

MIDDLE EAST PROGRAM

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Iran: Turmoil at Home, Assertiveness Abroad?

Introduction

Haleh Esfandiari, *Director, Middle East
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In September 2011, the Middle East Program of the Woodrow Wilson Center brought together six leading Iran experts to consider the current state of Iran's domestic politics and the major foreign policy issues it is facing. This was the first in a series of meetings the Middle East Program will host as Iran heads for parliamentary elections in March 2012 and presidential elections the following year.

Shaul Bakhash opened the meeting with an overview of the domestic situation. He argued that since the contested 2009 presidential elections and the suppression of the Green Movement the regime has grown more repressive and the composition of the

ruling elite has narrowed. The Revolutionary Guards and the security agencies have emerged as major players in the economic and political decision-making process. At the same time, he noted, serious divisions have emerged within this ruling elite: between the supporters of President Ahmadinejad and the conservative establishment, between the president and parliament, between Ahmadinejad and the Supreme Leader, and between competing camps among the conservatives.

Bijan Khajepour provided an overview of the economy. He analyzed the impact of international sanctions on the economy, the costs and fallout of the removal of subsidies on fuel, electricity and other utilities, the significance of the recently uncovered \$2.6 billion banking scandal, oil revenues, and general economic prospects. He predicted that inflation will reach 25 percent by the end of March 2012, lower purchasing power

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The Middle East Program was launched in February 1998 in light of increased U.S. engagement in the region and the profound changes sweeping across many Middle Eastern states. In addition to spotlighting day-to-day issues, the Program concentrates on long-term economic, social, and political developments, as well as relations with the United States.

The Middle East Program draws on domestic and foreign regional experts for its meetings, conferences, and occasional papers. Conferences and meetings assess the policy implications of all aspects of developments within the region and individual states; the Middle East's role in the international arena; American interests in the region; the threat of terrorism; arms proliferation; and strategic threats to and from the regional states.

The Program pays special attention to the role of women, youth, civil society institutions, Islam, and democratic and autocratic tendencies. In addition, the Middle East Program hosts meetings on cultural issues, including contemporary art and literature in the region.

- **Current Affairs:** The Middle East Program emphasizes analysis of current issues and their implications for long-term developments in the region, including: the events surrounding the uprisings of 2011 in the Middle East and its effect on economic, political and social life in countries in the region, the increased use of social media, the role of youth, Palestinian-Israeli diplomacy, Iran's political and nuclear ambitions, the drawdown of American troops in Afghanistan and Iraq and their effect on the region, human rights violations, globalization, economic and political partnerships, and U.S. foreign policy in the region.

- **Gender Issues:** The Middle East Program devotes considerable attention to the role of women in advancing civil society and to the attitudes of governments and the clerical community toward women's rights in the family and society at large. The Program examines employment patterns, education, legal rights, and political participation of women in the region. The Program also has a keen interest in exploring women's increasing roles in conflict prevention and post-conflict reconstruction activities.

- **Islam, Democracy and Civil Society:** The Middle East Program monitors the growing demand of people in the region for the transition to democratization, political participation, accountable government, the rule of law, and adherence by their governments to international conventions, human rights, and women's rights. It continues to examine the role of Islamic movements and the role of Islamic parties in shaping political and social developments and the variety of factors that favor or obstruct the expansion of civil society.

The following papers are based on the authors' presentations at the Woodrow Wilson International Center for Scholars on September 30, 2011. The opinions expressed herein are those of the authors and do not reflect those of the Woodrow Wilson Center.

for the people, a slow-down in the housing market, and continued budget deficits.

Iran is currently undergoing a second cultural revolution, according to Roberto Toscano. He noted that four ideological pillars of the Islamic Republic have greatly shaped education: the inseparability of religion and politics, Islamic revival, cultural revolution, and the creation of the new Islamic person. The regime never resolved the contradiction between the desire of high-quality technological and scientific education and the individual as passive consumer of official (authoritarian or totalitarian) culture. The reformists under President Khatami attempted to close the gap between these two approaches to education but had only limited success. Under President Ahmadinejad, education policy is attempting a return to the original project of “advanced science and medieval religion,” but this is an educational counter-reformation destined to fail, according to Toscano.

Afshin Molavi discussed Iran’s relations with the countries of the Gulf Cooperation Council and particularly with Saudi Arabia. Reviewing the ebb and flow of Iran-Saudi relations since the establishment of the Islamic Republic, Molavi recalled the tense relationship between the two countries in the early years of the revolution, the improvement witnessed under presidents Rafsanjani and Khatami, and the deterioration of relations under Ahmadinejad. Molavi examined the rivalry between the two countries for regional influence and the impact of the Arab Spring on this rivalry. Iran, he said, has lost its standing with Arabs since the upheavals that have swept the Arab world in the past year—a point on which the Lebanese analyst and journalist, Rami Khouri, who was in the audience, also commented.

Khouri emphasized the significance of the Arab Spring. For the first time, Arabs see themselves as players and shapers of their own affairs. They are taking matters into their own hands. He, too, noted that, in contrast to the last few years, when Iran was riding high in the Arab world, Iran’s pull today is dwindling, and the Iranians don’t have a role to play in the future of the Arab world.

Rouzbeh Parsi dealt with another important player in Iran’s foreign policy—the European Union.

Parsi noted that the EU’s relationship with Iran has always depended on the Iran-U.S. relationship. At the same time, reaching a consensus on foreign



policy between 27 members of the union, whether on Iran or other issues, is not an easy task. While there is a history of engagement by the EU countries with Iran, according to Parsi, in the current political and financial crisis faced by a number of EU countries, there is not much interest in mending relations with Iran. The EU has, in general, joined the U.S. in pursuing a policy of increasing sanctions on Iran due to its nuclear program, but relations can improve only through diplomatic means.

Michael Adler discussed the role of the International Atomic Energy Agency (IAEA) in inspections of and reports on Iran’s nuclear program. (He was speaking before the November release of the IAEA’s most recent report on Iran’s nuclear activities). He noted that Iran’s claim it is cooperating with the IAEA notwithstanding—and despite the two rounds of talks between Iran and the P5+1 in Vienna in 2009 and in Geneva in 2010—the level of Iran’s cooperation with the IAEA has shrunk, and it is limiting access to its nuclear facilities to IAEA inspectors. At their November meeting, the IAEA Board of Governors may take a hard line and say Iran is seeking nuclear weapons; it may absolve the Islamic Republic from such an intention; or it may continue to cultivate an ambiguous position.



The Security State and its Fractured Elites

Shaul Bakhash, *Clarence J. Robinson Professor of History, George Mason University; and former Fellow and Scholar, Woodrow Wilson International Center for Scholars*


Iran has moved in a decidedly more authoritarian direction since the contested presidential elections of 2009. Indeed, with its insistence on ideological conformity, adherence to the official line, and the use of show trials and public confessions, the regime has assumed many of the traits of the Soviet Union in the worst years of the Leonid Brezhnev era. The political crackdown that followed the election protests was severe, involving widespread arrests, torture of prisoners, the death of some prisoners at the hands of their torturers, and possible rape of both male and female prisoners. The two leading reformist parties have been proscribed, several reformist newspapers have been shut down, and the two principal opposition leaders, Mir-Hossein Mousavi and Mehdi Karroubi, have been under house arrest and virtually incommunicado since early March 2011.

The trial of those accused of fomenting the post-election protests was in every sense a show trial. Over 100 persons were put on trial together; the proceedings were televised; and the charges were made against the accused en bloc (they were later charged individually as well). At the trial, the prosecutor read an indictment that accused the protestors of being involved in sedition and a conspiracy against the Islamic Republic. We should recall that on trial were a former deputy president, several former deputy ministers, and members of parliament, as well as the leading lights of the reformist movement. Also accused, by implication, were the leaders of the two reformist parties—Mousavi, the much lauded prime minister of Iran during the Iran-Iraq War, and Karroubi, a former speaker of parliament and one of the country's prominent clerical figures. During the trial, the prosecutor laid out what has become a staple of the official ideology—a distinction between right and wrong thinking. He charged the accused with deviation from the principles of the revolution, the constitution, Islam,

and godly values. This theme of right and wrong thinking was picked up by the leader, Ayatollah Ali Khamenei, in a series of speeches following the election. He made clear that members of the ruling group could remain as part of the system only if they adhered to regime ideology. Wavering from these principles, he said, could lead to deviationist thinking and even to unbelief.

Another striking feature of Iran in the last two years has been the enhanced role of the security agencies and the Ministry of Intelligence. They are serving as the enforcers of the new line and the persecutors of the reformist parties and dissidents. We are also witnessing a much enhanced role for the Islamic Revolutionary Guard Corps. It is well known that the Revolutionary Guards are playing a very large role in the Iranian economy. However, both hard and anecdotal evidence suggests that current and former officers and members of the Revolutionary Guards are being appointed to senior and middle-rank posts throughout the government service. In addition, the Guards are increasingly inclined to inject themselves into politics. In late summer, Mohammad Ali Jafari, the commander of the Guards, said in an interview that the judiciary has picked the Guards as its enforcement arm and boasted that the Guards had been responsible for the arrest of a large number of protesters and dissidents. He laid down conditions under which members of the reformist camp would be allowed to take part in the upcoming parliamentary elections in March 2012. And he noted that those reformists who have not yet “distanced themselves” from the “seditionists” would not be allowed to run. Such interference by the Guards in electoral politics is virtually unprecedented.

In addition, Mohammad Reza Naqdi, the commander of the *Basij* paramilitary forces, has announced that the *Basij* and the Revolutionary Guards intend to deploy 12,000 political mes-



sengers throughout the country to enlighten the people on how they should vote in the upcoming parliamentary elections. The people, he said, are of course free to choose whom they wish, but they would be making the right choice only if they elected deputies in keeping with “the choice of God.” His choice of words was not fortuitous. The regime is falling back on religion to enhance its own position and to win legitimacy with the public. Religious criteria for judging individuals have dramatically increased in the rhetoric of the leadership. Politically-inclined clerics are playing a prominent role in the current attempt to unite the conservatives in one bloc for the upcoming parliamentary elections.

A new wave of dismissals, amounting to a purge, is taking place in the universities. Professors identified with the reformists or with liberal political inclinations are being retired. Once again, there is talk of reforming the curriculum of the universities in keeping with Islamic values. The Minister of Science, Research, and Technology (Higher Education), Kamran Daneshjoo, recently announced his intention to order a revision of the curricula in such fields as law, psychology, and sociology in order to strip away “Western theories” and replace them with Islamic ones. This attempt at curriculum revision will no doubt fail, as have similar attempts in the past. But the new campaign will cause havoc on university campuses, intimidate faculty, and hamper free thought and enquiry.

One result of these developments is a narrower ruling elite that is increasingly turning in on itself. In the conservative lexicon, the leaders and supporters of the Green Movement and a much larger swath of reformists are part of “the seditionist current” and must be excluded from participation in politics. A kind of loyalty test is now being applied. As viewed through the lenses of these conservatives, the leaders of the two principal reformist parties have crossed a red line into outright opposition and lie beyond the pale of legitimate politics. The more moderate reformist leaders still have a chance to redeem themselves and participate in the upcoming parliamentary

elections, they say, but only if they “recant” and ask for “forgiveness” for their past errors. Even silence in the face of the post-election protests is now treated as tantamount to sympathy for the “seditionists” and reason for exclusion from standing for seats in the *Majlis* (parliament).

Even though the conservatives are united against the reformists, they have not been able to avoid splits within their own ranks. Almost all the conservatives describe themselves as “principlists”—that is, the upholders of the principles of the revolution and Islam. Urged by Khamenei, the principlists are attempting to form a single bloc and to present a common slate of candidates for the 2012 *Majlis* elections; so far, agreement on a common slate has eluded them.

A more dramatic split in the principlist camp emerged from the disagreement between President Mahmoud Ahmadinejad and Supreme Leader Khamenei over the selection of the Minister of Intelligence. In April, the president dismissed Heydar Moslehi, the Minister of Intelligence; the leader immediately reinstated him. Ahmadinejad went off in a huff and failed to appear in his office or to attend to his official duties for almost two weeks. By now, the leader and the president appear to have repaired their relations—sort of. But Khamenei’s reprimand of Ahmadinejad allowed all the simmering resentments harbored against the president among conservatives to bubble to the surface. Ahmadinejad has many enemies. He alienated members of parliament, once his strong supporters, by treating the *Majlis* in a cavalier manner and ignoring its prerogatives. He alienated members of the clergy by the allegedly unorthodox views of members of his entourage. He alienated others in the ruling elite by his tendency to go over the heads of established institutions and to appeal to the public directly. The power accumulated by his chief of staff, Esfandiar Rahim Mashaei, and the Rasputin-like influence he supposedly exercises over the president, has been a particular source of alarm.

Conservatives now direct their ire not only at the “the seditionist current,” but also at the “deviationist current”—the designation applied

to Ahmadinejad and his team. In the last several months, this “deviationist current” has been accused of religious unorthodoxy, trafficking with soothsayers, dealing in black magic, financial corruption, and worse. The president’s opponents are attempting to implicate Mashaei and others in Ahmadinejad’s entourage in a huge scandal involving bank losses of two to three billion dollars. The split within the conservative camp is deep and serious, but the relationship between Khamenei and Ahmadinejad is more complicated than many commentators have suggested. It is true that Khamenei has allowed Ahmadinejad to be weakened and even humiliated, but he has in no sense abandoned him. Khamenei has repeatedly called on both the president and his opponents to lower the rhetoric; and early on in this crisis, he described

the composition of the government as good and proper, implicitly endorsing the retention by the president of the controversial Mashaei. We must conclude that in addition to his distaste for public displays of divisions within the ruling elite, Khamenei tolerates Ahmadinejad because he approves, at least in part, of the president’s populist style at home, which wins the regime support among the poor, and his aggressive style abroad. Ahmadinejad enjoys the support of a constituency that the leader does not want to alienate and for whose loyalty he competes. Ahmadinejad, by continuing to stand up to the *Majlis*, is making it increasingly difficult for Khamenei to defend him. Repression is growing more intense in Iran, and the ruling elite is narrowing and showing fractures from within as well.

The Impacts of Internal and External Tensions on the Iranian Economy

Bijan Khajepour, *Managing Partner, Atieh International – Vienna*



I. Introduction

For decades, the Iranian economy has produced mixed signals which are difficult to interpret. On the one side, the country's Gross Domestic Product (GDP) keeps growing (at an average of about 5 percent over the last decade and about 3 percent over the past 3 years), which is mainly explained through the country's vast resource base and the higher than expected oil prices in recent years. On the other side, the economy produces alarming indicators in inflation, unemployment, budget deficit, etc. as it continues to suffer from a host of internal and external processes such as the consequences of subsidy reforms, the effect of sanctions, as well as quasi privatization.

The fact that the country's economy is heavily interdependent with political developments can be clearly seen in the recent banking scandal in Iran. The developments surrounding a \$2.6 billion embezzlement case (the largest in the country's history) involving eight banks has already led to the sacking of three managing directors—Mahmoud Reza Khavari of Bank Melli, Mohammad Jahromi of Bank Saderat, and Vali Zarrabieh of Bank Saman. These were the first three heads to roll, but others will emerge, especially in the field of politics. Analysts argue that the embezzlement case is proof of the existence of a network of complex webs that operate across business and political sectors with the aim of monopolizing key opportunities in the Iranian economy.

To assess the interrelationship between economic realities and domestic as well as foreign policy developments, this article will look at the current economic realities through the lens of

actual indicators, analyze key domestic and external developments that have had an impact on the Iranian economy, and offer an economic outlook for the short- to medium-term.

II. The Current Economic Picture

A look at the current economic phenomena underlines the following facts:

- Inflation remains high and on the rise as a result of subsidy reforms and the subsequent budget deficit. Experts agree that the government's populist policies have been the main cause of high inflation, but the most significant contributor to the current inflation is the shift in subsidy policies;
- The sharp rise in energy prices as well as the liquidity growth as consequences of subsidy reforms have increased the inflationary pressures on the economy;
- In the last Iranian year (ending March 2011), Iran's real GDP grew by 3.2 percent; but for the current year, Iran will experience a growth of about 2.5 percent—both figures are considerably lower than the planned growth of 8.0 percent. This means that unemployment will continue to rise in the absence of needed economic growth and job creation;
- Youth unemployment is considered Iran's main socio-economic issue, which will not go away for some time due to demographic realities;
- Official and unofficial UN, U.S., and EU sanctions have had a negative impact on economic

This paper is an expanded and revised version of the one presented by Mr. Khajepour at the conference on September 30, 2011.

Table 1: Key Economic Indicators²

<i>Indicators</i>	<i>1389 (2010/11)</i>	<i>1390* (2011/12)</i>
GDP growth (inflation-adjusted)	3.2%	2.5%
GDP (based on PPP calculations)	\$830.0 bn	\$850.0 bn
GDP per capita (PPP)	\$10,850	\$10,950
Inflation Official (Unofficial)	14.2% (19.2%)	16.8% (21.0%)
Population (million)	76.5	77.7
Oil and gas exports	\$73.4 bn	\$83.8 bn
Unemployment Official (Unofficial)	14.6% (17.0%)	16.0% (20.0%)
Trade surplus	\$21.4 bn	\$21.8 bn
Exchange rate (IRR/US\$) - official	\$1=IRR10,300	\$1=IRR11,000
Exchange rate (IRR/US\$) - unofficial	\$1=IRR10,800	\$1=IRR13,000
<small>Main source: PPP GDP figures are sources in www.indexmundi.com. The rest of the figures are prepared by Iran Economics Magazine (Eghtesad-e Iran).</small>		
<small>* Projected</small>		

performance—the impacts have been direct and indirect, but they need to be seen as an important factor in the country's ability to achieve its own economic and industrial objectives; and

■ Despite all negative developments, the country's GDP has been on the rise. Based on the UN's Purchasing Power Parity (PPP) calculations, in 2011 Iran's GDP stands at \$848 billion, i.e., a PPP-based per capita GDP of \$10,917.

Table 1 summarizes the key economic indicators where two items stand out and need some further clarification:

■ Inflation: The reason that unofficial inflation is much higher than official inflation is that a number of items in the basket of goods used by the Central Bank of Iran (CBI) rely on lower subsidized prices, whereas the calculation of unof-

ficial inflation mainly relies on non-subsidized goods and services;

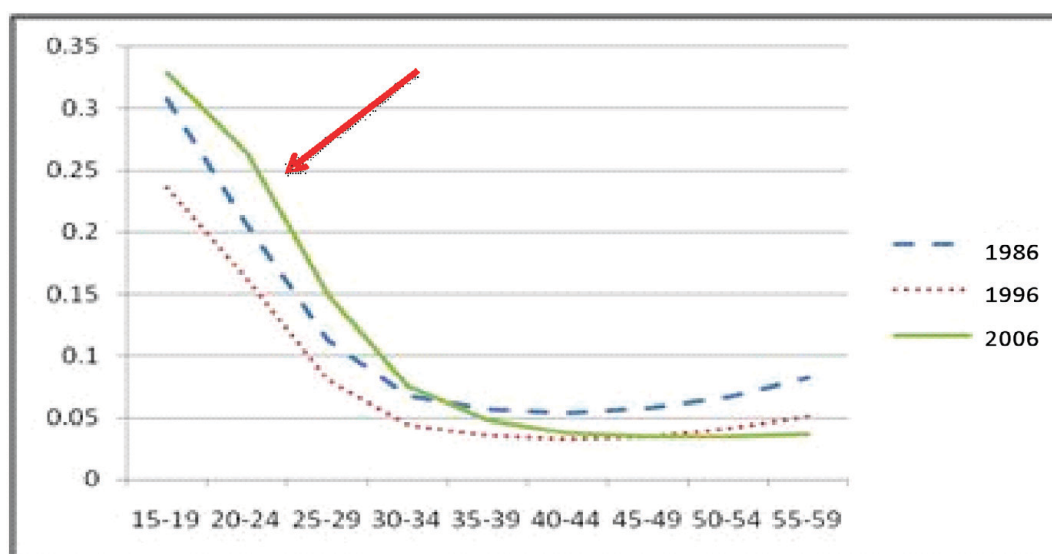
■ Unemployment: This is one of the most challenging socio-economic phenomena in Iran. It is mainly driven by the country's demographic profile (with the age groups between 15 and 30 representing almost 40 percent of the population). In fact, youth unemployment currently stands at 27 percent.¹ The level of unofficial unemployment relates to the prevalence of "underemployment," i.e., the mismatch between university graduates and job opportunities. The Iranian economy has failed to produce jobs in line with the rate of emerging university graduates.

Unemployment and underemployment remain the most disturbing parameters in the Iranian economy with many socio-economic consequences. Unfortunately, as a result of the subsidy reforms, unemployment will grow faster

Table 2: Active population and unemployment³

Item	2010	2011	2012
Active workforce (in million citizens)	25.7	26.4	27.0
Unemployment (%)	13.2	14.1	15.0

Graph 1: Unemployment in various age groups (based on official Census figures) ⁴



than previously anticipated (see Table 2). As economic indicators underline, the government policies have failed to create sustainable jobs as they have mainly focused on short-term employment opportunities.

Furthermore, as Graph 1 depicts, the country has to deal with the enormous challenge of youth unemployment. In fact, without the social safety network within Iranian families, the society would face much larger social challenges.

In addition to the above issues, a high budget deficit has been one of the most critical elements in the country's economic performance and it has

led to major inflationary impacts. Poor budget management has also led to the fact that the government has not been able to repay its debts to the banking sector as well as to the Iranian industry. Government debts and higher energy prices have strained the Iranian industry so that further unemployment can be expected as a result of emerging bankruptcies.

To complete the section on current economic indicators, it should be noted that in June 2011, the International Monetary Fund (IMF) sent an expert team to Iran to review the country's economic performance and it subsequently revised

Table 3: Corrected IMF figures on Iran's economy⁵

Index	Year		
	2009	2010	2011 (p)
	Revised IMF Report		IMF projection
GDP Growth Rate (%)	3.5	3.2	2.5
Inflation Rate (%)	10.8	12.4	22.5
Unemployment Rate (%)	11.9	14.6	14.9
Liquidity Growth (%)	23.5	26.7	26.7
Reserves (\$ bn)	78.0	78.9	80.0
Foreign Debts/ GDP Ratio (%)	5.9	5.4	5.0

some of its figures on Iran for the years 2008 to 2010. These figures are summarized in Table 3:

III. Current Sources of Irritation

The Iranian economy is primarily undermined by the following internal and external phenomena:

a) The Ahmadinejad Agenda

Iran has a complex and multi-layered power structure. In the past, the position of the president has always been interpreted as a weak head of the executive branch, more or less following the leads of the Supreme Leader and the *Majlis* (Parliament). Notwithstanding, in the past six years, President Mahmoud Ahmadinejad has followed one central domestic agenda, i.e., to enhance the power base and influence of the government and to try to sustain his faction in the government.

To achieve his goal, he has used the following methodologies:

- Institutional restructuring such as the dissolution of the Management and Planning Organization and of various High Councils that paved the way for the interference of other organs into policy affairs;
- Undermining other state organs such as the *Majlis* by ignoring laws and regulations;
- Reducing the role of the clergy in government by limiting the number of clerical ministers to a minimum;
- Challenging the authority of the Supreme Leader by appointing the secretary of the Supreme National Security Council as well as sacking ministers that had the approval of Ayatollah Ali Khamenei; and
- Taking the government on provincial trips in order to enhance the government's national presence and network and to penetrate provincial


networks of power that were dominated by local clerics and *Majlis* deputies.

Besides the above initiatives, President Ahmadinejad has provided his trusted network with economic interests across the country in order to foster political support for himself and his faction in light of upcoming elections.

The empowerment of trusted circles has translated into the following realities in the Iranian economy:

- Various companies and business circles which benefitted from the Akbar Hashemi Rafsanjani and Mohammad Khatami eras have been pushed out of the market for government projects. This means that many such companies had to down-size and/or look for business outside Iran to compensate for lost opportunities;
- Government projects now mainly go to companies and entities that are closer to the administration as well as to the business circles around the Islamic Revolutionary Guard Corps (IRGC);
- More importantly, new licenses are mainly issued to trusted individuals, which restricts new business opportunities (such as new services, banking, insurance, etc.) to a limited circle of entrepreneurs; and
- The process of privatization which has picked up speed during the Ahmadinejad administration has focused on opaque ownership structures, usually through the promotion of "cooperatives," whereby many cooperatives are just a front for the very same business circles mentioned above.

The result of the above approaches confirms the suspicion among many critics of the government that major economic interests in the country are mainly distributed among an opaque business network closely affiliated with the Ahmadinejad administration. Essentially, the focus on monopolizing economic interests has led to the creation of a complex web con-



sisting of businesspersons, security officials, and politicians.

Analysts believe that the recent bank embezzlement case is only the tip of the iceberg and many more such cases will be exposed, especially as the factions try to undermine each other ahead of emerging elections. The heavy presence of the above structure has marginalized traditional and honest businesspeople and created a negative business atmosphere. Furthermore, the unprofessional approach to development projects has led to the massive waste of government resources with costly socio-economic side effects.

Interestingly, critics of Ahmadinejad speak openly about the potential for corruption and mismanagement. Leading *Majlis* deputy, Ali Motahary, recently commented: “I am opposed to the trend of the entrance of military officials into the area of politics, and regard it as harmful to the country’s interests . . . The appointment of a military official to the post of oil minister will increase the IRGC’s political power, and the possession of great economic and political power may lead to corruption.”

b) Subsidy Reforms

When President Ahmadinejad announced the commencement of subsidy reforms in December 2010, many agreed that their implementation would lead to social unrest and could potentially be political suicide for the administration. However, it can be argued that the subsidy reforms were necessary to achieve the administration’s objectives:

- Creating a direct financial relationship between the government and the citizens (part of the agenda of empowering the “government”);
- Easing the financial burden on the government; and
- Growing the volume of the Iranian economy and unleashing its real potential. The economy will experience a period of inflationary growth—by 2015, Iran’s GDP could go beyond \$900 billion; nevertheless, the middle class and a large

number of Iranian companies will suffer as a result. However, the cake of “economic interests” will become much larger both domestically and internationally.

A closer look at the original plan for subsidy reforms as opposed to their actual implementation underlines that the government’s goals differed from the stated goal of achieving a better distribution of wealth.

The original plan as discussed in the *Majlis* foresaw the following:

- Remove existing subsidies and redirect revenues based on the following breakdown.
- 50 percent directly to the lower income classes (about 50 percent of the society or some 36 million citizens);
- 30 percent to the industries that will be affected through the price shifts; and
- 20 percent goes back to the Treasury; and
- Plan the price corrections over five years, approximately translating to \$20 billion of new revenues that would be distributed according to the above formula.

However, 10 months into the implementation, the following has been achieved:

- Prices were corrected with an objective to achieve \$40 billion in new revenues (i.e., partial shock therapy as President Ahmadinejad had argued originally);
- The redistribution plan has been corrected as follows:
- 80 percent directly to the recipients (about 63 million citizens);
- 20 percent to the industries (not materialized on top of \$14 billion of debt to the domestic industry); and

Figure 1: Purchasing power of social classes

■ No allocation for the Treasury.

■ New revenues have fallen short of even paying the 63 million recipients the allocated \$38 per month per citizen, i.e., there is no money left for the industry that is suffering as a result of higher energy costs.

Undoubtedly, the plan has improved purchasing power of the lowest income classes (lowest 30 percent), but undermined everyone else. If we analyze the short-term consequences of these reforms assuming an inflation of 20 percent in 2011, the purchasing power of the various social groups will be influenced as follows (Figure 1):

The various phenomena resulting from the subsidy shifts will increase inflationary pressures on the economy. The latest statistics suggest that inflation in the 12 months ending in September 2011 had reached 28 percent⁶ confirming the worst fears of independent economists. In addition to all other issues, the government is now also confronted with the challenge that many urban families are either unable or unwilling to pay their gas and electricity bills. This not only creates a financial problem, it will also lead to social issues if the related state institutions decide to cut off gas or electricity to urban families, especially as such an act would emerge from a government that planned to “bestow families with oil wealth.”⁷


Some of the imbalances caused by the actual implementation have already been reprimanded by state authorities. For example, the State Audit Organization has issued an interim Audit Report on subsidy reforms stating that while the energy price shifts have led to energy savings, the government had engaged in a number of unlawful acts, including:

■ The program was to be self-financing, which it is not – from the total \$23 billion paid to recipients, only about \$9.63 billion was supplied through cutting subsidies (less than 42 percent). The remaining amount was provided through CBI resources, oil revenues, and public budget.

■ Only 50 percent of the adjustment revenue was to be used as financial aid to families, whereas now 80 percent has been earmarked for that purpose and there is no formula on how to curb the numbers;

■ The cash handouts should have been allocated for 5 years, whereas now the recipients consider this payment to be permanent, in fact, expecting it to be doubled (as promised by the president).

Government proponents would certainly argue that one should also calculate the impact of energy savings to assess the full impact of the plan. While there has been some energy savings (10 percent reduction in domestic energy consumption), it



is too early to evaluate the actual impact on the economy, especially as most of the gas that would be freed as a result would be used for gas injections into the country's aging oil fields.

The above picture can only make sense if one understands the actual motivation. Why would a government that is facing financial difficulties not curb the number of recipients? This can only be explained within a political agenda, i.e., one that wishes to empower the government and to create a new sense of financial dependency between the citizen and the government (currently \$38 per month per citizen). This process has quantified the government's direct contribution to Iranians of all classes. Some value it more than others, but all citizens will be subject to promises by populist politicians in future election campaigns relating to the amount of "cash subsidies."

The current subsidy reforms will also have other medium-term consequences, which are summarized below:

- The absence of a liberalized economic structure increases the possibility of a failure of the main economic objective, i.e. better distribution of wealth;
- The main losers will be the urban middle class and limited social backlash (such as strikes) could be expected in those social classes, however, the lower income classes will not join the protests;
- The government will continue to engage in fire-fighting on various fronts and will react with short-term corrections depending on the emerging tensions and bottlenecks;
- The new pricing of fuels will create an imbalance in the mix of fuels consumed in Iran and will undermine some industries;
- In the absence of an exchange rate correction, the competitiveness of the Iranian

industry, especially Iranian exporters will be undermined, as low energy cost has acted as a competitive advantage;

- Many industrial outlets will close down as a consequence of subsidy reforms which in turn will lead to further unemployment and economic decline;

c) Impact of External Developments

Parallel to the policy shifts that the Ahmadinejad administration has introduced in the past few years, the Iranian economy has also dealt with a number of external sanctions. While Iranians have been subject to economic and technology sanctions for the past three decades, a number of new phenomena have emerged in the past few years, mainly in the light of Western pressure on Iran due to the country's nuclear program. While enough has been written about the actual sanctions policies, the central question is what the impact of such sanctions has been on the country's economic performance. This impact can be summarized as follows:

1. Trade and acquisition of technologies; here a threefold response can be detected:

- In some areas, the country has moved to produce equipment domestically—for example, Iran is now in the top ten world producers of turbines that are needed in the petroleum and power generation industries;
- In other cases, Iranian buyers have moved to Asian and Russian providers of the needed equipment which has increased Iran's trade with the East—in fact, in 2007, for the first time in modern history, Iran's trade with Eastern partners exceeded the trade with Western trade partners;
- Furthermore, some equipment is resourced through third countries whether

through Iran's southern neighbors or through other close trading partners (Venezuela, Turkey, Syria, etc.).

2. Banking sanctions have:

- limited access to international finance and loans for Iranian projects—in a number of sectors (especially the petroleum sector) this limitation has led to a decision to issue domestic participation bonds to fill the financing gap in the industry, with some success;
- impeded the operation of many international companies in Iran; and
- worked against the interest of Iran's international traders who have had to find alternative banking solutions for their growing business into and out of Iran.

In the meantime, second and third tier international banks are active in dealing with Iran and there will always be routes to transfer money to and from Iran, though at a higher expense. The country's long standing trading history has empowered government as well as private sector traders to find ways around sanctions.

Essentially, the impacts of the current sanctions can be summarized as follows:

- Banking relations have become strained, in some cases impossible;
- Imports have become about 5 to 10 percent more expensive for the economy (due to third country sourcing, for example);
- Iran has faced difficulties retrieving its proceeds from oil exports;
- However, banking sanctions have also led to the fact that more and more Iranian money has returned to the Iranian economy (hence the high level of luxury consumption and property investments in the country);
- Iranian businesses have no choice but to look for export opportunities to create a payment balance between their exports and their imports (i.e., proceeds from exports are used for importation of goods avoiding banking issues
- Trade patterns are strongly moving toward regional and Asian trading partners, China and Turkey being the most significant;
- Projects like the Oil Bourse have failed completely;
- Slowdown in oil and gas investments (even Chinese firms have withdrawn) and the reliance on domestic investors in the energy sector; and
- Opaque external banking relations are justified through the banking sanctions.

While sanctions have been a major thorn in the side of Iranian business for the past few years, they led to some positive phenomena and windfalls in the economy, i.e.:

- The relative isolation of Iran's banks and financial sectors (i.e., stock exchange) meant that Iran was not hit hard by the international financial meltdown. In fact, the net immediate effect of the financial crisis was negligible in Iran. What had a negative impact on the Iranian economy were the consequences of the meltdown, i.e., lower commodity prices but not the crisis itself.
- As a result of sanctions, between 2007 and 2008 Iranian authorities converted large sums of Iran's hard currency reserves to gold. The appreciation of international gold prices has created a windfall for Iran in the sum of tens of billions of dollars.

Table 4: Changing Ownership of Corporate Iran⁸

	YEAR 2000	YEAR 2005	YEAR 2010 (PROJECTED)	YEAR 2015 (PROJECTED)
Government	60%	50%	35%	25%
Semi-governmental entities	20%	25%	30%	35%
Private sector	17%	20%	28%	30%
Cooperatives	3%	5%	7%	10%

d) The Impact of Privatization

Privatization has been on the agenda of Iranian governments ever since the very first post-revolutionary five-year plan was drafted in 1989 with different degrees of success and activity. However, the privatization effort was accelerated in the Ahmadinejad administration. While one can analyze the performance quantitatively, it is more important to understand the qualitative aspect and its impact on the country's business culture.

It can be argued that in the majority of cases, government companies are being transferred to a host of semi-governmental entities such as pension funds, revolutionary and religious foundations, and regional cooperatives. Furthermore, some shares of government entities are being transferred to vulnerable social classes in a scheme entitled "Justice Shares" introduced by President Ahmadinejad. If one looks at the privatization process as a tool to liberalize the economy and to ease some of the economic tensions in the country, one can conclude the following:

■ The current privatization program will have a limited impact on treasury revenues as most companies are being sold to semi-governmental entities with whom the government has a financial relationship—in other words, proceeds from privatization in many cases flow back to the buyers to whom the government owes money (i.e., the Social Security Organization, various pension funds, various foundations, etc.);

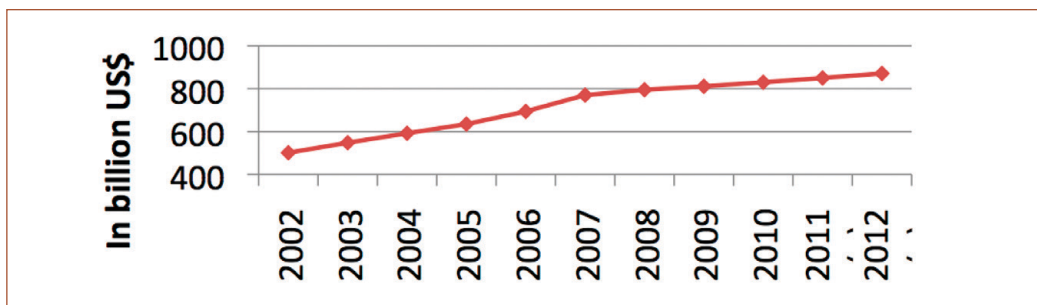
■ The impact of the privatization program on unemployment will be negative, as most companies that change hands are more likely to make employees redundant in light of the fact that most state entities are overstaffed and inefficient.

All in all, it is valid to argue that the privatization campaign will have very limited net impact on the Iranian economy. There will be small gains in some areas, but also new challenges in others. However, the composition of the economy is undergoing a strong shift away from the government and moving toward the semi-governmental sector. It is estimated that the overall ownership of the economy will change as shown in Table 4.

The growth of the semi-governmental sector (along with the cooperatives sector which is directly affiliated with the same groups) will dramatically change the business culture and will cultivate the empowerment of the opaque business networks that have been shaped in recent years. Dominated by military, religious, and provincial affiliations, Iran will witness the emergence of many competing business networks that will dominate the business environment and overshadow the true private sector.

IV. Measuring the Health of the Economy

The health of an economy that continues to produce mixed signals can only be measured by alterna-

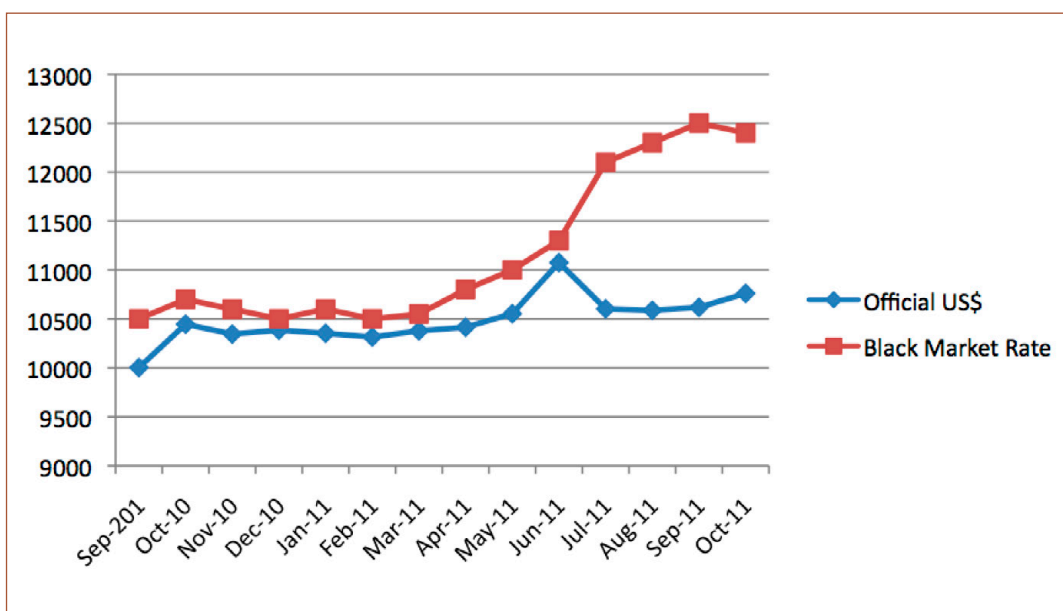
Graph 2: Iran's GDP 2002 to 2012⁹


tive indicators. In a simplistic analysis, one can argue that Iran's GDP growth over the past decade suggests an economy is moving in the right direction. As can be seen in the above graph, the economy has grown over the past decade. Though the pace has declined, the growth will continue and Iran will consolidate itself as a major world economy, especially due to the inflationary growth caused by the subsidy reforms. The main source of this growth has been the enormous resource base (gas and gas-based industries, mining, agriculture, etc.)

When trying to develop alternative indicators, one can look at the differential between the official exchange rate and the black market

exchange rate. Iran has always had a currency black market, but the differential is indicative of the level of concern of economic players and the government's ability to manage economic challenges. Graph 3 shows the differential between the official and the black market rates between September 2010 and October 2011. Interestingly, the last correction of the official rate in June 2011¹⁰ was designed to close the gap. However, ever since that correction, the differential has grown, despite various attempts to provide the market with excess hard currency.

Further signs that indicate that the Iranian economy is experiencing a challenging phase are:

Graph 3: Currency Exchange Rates¹¹



■ Volume of bounced checks in the 12 months ending in September 2011 amounted to \$25 billion, i.e., 4.5 percent of the total volume of checks and 7.5 percent of the country's money supply volume;

■ Despite higher than expected oil revenue, the oil surplus fund and the national reserve fund are empty (mainly as funds have been diverted and partly used for the subsidy reform against the law); and

■ Unemployment is sharply on the rise (official reports indicate that 81 percent of new job opportunities are created by the private sector, which could be further undermined through government policies).

V. Economic Outlook and Conclusions

The outlook for the Iranian economy is dim and can be summarized as follows:

■ The inflationary pressures of subsidy reforms will lead to an inflation of about 25 percent by the end of the current Iranian year (March 20, 2012). Unofficial inflation figures will be higher (about 28 percent).

■ Though the subsidy reforms have marginally improved the purchasing power of the lower income classes, the net effect of that additional purchasing power is also inflationary (higher demand for basic goods);

■ The middle class will continue to suffer as a result of the subsidy reforms which will translate into a relative decline in spending;

■ The government will have no choice but to reduce the amount of cash subsidies;

■ Time lagged inflationary effects will appear on the horizon, i.e.:

- High inflation in the housing sector;

- Increase in telecom fees and other utilities, etc.

■ The industry will suffer as a result of higher energy prices which will also lead to unemployment;

■ Sanctions, subsidy reforms, and a continued budget deficit will all undermine the economic performance in the next 12 months – the Iranian economy will remain behind its actual potential;

■ The higher than expected oil price will offer some leverage to the government, but short-term adjustment pains are inevitable;

■ Real economic growth in the next decade will be around 3 percent per annum, excluding the inflationary growth fueled by subsidy reforms;

■ The *rial* will have to officially be devalued sooner or later;

■ The economy will continue its mixed signals, but it will be mainly driven by the resource base, as well as by the increased activity of the private sector;

■ The private sector will remain the main source of entrepreneurship for new jobs;

■ Political infighting will expose many corruption cases, but it will not stop future corrupt dealings.

The main objective of this article has been to identify the impacts of internal and external developments on the Iranian economy. There is no doubt that the real potential of the country's economy is much higher than its current performance, but it is also fair to say that the economy is growing despite all tensions, failed policies, and political uncertainties. Ahmadinejad's distributive economic policies, especially subsidy reforms, have attracted many lower income classes, but they have also

undermined the overall economic development of the country.

Looking toward future economic developments, it is crucial to understand that the changing political culture in the Islamic Republic of Iran has transformed the internal competition between factions. The sphere of interests has moved from ideological-revolutionary to a more pragmatic-economic nature, however, the common language of factions has remained a revolutionary one. The upcoming *Majlis* elections of March 2012 will further intensify the power struggle, and exposure of information about embezzlement may push economic interests further into the forefront.

In the overall economic structure, the role of the semi-state institutions will continue to rise. Consequently, economic and political power will be influenced by shady networks that increase the potential of corrupt business dealings. Unfortunately, the Iranian middle class will be the main losers in all these processes as they would have to deal with negative phenomena

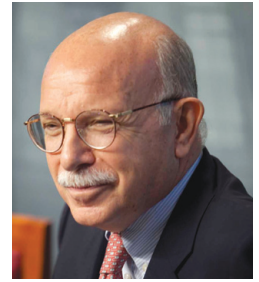
like inflation and unemployment and their socio-political consequences.

Notes

- 1 Source: Ministry of Labor and Social Affairs.
- 2 Main sources: Population and employment statistics are based on the report of Statistical Center of Iran (SCI). The rest of the figures are based on statistics prepared by Iran Economics Magazine (Eghtesad-e Iran).
- 3 Source: Statistical Center of Iran
- 4 Source: Statistical Center of Iran
- 5 Source: International Monetary Fund
- 6 Source: www.fararu.com
- 7 Ahmadinejad's initial campaign slogan in 2005.
- 8 Source: Statistical Center of Iran. Projections by independent economists.
- 9 Source: indexmundi.com
- 10 The CBI devalued the Rial by 10% in June 2011 in order to close the gap between official and black market rates.
- 11 Source: Official rates from the Central Bank of Iran. Unofficial rates from www.mesghal.com.

Education in the Islamic Republic of Iran: National Pride, Regime Prejudice

Roberto Toscano, *President, Intercultura Foundation, Italy; former Public Policy Scholar, Woodrow Wilson International Center for Scholars; and former Italian Ambassador to Iran and India*



Everywhere, and at all times, education has three different aspects with three different functions:

1. To transmit knowledge so as to equip individuals with professional skills indispensable for making a living and at the same time contributing to society.
2. To transmit culture in all its aspects, making individuals capable of being both consumers of culture (literature, music, visual arts, humanities, and philosophy) and producers of culture.
3. To transmit common identity and values so as to ensure the cohesiveness of the community.

The difference between democracies and non-democracies, as far as education is concerned, is not related to 1, but rather to 3, and in part also to 2. Education in democracies aims at promoting a basic foundation of common citizenship, but not a single, overwhelming and uniform ideology, a single religion, or a single political orientation. In a democracy, the citizen can have different ideologies, different religious, and different political beliefs, as long as he/she abides by the constitution and legal norms.

In Iran, with the 1979 revolution, the Iranian tradition of high consideration and priority for culture and education – considered a source of national pride – was basically maintained. This is not surprising, also given the fact that Persian Shi'a Islam is characterized by a highly intellectualized approach to religion, with a refined theology that influenced Islamic thought at large. In Iran, it was pursued for centuries by a clerical hierarchy within intellectually sophisticated religious seminars and educational establishments, located mainly in Qom but also in Mashad and other important centers of

religious learning. With the conquest of power by Khomeini and the politicized *ayatollahs*, however, education and culture were immediately subordinated not so much to religion as to power and to the ideology of “Khomeinism.” The goal, an explicit one, was that of shaping Iranian society into a monolithic theological-political identity.

The four ideological pillars of the Islamic Republic had an immediate, profound impact on Iranian education. They were:

1. inseparability of religion and politics (“fundamentalism,” or more correctly, *integrisme*)
2. Islamic revival
3. cultural revolution
4. creation of the new Islamic person

The two-year closure of Iranian universities, so as to allow a thorough cultural revolution in terms of textbooks and curricula (as well as in order to purge “undesirable” teachers) was a radical statement of purpose.

The whole decade of the 1980s was characterized, also because of the radicalizing effect of the eight-year war with Iraq, by this ideological extremism combined, on the other hand, with a major and successful effort to extend education to millions of new students, including women.

Following a pattern which is historically characteristic also of other revolutionary experiences, the radical post-revolutionary phase was replaced by a more pragmatic, more “technical,” and less ideological orientation at the end of the 1980s and the beginning of the 1990s. Though it maintained the original ideological components, it did not strictly subordinate the first aspect of educa-

tion (the functional, professional aspect) to the third (the ideological).

As for the second aspect, the wider cultural dimension (including the arts and the humanities), ideological subordination remained high, though some spaces were allowed for individual non-ideological creativity. Here it is important to stress a general point: non-democratic regimes cannot do without high-quality education directly related to economic production, science, and technology (also for their impact on military capabilities), but they try to maintain strict control over those aspects of culture that relate to the individual not as a producer and worker but as a creative agent, and especially as a citizen claiming rights vis-à-vis the state.

It is a contradictory aspiration, insofar as it is very difficult to imagine an individual who is at the same time highly skilled in science, technology, or management and a passive consumer of official culture as well as a non-critical subject of a totalitarian (or even merely authoritarian) regime.

Reformists, in Iran, have moved from the premise of the unsustainability of the contradiction between high-level technical and scientific education on one hand and low-level, propaganda-inspired humanities and art.

The years of the Mohammad Khatami presidency, indeed, saw an attempt to close the gap between these two aspects of education, in the belief that the citizen of the Islamic Republic could not be at the same time technologically and scientifically advanced and culturally primitive, as well as bombarded by unsophisticated political/religious propaganda. If I am allowed to introduce here a personal note, I recall being present on the occasion of the inauguration of a new wing of the Marashi religious library in Qom in 2004. President Khatami spoke at the event, starting out this way: “Some Muslims say we only need one Book. I say NO. We need all books.” And he went on to quote Plato, Aristotle, and other non-Islamic sources. (I will add that his speech caused some visible fidgeting and discomfort in some of the high-ranking clerics seated in the first rows).

A new concept of education and culture, as a matter of fact, was an important component of the reformist project in Iran – a project that failed politically, but did have an important, hardly reversible political impact on Iranian society, besides allowing the production of high culture and top education.


The “counter-reformation,” which started in 2005 with Mahmoud Ahmadinejad (under the impulse of the Supreme Leader Ali Khamenei, who had become convinced that the reformist experiment had to be stopped and reversed), has gone back, at least in its intentions, to the original project, i.e. the attempt to combine modernity and tradition, advanced science and medieval religion (be it clerical, with the theological-political role of the Supreme Leader, or messianic, with the President’s wild expectation of the imminent return of the Twelfth Imam). It is this combination that, much as it is rejected by educated elites, does not sound absurd at least to a part of the population.

This apparently impossible task of making theoretical contradiction viable in practice is made easier by the fact that Shi’a Islam, especially as it has evolved in Iran, has not shown the anti-scientific traits that one sees, for instance in the history of another clerical religion, Catholicism. In Iran, there is no religious obstacle to aspects of modernity such as birth control, and to abortion (within certain time limits), and even sex-change operations are not considered *haram* (religiously forbidden). And there is no “creationist” polemic against evolution.

Of course, this is not about religion. The Islamic Republic shows more than ever, today, the use of religion for the paramount goal of preserving political power (while within the regime there is an ongoing, serious political struggle) no longer hidden, but rather explicit.

Khamenei’s clericalists and Ahmadinejad’s messianists are not fighting about religion, but about power. And their fight has clear repercussions in the field of education.

Neither faction accepts the reformist proposal to embark upon a process of modernization and



pluralism (albeit within a general Islamic framework, more widely defined) where no distinction is possible, if one wants to pursue creativity and excellence, between science, culture, and citizenship.

Yet, the clericalists – *bona fide* reactionaries – aspire to going back to a stricter control of education in aspects such as:

- The separation of male and female students, starting from pre-schools (with a gross expression revealing how primitive some male chauvinist clerics can be, one *ayatollah* has defended these anti-coeducational measure by saying that “One does not put the cat next to the meat”);

- The enforcement of *hejab* orthodoxy, and more in general lifestyle issues relating especially to young people. Here, for instance, Ahmadinejad has always been rather “liberal” and in disagreement with the clerical obsession with female dress code; and

- The curtailing of the teaching of humanities, on the contrary, is not only a clericalist goal, but one that is also shared, for evident reasons of political control, by the Ahmadinejad government. Law, philosophy, psychology, political science, management, and sociology – as well as women’s studies and human rights – are considered as “suspect subjects” and are to be curtailed both because they are seen as vehicles of secularist thought and because they can be the channel of the pernicious influence of the West. (The *gharb-zadeghi*, “West-toxication,” fear that was so important in the make-up of Khomeinism has

remained as a permanent nightmare of Iranian hardliners). For all these subjects, committees have been established to revise the curricula, while a freeze has been declared on the opening of new degree courses. At the same time, we see the introduction in university curricula of new compulsory courses of religious education.

In short, what is happening seems to be a mini-version – until now more grotesque than truly substantial – of the cultural revolution of the 1980s. The fact is that, in spite of the residual appeal, for the less educated segment of the Iranian population, of religious tradition, and in spite of the anti-elitist sentiments (which, incidentally, explain why Ahmadinejad was elected in 2005 and received, by estimates of Green Movement adherents, not less than 30 percent of the vote in 2009) – this educational counter-reformation is a rear-guard battle, and one that is destined to fail.

The quantitative and qualitative achievements of Iranian education have been such as to doom any attempt to impose an artificial and unsustainable distinction between education that is instrumental to science and technology and education that is the vehicle of culture and independent thought, as well as of the aspirations of democratic citizenship.

The struggle, however, will be long and difficult, and Iranian democrats should not forget that any alternative political platform for a future democratic Iran should contain a very important plank on education, a precious national heritage which should be preserved and constantly improved to sustain a modern Iran, a free Iran.



Iran and the Persian Gulf States: From Conflict to Détente to Conflict Again?

Afshin Molavi, *Senior Research Fellow, American Strategy Program, New America Foundation; and former Public Policy Scholar, Woodrow Wilson International Center for Scholars*

I am going to talk about Iran and its relations with the Persian Gulf states. I would like to focus my attention on the six Gulf Cooperation Council (GCC) countries, but, given time constraints, I will spend most of my time on Saudi Arabia given its heft and geostrategic weight. It was also recently called Iran's most important relationship by Iran's Foreign Minister Ali Akbar Salehi. We will get into the history, context, and current strains in that relationship.

As a former journalist, I still think in headlines. So I will give you five headlines that I would like to raise:

1. "Iranian Restraint" – yes, I actually used those two words together, Iranian and restraint.
2. "This Isn't the 1980s"
3. "It's Not a Shiite vs. Sunni Conflict Except When It Is and It's Particularly Useful if You're Sunni but Not Shiite"
4. "Wither the Iran-Saudi Arabia Relationship" – this is the most significant geopolitical relationship in the Middle East today. The two countries are not only the most important powers in the Persian Gulf region, but arguably the most important in all of the Middle East. It is vital for us to look at this relationship very closely, beyond some of the headlines, and to put it into some historical perspective.
5. "The New Geopolitical Chessboard Post-Arab Spring and Where Does Iran Fit"


Looking at the first headline, "Iranian Restraint," you recall the U.S. State Department cables that were leaked to WikiLeaks. You may also recall that the very first headlines that

emerged were all about Iran's Arab neighbors trying to push the George W. Bush administration to strike Iran. Senior officials from the United Arab Emirates and the King of Bahrain had made suggestions to that effect. There was even a quote attributed to the King of Saudi Arabia from Saudi ambassador Adel al-Jubeir's saying, "the head must be cut off the snake." For many of us who have been following the GCC, this was not news. We all knew the rising levels of anxiety about Iran's nuclear program, and the fact that some GCC states were pushing Washington to strike at Iran was the worst kept secret among analysts and policymakers. Presumably, this was well-known in Tehran, too.

But this worst kept secret was still the preserve of insiders and analysts who watched these events daily. It was not common knowledge. But now it was in black and white for the entire world to see and published in the world's newspapers from the *New York Times* to the *Guardian*.

Iran would need to respond. On the one hand, the series of leaked statements by senior Arab world officials demonstrated the extent of Iran's strategic isolation, and it also showed that some of the countries that were traditionally "softer" on Iran, such as Qatar, played a Machiavellian game. In one of the more memorable lines, the Qatari Foreign Minister Sheikh Hamad bin Jassim Al Thani told his American interlocutor that his dealings with Iran are simple, "They lie to us, and we lie back to them." On another level, this could be seen as a serious crisis. After all, some of Iran's Persian Gulf Arab neighbors were essentially calling for a war with Iran waged by the United States.

So, how did Mahmoud Ahmadinejad respond to this when it was first brought to him in a public press conference? He dismissed it. He said, "This is not even worth talking about... this is a



Zionist plot that is attempting to break up the relations between our brotherly neighbors.” He then moved on to the next question. He demonstrated little of the bluster that he is known for and did not even offer subtle hints of irritation at his neighbors.

What is more, the national security elite in Iran did not pick up on this either. They did not fire back. There was no Supreme Leader speech firing at Iran’s neighbors. There was no chest-thumping. There were no threats to “light up the Persian Gulf.” In fact, several of Iran’s national security elite toed the same line as Ahmadinejad: this is a plot by the West to dislodge Iran from its “brotherly” neighbors. Well, if these are “brotherly” nations, you’ve got quite a dysfunctional family.

Next is exhibit two of Iranian rhetorical restraint. In April, there were a series of very strikingly aggressive statements from the GCC, from Saudi Arabia talking about Iran’s blatant interference in the affairs of Bahrain. There was also an alleged Iranian spy ring that was uncovered in Kuwait. The television station *Al-Arabiya* and some of the other GCC-owned media turned up the heat on Iran. One *Al-Arabiya* talk program was entitled simply, “The Iranian Conspiracy.” If you are watching those television programs, you would find commentators referring to Iranians as Safavis and kind of playing this sectarian argument. There was also something very interesting going on: several commentators were accusing Iran of playing sectarian politics, playing only for Shi’a. We will see later that Iran does not really play that game. They prefer to see themselves as pan-Islamic leaders, not just Shi’a sectarians.

Early April was a “hot” time in Iran-GCC ties. On April 4, an article appeared in *Al Hayat* newspaper in which the author, Jihad al-Khazen, a former editor-in-chief of *Al Hayat*, interviewed a former GCC senior official who put it in very stark terms. He said, “We are ready to enter war with Iran to defend ourselves in Bahrain. We are ready to enter war in Iran. Bahrain is a red line.” He was using this kind of language. As many of you who follow the GCC know, they do not nor-

mally use this kind of language. Their language is usually more subdued. But we were seeing far more robust – even aggressive – language than they have used in the past regarding Iran.

So, amid this “hot” moment, on April 4, President Ahmadinejad faced the television cameras for his post-Nowruz (Persian New Year) press conference, and he did not even mention the diplomatic firestorm that was brewing all around him of the GCC states using this very robust language. And he only mentioned it when he was asked about it by a reporter from Al-Alam Television, which is Iran’s Arabic language television station (Al-Alam, by the way, was far more aggressive in covering Bahrain than Iran’s Persian-language television stations and more likely to bring on guests critical of Saudi policy).

And when Ahmadinejad was asked about it, he deployed his usual line: yes, this is part of a plot by the Western powers to divide the region. And he dismissed it in that fashion. He did not respond to it. And again, the national security elite did not respond in an aggressive fashion to this kind of language. There were statements from figures like Ayatollah Ahmad Jannati of the Guardian Council, which were very critical of Saudi Arabia. President Ahmadinejad criticized the Saudi incursion into Bahrain, but it was not the same level of language.

So what was going on with this restraint? What was happening here? My view is that from roughly 1989 to today, there has been a national security elite consensus around this idea that Iran should have better relations with its GCC neighbors. And this began in the era of President Hashemi Rafsanjani and continued under President Mohammad Khatami. During the Khatami era, Iran-Saudi relations hit their peak of rapprochement in the post-revolution era, but it began to deteriorate again after the 2003 Iraq war and with Saudi frustration that Iran was expanding its influence in Iraq.

In December of 1997, it was a big deal in Iran when then-Crown Prince Abdullah of Saudi Arabia visited Tehran to attend the Organization of the Islamic Conference summit. That was

the highest level visit ever of a Saudi official to Iran since the 1979 Revolution. I also recall that when I was based in Tehran, President Khatami spoke regularly with Crown Prince Abdullah. And there was a great personal kinship and bond that formed between Crown Prince Abdullah at the time and President Khatami. This view was corroborated to me personally on my many visits to Riyadh.

Moments of rapprochement and the personal kinship that King Abdullah had with Khatami and also Rafsanjani has not been enough to restore this relationship, which is at one of its low points today. It really started to change in 2003, after the Iraq war. Many of the companies of the Khatami and Rafsanjani era are losing out to some of the companies of the new Ahmadinejad era. And I wonder if this national security elite consensus of Iran's relations with the GCC states will also fray during this period. It has not yet, but I wonder if it will.

The other aspect of why Iran has shown some restraint is because Iran is strategically lonely and as Barbara Slavin at the Atlantic Council has said, Iran really does not have many strategic allies in the region or strategic allies globally. When people talk about China being an ally of Iran, we should not forget that China has agreed to four rounds of UN Security Council sanctions on Iran, and they are dragging their feet on oil investments in Iran. Let's compare Iran and Turkey for a moment. Turkey is a member of NATO. It has substantive relations with major European powers and the United States. Iran has no membership of a major security alliance of that sort. So you have to be careful about who your enemies are when you have plenty of them.

The other aspect of it is that Iran likes to fashion itself a pan-Islamic leader rather than a Shiite sectarian leader. You will be hard pressed to find in the speeches of Ayatollah Ali Khamenei or President Ahmadinejad or in other senior officials in Iran, Shiite sectarian language. The language is, "We must protect the Muslim masses; we must protect oppressed Muslims around the world." And this is partly because they look around and


they see the numbers. When you are 15 percent of the Muslim world population, and you have aspirations to be a pan-Islamic leader, it is not very useful to play a Shiite sectarian card. But it can be useful for your opponents, which we will get into in just a moment.

The second headline is "This Isn't the 1980s." We talk a lot about this tension between Iran and Saudi Arabia, Iran and the United Arab Emirates, but this isn't the 1980s. Let's not forget that. The Iran-Iraq War from 1980 to 1988 bitterly divided the Persian Gulf region. Saudi Arabia, the UAE, and Kuwait were underwriting Saddam Hussein in this fight, and there was a famous quote that King Fahd said to Saddam Hussein: "you provide the *rijal*, meaning men; I will provide the *riyals*, meaning the money." And there was actual shooting between Iran and Saudi Arabia. Iran shot at Saudi and Kuwaiti oil tankers. Saudi aircraft shot down Iranian aircraft. The United States sank half of the Iranian navy.

We also remember the 1987 *Hajj* incident in which some 275 Iranians were killed while performing the annual Islamic pilgrimage, known as *Hajj*, because one of their political protests got out of hand; Saudi security forces were unable to control the crowds. It is unclear what triggered it, but a stampede ensued and shots were fired and some 275 people died, mostly Iranians, and hundreds were injured. The very next day, hundreds of thousands of Iranians were protesting outside the Saudi embassy.

These were bitter times in Iran-Saudi ties. In Ayatollah Khomeini's last will and testament, written in 1984, he reserves some of his most vitriolic scorn for the al-Saud regime. He refers to Wahhabism as "American Islam." He even had suggested that Iran would restore relations with the United States before it ever does so with Saudi Arabia.

It is important to remember this truly charged and heated moment of the 1980s before we suggest that the current state of ties are at their lowest ever. (Author note subsequent to original presentation on September 30: The allegations that Iran's Islamic Revolutionary Guards Qods Force



was involved in an assassination plot on the Saudi ambassador to the United States, Adel Al-Jubeir, has further exacerbated tensions and generated a whole new level of mistrust, despite repeated attempts by senior Iranian officials to dismiss the allegations as “a Western plot.” We are still not close to the level of animosity and real fighting of the 1980s, but this current era might be considered the second lowest point in Iran-Saudi ties since the 1979 Revolution.)

Moving on to headline number three, “This is not a Shiite/Sunni conflict.” I talked about this a little bit when I talked about how Iran does not like to position itself as a Shiite sectarian. Even in places like Iraq and Afghanistan, Iran tends to play its cards like a reckless gambler might play roulette wheel, putting chips on many different numbers – be they Shi’a or Sunni.

But if you are Saudi Arabia, if you are Mubarak’s Egypt, or if you are Jordan under King Abdullah and in the 2006-2007 period when Ahmadinejad was winning praise on the “Arab street,” it was kind of useful to play a sectarian card. It was kind of useful to talk about how these Iranians are nothing but Shiite sectarians. “They’re odd, they’re strange” the commentaries were that they were Safavis referring to the old 16th century Iranian dynasty that came into power and “Shiitized” Iran. It was useful to “other Iran” for those monarchies at the time. And during the Bahrain crisis, it was also useful to “other Iran” if you were Saudi Arabia, to say that Iran is just fomenting unrest because they want their Shiite brethren to come to power in Bahrain.

Ahmadinejad used to be one of the most popular political leaders on the so-called “Arab street.” Much of that has changed now. This is not 2007 anymore. But dismissing him and Iranian leaders as nothing but “Shi’ite sectarians” or “Safawis” or, even more charged, *rafida*, rejecters of the true Sunni faith, was one way to slow down his popularity. In the end, however, images of Iranian security forces beating and killing Iranian protestors in the aftermath of the 2009 election probably did more to harm

Ahmadinejad’s reputation than the attempt by some Sunni states to depict him as sectarian.

So that gets us to the Iran-Saudi relationship because this is in my view the most important relationship. It has gone through basically four phases.

1. 1979-1989 – The “Hot” Cold War Phase
2. 1989-1997 – The Gradual Détente Phase
3. 1997-2005 – The Rapprochement Phase
4. 2005-today – Cold War Redux

In the “Hot” Cold War Phase of 1979-1989, we witnessed open clashes, open rivalry, bitter finger-pointing and Iranian revolutionary zeal threatening the regional balance of power. Ayatollah Khomeini routinely called for the overthrow of the regime in Saudi Arabia, and Riyadh underwrote Saddam Hussein’s war effort against Iran. But it is also important to note that Saudi Arabia was very active in trying to bring this war to an end. In 1982, they were very active in engaging in ceasefire talks. But during this phase, Iran fired on Saudi oil tankers in the Persian Gulf and Saudi aircraft shot down Iranian aircraft. There was real shooting. The 1987 Mecca incident in which some 275 Iranians died as Saudi security services lost control also embittered the two sides further. Clearly, Riyadh was uncomfortable with revolutionary Iran, and Tehran saw Saudi Arabia as too closely aligned with the United States.

The gradual détente phase began with the presidency of Rafsanjani who famously said that, as a first step, Iran’s foreign policy should “stop making enemies everywhere.” This phase coincided with the first Gulf War, where Iraq invaded Kuwait and alliances shifted rapidly: Baghdad was now a threat and Tehran less so. This continued into the presidency of Khatami, which ultimately saw the height of Saudi-Iran rapprochement in the post-revolution period, with trade delegations and diplomatic delegations going back and forth, and a deep mutual respect between President Khatami and then

Crown Prince Abdullah, who was de facto head of state. This period of rapprochement began to sour in the aftermath of the 2003 U.S. war on Iraq as Riyadh grew concerned that Tehran was filling the power vacuum left in Saddam's wake, and bringing its Shi'ite allies into positions of power.

As we think about the current state of relations, Cold War is the best way to look at it because it is playing itself out all across the region, in Bahrain, in Egypt, in Iraq, in Lebanon, in Syria, in Yemen, in the oil sector, in the peace process, and I would add China here as well. And since we like to see who winners and losers are, I will go through this list and offer my thoughts on which side is winning in each particular arena.

In Bahrain, it is clear that Saudi Arabia is winning. There is a lot of talk; Iranian officials occasionally talk about how Bahrain is Iran's 14th province, but it is clear that Saudi Arabia has exerted its influence in Bahrain and Iran seems to have ceded that ground to Saudi Arabia. Some might even suggest that Bahrain is more like Saudi Arabia's province rather than Iran's. Riyadh has been very open about this, describing a line in the sand or a red line when it comes to Bahrain.

In Egypt, I would also give the edge to Saudi Arabia. Saudi Arabia, though very concerned about the fall of Hosni Mubarak and very angry about what they saw as the Barack Obama administration policy, which they thought was too quick, in their view, to dismiss Mubarak, pivoted pretty quickly; they offered a \$4 billion no strings attached loan to Egypt. Meanwhile, Cairo is dragging its feet when it comes to the question of renewed relations with Iran, which is something that Iran is pushing for quite dramatically.


In Iraq, I would give the edge to Iran there. It is pretty clear that you have more of Iran's allies in positions of power in Iraq than Saudi Arabia's. The King of Saudi Arabia will not even meet with Nouri al-Maliki, the Prime Minister of Iraq. Saudi Arabia complains about Iranian influence, but they have not entered the Iraqi arena with the same level of men and materiel as Iran.

Lebanon, again, I would put that in the Iran column. It seems that Hezbollah is the decisive force in Lebanese politics. Iran clearly has the edge in Lebanon. I do not think Iran is playing Yemen all that strongly; they're not paying as much attention, despite these accusations that they are supporting the *Houthi* rebels, and I would put that in the Saudi Arabia column.

In Syria, it might be a draw. I think it was quite significant that King Abdullah denounced what he called the "killing machine." King Abdullah retains a regional elder statesman role in the region and quickly after he announced that this was a killing machine and that this is unacceptable and that this must stop, several other GCC countries withdrew their ambassadors from Syria. It is a draw because it is unclear where Syria is going. If Iran were to lose Syria, it would be a very significant loss in this Iran-Syria-Hezbollah triangle.

Pivoting to the oil sector, I think it was very striking that we are starting to see senior Saudi officials, including Prince Turki al-Faisal, talk about squeezing Iran, squeezing its oil sector. Let's not forget these are fellow OPEC members and you have a fellow OPEC member talking about another OPEC member saying that we need to squeeze Iran's oil sector. Prince Turki al-Faisal is one of the most seasoned strategic observers and he has long been a public advocate against war with Iran. His more recent statements seem to reflect GCC elite frustration with Iran. There was a very contentious OPEC meeting in June, a meeting that Ali Al-Naimi, the Minister of Petroleum of Saudi Arabia, described as the worst OPEC meeting he had ever attended. Iran was calling for maintaining current production levels, Saudi Arabia was calling for an increase to lower the price and they simply didn't come to any agreement. Saudi Arabia went ahead and unilaterally increased production – a significant OPEC rupture.

I would also add China to the Saudi-Iran Cold War issue because there is a lot of talk here in Washington about how China's a strategic ally



of Iran. I would challenge that notion. Strategic allies do not consistently vote against you in UN Security Council resolutions. China treats Iran more as a tactical ally: a place to buy some crude oil and sell some manufactured items, but not a place to invest for the long-term or build a deep diplomatic relationship. China has famously dragged its feet on these supposedly multi-billion dollar oil concessions it owns in Iran – much to the chagrin of Iranian officials. Just read the oil and gas press: it is full of articles regarding China's unwillingness to move forward as rapidly as Iran would like; meanwhile, for Chinese companies, it is full-steam ahead in Iraq.

Hu Jintao, the president of China, is a very well-travelled leader; he does not travel to Tehran. He travels to Riyadh regularly; he travels to Abu Dhabi, Dubai, and other places in the region regularly. Saudi ARAMCO joined with Chinese oil companies in building refineries in China. The strategic relationship really seems to be the Saudi Arabia-China relationship, whereas the Iran-China relationship tends to be more transactional than strategic.

Then the last point is this new geopolitical chessboard. As I discussed earlier, Iran is strategically lonely. It does not have any significant conventional allies; therefore it uses asymmetric allies such as Hezbollah and Hamas. The Syria crisis makes the potential use of Hezbollah even more problematic. I think the Syria crisis has also exposed Iran because on the one hand they were cheerleading these uprisings across the Arab world, but they stopped short at cheerleading for Syria.

Other countries that have shown pretty extraordinary geopolitical dexterity are countries like Turkey, which pivoted pretty quickly away from Libya despite its \$15 billion in investments. Turkey pivoted pretty quickly away from Syria

as well. I think Pakistan shows some geopolitical dexterity when you have Admiral Mullen describe the Pakistani Intelligence Agency as in league with the *Haqqani* network that is killing United States forces and yet we still offer them billions of dollars in aid. That's sort of playing the game pretty well and Qatar also plays the game pretty well. On the one hand you're hosting the *al-Udeid* air base and on the other hand you're one of the, probably the most significant, funder of Hamas. Qatar has also been punching far above its weight as an Arab world mediator. Qatar and Turkey demonstrate an ability to play in different coalitions and groups from the so-called "arc of resistance" to the "arc of stability" or status quo powers whereas Iran stays only in its "arc of resistance" camp. It has not demonstrated the dexterity that Qatar or Turkey has.

Even Iran's strong suit – "Arab street" and "Muslim street" popularity – is on the decline. Latest polls indicate that Iran and Iranian leaders rank far lower than they did a few years among Arab publics. This is no longer 2007 when Ahmadinejad topped the lists of public heroes in places like Cairo and Jakarta. Their numbers are way down. Ahmadinejad must have some serious "Erdoğan envy" after the Turkish Prime Minister's hero's welcome in the Arab world.

To close, Iran is increasingly isolated, and the sanctions are biting hard on Iran's trade relationships, hitting its banks, and hurting both state entities and private businesses. Amid this economic pain, it also faces serious internal division. This is not a state with the graph moving up and to the right. It is fractured and battered, but it's not beaten. The national security elite consensus on relations with Saudi Arabia and the GCC states could be fraying, though, as we speak. If it does, expect more heat in the current Cold War.



Perspective from the Arab World

Rami Khouri, *Director, Issam Fares Institute for Public Policy and International Affairs, American University of Beirut and Former Public Policy Scholar, Woodrow Wilson Center*

I think people in the Arab world, broadly speaking, fall into two camps. They either fall into the camp of many of the regimes that don't like Iran or much of public opinion that does like Iran. Now you are getting more nuanced situations where you see countries like Lebanon and the Gulf States where public opinion is very critical of what Iran is doing.

There isn't one opinion in the Arab world. People there understand that Iran is very much mirroring the United States now in its perception of what I call the Arab Revolt or the Arab Awakening. And the Iranians have a lot to lose in terms of the democratization of the Arab world and the ruling regime is not quite sure, I believe, on how to deal with what's going on in the Arab Spring. But at the same time, they have to deal with it. I would say that most people in the Arab world, public opinion, especially, have much less interest now in what Iran is doing. Iran is losing its role as the proxy warrior that the Arabs used to turn to in the three great confrontations that Arab public opinion has always had: confrontation with Arab autocracies, with the United States, and with Israel. And in all three of those relationships, the Iranians exploited their role, especially President Ahmadinejad and others. Iran always tried to step in and badmouth the Israelis and the Americans and threaten Arab regimes. And in much of Arab public opinion when it was largely an autocratic region—which it still is but there are changes going on—people liked it when Iran badmouthed these two. The problem now is that there are other people doing this and Iran no longer has that playing field. The Turks have stepped in in a significant way.

Most importantly, the Arab people themselves in many countries have now become players. The important point of the Arab world is that you have two things going on: you have the birth of the Arab citizen, and therefore there are people,

citizens in the Arab world, who are actually doing things. Public opinion, citizenry, and the consent of the governed are starting to matter in Arab countries in a way that they haven't for the last sixty years. The second thing that is happening is that you have countries that are acting like countries, and particularly in the Gulf when you see four of the six Gulf Cooperation Council (GCC) countries moving their troops around. In Bahrain and in Libya this is pretty extraordinary. I never thought in my life I would see four of the six GCC countries moving their troops around. In other words, the leaders of the GCC countries are starting to act like countries, which they haven't really done most of their adult life. They have acted as agents or proxies or colonies or surrogates or some other big power, but they are now starting to behave. One of the things they are doing, which you also see among people in Lebanon and other places, is they are actively challenging Iran and actively and openly challenging Iran's friends like Hezbollah or the Syrian government.

And all of this is quite new in the last couple of years. What we have is a very mixed situation where broadly speaking you still have people that look to Iran partly because of the remnants of Iran's revolutionary legacy of overthrowing the Shah and helping to spark the Islamist wave of the 1970s and 80s in the Arab World. But that is fading pretty quickly. And you now have a situation where you have people ignoring Iran because it no longer has a role to play, its proxy role having been largely taken over by other actors. And finally, there is the relationship between the three important players in the Arab countries in the last two generations since the 1960s. We have had three key players: Arab states, Arab Islamists that led the opposition movements, and foreign powers. All of those are now losing power or changing the nature of the power that they exercise.



This is, therefore, a massive challenge to Iranians and, by the way, to the Europeans, Americans, and Russians, all of whom have to come to terms with this reality. No one has really figured it out yet, and people are still trying to see what's actually going on. Iran stands to lose a lot, especially if the Syrian regime either falls or is significantly transformed into something different. Groups like Hezbollah and Hamas— which

remain very legitimate, very credible, very popular groups in many places in the Arab world—also have an existential challenge to face. So, I think on the whole, the Iranian role in the Arab world, I believe, will become less significant. What will ultimately determine this is how Arab public opinion deals with the fact that it actually may be able to implement the principle of consent of the governed.



That Other Track, That Other Partner: The EU and Iran

Rouzbeh Parsi, *Research Fellow, European Union Institute for Security Studies*

To understand the European Union-Iran relationship, it is necessary to understand the context in which this relationship is embedded. This can most easily be described in the shape of an incomplete tetrahedron (pyramid). The apex is (still, though not inevitably so) the United States, which in turn has a functioning and excellent relationship with two of the other nodes: Israel and the European Union. Iran, the fourth node of this pyramid, on the other hand, has no relationship with the United States and Israel, but a dysfunctional one with the EU.

The nature of the relationships (existing and absent) compound the built-in flaws of the structure. EU policy toward Iran is to a large degree a function of its relationship with the United States. This means that the transatlantic bond always takes precedence and that the relationship with Iran is both influenced by this and at times used as a tool to ensure a return to greater proximity with the United States regardless of the substance of the issue at hand (post-Iraq invasion in 2003 for instance). This relationship by proxy works both ways: Iranian policy toward the EU, in turn, is partly a substitute for its lacking relationship with the United States and to some degree driven by this absence. For politicians in Tehran, regardless of whether they still see a rapprochement with the United States as the long-term goal (and the EU constituting a bridge on the way) or not, the EU is seen as an almost neighbor that is expected to be more flexible and “realistic” in its approach to Iran.


As a set of relationships, this is obviously a seriously flawed one. Considering the volatility of the Middle East, the actual and potential repercussions of this “impossible” edifice are considerable. While this may seem complicated enough as it is we must also keep in mind that the EU is a union of 27 member states where reaching common

foreign policy positions is very much a work in progress. For those outside the Union (as well as for those rooting for it on the inside), the optimism of achieving greater clarity and cohesion in the Union’s foreign policy with some alacrity has been somewhat misplaced and in any case unfulfilled as of yet. In fact it is a slow and cumbersome process to reach a common position, if at all. This in itself inhibits quick reactions and policy shifts.

Background

The EU-Iran relationship has gone through several phases including engagement, negotiations, and sanctions. In 1992, a “critical dialogue” was established where difficult issues such as human rights were addressed. This approach was brought to a halt in 1997 when a German court traced the responsibility for a political assassination that had taken place in Berlin to high ranking officials of the Islamic Republic. The EU recalled its ambassadors but resumed what was called a “comprehensive dialogue” in 1998 (obviously the election of Mohammad Khatami to the presidency in May 1997 was an encouraging and promising development). The new dialogue included regular high level meetings and consultations on a number of issues, again including human rights.

This engagement policy was criticized in some quarters (especially in the United States and among exile groups) but showed nonetheless that a consistent commitment to exchanging views and dealing with thorny issues could produce results albeit in small steps. The experience culminated in the initiation of negotiations on a Trade and Cooperation Agreement. By the beginning of Khatami’s second term and as his conservative foes were effectively pursuing a policy of boxing in him and the reformist agenda, the dialogue with the EU withered.



In 2003, the emphasis moved from engagement to pressure and eventually sanctions. This was primarily due to the nuclear issue and revelations about the extent and progress of the Iranian program. In the ensuing attempt to re-establish some kind of trust on which to base negotiations on the matter, Iran came to see its commitments as voluntary while the EU saw them as legally binding and steps toward a re-affirmation of Iran's commitment to the Nuclear Non-Proliferation Treaty (NPT) and the Additional Protocol. This engendered the so-called freeze-for-freeze, whereby Iran halted its nuclear program and the EU reciprocated by not pursuing sanctions as a punitive measure against Tehran on account of its nuclear program. At this stage, time was seen to be on the EU side, i.e. as long as the freeze-for-freeze was in place, the situation, as well as Iran's nuclear program, was under reasonable control and surveillance. The Iranians, on the other hand, insisted on this being a temporary freeze and that their right to enrichment had to be recognized sooner rather than later.

Sanctions

All in all, these attempts at both engagement and pressure have resulted in an uneven policy known as dual track, i.e. a nuclear track where a steady trajectory of demands and sanctions (UN Security Council resolutions in 2006 – no. 1696 and no. 1737, in 2007 – no. 1747, in 2008 – no. 1803, and in 2010 – no. 1929) and another track, which basically comprises everything else. This imbalance is both an indication of the priorities of those countries in the EU involved in the issue and the United States. As the sanctions regime has become tighter, the focus has moved toward human rights offenses and, just as with individuals considered involved in Iran's nuclear program, the imposing of travel bans on specific individuals considered ultimately responsible.

Despite the prioritization of Iran's nuclear program, no tangible progress has been made on this issue; the insistence and pre-occupation with

it is in effect hindering the serious exploration of other matters and avenues that could yield greater mutual trust, the prerequisite to solving the thorny nuclear issue.

In addition to the UN-approved sanctions, the United States and the EU implemented a more comprehensive sanctions regime. As of July 2010, the EU restricts specific trades sectors and banking services, institutes travel bans, and freezes assets. Among the specific targets are Iranian banks and the Islamic Revolutionary Guard Corps (IRGC).

The sanctions regime against Iran is now taken for granted and has become almost axiomatic. This is evident insofar that there are barely any studies or concrete evidence on their effect, let alone their effectiveness. That the sanctions are affecting Iranian society is clear, but effects are not straightforward, and effective – in terms of halting Iran's nuclear program or making the ruling elite in Tehran change their mind in this regard – it is not. As for trade, the EU still remains one of Iran's top three partners, and China and others are filling whatever void is being created by the difficulties for European companies to do business with Iran.

In short, sanctions are a default policy, warranted by the lack of other strategies being devised and pursued rather than due to their effectiveness. It is a policy of inertia and lack of what we could call policy imagination. In this regard, the EU has followed the American lead without much thought to the substance of the approach or its implications for Europe.

Present Impasse

Regardless of the inhibiting factors mentioned here that pertain to Iran itself, there is also the fact that the EU simply has other priorities and headaches to deal with. Domestically, it is the euro crisis that has grave implications on all possible levels for member states and the future of the Union itself. In the foreign policy area, the upheavals in the Arab world will yield more democratic governance models but will

nevertheless in the short-term first entail a lot of general uncertainty and volatility. Both these issues are on a different order of importance and urgency compared to the Iranian conundrum – the regular hysterical outbursts from some quarters on ticking nuclear clocks and imminent doom notwithstanding.

The Iranian dossier is considered to be too complicated, and coming to an understanding with Tehran too uncertain a prospect to be worth the risk. Engaging with Iran is not a popular endeavor; it entails domestic risks for all involved with very little promise of yielding a rewarding result. Thus, the existing policy of sanctions and pressure prevail for lack of better alternatives (a deceptive appraisal in that there obviously are alternatives but none are politically appetizing) as much as anyone's sincere belief in their ability to affect change. This is the built-in inertia that comes with a policy accepted as conventional wisdom, and there is no political momentum within the Union to change direction.

This points to a more fundamental problem. The idea of diplomacy has in many ways been lost, both as a principle and as a method. Iran

has been made out as such a pariah state that the idea of diplomacy in and of itself has come to be seen as a kind of “reward” to be bestowed on Tehran when it has fulfilled certain demands. Thus, the act of communication is no longer seen as a method, diplomacy no longer a medium, but rather yet another sensitive issue entangled in the Iranian complex.

It is admittedly difficult to conduct diplomacy with a state that has become increasingly opaque in its decision-making and is torn by internal strife. Yet all the issues of contention the EU has with Iran can only be solved through diplomatic means – analogous to a patient fearing a visit to the dentist and procrastinating, yet knowing that the longer he waits the more difficult and painful the procedure.

For a diplomatic effort, where substantive issues are to be discussed and solved, to be successful, it is necessary to have a strategic end goal in mind. The lack of a strategic frame results in a policy based on reacting to specific events and short-term tactical considerations, exacerbating the problematic relationship and the impasse we have now.

Stubborn Nuclear Program, Stubborn Foreign Policy: Iran's Face-Off with the United States

Michael Adler, *Public Policy Scholar, Woodrow Wilson Center and former correspondent, Agence France-Presse News Agency, Vienna*



The pressure is on to call out Iran for seeking to make the bomb. The United Nations watchdog, the International Atomic Energy Agency (IAEA), has been investigating the Islamic Republic since 2003 and still has not drawn a conclusion about whether the Iranian program is military or civilian. So now the United States wants the IAEA to give an “assessment”¹ of Iran’s nuclear program. This is code for dashing Iran’s claim that its program is a peaceful effort to generate electricity.

It would be one way of making progress in the campaign to get Iran to rein in its nuclear ambitions. Other fronts are not going so well. Diplomacy is stalled. Meanwhile, Iranian President Mahmoud Ahmadinejad, diminished or not at home, reeling or not from sanctions, strutted his stuff at the United Nations in September. And guess what: Iran is putting even more centrifuges underground in reinforced bunkers to expand its making of enriched uranium that the United States claims is intended for nuclear weapons.

An internationally sanctioned ruling that Iran is developing the bomb would be a key punctuation point. Iran has cut down on cooperation with the IAEA but has been careful to honor its basic safeguards, or monitoring obligations, under the Nuclear Non-Proliferation Treaty (NPT). This leaves Iran scoffing at UN Security Council resolutions against it, insisting that it is firmly under the umbrella of the NPT, which guarantees developing nations the right to peaceful atomic energy.

The Vienna-based IAEA says it “continues to receive new information” about possible military dimensions to Iran’s nuclear work, including “activities related to the development of a nuclear payload for a missile.”² IAEA chief Yukiyo Amano said in September that he “is increasingly concerned about the possible existence in Iran of past or current undisclosed nuclear related

activities involving military related organizations.”³ The U.S. ambassador to the IAEA in Vienna, Glyn Davies, said the United States wants to see “a full assessment of the possible military dimensions to Iran’s nuclear program as soon as possible.”⁴ Amano has only expressed they hope “to set out in greater detail the basis for the Agency’s concerns.”⁵

What sort of information is coming in? It is not the breakthrough that occurred in 2005 when an Iranian scientist’s wife smuggled out the so-called “alleged studies,” a large amount of blueprints, office documents, and even videos said to be from weaponization work in Iran. Iranian officials dismiss this cache, some of which has been shown to them only in digital form, as forgeries; Western officials insist the data is genuine. The new information is mainly additions to the picture rather than a whole new look. It requires a lot of verification. Still, the IAEA position is that there is so much data and reports—and from many sources, not just the United States—that Iran is beholden to answer the questions raised.⁶

The IAEA may very well be ahead of Washington in its take on Iran. The United States has, in two consecutive National Intelligence Estimates, concluded that Iran dismantled its weaponization program in 2003. Iran is believed to have feared a U.S. attack at that time and also may have been worried about having secret work discovered as the IAEA investigation of its nuclear work began. But the IAEA’s growing indications of the continuation of weaponization work show the pace accelerating in 2006, when Iran stopped allowing access under the Additional Protocol that allowed for widespread inspections. It seems that facilities were dismantled and organizations dissolved in 2003. An analyst said that before 2004, the Iranians had personnel, facilities, and a budget dedicated to weaponization work. It

was a national effort, much like in India or Israel. But now “everything is below the radar screen. It is not dedicated. It is dual use,” where weaponization work can be explained away for non-weapons ends. Iran now seems to be focused on making the explosive and neutron triggers for setting off a nuclear explosion, with less emphasis than before on preparing a re-entry vehicle for an atomic warhead for Iran’s Shahab missile.⁷

There is another key point, which is that the hardest part of making an atomic bomb is getting the fissile material, the nuclear matter which explodes. This is, of course, the greatest dual-use case of all since the enriched uranium that gives a bomb its explosive power is the same fuel powering nuclear reactors. The only difference is the level of enrichment. Iran is upping this level, now enriching to 20 percent instead of the under five percent needed for most reactors. Weapons-grade uranium is enriched to over 90 percent. As long as Iran stays at modest levels, instead of weapons-grade, it can in addition to this carry on low-scale weaponization work for “years in small labs,” the analyst said.⁸

Iran has a *modus operandi*, therefore, for moving forward however diplomacy plays out. It is a tactic that has worked brilliantly since 2003 and can help Iran continue its steady nuclear march regardless of how the Arab Spring progresses. A hard ruling, however, on Iran from the UN nuclear watchdog would rip away its protection under the NPT.

So, the next move in this ongoing drama may not come with Ahmadinejad’s pronouncements in New York, or from renewed talks between

Iran and the six world powers negotiating with it. Look, instead, to Vienna and the next meeting of the IAEA’s Board of Governors in November to see if, after eight years of intense investigations, the atomic agency is ready to take a hard line and say clearly that in its opinion Iran is seeking nuclear weapons. Or will the IAEA, improbably, make a gentler assessment and absolve the Islamic Republic, as Tehran says it deserves, from being under the charge of seeking the bomb? What is more likely is that the IAEA will continue to cultivate an ambiguous position that is decidedly to Iran’s advantage.⁹

Notes

- 1 IGlyn Davies, “U.S. Statement on Iran to the IAEA on Iran,” IAEA Board of Governors Meeting, Vienna, Austria, 14 September 2011.
- 2 IAEA Report, Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolutions in the Islamic Republic of Iran. Reported by the Director General. GOV/2011/54, 2 September 2011,
- 3 Yukiya Amano, “Introductory Statement to Board of Governors,” IAEA Board of Governors Meeting, Vienna, Austria, 12 September 2011.
- 4 Davies.
- 5 Amano.
- 6 Interviews by the author, September 2011.
- 7 Interviews by the author, September 2011.
- 8 Interviews by the author, September 2011.
- 9 IThe IAEA report came out on November 8, 2011. <http://www.iaea.org/newscenter/focus/iaeciran/bog112011-65.pdf>.



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