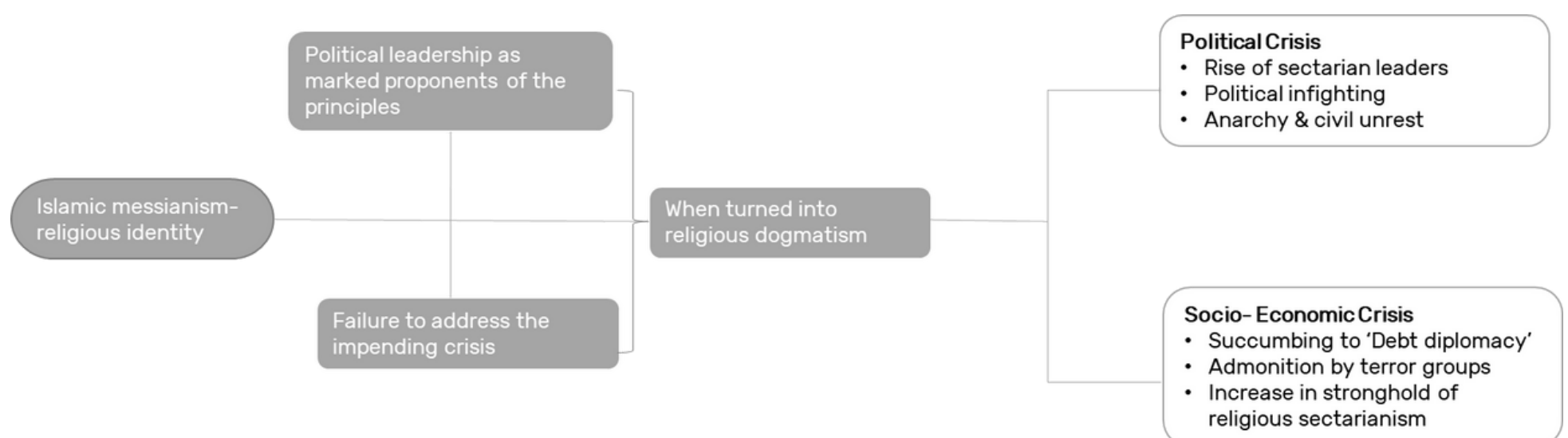
Executive Summary

- There are reports suggesting Supreme Leader Ali Khomeini is critically ill which has furthered the pre-existing political risks emerging from political infighting and likely instability.
- Pertinent to Iran in the current scenario are risks emerging from sectarianism, admonishment by terror groups, and constitutional authoritarianism though in degrees of relevance.
- Political Risks in Iran have majorly emerged from civil unrest by various sections of the civil society including women, oil workers, army veterans, teachers and judiciary.
- Factors like the 40% rise in inflation, soaring oil prices to 15000 Rials per litre, unfunded deficit of more than 30%, and a price rise by 300% are creating discontent.
- Russia-Ukraine war, Covid-19 and the US sanctions have played a potent role in accentuating the decline of the Iranian economy.
- The current political and economic situation in Iran is unable to justify the forecast of its oil production to 4.038 million barrels per day by the end of Iranian New Year in Mar 2023.
- However, there is diminished possibility of a civil war or a coup de tat by Iran Revolutionary Guard Corps (IRGC) against the civilian dispensation and the Iranian regime will not collapse.

Introduction

After the 2019-2020 protests termed as 'Bloody November' in which the demonstrations rapidly spread to 21 cities across Iran, the country is witnessing another round of protests in 2022. Unlike the past, there are 2 differentiations to these protests at the moment- participation from all walks of civil society and a direct challenge to the regime. While some would argue that these demonstrations are a direct result of the ongoing economic crisis in the country with a dip to \$232 billion Gross Domestic Product (GDP), the ensuing political unrest in Iran is a direct result of the intermediate collapse of religious principles assorted with the inability of the political leadership to cater to the crisis. This has come at a time when media reports indicate the Supreme Leader Ali Khomeini is critically ill. This has created a wider political risk for the region with many of the countries in Middle East and North Africa (MENA) undergoing similar patterns of crisis but with different consequences. But most importantly, the ever growing political and social unrest have had an impact on Iran's energy market. In this Strategic Viewpoint, such political risks will be analysed and incorporated to answer- how will they turn into a crisis for Business Resilience?

Conceptual Model Of Political Risks To Define Iran's Case

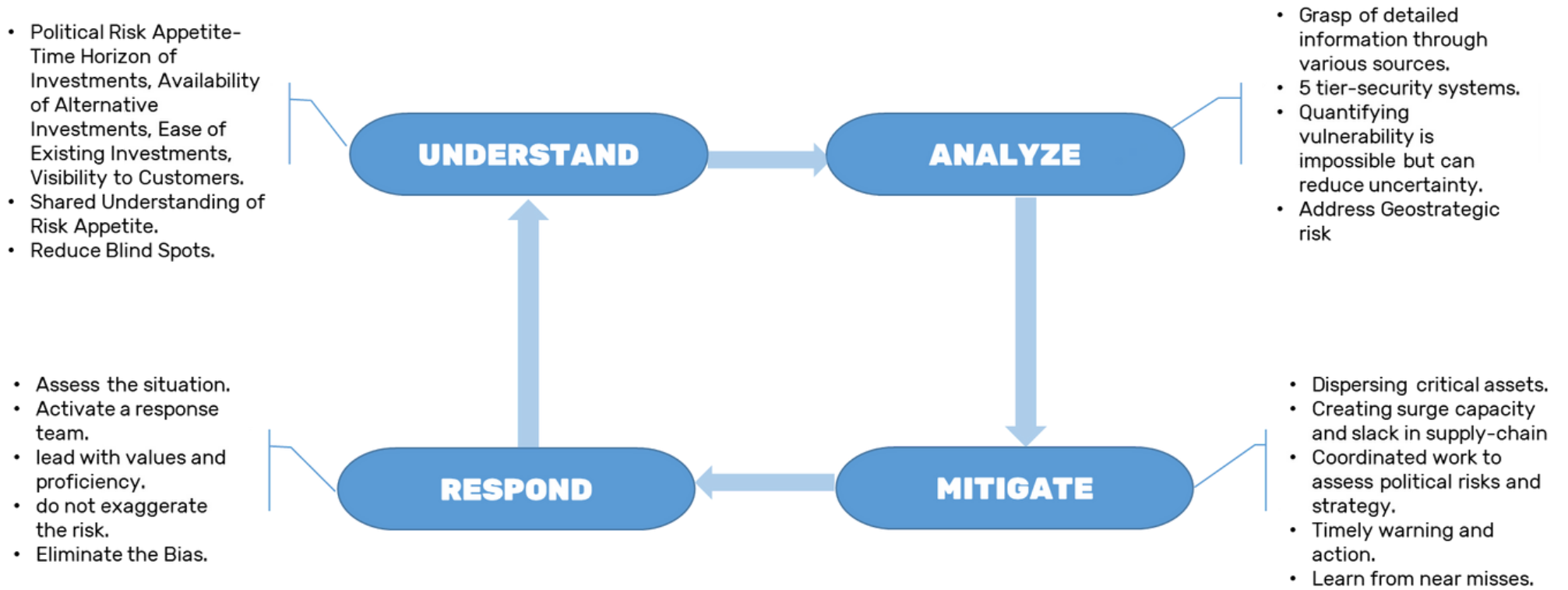


Business Resiliency and principles of Political risk

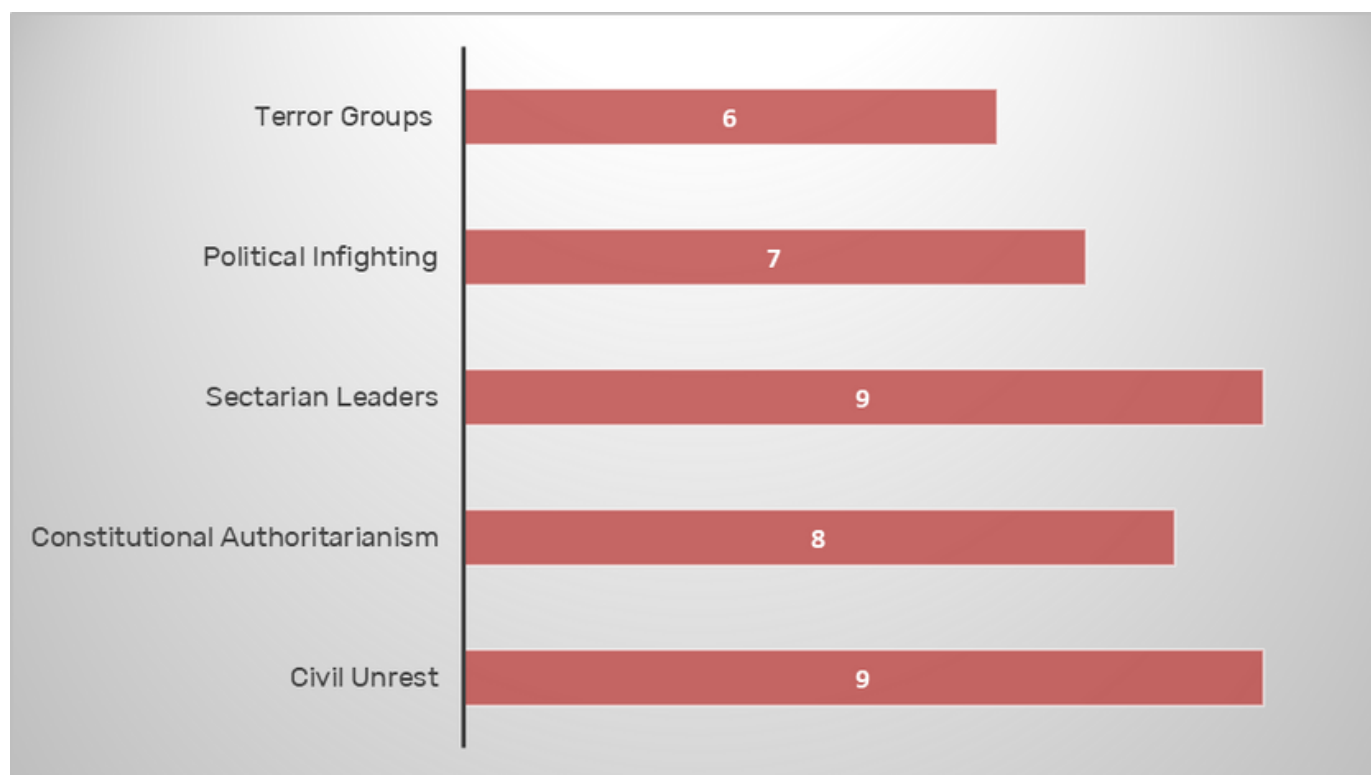
Political risks are interrelated to transitions that occur within a country of interests in their domestic environment, policies business laws and regulatory measures. Other influential factors have much to do with the international relationships and culture which may have an influence on the economy of a given country of interests. It is important to note that political risks are vague defined. In many such cases, rumours with little or no substance behind them. Therefore, the relativity of news becomes important and just looking at the data trends do not give a broader picture of political risks for business resilience. Political risks are further divided into Micro and Macro level risks which if broken down can have severe consequences for business resilience.

MACRO RISKS	MICRO RISKS	CONSEQUENCES FOR B.R.
ECONOMIC CRISIS	Lower Value of International Equities, Reduced FDI, Rise of Corruption, Currency-Related Issues, supply-chain disruptions, discriminatory taxation	Protests, strikes, rallies, sanctions
POLITICAL EMBROGLIO	Lack of confidence in the regime, reduced safety valves, lack of maintaining diversified portfolio, policy related inefficiency, breaches of contract, unlawful prosecutions,	Authoritarianism, elite infighting and exclusion, religious leader mobilization, electoral rigging, lack of elections
BREAKDOWN OF SOCIAL FABRIC	Racial and communal tensions flare up, isolation and alienation of work force, victim to information warfare, supply-chain disruptions, separatism, extortion, espionage	Fodder for terror groups, communal tensions and violence, lone wolf attacks, cyberthreats

The Political Risk Framework



Relevance rating

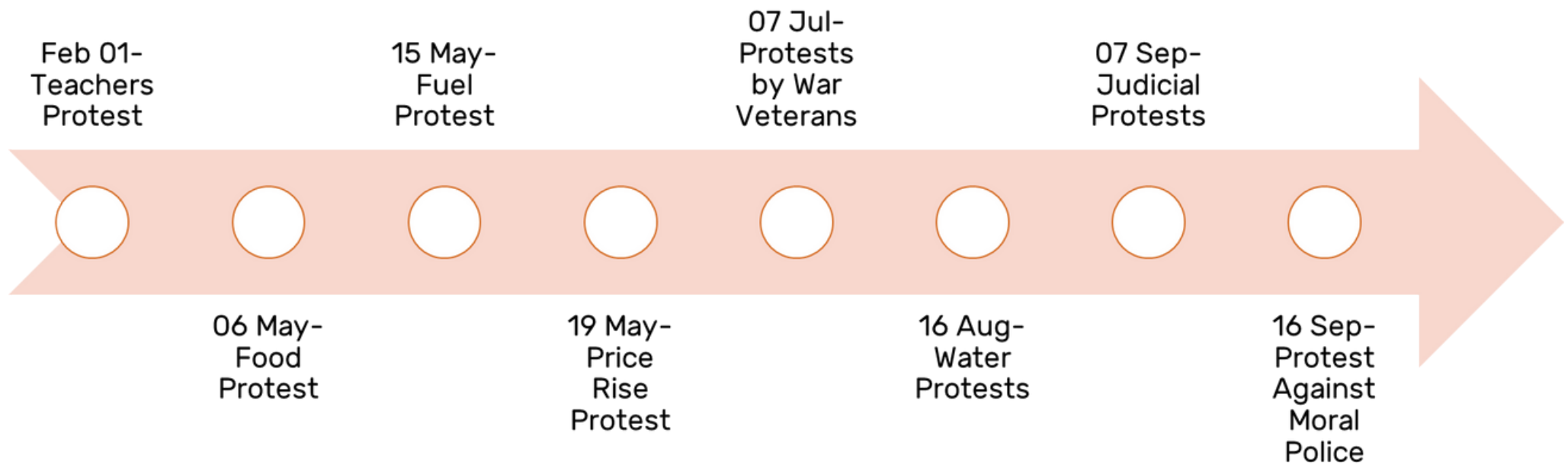


Variables Applicable In Iran's Case

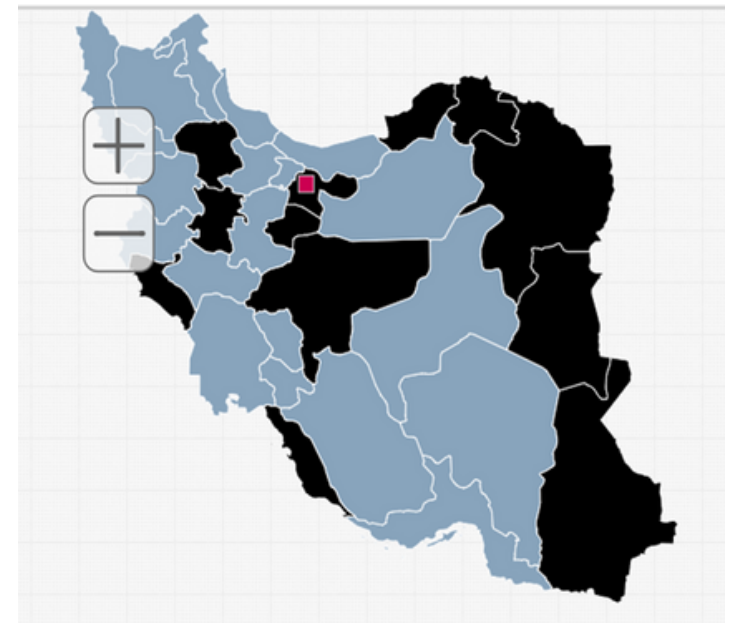
CIVIL UNREST	<ul style="list-style-type: none"> Destruction of assets and infrastructure. Threat to businesses close to the regime. Flaring up of political divide among employees Supply-chain disruption 		
CONSTITUTIONAL AUTHORITARIANISM	<ul style="list-style-type: none"> Business Confidence in the regime. Unlawful prosecutions. Policy related inefficiency Reduced safety valves 	POLITICAL INFIGHTING	<ul style="list-style-type: none"> Contests between Conservatives and Liberals Contests within Clerics. IRGC contesting with the civilian regime. Civil War
SECTARIAN LEADERS	<ul style="list-style-type: none"> Rising Communal Tensions. Divisions within the Human Resource. Information Warfare on Social Media. Increase in Blind Spots. 	TERROR GROUPS	<ul style="list-style-type: none"> Radicalization Sectarianism Lone Wolf Attacks

Imbroglia Aspects

Political Risk



- Heightened persecution of dissenters including journalists, Non-governmental Organizations (NGOs) and lawyers by more than 50% than compared to 2020.
- A rise in elite defection after Ebrahim Raisi came to power in Aug 2021 particularly the resignation of Iranian labour minister Hojjat Abdolmaleki.
- The centrist National Trust Party led by Mehdi Karubi has criticised the governance and policies of the regime which highlights the fissures among political parties.
- While both President Raisi and Supreme Leader Khomeini are considered to share close ties due to their conservatism in governance, critical voices of other important clerics are also on a rise within the country.

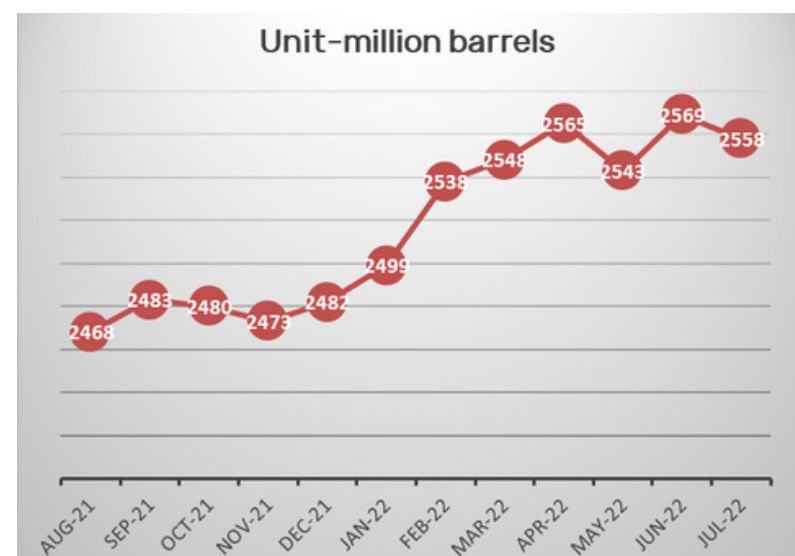
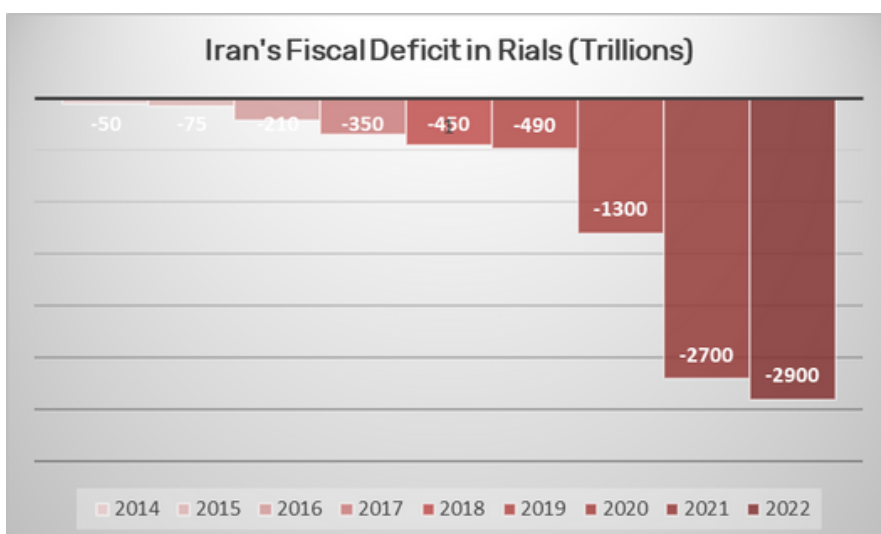


Protests Sites

- Heightened measures against unlawful persecution of European and Western tourists and filmmakers are emphasizing the east vs west binary which many of the Iranian citizens are not alluding to anymore.
- Intensified secessionist activities in Sistan-Baluchistan region and the presence of insurgent groups is making governance difficult for the regime in the east and south-eastern regions.
- Aim of creating a regime which is democratic in nature but religious in character is falling apart.
- The wave of protests in Iran in Jan 2022 underlines the growing anger of the people against not only the regime but also the Islamic Messianism religious principles that the country had built on ever since the revolution of 1979.
- For the first time in many years, people chanted, "Death to Supreme Leader!". Its scale has been difficult to determine due to heightened state surveillance over social media and protests on ground.
- Unlike the past, the protests have occurred significantly without the direction of any centralized movement with people demanding the resignation of officials and those close to the regime.
- People from all walks of life including war veterans, women, students, tribes, ethnicities and religious minorities have in the past come out on the street to protest.

- The Iranian state has used tear gas and live ammunition to disperse the crowd while beating people with batons.
- Internet connectivity has been circumscribed and curtailed by the state to limit the mobilization for protests.
- Counter-protests have been encouraged by the regime to promote propaganda of “people still supporting the Iranian religious principles”.
- Previously in 2021 protests, 731 banks, 140 government buildings and 70 gas stations were burnt. Similar violent activities could occur in 2022 with the data not available for the adopted months.
- More than 30 people have died after clashes were reported between the police and the protestors since Jan 2022 with more than 150 injuries.
- On an average, the strikes and protests have lasted between 3-7 days with the number of protestors being approximately 1000-2000 in range.
- Targeted assassinations have been undertaken of key institutional leaders of Iran which makes it a multi-fold crisis.
- With more than 45% Iranian citizens less than 25 years old, political risks emanating from the country could propel into wider influence for others in the region.
- Iran’s long-standing support to proxy groups in the region is also recoiling as the recent contravention pursued by Muqtada al-Sadr in Iraq and his mobilization of the Iraqis against Iran.

Economic Risk



- \$16.79 billion budget deficit 2021- 2022
- \$4.65 billion trade deficit
- 14% unemployment rate in 2022
- 60% rise in tax revenue
- 27% of projected revenues in 2022 with a drawdown from 43% in 2021
- 300% inflation rate in food products. 160,000 Rials of flour
- The protests and political risks emerging from Iran will not have immediate impact on the nation’s oil supplies.
- Iran’s regime repressive measures against the protestors could likely make the US impose more sanctions and threaten the existence of the Joint Comprehensive Plan of Action (JCPOA).
- However, previously in Jun 2021, thousands of Iranian oil workers went on a strike to demand better wages and conditions at oil facilities. The strikes lasted for a week at 60 oil and petrochemical installations.
- Protestors have occurred and are occurring in and around Iran’s oil rich regions of Khuzestan province with industrial city of Shush and Ahwaz under threat.

- From Jun 2022 to Jul 2022, Iran's oil production has fallen from 2,569.00 million barrels per day to 2,558 million barrels per day which when compared to Aug 2021 production of 2,468 million barrels per day is higher but not at par to curb the 40% rise in inflation across the country.
- Although forecast suggests that Iran's oil production could increase to 4.038 million barrels per day by the end of current Iranian year in Mar 2023, the current situation in Iran may not justify the forecast.
- The oil production could reduce further by 10% in the upcoming months which may create havoc for an economy 80% dependent on energy exports.
- Iran also is in contestation with OPEC+ countries which may be majorly due to political and regional hegemonic interests but could spiral into a competition for securing more energy markets.
- In Jun 2022, Iran abruptly increased the oil prices by 200% which now costs close to 15000 Iranian Rials per litre.
- Global Crude Oil Prices now stand at the cusp of crossing \$100 per barrel if the JCPOA deal with Iran is not reached in the next 3 months.
- Previously in May 2022, Iran seized 2 Greek oil tankers in the Persian Gulf as a response to the US Sanctions. Such instances could further arise in the upcoming months/years if Washington applies more sanctions on Iran making the sea routes for trade vulnerable.

Geo Political & Economic Risk

STALLING NUCLEAR DEAL AND US SACTIONS

- Former US President Trump withdraw from the JCPOA deal on 08 May 2018.
- In Aug 2018, Total S.A. officially withdrew from the Iranian South Pars gas field.
- All sanctions were reinstated on Iran following the withdrawal in Nov 2018.
- The US has forbidden Boeing to sell aircraft to Iranian aviation companies.
- Lifting sanctions in 2022 could increase Iran's total trade annually by \$62 billion that would add 32% to the Iranian economy.

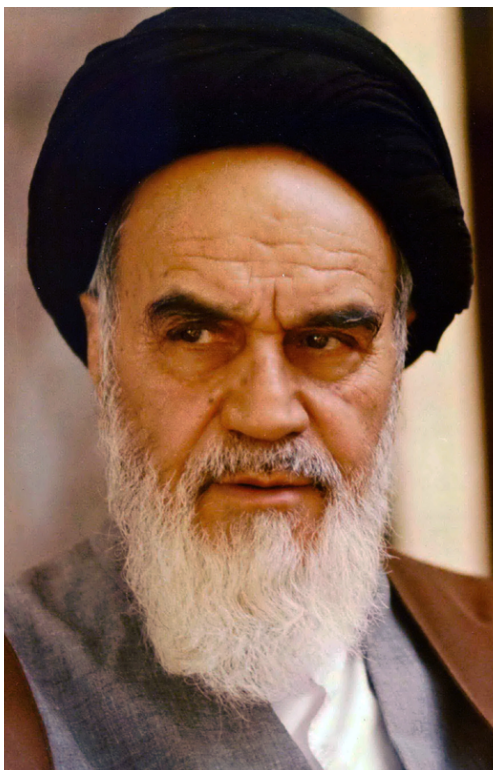
RUSSIA-UKRAINE WAR

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- The war in Ukraine has made Iran an alternatively viable point for oil exports.
 - Although high projected oil prices for 2022-2024 and growth in export volumes are forecasted to curb fiscal pressures, high expenditure growth will keep the fiscal balance in deficit.
 - Threat from Russian subsidized oil alternative by 40%.
 - Food price increase by 300%.
 - Enforced pressure on Iran to give in to the new terms of JCPOA

Sociological Risk

- Ethnic fissures have emerged significantly in Iran due to heightened pressure from the infuriating economy in 2022. Both the regime and people are targeting the Baha'i community with raids, lynchings and imprisonment at an all time.
- People from all walks of life contesting against the regime underlining the juxtaposition of socio-political issues.
- The Baluchis in the Sistan-Baluchistan region are raising their voices against the discrimination of the Iranian state in welfare measures.
- Blasphemy laws have strengthened across Iran with the country recently executing 9 people at the Zahedan prison in May 2022.
- The enhanced breakdown of social fabric is building up fodder for terror/insurgent groups like Al-Qaeda and Jundullah to recruit among those who have suffered the most discrimination.
- Anti-migrants demonstrations have also increased by 15% from the previous year.

Post Supreme Leader Era



- Media sources have indicated that the Supreme Leader Ayatollah Ali Khamenei is under medical observation and is critically ill.
- This has come at a time when protests have continued in Iran against the recent incident of alleged torture and killing by the Iranian morality police of a Kurdish woman Mahsa Amini on 16 Sep.
- The Iranian forces have fired shots on protestors demonstrating against Amini's death in Saqqez in western Iran on 17 Sep.
- These protests are likely to spill-over to other important cities including the capital Tehran and Masshad.



- Amidst the media reports on Supreme Leader Khamenei and the recent spate of protests, there are also reports suggesting that a feud is currently taking place between President Raisi and Khamenei's son Mojtaba Khamenei for succession as the new Supreme Leader.
- Local news sources also indicate the Iranian Revolutionary Guard Corps (IRGC) are in a bid to attempt a coup de tat following the post-Khamenei era and seize Tehran as a pre-emptive measure.
- The dissent among IRGC against the civilian government is due to factors like the receding economy, lackluster response by Iran to former IRGC commander Qassem Suleimani's death and a section of them opposing the bid for the Iranian nuclear deal with the United States.
- On the other hand, sectarianism is brewing among the Baluchis in the Sistan-Baluchistan province and Razavi Khorasan due to the retraction of remedial welfare measures against the price rise and the decades of discrimination they have faced in the past.
- Iran has also strengthened its military presence on the Armenia-Azerbaijan border due to the ongoing war between the two countries.
- Together these factors not only question the religious principles on which Iran has stood since the revolution in 1979 but also removes the threshold from the brewing sectarian tensions within the country.

BUSINESS RESILIENCY RISKS

Socio Political Unrest/ Economic Vulnerabilities

- Extreme Possibility of the protests continuing for the upcoming months.
 - Extreme Possibility of political infighting in post-Supreme Leader phase between President Raisi and Mojtaba Khomeini.
 - Extreme Possibility of supply-chain disruptions due to civil unrest and international sanctions.
 - Extreme Possibility of corruption and currency related issues likely to further increase which may lead to abrupt taxation on imports and exports.
 - Extreme Possibility of Iranian oil production plummeting by 10% over the years
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Operational Risk

- High Possibility of the protestors damaging MNCs considered close to the regime.
 - High Possibility of MNCs maintaining lack of diversified portfolio due to reduced confidence in the regime.
 - High Possibility of racial and communal tensions flaring up within the workforce employed among indigenous people in the MNCs.
 - High Possibility of Iran making the Persian Gulf sea route vulnerable by committing seizure of European oil tanks.
 - High Possibility of Cyberattacks emerging from Iran.
 - High Possibility of more Executive Protection assignments designated by MNCs in Iran
 - Medium Possibility of isolation and alienation of workforce as it could create grapevine discussions which may further disrupt the human resource ecosystem in the MNCs
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National Security fallouts

- Medium Possibility of the regime completely collapsing in Iran.
 - Medium possibility of civil war descending in Iran.
 - Medium possibility of a coup de tat by IRGC.
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About the Author

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