

# Iran on the Brink

CHALLENGES & OPPORTUNITIES FOR WASHINGTON

**SANAM VAKIL**

Almost four decades after the 1979 Iranian Revolution, the Islamic Republic of Iran is at a decisive crossroads. Since January 2018, four mounting interconnected internal and external crises have collided, challenging long held assumptions regarding the Iranian government's strength and durability. Pressures resulting from Iran's expansionist regional foreign policy, uncertainty over the future of the Joint Comprehensive Plan of Action (JCPOA) and Iran's economic recovery, deep public dissatisfaction after weeks of dissent and public protest, and unbridgeable factional divisions among the political elite have simultaneously come to a head endangering the stability of the Islamic Republic.

To be fair, this is not the first time Iran has reached a critical fork in its post-revolutionary road. One could argue that Tehran, having survived the 1980–1988 Iran-Iraq war, the death of Supreme Leader Ayatollah Khomeini in 1989, and the decadelong standoff with the international community over its nuclear program from 2003–2015, has been at similar junctures before. These previous challenges though have been overcome due to a *relative* degree of unity among the political elite. Today, that unity appears to be hanging by a thread as Iran's notoriously factionalized politicians are fighting not only for the future of the Islamic Republic, but also their place in it.

Most visibly, Hassan Rouhani, Iran's pragmatic president is butting heads against the unelected state apparatus and Iran's Supreme Leader Khamenei in a fight over the economic and political future of the country. Pragmatist and reformist politicians have long argued that the best means to protect the system of the Islamic Republic is to permit liberalizing economic and political trends supported by the people. Hardliners fear that these changes will open the door to the gradual transformation and thereby dissolution of the Islamic values and revisionist ideology of 1979 revolution. This ideological discord over the issue of reform has been ongoing for years. However, amidst the pressure of internal unrest and external unity against Iran, Tehran is at a crossroad where decisions must finally be made to avoid a further downward spiral or equally dangerous stalemate threading together tensions over domestic, economic, and foreign policy reforms. The consequences of this fight could result in continued stagnation or possible evolution of the Islamic Republic.

This infighting and its outcome pose a distinct challenge for the United States as it reconsiders its role in the Middle East as a guarantor of regional stability. Washington



has been at odds with Tehran since the 1979 Iranian Revolution that brought the anti-American Islamic Republic into existence. After four decades without official diplomatic relations, political and ideological friction on both sides have further polarized tensions and widened the gulf between Tehran and Washington. These tensions have resurfaced since the election of Donald Trump and his pursuit of a tougher line against the nuclear deal, Tehran's "malign" regional activities and ballistic missile program. In concert with Israel, Saudi Arabia, and the United Arab Emirates (UAE), Washington has resurrected its age-old policy of containment to push back Iran.

Today though, Washington does not understand Iran—its nuances, cleavages, opportunities, or its changes. As a result, Washington's go-to Iran policy option of containment has become nothing but short term and reactionary resulting in little impact on the ground. The absence of political ties has also limited its ability to nurture or nudge Iran towards much-needed popularly supported change. Indeed, anti-Iranian sentiment has become the status quo pillar of US foreign policy in the same way that the Islamic Republic holds fast to its anti-American ideology. Both sides are now bound together by the conflict that has come to define their relationship. This contributes to a further hardening of popular perceptions on both sides.

As Iran teeters on the precipice, Washington must prepare for the variety of challenges and possible political changes and outcomes that could come to the fore in Tehran. Rather than enshrining conflict as part of its foreign policy, it requires a grand strategy that addresses Washington's short-term conflicts and long-term opportunities. Without a comprehensive, proactive, long-term grand strategy for Iran—one that balances pressure against engagement and is directed towards removing this threat—Washington will be sitting on the sidelines at a moment of consequence and will be unable to translate long sought after change into a positive development for the United States. Understanding the nexus, connectivity, misperceptions, and potential miscalculations stemming from budding external and internal pressures is the key to unpacking Iran's interconnected challenges to presenting opportunities for the United States to move beyond containment and consider engaging its longtime enemy.

## **Tehran's four interlocking challenges**

### ***Challenge 1: The JCPOA Conundrum***

The most immediate challenge in this chain of interconnected events for the Iranian government has been the gradual withering of the JCPOA. After years of debilitating sanctions because of its opaque nuclear program, Tehran made nuclear concessions in exchange for sanctions relief and foreign investment in the Iranian economy. The deal, as promised by Iranian President Hassan Rouhani, was to be the linchpin for Iranian economic recovery, growth, diversification, and eventual puissance as the regional hub in the Middle East market. The weakening of the deal has had huge political costs for President Rouhani

and his legacy that was pinned to improved international relations and much-needed economic growth. It also has impacted the Iranian public mood and resulted in an intense internal debate on the country's future political and economic direction.

In June 2016, McKinsey Global Institute released a report entitled “Iran: The \$1 Trillion Growth Opportunity,” outlining the economic opportunities and challenges for Iran in the aftermath of the signing of the Iran nuclear agreement or Joint Comprehensive Plan of Action (JCPOA).<sup>1</sup> McKinsey, in its report, as it has done for other countries in the region, including Saudi Arabia, unveiled the opportunities and challenges of investing in Iran. It concluded: “We find that Iran has the potential to add \$1 trillion to GDP and create nine million jobs by 2035. If it is to realize this potential, Iran will have to put in place key enablers of rapid growth, including measures to increase the attractiveness of the country to foreign investors, ensure macroeconomic stability, strengthen and deepen its financial system and its international connectivity, raise productivity, and upgrade its industrial infrastructure.” Indeed, McKinsey made it clear that in order for Tehran to reap such rewards, it would require significant political support for the dramatic economic reforms that were needed to promote such change.

This support is specifically what has been missing in Iran and equally in Washington. Moreover, it has been exacerbated by the politics in both capitals around the nuclear agreement. Most visibly, Iran's factions are at loggerheads on strategy. In 2013 and again in 2017, President Hassan Rouhani campaigned on this vision and economic transformation of Iran. As a pragmatist, Rouhani sees international engagement and economic integration as the key pillars to preserve and protect the Islamic Republic. Rouhani pressed on with his ambitious agenda calling for \$150 billion in foreign direct investment. Internally, Rouhani also sought to tackle Iran's banking sector crisis and promote transparency and efficiency while tackling inflation and unemployment all while trying to push back Iranian Revolutionary Guard Corp (IRGC) economic influence. This vision and action should be contrasted against that of his conservative opponents who believe that economic resistance and independence are the masts that have buttressed the regime. Hardliners, conversely, believe that Rouhani's vision of transformation will ultimately lead to the demise of the regime. This strategic divergence between Iran's factions extends not just to the economic realm but also to social and cultural issues, Iran's regional involvement, and relationship with the United States.

President Barack Obama negotiated with Iran ending the decadelong standoff over its nuclear program. The JCPOA was purported to be a first step towards changing Iran and US-Iranian relations. The premise was that increased contact through the prism of the nuclear deal would build increased trust between both sides, thereby allowing for the resolution of the complete portfolio of issues including Iran's meddlesome role in the region, opposition to the State of Israel, support for terror groups, and its ballistic missile program. Domestic obstruction in both Tehran and Washington, however,



blocked progress towards wider reconciliation. In order to protect the JCPOA, the Obama administration was forced to accept congressional restrictions known as the Iran Nuclear Agreement Review Act (INARA) that gave Congress the right to review any outcome of the nuclear deal with Iran. In absence of wider US domestic support for further outreach, the nuclear deal did not nurture any transformation or change in Iranian regional behavior as Obama had argued.

In fact, critics of the deal both in Washington and in the Middle East saw that rather than moderating its behavior, Iran was stepping up support for non-state actors and proxy groups throughout the region, as was evidenced in Iran's financial and military ties with Yemen's Houthis, Popular Mobilization Units in Iraq, Lebanon's Hezbollah, and Shi'a militias in Syria. Iranian elites were also careful from the outset to ensure that the nuclear deal would be limited to just that portfolio rather than seep into a wider transformation. In fact, Ali Khamenei, Iran's anti-American Supreme Leader, has been repeatedly wary and critical of US intentions and commitments to the JCPOA. As early as August 2016, a mere six months after the implementation of the nuclear accord, Khamenei stated, "The JCPOA, as an experience, once again proved the futility of negotiations with the Americans, their lack of commitment to their promises and the necessity of distrust of U.S. pledges"<sup>2</sup> reflecting Iran's deeply rooted suspicion towards Washington.

The subject of the JCPOA and wider relations with Iran became a political football during the 2016 US presidential elections with both Donald Trump and Hillary Clinton promising tougher policies against the Islamic Republic. Trump went further calling the JCPOA "the worst deal ever." After Trump's November 2016 election, these issues came to a head as the new administration took a very tough line against Tehran. In October 2017, President Trump, in announcing his new Iran strategy, decertified the nuclear agreement setting in motion a new plan to pressure Iran and the JCPOA. Trump declared:

"Our policy is based on a clear-eyed assessment of the Iranian dictatorship, its sponsorship of terrorism, and its continuing aggression in the Middle East and all around the world. Iran is under the control of a fanatical regime that seized power in 1979 and forced a proud people to submit to its extremist rule. This radical regime has raided the wealth of one of the world's oldest and most vibrant nations, and spread death, destruction, and chaos all around the globe."<sup>3</sup>

In January 2018, Trump put both Congress and EU signatories to the deal on notice (United Kingdom, France, and Germany) giving them four months, until May 12, 2018, to improve upon the deal and strengthen its sunset clauses and address the ballistic missile program and Iran's regional activities.<sup>4</sup> In advance of the deadline, all parties have been struggling to deliver an agreement to the president in the hope that he will preserve the deal. However, there is no certainty that any of the additional provisions will placate the White House. Despite such efforts, the United States could ultimately withdraw from the agreement.

This uncertainty regarding the future of the JCPOA has dramatically impacted Iran's investment climate. Before these decisions from Washington were made, international companies were struggling to invest legally in Iran. While the US government as part of the JCPOA agreed to lift the nuclear sanctions against Iran, it continues to impose other sanctions over Iran's human rights policies and support for terrorism. These sanctions prevent American citizens and companies from most forms of investment or trade with the country. While in theory, these sanctions should only impact US citizens and businesses, the implications reach into the financial sector where foreign financial institutions doing business in the United States must separate any Iranian money they hold lest it touch their US assets. These regulations also include use of American parts and technology. Foreign banks are especially nervous about violating US sanctions laws because in 2014 BNP Paribas agreed to pay a \$9 billion penalty for helping clients in Sudan, Cuba, and Iran evade sanctions.<sup>5</sup> The impact of these restrictions has undoubtedly dampened international investment in Iran and equally constrained Tehran's ability to access international finance needed to support projects and development. Most important, the limited deal dividend has confirmed suspicions of Iranian conservatives who have long been wary of the US intentions.

In addition to meeting nine IAEA verifications of compliance, Tehran has sought to pressure the United States and EU to support the agreement by demonstrating accountability and commitment to the accord. At the same time, it has stepped up lobbying efforts of EU signatories to support the agreement regardless of Washington's compliance. Strong statements have also suggested that Tehran is weighing the benefits and costs of staying in the deal. A US withdrawal or failure of the deal is unlikely to translate into new opportunities for renegotiation as the Trump administration contends. Rather, Tehran will conclude that negotiations with the United States, as long argued by Khamenei, will also require further concessions and repeated moving of the goal posts. While the nuclear deal remains on life support and uncertainty is prevailing over the future sustainability the JCPOA, the impact of this challenge has had knock-on effects most recently evidenced in Iran's nationwide protests seen in December and January.

### ***Challenge 2: Domestic Discontent and Economic Malaise***

Much to the surprise of the international community and Iran's own leadership, nationwide protests spread to ninety small-scale Iranian cities over the turn of the 2017 calendar year. Rallying against the economy, corruption, environmental degradation, mismanagement, and Iran's activities in the region, protesters, who were generally young or working class, shed light on the high levels of economic frustration within the country. This level of frustration is widely reflected throughout Iranian society. While the protests were not overtly threatening to the regime nor did they compare in size to the 2009 Green Movement protests, they do reveal the depth of popular frustrations, a pattern for protests in Iran, and the cracks in the economic foundations of the state. These protests should be observed not only in the context of the limited economic benefits seen from the JCPOA, but also



stemming from decades of macroeconomic mismanagement which cannot be quickly resolved amidst internal and international tension.

Iran's 1979 revolution promised the trickle-down effects of economic and social justice. Over the years, Supreme Leader Khamenei has repeated this promise. Forty years later though, it is clear that the Islamic Republic has failed to provide that justice to its people. From the outset, the revolution empowered, elevated, and included more of the Iranian population in the bureaucratic apparatus than seen under the Pahlavi monarchy. However, economic policy focused more on distribution than growth,<sup>6</sup> shifted to a state managed economy, and was heavily impacted by the eight-year war with Iraq and then sanctions. After the war, liberalizing policies were gradually introduced, but due to inconsistent and incomplete implementation related to regulatory issues, the banking system, and an unpredictable political environment, inefficiencies and inequalities became more pronounced.

The income gap in Iran as measured by the Gini index of household wealth distribution, is significantly higher than in other countries.<sup>7</sup> Real GDP growth in the last forty years has risen by 2 percent a year on average, somewhat below the 2.4 percent annual rise in population. Per capita real GDP has declined by about 0.4 percent a year on average. Unemployment has been in the double-digit range during most of the post-revolution period—with yearly fluctuations between 9 and 16 percent.<sup>8</sup>

Another critical factor in this story stems from the demographic shifts that resulted in the doubling of the Iranian population adding a greater economic and social burden of an increasingly youthful population on the state. In the 1980s, the average birth rate was 6.5 children leading to a doubling of the population. In response, the government implemented a birth control policy that has successfully brought down the average to two children. Here, educational opportunities in Iran have been a positive part of the country's post-revolutionary history. Increased access to free education has equalized educational attainment and provided greater opportunities to women and rural families.<sup>9</sup> Statistics reveal that by 2000, one-third of the population consisted of students with the number of university students increasing in 2014 to twenty-five times what it was in 1979 to 4.5 million.<sup>10</sup>

This demographic explosion has profoundly impacted social, economic, and political demands. The initial knock-on effects were seen at the ballot box where Iran's youth supported reformist political candidates such as former president Muhammad Khatami who advocated for greater liberalization. Adding to the the myriad of domestic challenges was the growing demand for employment where government had to accommodate one million new entrants into the labor market on an annual basis. Without the ability to generate employment, the combination of high expectations and limited opportunities has become a combustible source of public anger similar to what was witnessed in the protests.

The Ministry of Interior has in fact acknowledged that over 90 percent of those detained during the protests were, on average, under the age of twenty-five and educated.<sup>11</sup>

Through the prism of the JCPOA, President Rouhani hoped to redress Iran's employment challenge. To increase job creation and reduce the official youth unemployment of 25%, Iran requires an annual 8% growth rate. For Rouhani, the JCPOA was supposed to bring the gift of foreign investment, which in turn would facilitate GDP growth and employment. In 2017 though, because of uncertainty around the future of the JCPOA, those rates stagnated at 4.1%.<sup>12</sup>

The highest echelons of Iran's leadership have acknowledged the gravity of the situation. Rouhani and reformist politicians, that dominate the executive, legislative, and municipal government, were implicated and criticized in the protests, and forced to accept responsibility. In February 2018, Khamenei offered a groundbreaking apology to the people stating, "We need to apologize to people and to God" and "work at doing better in this area too."<sup>13</sup> Yet in the current climate of factional tension and international pressure, there are no quick economic fixes. The challenge is ultimately factional with Rouhani advocating for greater engagement as a strategy to protect the state and Khamenei calling for economic resistance<sup>14</sup> in the form of populist and nationalist driven economic policies. The contrast of an open versus closed Iran should not be lost here.

There are many takeaways from these protests beyond the clear issue of government mismanagement. Looking at the macroeconomic indicators and the dramatic reforms needed to resuscitate the Iranian economy in combination with popular protests, it is easy to see this as an opportunity to pressure the regime and incite Iranians to protest further. While the government deserves the lion's share of blame and public anger, the public sees the withering of the JCPOA and the hardening American position as also responsible for their economic difficulties. Once considered the most pro-American population in the Middle East, the Iranian street is expressing more anti-American feelings. This shift should not be underestimated. The consequence of deep frustration could open up opportunities for the Iranian government to, in the face of increasing pressure from the United States, restore some public credibility and win over supporters to the conservative ideas of the resistance front.

### ***Challenge 3: Factional Stalemate***

At its core, the Iranian elite is at a stalemate. Factionalism between hardliners and pragmatists or reformists has long been a defining feature of Iran's post-revolutionary domestic politics. Hardliners and reformists are at odds over the issue of transformation versus preservation of the political system and its revolutionary ideology. In theory, all factions are united in protecting and preserving the Islamic Republic's political system. They are divided, however, on the means and method to do so which results in schizophrenic decision-making and repeated ideological clashes over economic, foreign,



and domestic policy. This fight has accelerated amidst the mix of internal and external pressure and without a meaningful resolution will only continue in advance of Supreme Leader Ali Khamenei's succession.

Pragmatists are best represented by Iran's President Hassan Rouhani who has been a long-term member of the policy establishment since its founding in 1979. A devotee of former president Hashemi Rafsanjani, who was an early advocate of moderation and engagement after the eight-year Iran-Iraq war, Rouhani believes in tempering Iran's revolutionary ideology in favor of international engagement. Through integration and economic development—two principles that would reduce external and internal threats—pragmatists believe they can best protect the Islamic Republic. Part of this strategy is predicated on reducing tensions with the West including the United States. Doing so would not only remove the cloak of isolation and lift the cloud of regional conflict, but also it would enable Tehran to build a resilient internationally connected economy. Rouhani has stated that “with more self-confidence . . . insist on constructive and effective interaction with the world,” and that “Iran's economy has the potential to be among the world's top ten in the next three decades.”<sup>15</sup> This policy would enable the government to create more employment through international investment and training and become a regional export hub integrating Iran in its neighborhood. To create a more open private sector oriented economy that can partner with and absorb international investment, Rouhani has tried to elevate issues of corruption and challenge IRGC economic monopoly and influence.

Rouhani, similar to his predecessors Rafsanjani (1989–1997) and Muhammad Khatami (1997–2005), has overwhelming popular support for his liberalizing agenda that includes loosening of social control. In 2013, Rouhani was elected with 51% of the vote and in 2017 with 57%, giving him a popular mandate to challenge the ideological authority of hardliners with pragmatic steps seen in the JCPOA and subsequent promises to reduce tensions with the United States. Without support from Khamenei and hardliners, however, Rouhani's strategy has not been successful. This stalemate, while ideological, is also rooted in the division of authority between the elected bodies of state that administer and manage the government and the unelected position of the Supreme Leader and his office that is committed to the revolutionary principles of 1979 and wields ultimate authority.<sup>16</sup>

Here, hardliners have a different approach compared to their pragmatic brethren. Conversely, they believe that integration will erode the Islamic values of the revolution and their place in it. They alternatively advocate for economic and political populist resistance to sustain the Islamic government and protect it from the cultural void of capitalism and foreign influence. To protect the regime from disintegration and foreign (US) infiltration, hardliners promote “resistance” as a foreign policy, as well as a domestic and economic strategy, while holding fast to the Islamic pillar of the revolution. Hardliners, such as Iran's Supreme Leader, are deeply suspicious of the United States and its intentions towards Tehran. While Khamenei did support the JCPOA, he repeatedly warned of “the enemy's

deceptive plots to entangle Iran in its projects.”<sup>17</sup> More than anything, hardliners speak of the soft war or *jang-e-narm* that the United States employs against Iran. Ultimately, they fear that through Western economic investment Iran will transform and disintegrate Soviet style, as calls for *perestroika* and *glasnost* will bring down the regime. During the January protests, Khamenei saw a foreign hand as responsible, blaming “those who seek to overthrow the Islamic Republic of Iran from abroad that ‘you’ve failed, and you will fail in the future, too.’”<sup>18</sup>

However, despite calls for resistance, it is important to note that hardliners are not opposed to investment. Rather, they support a diversified portfolio of relations with both East and West as a means to reduce security risks. They are conscious of Iran’s indigenous limitations and need for technology transfers, training of people, and investment for their own patronage groups. For them, pragmatic partnerships with Russia and China, for example, two countries that do not actively interfere in domestic issues, would provide investment and strategic protection. This sentiment has been echoed by Alaeddin Boroujerdi, head of parliament’s National Security and Foreign Policy Committee: “Americans are pushing for harder policies towards the Islamic Republic of Iran and we need to strengthen our view towards the East especially China and Russia.”<sup>19</sup>

As the JCPOA withers, it is natural that Tehran will look to balance pressure from Washington with stronger ties to the East. Iran’s economic ties with the countries in East Asia, especially China, are likely to give Tehran additional allies in its efforts to counter pressure by the Trump administration. In particular, China, which appears to see Iran as a linchpin of its regional economic One Belt One Road strategy, holds a seat on the UN Security Council, and is well placed after years of engagement with Tehran to slow US efforts to isolate Iran by offering Tehran an investment lifeline.<sup>20</sup> The Moscow-Tehran axis will also strengthen. Here, too, Rouhani’s agenda of reform will be constrained.

Amidst the domestic protests, economic stagnation, and waning of the JCPOA, factional divisions are also animated by the issue of supreme leader succession. Ali Khamenei, who has long been ailing and has ruled Iran since 1989, is increasingly concerned with his legacy. Speculation and competition have intensified as factions and potential candidates, which range from President Rouhani to Head of the Judiciary Sadeq Larijani to 2017 presidential candidate Ebrahim Raisi, are positioning themselves in advance of Iran’s next momentous transition of leadership. Since the 2009 Green Movement protests, in what was once a redline in Iran, protesters have repeatedly targeted Khamenei for his mismanagement of the system. In 2018, protestors again called on Khamenei to resign, as did detained opposition leader Mehdi Karroubi who wrote, “Khamenei is responsible for all the problems of the country.”<sup>21</sup> Former president Mahmoud Ahmadinejad has also refused to recede from politics by criticizing the Judiciary and IRGC, both of which are part of the Supreme Leader’s inner circle, and by calling for free elections. Without a public succession plan in place, such politicking will continue as factions recognize the significance of this



transition as the first such opportunity for change in three decades. At the same time, increasing US pressure will also force competing factions to close ranks leaving limited opportunity for internal debate or dissent to be heard.

#### ***Challenge 4: The Regional Nexus***

Tied to the aforementioned challenges is the regional nexus where unified external pressure stemming from Saudi Arabia, the UAE, Israel, and the United States has coalesced against Tehran for its role as a “regional menace.” Taking advantage of the change in US administration, these countries have lobbied the Trump administration to pursue a tougher policy towards Iran and limit Tehran’s ability to foment conflict in the region. Iran supports both state and non-state actors in a pragmatic and long-term application of its foreign policy that is guided by its national security perceptions and its worldview. While its adversaries see Iran as a regional aggressor, Tehran views its activities and posture as defensive. Over the years and most acutely since the 2003 Iraq War, it has successfully translated regional crises and conflict in Iraq, Afghanistan, Syria, Lebanon, and Yemen into opportunities for increased influence.

Important to this narrative is Iran’s regional foreign policy that has been driven by its history and its post-revolutionary ideology of independence. These themes form the backbone of Iran’s strategy in the Middle East where regime preservation and the nationalist driven motives of regional relevance come together. While the former is drawn from Iran’s post-revolutionary history, the latter has been a continuous trend in Iranian policy since the days of the Pahlavi monarchy, predating the 1979 Iranian Revolution. Issues of regime security, however, are most poignantly rooted in the national memory of the 1980–1988 Iran-Iraq war, where Iran’s neighbors, the United States, and many European countries collectively supported Iraq against Iran.<sup>22</sup> During this period that dovetailed with the consolidation of the revolution, Iran experienced regional and international isolation and encirclement that instituted a profound sense of security paranoia among the political elite. Continued US government opposition to the Islamic Republic and implicit support for regime change in Tehran evidenced in statements such as “all options remain on the table,” has fueled this paranoia.<sup>23</sup> After decades of perpetual enmity with the United States, Iran’s sense of strategic isolation is now imbued in the national political culture and seen in the dominant themes of political, national, and economic resistance. In the same context, the notion of resistance is also played out in the region through Tehran’s axis of resistance alliance bringing together Hezbollah and Bashar al-Assad’s Syria in a bloc against Israel and the United States.

Since the 1979 Islamic Revolution, Iran’s foreign policy orientation has been predicated on the concept of independence. The revolutionary slogans of “independence, freedom and the Islamic Republic” and “neither East nor West” were emblematic of this ideology and vision. Ayatollah Ruhollah Khomeini, the revolutionary founding father of Iran’s new political system, captured this philosophy stating, “If we cannot live up to the tough measure of ‘neither East nor West’ and have not made Iran truly independent, then we have not achieved anything.”<sup>24</sup>

Part of Iran's quest for independence is tied to the belief that the US presence and involvement in Iran and the wider Middle East has been decidedly negative and designed to change or to contain Iran. From Tehran's perspective, this is evidenced in the unstable outcome of the principle regional wars such as the 1980 Iran-Iraq war, the 1990 first Persian Gulf war, the 2001 Afghan war, the 2003 Iraq war, the 2012 Libya campaign, and support for the 2015 Gulf Cooperation Council (GCC)-led Yemen war.<sup>25</sup> Based on this interpretation of regional history, Iranian understanding espouses that Middle Eastern security should be managed from within the region rather than through US interference and balancing efforts.<sup>26</sup> This vision contrasts with that of Saudi Arabia and the GCC states who have traditionally relied on the United States to protect their security interests.<sup>27</sup>

To offset the increased American regional presence evidenced most recently in the 2001 US-led war on terror and the 2003 Iraq war, Iran has worked through a strategy of diplomatic, economic, religious, and military support for state and non-state actors. After years of sanctions and arms embargoes, Iran's military capability is weaker than that of its neighbors. According to the Center for Strategic and International Studies (CSIS), "data make[s] a conclusive case that the Arab Gulf states have an overwhelming advantage of Iran in both military spending and access to modern arms."<sup>28</sup> Iran's capabilities are strengthened by its ballistic missile program, but Tehran's primary military strength stems from its asymmetric and deterrent strategy that relies on the irregular warfare and support for proxy and non-state actors.<sup>29</sup> While Tehran views this "forward defense strategy" as protective, Iran's neighbors see Tehran as expansionist and aggressive, thereby exacerbating regional tensions.<sup>30</sup>

Over a number of decades, Tehran has built on these relationships using a multipronged regional strategy. Important to Iran's regional approach is the domestic narrative and ideological vision justifying Tehran's presence abroad that varies from Pan-Islamism, strategic depth and countering terrorism.<sup>31</sup> These narratives are regularly invoked to explain Iran's regional goals and strategic objectives. Important to note, however, is that Tehran is opportunistic as a foreign policy actor. It is only able to exert its influence through the mistakes and missteps of other regional players. In most circumstances, Tehran has capitalized on opportunities left by the vacuum and withdrawal of the United States. The Islamic Republic has proven to be adept at taking advantage of regional events seen in the context of the 2003 Iraq war and the 2011 Syrian civil war. It has also capitalized on the Saudi sponsored war in Yemen that started in 2015 and the Qatar Crisis in 2017.

In contrast to other regional powers, Iran has successfully implemented a "whole of government" long-term policy approach, cultivating relations with state and non-state actors to gain leverage and influence.<sup>32</sup> This strategy, as articulated by the Iranian foreign policy establishment, uses a mix of political support and relationships at the diplomatic level, soft power activities of trade and investment, and cultural and religious ties as well as the creation and training of militia groups.<sup>33</sup> Tehran implemented this strategy most effectively after the 2003 Iraq war by building a diversified network with leaders from Shia,



Kurdish, and Sunni groups at a political level, while also building its soft power influence through increased trade and religious ties. Military relations and sustained support for militia groups known as the Popular Mobilization Forces (PMF) have been instrumental in further cementing Iranian influence throughout the country. For Tehran, creating indispensable ties beyond its borders would provide strategic lines of defense and influence. After the outbreak of the 2011 Syrian civil war it, too, replicated this approach with greater rigor in the Syrian frontier.<sup>34</sup>

This policy is at odds with US interests in the Middle East and has heightened the possibility of conflict, as Washington in concert with Israel and Saudi Arabia see an opportunity to pressure Iran into submission. The challenge to this thinking is that while Tehran is indeed vulnerable and exposed both at home and abroad, the regional dynamics and US involvement in the Middle East have also shifted. Unlike past efforts to contain Iran, the regional theatre has changed such that the United States has retreated from its position as activist guarantor of regional security; Syria, since its civil war, is fragmented; the Islamic State still remains a formidable terror threat; and Saudi Arabia is pursuing a more assertive, yet ineffective, regional policy in Yemen and in the Qatar crisis.<sup>35</sup> The Russian military presence that has cooperated with Tehran in Syria adds an additional complication to the regional chessboard bringing two American adversaries closer together.

Through these shifts, Tehran has developed a defensive toolkit that allows it to nimbly and asymmetrically respond in a variety of theaters ranging from Afghanistan to Yemen and Lebanon as well as in cyberspace. Its 2014 mobilization against ISIS has been celebrated domestically as a success in the fight against terror. At the same time though, Tehran is aware that it is due to such influence and interference that greater regional and popular opposition has galvanized against it. Also, because of its significant military and financial investment in non-state actors such as Hezbollah, Popular Mobilization Units in Iraq, and Shi'a militias in Syria, Iranian demonstrators criticized Tehran's ideological foreign policy and allocation of economic resources outside of Iran. An internal debate is also ongoing among the elite regarding the value and payoff of Iran's support for Bashar al-Assad. Having invested an estimated \$5.4 billion in government loans, economic investment, and military support and training,<sup>36</sup> Tehran is not completely certain that it will be able to reap the benefits from this campaign, as interests between Assad, Moscow, and Tehran could diverge.

Bearing in mind the aforementioned challenges of the JCPOA and domestic and regional opposition, it would be logical for Tehran to calculate and moderate its position. The factional, ideological, and revolutionary dimension of domestic politics is very relevant here. As stated by Professor Mahmoud Sariohghalam, "What stands out about Iran is that its foreign policy is not a reflection of its national economic interests. Indeed, Iranian leaders proudly boast that their policies are driven by a desire to fight injustice rather than further the economic interests of the state."<sup>37</sup> The impact of a confrontational strategy in Iran must also be considered as an opportunity. Here, it is important not to overestimate popular frustration

against the regime. While Iranians have readily expressed their anger in polls and protests alike, there is little appetite for a second revolution or dramatic levels of instability and war. Any such aggression would moreover be easily translated by hardliners to shore up nationalism and support for their resistance policies as the best strategy to protect the Islamic Republic. This would, in turn, further entrench Iran's hardliners at the time of a consequential leadership transition.

### **Time for a Grand Iran strategy**

Over four decades, US-Iranian enmity has indeed become a defining feature of Middle Eastern politics and an obstacle to regional stability. Despite the durability of these tensions though, Iran is not even acknowledged as a primary threat to US global security and interests. Rather, as detailed in the October 2017 National Security Strategy, China and Russia are identified as America's primary global challengers. Iran is described as a secondary threat that "destabilize[s] regions, threaten[s] Americans, and brutalize[s] [its] own people." In a climate of popular American disaffection for conflict abroad and of increasing hostile economic and political tensions with Moscow and Beijing, Washington should be thinking about translating Iranian tensions and wider regional discord into an opportunity for larger and long-term threat reduction. Doing so would not only allow the United States to focus on its broader geopolitical challenges, but it would also prevent China and Russia from gaining leverage in the Middle East at Washington's expense.

In the face of Iran's multiple interconnected crises, it would be easy to assume that a containment policy will facilitate this goal. Yet, there are a number of facts on the ground that suggests the contrary. First, returning to the status quo ante is also impossible in the current environment of regional disarray. History has also shown that containment has had limited success and never resulted in meaningful change in Iranian behavior. Moreover, containment and pressure provides more opportunity for Tehran to shore up domestic support, unify the political elite, and unleash the power of Iranian nationalism. This will, as it has in the past, further muffle and weaken the voices of reform at a time when such changes should be encouraged. Overstating Iranian vulnerability and recognizing the regime's long-standing ability to translate crisis and conflict into net gains is an important strength for Tehran. Instead, containment might force Tehran to bend, as it recently did in the nuclear negotiations, but it will not achieve the zero-sum break that Washington ultimately seeks. To arrive at that shift, the Trump administration should develop a grand strategy for Iran, where through pressure and engagement, it can resolve the portfolio of tensions dividing Tehran and Washington. This strategy would also necessitate the creation of a regional security framework that addresses regional tension between Iran and its neighbors.

This formula is by no means a frictionless solution nor is it one that will be easily embraced by the Trump administration, by the Islamic Republic of Iran, or by America's regional allies.



While this strategy would require strategic patience and vision for a changed Middle East, it would not need to be a Sisyphean task. Despite efforts of many presidents gone by, no US president to date has arrived at a grand bargain with Tehran. A grand strategy could enable President Trump to turn the “worst deal ever” into America’s biggest victory offering the only reasonable pathway to promote incremental and transformative change in Iran, regional stability in the Middle East, and ultimately protect American interests in the region and beyond.

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### About the Author



#### SANAM VAKIL

Sanam Vakil is the James Anderson professorial lecturer in the Middle East Studies department at the Johns Hopkins School of Advanced International Studies (SAIS Europe) in Bologna, Italy. She is an associate fellow at Chatham House's Middle East North Africa Program, where she leads the Iran Forum project focusing on future trends in Iran's domestic and foreign policy. She provides research, commentary, and political risk analysis for companies and organizations working in the Middle East. She is the author of *Action and Reaction: Women and Politics in Iran* (Bloomsbury, 2013) and she publishes analysis for a variety of media and academic outlets.

### *The Working Group on Islamism and the International Order*

The Herbert and Jane Dwight Working Group on Islamism and the International Order seeks to engage in the task of reversing Islamic radicalism through reforming and strengthening the legitimate role of the state across the entire Muslim world. Efforts draw on the intellectual resources of an array of scholars and practitioners from within the United States and abroad, to foster the pursuit of modernity, human flourishing, and the rule of law and reason in Islamic lands—developments that are critical to the very order of the international system. The working group is chaired by Hoover fellows Russell Berman and Charles Hill.

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