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The Recent Iranian Election: Results & Implications

The Iranian political landscape experienced a major earthquake on May 19, when the country's president, [Ebrahim Raisi, died in a helicopter crash](#) on his return from a visit to neighboring Azerbaijan. Consequently, in June and July, Iran conducted a two-round presidential election with a surprising result. In a country ruled by a highly conservative theocracy, whose political system has become increasingly dominated by its most hardline, right-wing parties, a reformist (i.e., moderate) candidate came out on top. How did this happen, and what does it mean for the rest of the world? Will it inspire changes in Iranian domestic politics or foreign policy? How will it affect the United States, and what does it mean for investors? Since Iran tends to be a disruptive force in the world, these and other questions need our attention.

This report begins with a review of three key challenges currently facing Iran: regional and global opposition to Iran's long-term geopolitical strategy, deepening economic woes, and an upsurge in societal unrest. We continue with an explanation of the role of the president in the Iranian political structure and a brief introduction to the winner of the election, reformist Masoud Pezeshkian. We conclude with an explanation of why we do not expect this change of leadership to shift Iran's geopolitical strategy, even if it does usher in adjustments to how it approaches its key challenges. As always, we conclude with implications for investors.

Figure 1



Iran's new president, Masoud Pezeshkian. (Source: Britannica)

Iran's Key Challenges

Since the 1979 revolution that brought the current regime to power, the Iranian government has pursued domestic and foreign agendas that reflect its Shiite, theocratic values. Those agendas have inspired resistance abroad and problems at home, as shown by the emergence of the aforementioned three key challenges, which we expect to be focus items for the new president.

Foreign Policy Opposition. As our recent [report on the Middle East and its many geopolitical fault lines](#) explains, Iran plays a central role in two of the region's most ancient and enduring conflicts. The first conflict is the rivalry between Persian and Arab nationalities. Iran is the home of most ethnic Persians, while Saudi Arabia is the seat of Arab ethnicity. The second conflict is the fourteen-century schism between the Shiite and Sunni traditions of Islam. Again,

Iran and Saudi Arabia are the standard bearers of these opposing traditions.

- Since 1979, Iran has pursued a foreign policy designed to expand its influence throughout the Middle East and establish a dominant regional position by leveraging Shiite affiliations in neighboring countries. This began with attempts in 1980 to undermine the government of Iraq and replace it with an allied Shiite regime. The ensuing eight-year [Iran-Iraq war](#) proved disastrous, but it marked only the first of many initiatives to extend influence through its [support of proxy organizations in Iraq, Syria, Lebanon, the Palestinian territories, Yemen, and other countries](#).
- The US, Israel, and Arab/Sunni countries have vigorously responded. The US has imposed crippling sanctions, Israel has conducted military operations against Iranian proxies in Syria and Lebanon, and several Sunni and Arab states have financed Iran’s opponents in the countries where Iranian proxies operate. Hence, Iran’s initiatives are proving increasingly costly, and managing this challenge will be an imperative for the new president.

Economic Hardship. The Iranian economy has suffered most of this century and remains under extreme stress. [Since 2005, sanctions by the EU, UN, and US have targeted Iran for violating treaties under which it promised not to pursue nuclear weapons.](#) These sanctions, which have mostly sought to financially isolate Iran and block its oil exports, have caused unemployment and inflation to skyrocket, devastating the Iranian economy. [The labor force participation rate is 41%, inflation has been greater than 40% for the last four years, and sanctions have corralled most of Iran’s international trade into a short list of partners and products \(see Figures 3-5\).](#) Its economy is therefore at risk of further difficulty if these partners or products were to suffer or diminish. In addition to the effects of sanctions, [Iran is considered one of the most corrupt countries in the world,](#) with the consequence that state-controlled capital investments reflect favoritism, political leverage, and ideological priorities at the expense of economic needs. This has become so widespread and acknowledged that even [internal economists have publicly stated that sanctions relief will not deliver improvement without structural reforms.](#) The new president faces a balancing act between the imperatives of a suffering population and the entrenched interests of the power elite.

Figure 2



Iran’s proxy network. (Source: United States Institute of Peace)

Figure 3

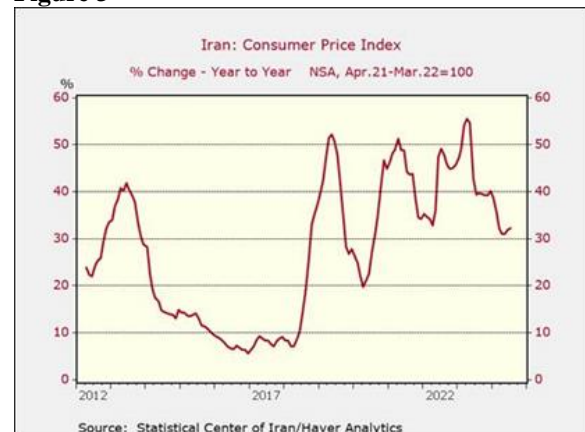


Figure 4

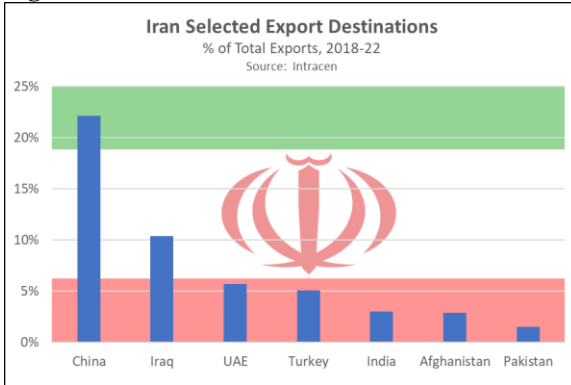
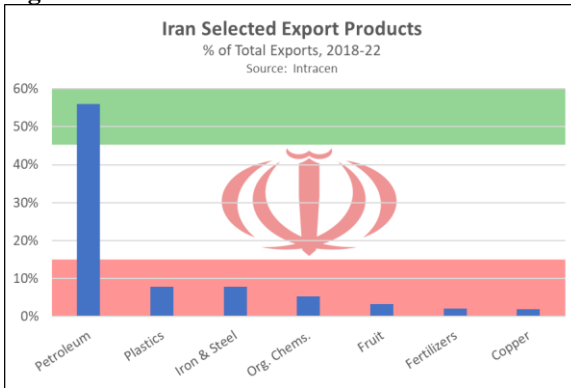


Figure 5

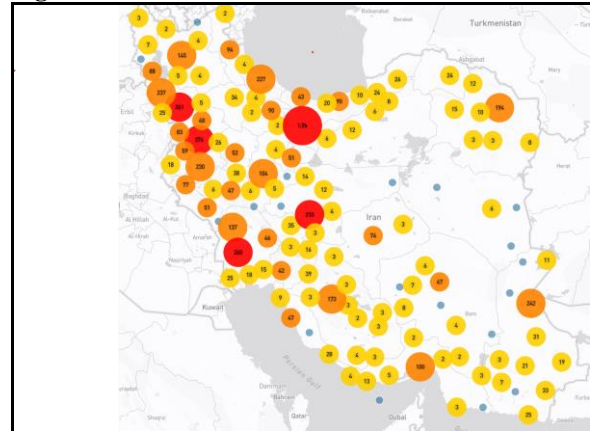


Societal Unrest. Under the current regime, Iran has been no stranger to societal unrest. Among the most prominent examples, as cited by the linked article, are the following: “the so-called [Green Movement of 2009](#) saw the middle class protest against alleged election fraud. Although it was large in size, it centered on major cities. Other major protests in 2017 and 2019 were confined to poorer areas.” These protests gained international attention, but they were not a serious threat to the regime, and they did not last. The most recent period of unrest, however, seems more serious. It began in September 2022, when 22-year-old [Masha Amini died in police custody](#) after being arrested for refusing to obey Iran’s law that women wear headscarves in public. Although authorities denied any wrongdoing, evidence clearly showed that she died of abuse at police hands. This sparked a movement called, “[Women, Life,](#)

[Liberty,”](#) which continues to inspire protests two years later.

- Unlike the previous episodes of unrest, this one has steadily gained a broadening base of support as men have joined the movement, and it has spread to include both middle-class and working-class areas. [More than 6,900 protests have occurred since the movement began \(see Figure 6\), with 166 in June of this year and 128 in the first three weeks of July.](#)
- While we do not consider this movement to be an actual threat to the regime’s grip on power, we do think that the new president will need to address it differently than how it was approached by previous administrations.

Figure 6



Recent Iranian protest sites. (Source: FDD.org)

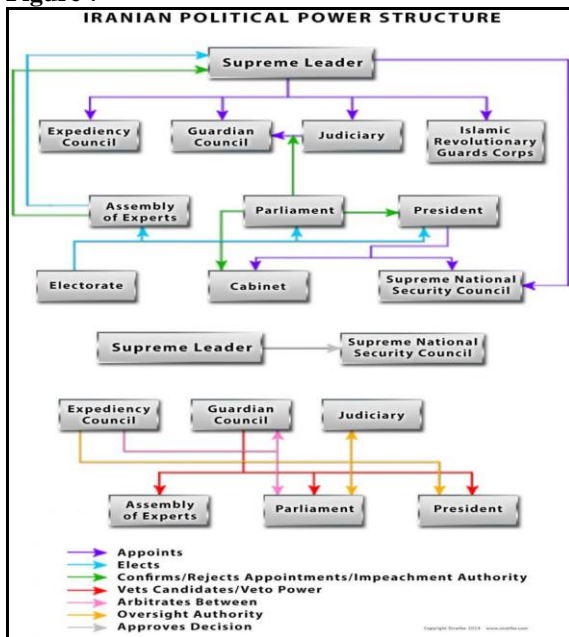
The President of Iran

The president in Iran has very different and fewer powers compared to the president of the US. Below, we review how the president fits into the overall Iranian power structure.

Iranian Government. The Iranian presidency exists within a [very complex governmental structure](#) (see Figure 7, next page), and its powers are tightly limited. The true authority in the Iranian government is the supreme leader, who is an Islamic cleric named Ayatollah Ali Khamenei. His

extensive, almost dictatorial powers include setting the tone and direction of Iran's domestic and foreign policy, serving as commander-in-chief of the armed forces, and having the privilege of unilaterally appointing people to key positions throughout the government. From the supreme leader flows a complex and interwoven organization, consisting of bodies such as the Council of Guardians, Assembly of Experts, and Expediency Council. An understanding of the roles, responsibilities, and interrelationships of these bodies requires an extensive essay by itself. Ultimately, this Byzantine structure ensures that the functions and actions of the government tightly conform to the will of the supreme leader and his closest advisors.

Figure 7



(Source: Stratfor)

Presidential Roles & Responsibilities. [The president is charged with executing the country's laws, setting policy within the parameters set by the supreme leader, and conducting diplomacy on the state's behalf.](#) Although he does have this diplomatic role, the president's primary focus is on internal affairs, with an emphasis on economic

policy and the state budget. Technically the president is the second highest ranking position in the Iranian government; however, he has little room to maneuver within the limits of guidance that flows from the clerical establishment. For instance, the Guardian Council has the authority to review all laws passed by the government for compliance with Islamic (Sharia) law and can veto any government legislation at will. This means that the president can exercise his powers only to the extent that his actions align with the wishes of clerical leadership. The Guardian Council also has the authority to approve or disapprove everyone who applies for candidacy for any public office (i.e., a seat in parliament or the presidency). Typically, the Guardian Council approves only a small fraction of would-be candidates. For example, in this summer's presidential election, [the council approved only six of the 80 people who registered to run.](#) Five of the six were from hardline conservative parties.

The Newly Elected President. Although Masoud Pezeshkian hails from a reformist party, he has a long, established record as a regime loyalist. Born in northwestern Iran in 1954 of mixed Azeri-Kurdish ancestry, he had become a doctor by the time of the 1979 revolution. When the Iran-Iraq War began the following year, he immediately entered service as a fighter and a doctor, responsible for medical teams at the front lines. After the war, he resumed his studies and became a cardiac surgeon, leading him to become the [president of the Tabriz University of Medical Sciences \(1994-1999\)](#). During this time, he was appointed Deputy Health Minister and then Health Minister, a post he occupied until 2005. Since then, he has been elected to the Iranian parliament five times, representing Tabriz, including a period as the First Deputy Speaker of the parliament from 2016 to 2020. As a member of

parliament, Pezeshkian defined himself as a [“principalist,” which refers to conservative supporters of the Supreme Leader who advocate for protecting the ideological principles of the 1979 revolution's early days.](#) This means that although he advocates for reformist changes to certain social and economic policies, with a mind toward improving the lives of Iranian citizens, he is fiercely loyal to the revolution, the Iranian government structure, and the supreme leader himself, to whom he has repeatedly declared his personal loyalty and gratitude. Iranian observers expect him to cautiously introduce limited domestic reforms without “rocking the boat.”

The “Reformist” Positions

President Pezeshkian has outlined positions on the three challenges facing his country, and these positions reveal continuity on foreign policy, while confining his reform proposals to those domestic issues that will most effectively appease ordinary citizens and restore their support for the regime.

Foreign Policy. President Pezeshkian’s foreign policy positions tightly align with those of the regime, beginning with his position on Israel. In sharp contrast to his calls for improved relations with other Middle Eastern countries (especially Arab states), [after the election, he said that he would “try to have friendly relations with all countries except Israel.”](#) Two days after his electoral victory, Pezeshkian firmly stated that his administration will continue to fully support the [“Axis of Resistance,” which refers to the Iranian-backed actors in the region, such as Hamas and Hezbollah, who oppose Israel.](#) He upheld the regime’s characterizations of Israel as an illegitimate Zionist regime with criminal policies toward Palestinians. He has further stated his support for the Axis as the primary means to extend and solidify Iranian influence

throughout the region as well as to exert pressure on the US to reduce its Middle Eastern presence.

The one key change, which has already begun, will be [increased emphasis on constructive engagement with Gulf Arab states, especially Saudi Arabia.](#) Iranian leadership recognizes that its historical animosity with these countries provided the US and Israel with an opening to improve their economic and security ties with these countries, such as those implemented in the 2020 [Abraham Accords between Israel and several Sunni-Arab states.](#) Iran now urgently prioritizes actions to counteract that trend, and a reformist president is viewed as having a better chance of success in these kinds of initiatives. This will be the arena in which Pezeshkian will likely attempt to make his foreign policy mark.

The Economy. The best way for Iran to improve its economic outlook proved a central topic of debate between the leading candidates. Whereas hardliner candidate [Saeed Jalili had claimed that Iran could thrive by building stronger economic ties away from the West,](#) Pezeshkian said that Iran found itself living in an “economic cage” as a result of its foreign policy. He pledged to make it a top priority to engage with the West to get sanctions lifted and reestablish economic relations. Since his electoral victory, Pezeshkian has emphasized this theme. These efforts potentially conflict with the regime’s foreign policy imperatives, so this initiative will require the new president to manage two simultaneous balancing acts: that between foreign and domestic priorities and that between the directives of the regime and the wishes of the people whose votes carried him to victory. We expect Pezeshkian to cautiously navigate a path to the negotiating table, focusing on only those bargaining

chips — possibly involving the nuclear program — that the clerical establishment approves.

Societal Unrest. This is the area where we think the regime will give the new president the most room to maneuver. The ongoing protests have been a distraction and embarrassment for the regime, and peacefully quelling them would improve its ability to focus on its top geopolitical priorities. Pezeshkian campaigned hard on these issues, including some very harsh criticisms of how both the regime and law enforcement have handled not only the protests, but social issues more broadly. In particular, [he advocated for lifting the requirement that women wear headscarves in public and for reduced censorship of the internet](#). More pointedly (and controversially), he held the country’s morality police directly responsible for the death of Masha Amini. The Guardian Council approved his candidacy with full knowledge of these positions. By carefully instituting a program of [limited change that focuses on key issues](#), Pezeshkian can, at least partially, help win back the loyalty of a disenchanted population.

Geopolitical Implications

With this full context in mind, let us distill our analysis to a bottom line for the three foreign actors most likely to experience an impact from this new presidency.

Israel. We expect little to no change here. Although there is a remote possibility that Iran could make small concessions to support other priorities such as sanctions relief, we expect Iran under the new presidency to hold the same hard line toward Israel that it always has. This hard line will include loud condemnation of Israeli policies and actions, vigorous diplomatic support of the Palestinians and Hamas, the

full range of support for all elements of the Axis of Resistance (from the Houthis in Yemen to Hezbollah in Lebanon), and the continued “shadow war” of low intensity military action against Israel through its proxies in surrounding countries. The bottom line is that we believe a reformist president will not change the Iranian approach to Israel.

United States. Iran has two major priorities that relate to the US: its economy and its Middle Eastern geopolitical ambitions. With its economy, we expect a change in direction under the new president. Whereas the hardliners pursued a course of economic recovery independent of the channels that sanctions cut off, the new president has made sanctions relief (i.e., reopening those channels) a priority. This suggests a restoration of engagement and negotiation. With its regional ambitions, Iran remains as committed as ever to reducing the US’s presence and influence in the Middle East, and the new president has confirmed this. We expect a continuation of Iran’s diplomatic militancy and opposition to the range of US initiatives. Since these two policy priorities obviously conflict, we expect the new president to conduct a cautious balancing act, patiently seeking areas of common ground, which could involve the Iranian nuclear program.

Greater Middle East. Iran is committed to improving its relations with Sunni and Arab states in the Middle East, especially those ringing the Persian Gulf, with a particular emphasis on Saudi Arabia. Among President Pezeshkian’s first public statements post-election, he reaffirmed this initiative. We think that his status as a reformist, not a hardliner, gives President Pezeshkian a public relations opportunity to further energize this initiative. This runs directly counter to the US initiative of continuing to establish new diplomatic relations between

Israel and other Middle Eastern states, so we expect this to be an arena of intensifying diplomatic competition with the US.

Investment Implications

The developments that we have highlighted reinforce the themes of two of our previous reports, which address the fault lines dividing the Middle East (cited earlier) and the [fracturing of the world into competing blocs](#). Since Iran firmly aligns with the China bloc, as opposed to the US bloc, the investment implications of the Iranian election further emphasize those which we highlighted in that report.

Near Term. Our report on the Middle East highlighted the disruptive effects of armed conflict in the Middle East on transportation, such as the Houthi attacks that have largely closed the Red Sea to shipping. It also emphasized how armed conflict on any level, such as we have seen for nearly a year in Gaza, raises the risk of escalation into broader conflict, including the possibility of war between Israel and Iran. These disruptions and rising risks cause inflation, not just in the region of conflict but across the globe and for all products that rely on transportation to reach the market. It threatens supply lines between countries and regions, and Middle Eastern conflict, in particular, tends to raise the price of oil. Also, as risk assessments rise, investors tend to shift their portfolios into perceived “safe haven” assets, of which gold is the most

prominent. Since Iranian foreign policy under the new president will likely continue along the same lines as before, we expect each of these investment implications to continue.

Long Term. Our report on the continuing process of global fracturing and bloc formation highlighted the longer-term investment implications that flow from Iran’s geopolitical strategy, which we expect to remain constant and firmly aligned with the China bloc across the presidential transition. We expect companies in each bloc to realign and deglobalize their supply chains, prioritizing security over efficiency. We further expect both companies and governments to take actions to secure supplies of critical commodities, be they industrial metals such as copper for construction or uranium for energy and weapons production. These and other changes that we have discussed will add to the forces causing inflation, higher interest rates, and lower profit margins for most companies. We expect this impact to be particularly strongly felt in the commodity sector and commodity-sensitive industries.

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