CHAPTER TWO

Features of the Iranian System

In this chapter, we explore the Iranian system, concentrating on the following features:

- *The political landscape.* We look at the key institutions of the political elite, focusing particularly on the important role of Supreme Leader Ayatollah Ali Khamenei as a mediator of Iran's policy disputes and the growing domestic primacy of the Islamic Revolutionary Guards Corps (IRGC).
- *The economy.* The subjects here are Iran's oil-dependent economy and its attendant pathologies; the sensitivity of Iran's gross domestic product (GDP) to fluctuations in world oil prices and the value of Iran's oil exports; the myriad government entities involved in economic policy formulation and execution; the correlation of wealth distribution with political influence among elite actors.
- *Leadership and political decisionmaking.* We look at factionalism as a determinant of Iranian political behavior; dogmatism and opportunism in Iranian political culture; deference and indifference to public opinion among the elite; the importance of collective action and consensus in a multipolar decisionmaking structure. Iran's nuclear program is used as a case study to observe these processes at work.
- *Approach to Arab neighbors.* The topics here are Iran's influence and resonance among Arab publics and regimes; Iran's "Arab street strategy" as a driver for Iranian brinksmanship and assertiveness; the risks and benefits of employing Arab regimes as America's interlocutors and allies against the Islamic Republic.

- *Negotiating style.* This entails determining whether there is a uniquely Iranian style of deal-making; navigation of Iran's labyrinthine business culture and lessons for U.S. strategy; discerning cultural asymmetries in Iranian and U.S. approaches to negotiation—what one participant termed, "playing poker with chess-players."

Iran's Political Landscape: Individuals and Institutions

At its core, the Iranian system is closed, secretive, informal, and clannish—descriptors more aptly applied to a conspiratorial cabal than to a "normal" regime. The system is also intensely fractured and multipolar, in some cases by accident, in others by bureaucratic design. Taken in sum, these characteristics suggest a gridlocked political system, a tendency to lurch from crisis to crisis, and an overall drift toward strategic incoherence. Yet this observation is only partially accurate. Iran *does* function, often with remarkable cleverness, perspicacity, and adroitness on the diplomatic front. A preference for consensus and collective action, mediation by the Supreme Leader, and the elite's invocation of public opinion provide the "lubricant" for Iran's complex policy apparatus, enabling contending factions to close ranks. Often, decisiveness among the political elite is *issue dependent*; for example, there is greater agreement on relations with the United States and the nuclear program than on Iran's relations with the Arab world. Throughout its history, the Iranian system has shown the ability, when necessary, to affect drastic reversals in long-held paradigms, two notable examples being the "poisoned chalice" of the Iran-Iraq truce and the opening of relations with Saudi Arabia.

To understand these complex processes, one must have a basic understanding of the major players and formal institutions in the Iranian system. And one must start with the Supreme Leader, Ayatollah Khamenei. As Iran's most powerful political figure, his vision of the Islamic Republic has remained remarkably resolute and consistent over the past 18 years.

The Supreme Leader: Influence and Worldview

Ayatollah Ali Khamenei has frequently been overlooked or outright dismissed as a weak and indecisive personality who occupies a powerful post but lacks charisma. Much of this interpretation stems principally from the controversy surrounding his succession as Supreme Leader following Ayatollah Rohullah Khomeini's death in 1989 and from his clerical credentials, which are lackluster compared with those of other figures.[1] Despite these drawbacks, however, he has long exercised influence over the Iranian system through "negative power"—for example, not necessarily by formulating original policy, but by blocking alternative approaches. Much of his strength rests on his presumed moral authority and his skillful orchestration of informal networks, as well as recent shifts in the international and domestic context. For instance, the sense of embattlement that has developed among the body politic because of increased international pressure on Iran has enabled Khamenei to bolster the revolution's sagging legitimacy and discredit any moves toward reform as externally inspired. Along the same lines, he appears adroit at playing a "good-cop/bad-cop" role in Iranian factional politics, as he did when he publicly criticized the Guardian Council (GC) for disqualifying reformist parliamentary candidates in 2004, despite the fact that he ultimately has responsibility for appointing GC members. This public distancing of himself from the GC's decisionmaking was likely a deliberate tactic to portray himself as more democratic by comparison.

Since 2004, Khamenei has seen his influence expand. He exerts informal control over the elected conservative parliament through its speaker, Gholam Ali Haddad-Adel, whose daughter is married to Khamenei's son. He also enjoys support from the IRGC, whose top leadership he appoints and whose role in Iranian political life has grown considerably in recent years.[2] His principal rival in the Iranian system,

---

[1] For an overview of these disputes and Khamenei's meager clerical standing, see Geiling, 1997. For a recent analysis of the Supreme Leader's worldview, see Sadjadpour, 2008.

[2] The Supreme Leader's authority within the IRGC may have limits. His relations with former IRGC commander Mohsen Rezai were reported to be contentious, stemming from Rezai's effective upstaging of Khamenei's authority during the Iran-Iraq war.

former President Akbar Hashemi Rafsanjani, has been discredited by rampant perceptions of corruption and nepotism. The Supreme Leader has also benefited from the disenchantment of Iran's youth, who largely disengaged themselves from political activism when the expectations of the Khatami era went unmet.[3] Finally, the 2005 election of President Mahmoud Ahmadinejad, a radical and increasingly unpopular Iranian figure, has been a further boon to Khamenei's power. The public and factional backlash against Ahmadinejad has reinforced Khamenei's role as an arbiter and made him appear comparatively more moderate and popular.

In domestic policy preferences, the Supreme Leader leans toward the status quo, being fairly pragmatic in his drive for self-survival but defaulting toward a more hard-line ideological stance. Put differently, Khamenei mediates between the competing themes of republicanism and theocracy in the Islamic Republic, aware that an excessive drift toward the first of these would effectively obviate the position of Supreme Leader. On international issues, he has been markedly risk averse, preferring neither confrontation nor accommodation. He has been paralyzed by mistrust toward the United States, interpreting U.S. actions as pretexts for eroding the republic's revolutionary foundations through either gradual dissolution (as occurred in the Union of Soviet Socialist Republics [USSR]) or abrupt democratic change spurred by civil society (i.e., a "velvet revolution"). U.S. intentions, he has stated in his speeches, are ultimately geared toward reestablishing the patron-client relationship that existed under the Shah. Accordingly, Khamenei believes that any Iranian moves toward compromise will be seen as a sign of weakness and will encourage the United States to exert even greater pressure.

This aversion to compromise has been strengthened by the triumphalism that Khamenei brings to his reading of regional events—the belief that since the fall of Iraq's Saddam Husayn, and especially since the summer 2006 Lebanon war, the tide of history favors the Islamic Republic. Parodying U.S. rhetoric, Khamenei has argued that recent

---

[3] President Mohammad Khatami, a reformist, served two terms, from August 1997 to August 2005. He was replaced by the ultra-conservative Ahmadinejad.

years have indeed seen the "birth pangs of a new Middle East," but in his case, the new Middle East is increasingly sympathetic toward Iran. Khamenei likely believes that much of this popular acclaim rests on the Islamic Republic's resolute animosity to Israel, which he, like policymakers in Washington, has viewed as a critical impediment to U.S.-Iranian relations. Despite the fact that anti-Israeli rhetoric has little meaning for the Iranian public and that key Iranian leaders have shown a willingness to barter this hostility for better relations with the United States, Khamenei has remained steadfast in his contempt.

In addition to Khamenei's paranoia about U.S. intentions and opposition to Israel, four other themes appear to shape his worldview. These themes, distilled from an extensive survey of his speeches in the past 10 years, are justice, Islam, independence, and self-sufficiency. For Iran to safeguard social justice and promote Islam, Khamenei has stated, Iran must be politically independent, a condition that hinges on economic and technological self-sufficiency. His speeches also evince the nuclear issue's almost mythic significance in linking these four themes. Despite evidence to the contrary, Khamenei has repeatedly pointed to the domestic economic benefits of retaining the full enrichment cycle, seeing in it a solution for Iran's "scientific retardation" and a sine qua non for Iran's political sovereignty. Given this fixation, Khamenei is unlikely to allow the relinquishment of an indigenous fuel cycle, which is viewed as Iran's "national right."

Taken in sum, these features of the Supreme Leader's worldview have important implications for U.S. policy. At age 70, the Supreme Leader most likely cannot effect a drastic reinvention of the "Death to America" culture that has nourished his thinking. Any policy action that forces him to back down publicly is clearly a non-starter, and back-channel overtures may be similarly dismissed—as long as he perceives the United States as unable to present a credible threat to the Republic's survival. Former Russian Foreign Minister Sergey Lavrov's visit to Iran provides one recent indication of this "strategic confidence": Lavrov reportedly endured an hours-long lecture from the Supreme Leader, returning empty handed and "disgusted."

One potential venue for reaching the Supreme Leader is his closest advisors, who include Ayatollahs Safi Golpayegani and Moham-

mad Reza Mahdavi Kani, as well as former foreign ministers such as Ali Akbar Velayati and Kamal Kharrazi. Another, formal venue is the Strategic Council on Foreign Relations—an advisory body he created in June 2006 as a "shadow cabinet" to provide sinecure for Khatami-era officials. The Council reportedly induced the Supreme Leader to release the 15 British sailors and marines seized by IRGC naval forces from the H.M.S. *Cornwall* in March 2007. It is important to note, however, that for the Supreme Leader, the consensus of other elites does not imply their equal *involvement* as much as their equal *implication*. Consensus is best thought of as a "safety net" for the Supreme Leader, one that absolves him of ultimate culpability for any policy that goes awry. Once a decision has been made, the elite are all responsible for it, with little room for opting out or exploiting mistakes or setbacks. In addition, consensus, however illusory, is an insurance policy against foreign exploitation of internal differences.

The National Security Establishment and the Rise of the Revolutionary Guards

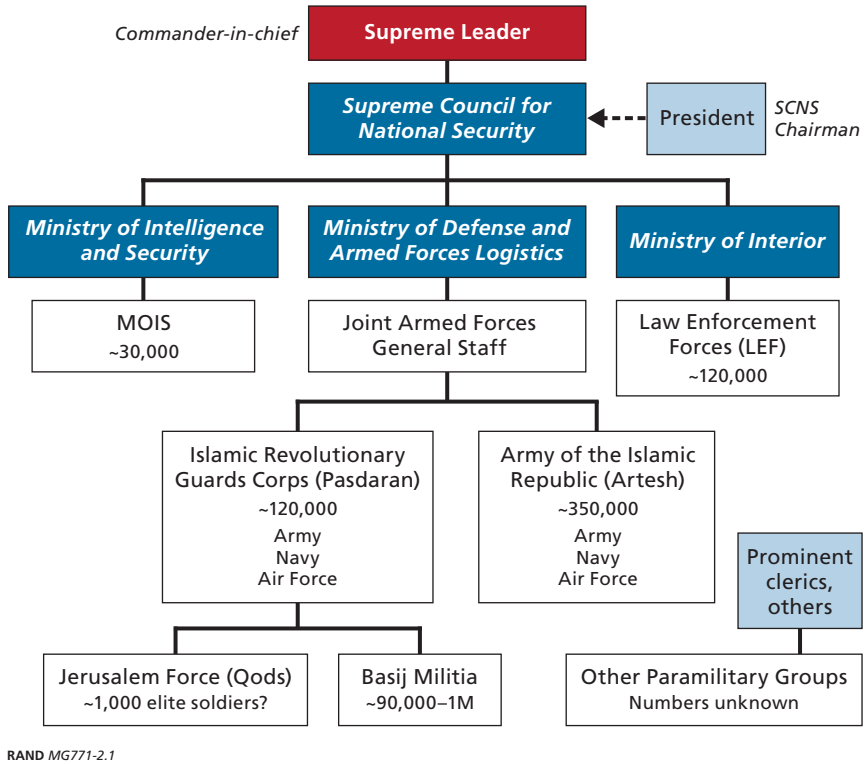
Much of the Supreme Leader's influence rests on his ability to mediate, co-opt, and placate constituencies within Iran's defense and security establishment. Figure 2.1 is a rough schematic of these major institutions and their formal lines of authority.

Major national security issues are decided in the Supreme National Security Council (SNSC), which comprises the president, the defense and foreign ministers, the commander of the IRGC, and several appointees, or "representatives," of the Supreme Guide. The SNSC is broadly reflective of the elite, and its secretary (Saeed Jalili,[4] who replaced Ali Larijani in October 2007) is, broadly speaking, the equivalent of the U.S. National Security Adviser.

---

[4] Jalili's background is important. A former Basiji veteran of the Iran-Iraq war, he served as a professor of international relations and, beginning in 1989, a civil servant in the Foreign Ministry before becoming SNSC secretary. In his books and other writings, he has called for a "principled" foreign policy that adheres closely to the Iranian revolution's Islamist ideals—views that place him squarely in the Jihadi/conservative cluster of President Ahmadinejad. (*BBC Monitoring*, 2007a)

Figure 2.1
Major Institutions of the Iranian Defense Establishment



RAND *MG771-2.1*

The most important point to notice about the SNSC structure is that the president, Ahmadinejad, wields little authority in matters of defense despite his chairmanship of the Council and his headline-grabbing bravado. As noted earlier, it is the Supreme Leader who wields constitutional authority as commander-in-chief and (perhaps more important) exercises vast influence through his mediating role, his personal relationships with top commanders, and the presence of his clerical representatives throughout the security institutions. The Supreme Leader has special representatives in the SNSC (Hasan Rowhani); he also has special advisers for foreign affairs (former Foreign Minister Akbar Velayati) and military affairs (former IRGC Commander Yahya

Rahim Safavi). Khamenei is likely to consult these former officials and others when they do not participate in important sessions of the SNSC.

Foremost among the security institutions is Iran's powerful IRGC (Sepah-e Pasdaran-e Enghelab-e Islami). This group's growing politicization and increasing involvement in Iran's economic sphere—starting in 1997 but reaching its full apogee in 2004—can arguably be termed Iran's "third revolution." The IRGC's estimated 120,000 personnel carry out a number of functions related to internal security, external defense, and regime survival, and the IRGC fields an army, a navy, and an air force. In line with the IRGC's original charter of defending the revolution, it has installations in all of Iran's major cities that are organized into quick reaction groups to serve as a reserve against unrest. In rural regions, the IRGC operates with other security forces in various missions, including border control, counter-narcotics, and disaster relief. The IRGC has primacy over Iranian unconventional warfare options; it maintains tight control over the development and deployment of Iran's ballistic missiles and wields an external terrorism capability through its elite, Qods force. Were Iran to develop and field nuclear weapons, the IRGC would likely oversee their storage, training, and deployment infrastructure.

Yet the IRGC's growing primacy in Iranian political and economic life may far outstrip its actual military significance. It is important to understand that the political and economic weight of the IRGC veterans' influence does not derive merely from their service in the corps. Instead, it is their service in the Iran-Iraq war—membership in the same unit, participation in the same battle, a link with a particular commander. That commonality provides them with a shared outlook and a network that carries over into politics, economic activity, and society.

Beginning with the IRGC's episodic confrontations against reform activists during the Khatami era, the IRGC took on an increasingly political role, one that enabled it, by design or by accident, to emerge as a sort of "praetorian guard" for conservatives seeking to remove Khatami supporters from political power. In 2003, former members of the IRGC or its associates took control of numerous city and town

councils, paving the way for their entry into legislative politics during the 2004 parliamentary elections. Ninety-one of 152 new members elected to the Majles (the Islamic Consultative Assembly) in February 2004 had a background in the Guards, and 34 former Guards officers now hold senior-level posts in the government. In the 2005 presidential election, Ahmadinejad was one of four candidates from the Guards. Influential figures such as Ali Larijani (replaced as secretary of the SCNS in late 2007), Ezzatolah Zarghami (head of the Islamic Republic of Iran Broadcasting Corporation [IRIB]), and Mohsen Rezai (secretary of the Expediency Council), and assorted heads of economic foundations, or bonyads, are part of the Guard generation. Finally, there are robust intellectual resources behind these personal networks; the IRGC administers two universities, two think tanks, and assorted policy journals and media outlets.

Moreover, the IRGC oversees or owns important interests in the oil, construction, technology, and defense sectors of the economy. From laser eye surgery, to cell phone technology, to the illicit import of luxury goods through its private jetties, the IRGC appears to have left virtually no aspect of the Iranian market untapped. Together with its affiliates, the IRGC has secured an estimated U.S. $5 billion in no-bid contracts from the government. This intrusion into the financial sector, particularly in construction, is not new—it began once the Iran-Iraq war ended, when the Guards began playing a significant role in countrywide reconstruction activities. This post-war effort was what helped the IRGC solidify its nationalist credentials, but its subsequent financial ventures were more deeply rooted in self-interest. Specifically, the allocation of a sizable share of the defense budget to the regular forces (Artesh) meant that the IRGC had to become more self-sufficient economically.

It is currently unclear whether this growing economic primacy has produced a backlash among more-traditional commercial sectors. The IRGC may have been able to skillfully co-opt existing companies into its orbit through subcontracts, thereby mitigating dissent and preserving its aura as a nationalist, rather than purely commercial, entity. In many respects, this model replicates the preexisting structures of the religious bonyads, allowing the IRGC's business ventures to be seen as

"militarized bonyads" and part of a broader effort to displace the clerical elite from the Republic's economic and political space.

Endowed with this economic and political might, the IRGC is perhaps the sole institution in Iran that can both enforce and breach any "red lines." The most notable example of this dynamic at work is the IRGC's abrupt closure of Imam Khomenei Airport on its opening day, May 9, 2004. The IRGC claimed that the TAV, the Turkish-led consortium selected to operate the airport, presented a security risk to the state by placing foreign workers at a sensitive transportation node. On May 11, the IRGC ordered the TAV to remove its personnel and equipment from Iran. This episode caused significant international embarrassment for Iran, damaged its bilateral relations with Turkey, and hastened the growing impotence of the Khatami administration by forcing the impeachment of his transportation minister. Some observers suspected that the IRGC's action had an economic motive: When the TAV won the tender to operate the airport, the losing bidder reportedly was an Iranian firm with close IRGC ties. In addition, the IRGC may have sought total oversight of the airport's operations because the airport was serving as a key transportation hub in its illicit smuggling activities.

This strong-arm preference for no-bid tenders, monopolization of key industrial sectors, and control of an illicit shadow economy has not gone uncontested within the IRGC and by entities outside the IRGC. Indeed, it raises the larger problem of treating the IRGC as a coherent body, one whose members act in unison across a range of issues. In practice, this is hardly the case. Certainly, there is a large body of opinion within the IRGC that resists greater financial transparency in Iran's economy and Iran's integration into the World Trade Organization (WTO), arguing that these changes would erode the isolation that has thus far empowered the IRGC. At the same time, there are voices that challenge the dominant IRGC narrative of a return to the "golden age" (marked, for example, by the confrontational stridency and insularity of the 1980s). Alarmed by the increasing flight of Iranian capital to Dubai, these voices argue that the IRGC needs to harness, rather than resist, globalization and should extend its arm into international business partnerships.

On the political front, there is also a pragmatic IRGC current. This one emanates from retired Brigadier General Mohammad Baqer Qalibaf, whose near-flawless credentials include war service in the IRGC Air Force; a stint as commander of the Law Enforcement Forces (LEF), where he garnered acclaim for curtailing the excesses of the vigilante "pressure groups" (such as Ansar-e Hezbollah); and, more recently, serving as the mayor of Tehran. Qalibaf fared well in the 2005 presidential elections and has argued that Iran needs a "Muslim Reza Khan"—a Muslim version of the first Shah of Iran, who overthrew the Qajar dynasty and implemented a series of broad-ranging socioeconomic reforms. Aside from his relative political moderation, Qalibaf is an advocate of the IRGC's integration into the global economic order; he reportedly traveled to Zurich at the invitation of a Swiss cement company to explore a business partnership. While Qalibaf is the frontrunner of this network, less-known IRGC figures along the network's fringes may be preparing to challenge the hard-liners' domination in the 2009 presidential elections. Many of these, disenchanted with Larijani's tenure as Iran's nuclear point man and the economic isolation of Iran, may be more predisposed to negotiate with the West.

The Iranian Economy: Oil Dependency, Key Actors, and Policies

In trying to fathom the interplay among interest groups, politics, national security, religion, economic policy, and social policy, the general precept "to follow the money" may be especially relevant in Iran compared with other states. In the factionalized Iranian system, the distribution and availability of the country's oil revenues may have a pronounced effect on the regime's speed in making decisions and the degree to which it is compelled to rely on public acquiescence in making decisions: In periods of greater financial liquidity, the regime can "buy off" potential dissent on unpopular policies. In addition, an

understanding of these dynamics is important for informing future sanctions policies and assessing their impact.[5]

Two aspects of these dynamics are of particular importance: the peculiar dilemmas and paradoxes associated with Iran's oil-dependent economy, and how successfully Iran's governmental economic organs have grappled with these issues—particularly the degree to which their policies have empowered particular segments of the elite.

Oil Export Dependency and Its Pathologies

That the Iranian economy is heavily driven by oil—its production, value, and exports—is, of course, well known. On average, each increase of 1 percent in Iran's oil export value increases GDP growth by nearly one-quarter of 1 percent; and Iran's recent, relatively high annual growth rate of 5 to 6 percent has been largely driven by increased oil export revenues. Iran's oil export earnings are high, totaling roughly $60 billion in 2007 and constituting 35 percent of GDP. Many aspects of the relationship between oil and Iran's macroeconomy are classic examples of the symptoms displayed by the so-called "resource curse," or "Dutch disease," economic pathology:

1. development of a scarce resource that commands large economic rents for the endowed economy and from the rest of the world
2. a resulting surfeit of internal liquidity and capital inflows that boosts the exchange rate, attracts capital and labor to the resource-favored sector, and inflates domestic demand
3. in turn, price inflation and the siphoning away of productive factors from the non-favored sectors, leading to impeded development of a more balanced, stable, multisector economy.

Aside from these aspects, the Iranian case has some unique aspects. For example, there is the perversely circular relationship between oil exports, GDP, and domestic consumption: Oil exports increase GDP; increased GDP increases domestic consumption of oil, gasoline,

---

[5] For a recent inquiry into the effectiveness of sanctions on Iran, see United States Government Accounting Office, 2007.

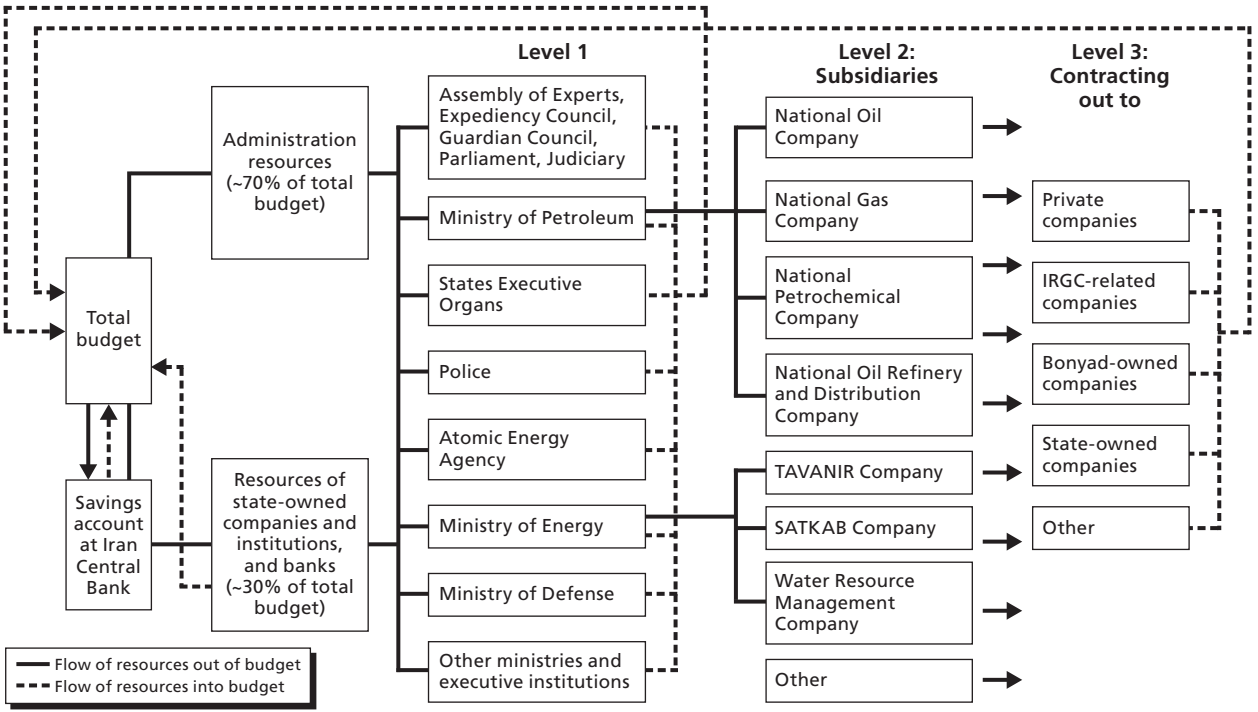
and other refined products; and increased domestic consumption of these products tends to decrease oil exports because total production of crude oil is flat. This sequence is aggravated by a long-standing, politically sensitive policy of heavily subsidizing domestic energy consumption. Thus, the elasticity of energy consumption with respect to changes in income tends to be higher than it would be if full (opportunity) cost pricing of energy prevailed. A further perverse consequence is that because Iran's domestic refining capacity is limited, increases in domestic consumption of refined products generate increased imports rather than increased domestic production and employment. Finally, the reason why domestic production of crude oil is flat is that Iran is reluctant to allow—let alone encourage—the foreign investment and foreign technology needed to exploit proven reserves more fully and to explore more actively to enlarge the pool of reserves.

Iran's oil exports are relatively insensitive to changes in world oil prices. Indeed, the effect of oil prices on Iran's oil exports is slightly negative. While suggestive, this result is not statistically significant: An increase of $1 per barrel in the price of oil leads to a decrease of 11,000 barrels per day (or 0.5 percent) in the volume of Iranian oil exports—an important paradox in the Iranian version of Dutch disease.

In 2006, Iran's oil exports, which were about 2.5 million barrels per day (from production of about 4.0 million barrels per day), generated foreign exchange earnings of $50 billion; and its earnings in 2007 are projected to be over $60 billion. Yet the diversity and complexity of the Iranian system make the flow of these earnings difficult to track. Figures 2.2, 2.3, and 2.4 depict revenue flows and disbursement among ministries drawn from information on the public Website of Iran's Management and Planning Organization.[6] Table 2.1 shows the

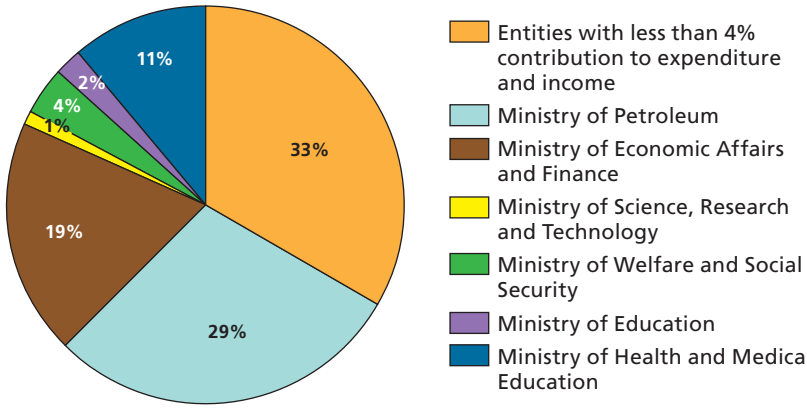
[6] See Management and Planning Organization of Iran, 2007. Governmental resources include the government's general income obtained from taxes, and yields from capital assets that include (among other things) part of oil revenues and yields from financial assets. "Other" is a consolidation of governmental entities for which the total incomes and expenditures constitute less than 2 percent of total governmental resources. These governmental entities include (among others) Assembly of Experts, Expediency Council, Ministry of Cooperative, Guardian Council, Ministry of Justice, Department of Environment, Parliament, Management and Planning Organization, Cultural Heritage Organization, Ministry of Labor and Social Affairs, Ministry of Foreign Affairs, Ministry of Industries and Mines,

Figure 2.2
Flow of Funds: Iranian National Budget, 2007



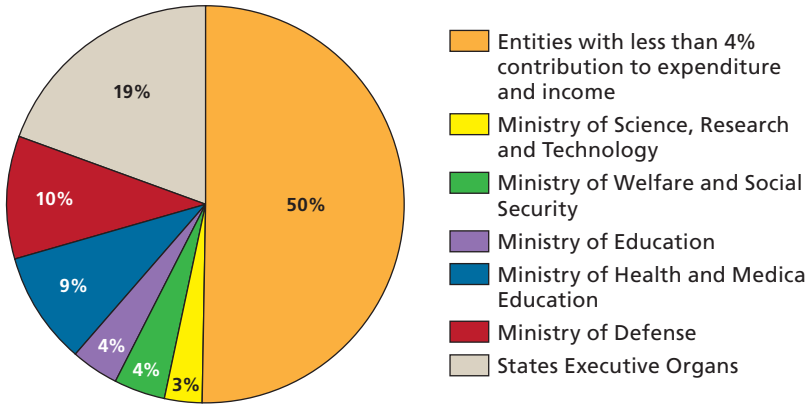
RAND *MG771-2.2*

Figure 2.3
Flow of Funds: Projected Government Revenue, 2007



RAND *MG771-2.3*

Figure 2.4
Flow of Funds: Projected Government Spending, 2007



RAND *MG771-2.4*

Ministry of Commerce, Physical Education Organization, Atomic Energy Agency, Ministry of Housing and Urban Development, Office of the President, Foundation of Martyrs and Veteran Affairs, Ministry of Intelligence and Security, Ministry of Islamic Culture and Guidance, Radio and Television, Ministry of Interior, and Judiciary.

Table 2.1
Budgetary Funds: Ministry Sources and Recipients

	Total Revenue (rials)		Total Expenditure (rials)	
Name	**Amount**	**Percent**	**Amount**	**Percent**
Ministry of Petroleum	203,114,569	29	982,379	0
Ministry of Economic Affairs and Finance	13,024,047	19	1,976,503	0
Ministry of Agriculture and Rural Development	7,068,807	1	11,122,400	2
Police	2,977,800	0	13,535,660	2
Ministry of Education and Training	573,495	0	13,783,746	2
Ministry of Roads and Transport	218,776	0	16,998,700	2
Ministry of Science, Research and Technology	6,445,824	1	19,029,461	3
Ministry of Welfare and Social Security	1,701,000	0	26,599,314	4
Ministry of Education	960,454	0	27,740,254	4
Ministry of Health and Medical Education	30,462,665	4	64,888,364	9
Ministry of Defense	11,230,950	2	69,035,426	10
States Executive Organs	76,977,361	11	134,829,934	19
Other	197,951,357	33	236,741,475	44
Total	691,827,731	100	691,827,733	100

SOURCE: Based on numbers from Management and Planning Organization of Iran, 2007.

ministry sources for and recipients of budgetary funds. It should be noted, however, that these data are only partially helpful in that they show the ministries' *total* income, and there is no way to discern the portion from oil revenues. Moreover, we have no way to capture the expansive shadow economy, much of which appears to be increasingly

controlled by IRGC or IRGC-affiliated entities. What our graphics are able to do, however, is suggest the profound complexity of a bureaucratic system beset by multiple conflicts of interest—certainly among the recipients of oil largesse, but also among institutions charged with formulating and implementing economic policy.

Economic Policies and Institutions: Complexity and Redundancy

While the government's desire for control over the economy remains relatively high, two sets of policy frameworks currently govern Iran's economic policy: (1) the 20-year long-term perspective drawn by the Supreme Leadership and (2) the five-year development plans (FYDPs) prepared and implemented by the government in power. The long-term perspective is a virtual guideline associated with macroeconomic targets set for the long run; the successive FYDPs are designed in conformity with the long-term perspective, their goal being to adjust and rectify structural problems within the country that have become hindrances to Iran's economic development and a healthy economic policy. Ever since the 1990 introduction of the first FYDP, which had an objective of promoting reconstruction, development, and liberalization of the economy, two successive governments, those of Rafsanjani and Khatami, have stated their intentions to tackle inflation, unemployment, inefficiency, and incompetency through structural reform of the country's war-ravaged economy. In both administrations, however, the results were severely lacking; in fact, most of these problems worsened.

Both administrations also recognized that Iran badly needed to reduce its dependency on oil export revenues, curtail government overspending, and adjust monetary policy to control inflation. Following an absence of more than one decade, foreign direct investment (FDI) was sought seriously by the government—exhibited by fierce debates in the Majles—as a booster to invigorate the economy. The Law on Attraction and Promotion of Foreign Investment (LAPFI), a fossil legislation introduced in 1955, was the only tool provided to entice foreign investors, who, it turned out, sought what they thought to be better and more-promising opportunities in places such as Dubai. This

comparative disadvantage pushed the Khatami government to prepare and introduce the Foreign Investment Promotion and Protection Act (FIPPA) in 2000. A relaxation of trade policies and a subsequent attempt to unify multiple foreign exchange rates then occurred as further key elements of economic reform. The exchange rate was finally unified during Khatami's second presidency as an instrument for promoting a more liberalized economy.

Today, it is no exaggeration to state that roughly one dozen governmental bodies are mobilized in the process of economic policy decisionmaking. This situation presents the regime, whatever its political disposition, with serious challenges in any attempt to coordinate the state's economic policies. The primary authorities involved in this decisionmaking process are

- the ministers with responsible portfolios
- the Majles as a whole and its relevant commissions individually
- the Supreme Economic Council chaired by the president
- the Guardian Council with vetting powers to reject legislation by the Majles and the Expediency Council as an advisory board to the Supreme Leader

On the issue of attracting foreign investment, several entities play a role:

- High Council for Investment, chaired by the minister of Economy and Finance
- High Council of Free Trade Zones, working directly beneath the president (specifically, for free trade zones, or FTZs)
- Supervisory Board for the Attraction and Protection of Foreign Investment
- Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), a subsidiary of the Ministry of Economy and Finance

Other relevant institutions are the ministries of the Interior, Labor, and Social Affairs; the Customs Agency; the Iranian Privatization Organization (POI); and the Central Bank of Iran (CBI) (Bank-e Markazi).

The semi-official or even non-official bodies—such as the local Basij units and the Chamber of Commerce, Industry and Mines, which partially represent the private sector—get involved as pressure groups to exert influence on key decisionmaking bodies. In between stand the official bonyads (such as the Bonyad-e Mostazafan) and the recently attention-getting IRGC subsidiaries that have high stakes in the semi-state economy but also enjoy strong personal relationships with key political players.

Disarray and Dysfunction in Economic Policy Execution

Implementation of certain policies has been hampered by the complexity arising from the overlapping and competing governmental and semi-governmental entities and agencies that have existed since the early days of the Islamic Revolution. At times, a government has made decisions that contradicted each other and, in the end, undermined the designed effect on the economy. The actual use of the Oil Stabilization Fund (OSF), created under the fourth FYDP, displays clear signs of inconsistency with the original, sensible objective. The OSF has been a constant source of political debate and power struggles among various factions, usually leading to sponsorship of additional government spending. Lack of coordination within the government, associated with the government's rather common flip-flops on interpretation and implementation of OSF policy, has not impressed foreign capitals. FDI thus has not materialized in the way it was supposed to.

Nor has Iran's privatization target been met. According to an International Monetary Fund (IMF) report of March 2007, complicated regulatory and legal structures and weak political support have prevented effective implementation of the previously ongoing privatization program since the late 1980s. While ostensibly still promoting privatization, the government has continued to provide favors and preferential treatment to state-owned entities—a practice likely to dissuade the capital market from participating in initial public offerings (IPOs). Moreover, companies owned by or affiliated with the IRGC,

or subcontracted by it, have been increasing their role in the economy. Conflict between the stipulation of the Constitution's Article 44 and the government policy had virtually put the program in hibernation for years until recently, when the Supreme Leader issued a comprehensive directive to resolve the matter. The privatization program is now expected to get back on track while firmly excluding from privatization the upstream oil sector, crucial infrastructure, and some of the state-owned banks.

Discrepancies between the government and the Majles on the same issue have abridged certain policies, as is evident in the normalization of the fuel and utility prices. Toward the final year of Khatami's presidency, the Majles suspended the privatization program. The additional cost for importing oil products, inter alia gasoline, then had to be allocated, depending solely on the OSF as the resource, for more than three years, until a rationing system was introduced in summer 2007. Suggested reform of the buyback agreement scheme also fell into this trap.

Currently, under the Ahmadinejad presidency, the focus of Iran's priorities has shifted from structural reform to reducing social and regional disparities. Distortion of the economy, consisting of extensive administrative controls on prices and interest rates and aggravated by heavy government spending (especially by Ahmadinejad), is worsening every year through the provision of subsidies, both obvious and hidden, on various goods and services. Ahmadinejad's strong commitment to drawing down bank interest rates in order to tame inflation to single digits—which has jeopardized the independence and function of the CBI—is another policy that is likely to eventually prove self-defeating. Inflation, fueled by burgeoning revenues from oil exports, has been galvanized rather than tamed.

In the Islamic Republic, therefore, excessive political control—or perhaps, put more accurately, political interference—in both policy decisionmaking and policy implementation is spoiling the economy. For the elite, the economy remains a "tool" for gaining greater power—an important feature of the larger processes of decisionmaking and factional maneuvering among the leaders.

The Elite's Political Culture: Factionalism and Informality

Beneath the office of the Supreme Leader and transcending the complicated structure of the defense establishment and the representative institutions (such as the Majles), there is a highly pluralistic political system comprising more than 200 parties and countless informal networks. As an arena for intense factional maneuvering, this landscape is very much a by-product of Ayatollah Khomeini's approach to governing Iran as a Shiite Islamic republic. This approach grew out of the need to reconcile two frequently contradictory currents underpinning Khomeini's political philosophy of the Islamic republic: an isolationist, combative, and excessively dogmatic current, which might be termed *Jihadi,* and a more integrative, flexible, and pluralistic current, best described as *Ijtihadi* in reference to the Islamic juridical process of applying "independent reasoning" to the sacred religious texts.

Since the mid-1980s, the interplay of these currents has produced three convoluted and overlapping factional coalitions, which we can roughly label *conservative*, *reformist,* and *pragmatist*. All three of these have operated within the Islamic ideological and political framework laid down by Khomeini, and their members have come from similar religious and social backgrounds, cutting across the traditional socioeconomic layers and class barriers that prevailed in Iranian politics and society prior to the Islamic Revolution. However, once the Islamic order was consolidated, the question for Khomeini was how to secure its long-term viability. He seems to have intended from the beginning to promote an Ijtihadi dimension along with his Jihadi efforts to allow for the degree of domestic political pluralism and foreign policy flexibility needed to help reconstruct Iran as an internationally acceptable, strong, and modern Islamic state. It was in this context that his revolutionary/Jihadi supporters underwent a major metamorphosis shortly after the triumph of the revolution, giving rise to three informal clusters:

- *The conservative/Jihadi cluster.* This first cluster, also called the revolutionary cluster, coalesced around such figures as Ali Khamenei and Mohammad Reza Mahdavi Kani. This entity argued for a

patriarchal Islamic government, consolidation of the revolution's gains, preservation of a traditional style of life, promotion of self-sufficiency with no dependence on the outside world, and cultural purity. Among its constituents, it counts the rural population, the IRGC (although not in its entirety, as discussed above), and certain radical clerical figures.

- *The reformist/Ijtihadi cluster.* This second cluster began to form in 1987 around such leaders as Mehdi Karrubi and Mohammad Khatami. This entity united in its support for a pluralist, democratic Islamic political system. Some of its leading figures, most importantly Khatami, argued for promotion of civil society, relaxation of political and social control, economic openness, cultural renaissance, and more interaction with the outside world. Members of this cluster were inspired by such Iranian thinkers as Ali Shariati and, later, Abdul Karim Soroush, who synthesized Islamic moral concepts with modern Enlightenment political philosophy to argue that there was no inherent tension between democracy and Islamic society. But some leaders who tended to be more realists than idealists emphasized the importance of maintaining a balance of power in domestic politics.[7]
- *The centrist/pragmatist cluster.* The third cluster, which crystallized around Rafsanjani, generally stood between the first and second clusters and organized itself within two parties—the Executives of Construction Party (Hezbe Kargozaran Sazandegi), which supported the reformist approach to culture, and the Justice and

[7] The reformist camp is very divided today. The most liberal reformists are in the Participation Front Party (Jebhe-ye Mosharekat), which is led institutionally by Mohammad Khatami, brother of former President Khatami, and intellectually by Saeed Hajjarian and his associates. The second group, which is the most influential and disciplined party, is the Organization of Strivers of the Islamic Revolution (Sazmane Mojahedine Enghelab Eslami). The third group, which is non-clerical, is the Solidarity Party (Hezbe Hambastegi). Its major figure is Ibrahim Asgharzadeh, who was one of the leaders in the 1979 hostage-taking fiasco, although he now asserts that such action is detrimental to world peace and Iran's foreign relations. Indeed, many leading reformists are now critical of the radical conservatism they displayed in the first few years of the revolution. The least modern group amongst the reformists remains the Assembly of Assertive Clerics (AAC), which is led by Mohammad Mousavi Khoeiniha and is mainly affiliated with Ayatollah Hossein Ali Montazeri.

Development Party (Hezbe E'tedal va Tose'eh), which leaned toward the conservatives on cultural issues. The camp as a whole was inspired by the intellectual work of a number of economic academics and believed in economic modernization from above (the so-called China model). It argued for increased technical and financial cooperation with the West, including the United States, but had little evident interest in democratizing politics. It has flip-flopped on many issues, leading to accusations of opportunism from its rivals among the conservative/Jihadi cluster, who depict themselves quite literally and self-righteously as "principlists" that have remained steadfast to the revolution's ideals. The pragmatists have traditionally derived support from the merchant class (bazaari), students, urban middle classes, and technocrats.

Since the death of Khomeini, each current has had its heyday, enjoying its own period of formal political power:

- 1989–1997: Rafsanjani and the centrist/pragmatist cluster, who presided over Iran's post-war reconstruction
- 1997–2005: Khatami and the reformist/Ijtihadi cluster, who emphasized the growth of civil society and the so-called "dialogue of civilizations"
- 2005–present: Ahmadinejad and the conservative/Jihadi current and the IRGC.

It is important to note that all three factional clusters have grown to act within the Jihadi-Ijtihadi framework promoted by Khomeini as part of what has been deeply embedded in the Shiite theological approach to earthly existence. They have, on the one hand, engaged in power struggles and, on the other hand, accommodated and overlapped with one another. The conservatives have upheld the ideological purity of Khomeini's legacy while proving to be quite pragmatic and reformist when needed. The reformists have sought to popularize and pluralize the legacy and make it palatable to the international community without losing sight of their organic links with the conservatives. And the pragmatists have straddled the two whenever it was opportune to

do so. There has been almost a routine fluidity of movement among the clusters, with some members changing cluster allegiance quite frequently, and leaders remaining in consultation meetings with one another from time to time to adopt a coordinated position to face a serious threat. As such, they have all operated within the limits needed to preserve the Islamic regime.

Another defining feature of what can be termed *inter-cluster operability* is that the dominant conservative current has embraced as its own a number of policy formulations and practices of the pragmatists and reformists. Conservatives have done this because they know they must change with the requirements of a changing Iran and world or risk the future of the Islamic regime. In a sense, the need for the politics of regime preservation has led them to acquiesce to some pluralist changes, with the result that Iran can no longer be regarded as strictly a theocratic state. Whatever President Ahmadinejad's Jihadi rhetoric, he ultimately has little choice but to carry many of his Ijtihadi opponents with him, much as Khomeini did 20 years earlier.

Currently, the principal axis of contention lies between the conservative/Jihadi camp and the pragmatists (the reform camp is, to a large degree, a politically exhausted force, having grown disenchanted and demoralized in the second half of the Khatami era). One could argue that the struggle between the pragmatists and conservatives has always been at the forefront of Iran's political struggles and that the Khatami era was simply a "respite" for the conservatives—a time to regroup and reorganize for success against the Rafsanjani camp. Iran's "third revolution" is therefore an intensely factional affair and, perhaps most important of all, one in which the conservatives are wielding nuclear power as a domestic weapon to subvert and outmaneuver their rivals.

Factional Dynamics at Work: The Nuclear Case Study

Among its proponents, Iran's nuclear program, particularly the retention of an indigenous fuel cycle, has attained a symbolic resonance comparable to that of then–Prime Minister Mohammad Mossadegh's nationalization of Iranian oil production in 1951. In both cases, energy

resources encapsulate the large themes of modernity, sovereignty, self-sufficiency, and non-submission to Western control. In this respect, Ahmadinejad's populist embrace of nuclear energy as Iran's "indisputable right" follows the Mossadegh model—like the deposed prime minister, Ahmadinejad is using domestic energy as leverage over his domestic rivals, aiming to consolidate his position at home and to build support among his power base, particularly in the rural periphery. The nuclear program thus provides an important case study for observing how public opinion, consensus, informal networks, and external pressure shape regime behavior.

It is important to note first that the regime's deliberations over the nuclear program from 1982 to 2002 were largely immune to considerations of public support because the research was conducted in utter secrecy. Even within the regime's technocratic core, there were complaints up until 2003 that real experts were being excluded from any rational discussion of the program's risks and benefits. Similarly, Iran's nuclear drive appears to have been insensitive to both pressures and incentives from the United States. In 1999, at the very moment that U.S.-Iran relations were warming and then–Secretary of State Madeleine Albright delivered her apology for the 1953 CIA-sponsored coup against Mossadegh, Tehran was receiving critical technical expertise from Pakistani nuclear mastermind A. Q. Khan. Thus, it was not so much the direct threat of U.S. regime change that impelled Tehran to pursue enrichment and a possible weapons capability, but more likely the desire for a "hedge" against unforeseen threats and a deterrent against their more proximate foe, Iraq, as well as the need for energy diversification.

With the 2003 public disclosure of the nuclear program by the Mujahidin-e Khalq (MeK) organization, the program's motives, scope, and opportunity costs became subject to greater transparency and scrutiny. Public opinion was initially a *background* factor in nuclear decisionmaking, not necessarily a *driver* or *constraint*. For the regime, public dissatisfaction with the costs of the program or sanctions associated with it could not be ignored. Public opinion was thus

invoked as an important consideration by both factions[8]—by hard-liners, as a reason for pursuing the program regardless of pressure, and by pragmatists, as a factor for caution. Yet in manipulating the issue, the regime has, ironically, become a captive of public opinion. Depending on their respective inclinations, the conservatives, who are appealing to a largely fundamentalist constituency, see a retreat from their position as being constrained by public opinion; whereas the pragmatists, who are appealing to a more middle-class constituency, see pursuit of the current course as risking a high-speed economic collision, with consequent damage to the regime.

Despite its solicitation of public opinion, the regime has neither permitted nor encouraged real debate about the energy rationale of the nuclear program in the context of alternative policies and options. Instead, it has made repeated and misleading references to "national consensus" when it really means "elite consensus." While most Iranians agree on Iran's unrestricted right to seek modern technologies, consensus clearly fades when the topic turns to what Iranians are willing to pay for the program's continuation in terms of sanctions, loss of investment confidence, capital flight, and estrangement from the international community.[9] Nonetheless, Iranian negotiators have argued that their hands are tied on the nuclear issue by the unanimity of support within the public and the Majles. The negotiators invoke this pressure to pressure their European negotiating partners. The result is the kind of brinksmanship, a "managed crisis" just short of conflict, that characterized the negotiations from 2003 to 2005.

In addition to the broader public, there are other important constituencies and "audiences" in the nuclear arena. The strongest supporters of Iran's nuclear drive are those that stand to lose the most from its

---

8 For more on factional views of the nuclear issue, see Chubin, 2007. Also see Chubin, 2006.

9 See especially Chubin and Litwak, 2003; and Michael Herzog, 2006. See also Abdin, 2006. A 2006 poll (Zogby and Reader's Digest, 2006) reports that 41 percent of Iranians put reforming the economy before having a nuclear capability (27 percent). The poll also reveals a country divided on many issues. See also Khalaj, 2006. A 2007 poll (World Public Opinion, 2007) reports that 84 percent of Iranians think it is very important for Iran to have a full fuel cycle and 89 percent think it is very important for Iran to have a nuclear energy program.

termination. Foremost among these is Iran's Atomic Energy Organization (AEO), which oversees the program's scientific and technical dimensions. For the AEO, the stakes are especially high; its opposition to any freeze of enrichment stems partly from the detrimental effect such a freeze would have on the retention and employment of scientific personnel. One expert has argued that the costs of suspension for the AEO could exceed U.S. $5 billion and 15 years of effort. The argument from a technical standpoint is that elimination of one of the five phases of nuclear production "will render all other phases and the efforts of scientists in past years ineffective." Additionally, the AEO argues for an unconstrained program on security grounds: "If we do not produce nuclear fuel inside our country, they will use fuel as leverage to threaten our independence and territorial integrity in the future." Unsurprisingly, the head of the AEO is among the most vocal proponents of the program, comparing the quest for indigenous enrichment with the need for food self-sufficiency. His clout within the debate is further strengthened by the fact that the AEO, unlike other bureaucratic organs, such as the Majles, is not subject to political turnover and thus can maintain a consistent line and constant presence.

The other principal constituency for the nuclear drive is the IRGC, which provides security for all nuclear-related installations and, given its current role as custodian of Iran's ballistic missile arsenal, would likely exert command and control over any nuclear weapons. Since we do not have access to a debate about nuclear *weapons* within the leadership itself, we can only conjecture the role of the Guards in such a debate. Senior IRGC officials have expressed scepticism about arms control agreements but have not publicly stated an institutional view about nuclear weapons as such. Like most of the hard-liners in the regime, they have supported the nuclear program; but they appear to be especially predisposed to its continuation: The IRGC has been the foremost proponent of Iran's "asymmetric warfare" doctrine, which seeks to leverage unconventional tactics and technologies to confront a conventionally superior opponent. During the last phase of the war with Iraq, Guards Commander Mohsen Rezai argued that without nuclear weapons, Iran could not continue the war with any hope of

winning.[10] With missiles (which are under IRGC control), an Iranian nuclear option could deter attacks on the homeland and project Iranian power regionally. And it certainly could enhance the IRGC's prestige and primacy over the regular armed forces (Artesh).[11]

The nuclear issue is also used for a purpose that overlaps bureaucratic interests. The pragmatist and conservative clusters have used it as part of a larger negotiation over internal power, patronage, and the country's engagement with the world. The basic positions can be summarized (albeit imperfectly) as follows:

The pragmatists, embodied in the figures of Rafsanjani and former Khatami-era nuclear negotiator Rowhani, see a nuclear capability as a bargaining chip with the United States, their ultimate goal being deeper negotiation of Iran's economic integration with the world—for example, Iran becoming more of a "normal" state in return for abandoning its nuclear ambitions.

The conservative/*Ijtihadi* current, represented by the Supreme Leader, Ahmadinejad, Larijani, and Jalili (the new secretary of the SNCS), perceive the nuclear issue more as an equalizer with the United States, needed to safeguard the fundamentals of the revolution and to ultimately preserve Iran's sovereignty—even if that means enduring international opprobrium and isolation. Aside from its role in this debate about Iran's external standing, the nuclear issue is a factional weapon wielded by the conservative current, especially those in the IRGC. The nationalist discourse on nuclear energy and its attendant economic benefits for the rural poor has enormous value for the IRGC leadership, which has presented itself as a populist, technocratic alternative to the elitism and corruption of the "oil-oligarchy" clustered around Rafsanjani.

It is important to note that these domestic tensions have played out in Iran's inconsistent and erratic negotiating behavior on the nuclear file. Most significantly, the Khatami-era negotiating team,

---

[10] For a useful and accessible summary of this episode, see Bozorghmehr, 2006. See also Nafisi, 2006, in which Nafisi notes that the incident "reveals the diversity of views on the nuclear issue."

[11] Gheissari and Nasr, "The Conservative Consolidation," pp. 177, 179, 188.

which included ex-foreign minister Kamal Kharrazi, SCNS Secretary Rowhani, and Rowhani's deputy, Hossein Musavian, has been subjected to extensive pressure since the rise of the conservatives. The most visible manifestation of this crackdown was the arrest of Musavian on espionage charges; his detention was widely interpreted as a response to having crossed a "red line" when he publicly stated to a *Financial Times* reporter that Iran's nuclear negotiations had reached a "dead end." The timing of this leak and the resulting wrath of the IRGC/conservatives was not coincidental—this was precisely the moment in 2005 when Ahmadinejad's supporters had suffered a crushing defeat in the municipal council elections. Musavian's arrest was thus an attempt by the conservatives to reassert themselves domestically, using the nuclear portfolio as their vehicle. To counter this power play, Rowhani and Rafsanjani paid Musavian's bail, and Rafsanjani has recently made a point of being seen in public with him.[12]

In tandem with these domestic dimensions, the nuclear issue has been an integral part of the popular adulation of Iran among public audiences in the Arab world. This dynamic raises the larger issue of how Iran's attempt to curry favor with Arab audiences affects its foreign policy behavior.

Iran's Approach to Its Arab Neighbors: Implications for Iranian Behavior and U.S. Policy

Iran has long pursued a policy of speaking over the heads of Arab regimes, taking its message directly to Arab populations and presenting itself as "more Arab than the Arabs"—traditionally on Palestine, but increasingly also on Iraq. An understanding of the dynamics of Arab perceptions of Iran—both official and public—is critical to U.S. policymaking on the Islamic Republic. Given that U.S. policymakers have been increasingly turning to Arab regimes as interlocutors, interpreters, and allies with respect to Iran, it is crucial that they understand the complex set of local interests and agendas that inform these roles.

---

12 *BBC Monitoring*, 2007b.

Moreover, the United States cannot separate the challenge of Iran from the Arab sphere, particularly the Arabian Gulf. Iran both influences and is influenced by the perceptions of its Arab neighbors. Specifically, the Iranian government's belief, whether warranted or not, that it can draw support from Arab publics has impelled it toward brinksmanship and bravado in its foreign policy.

Iran's Outreach to Arab Publics

Iran's hyper-activism on pan-Arab issues can be viewed not as proof of Iran's influence in the "Arab street," but, rather, just the opposite: an effort to overcompensate for its fundamental isolation from the rest of the region. Despite Iran's claims to universalism, it remains the odd man out. By its own admission, its attempts to refashion the Arab world in its image have largely failed, as is most clearly illustrated by the fact that its principal Arab Shiite "clients" in the Gulf—formerly, the Islamic Front for the Liberation of Bahrain, the Organization for the Islamic Revolution on the Arabian Peninsula, and the Supreme Council for the Islamic Revolution in Iraq—have all distanced themselves from their erstwhile patron through name changes and/or the more substantial move of goal reorientation.[13]

Under President Ahmadinejad, Iran's outreach to the Arab street has grown especially vociferous and brazen. He has received widespread applause from Arab publics for his populist, grassroots appeal and for being outspokenly critical of the status quo—characteristics that put him in sharp contrast with many of the Arab world's cautious and frequently septuagenarian rulers. For example, at the 2005 Organization of the Islamic Conference (OIC) summit in Mecca, Ahmadinejad made a speech denying the Holocaust in the presence of Saudi Arabia's King Abdullah bin Abdulaziz. To the members of the ruling family of the Kingdom of Saudi Arabia (the al-Saud), who have portrayed themselves as the region's preeminent patrons of the Palestinians, Ahmadinejad's remarks were a brazen act of one-upsmanship.

---

[13] These organizations are now, respectively, the Islamic Action Society, the Saudi-based Reform Movement, and the Supreme Islamic Iraqi Council.

Inside Iran, this "Arabist" posturing has stirred debate. Some of this is based on the arguments of certain IRGC figures that the posturing risks undermining Iran's good trade relations with the Gulf Cooperation Council (GCC). These same figures have criticized recent statements by senior officials warning the GCC states of a massive and indiscriminate retaliation against their civilian infrastructure if the U.S. strikes the Islamic Republic. Recently, debate erupted after an advisor of the Supreme Leader publicly claimed that Bahrain was rightfully a province of Iran.

An important point to be made here is that any appeal garnered by Iran among Arab publics is fragile and subject to rapid fluctuation. Iran's sole attraction among these audiences is likely its belligerent stance on Israel and its implicit criticism of often unpopular Arab regimes, and this attraction can be quickly overshadowed by regional events that are either beyond Iran's control or the result of Iran's strategic incompetence. A notable example is the rapidity with which the collateral acclaim Iran had received in connection with Hizballah's 2006 war with Israel dissipated once Iraq's Saddam Husayn was executed in December 2006, an event the Arab world widely viewed as an attempt engineered by Iran and the United States to diminish Arab identity. A commentator on Iran's Arabic satellite TV appeared perplexed by this reaction from the Arab world; he questioned why the "Arab media are intentionally using the execution of Saddam Husayn to foment sectarian conflict" and concluded that "those who are mourning Saddam … are worried about their shaky thrones."[14] By 2007, available polling and media surveys had revealed a noticeable drop in Arab public support for Iran—stemming principally from worsening sectarian violence in Iraq. Zogby's 2007 polling of 3,400 Arab respondents in Egypt, Saudi Arabia, Jordan, the United Arab Emirates (UAE), and Lebanon showed that a majority believed Iran's role in Iraq was unhelpful.

To combat anti-Iranian themes in the official Arab media, Iran employs a well-developed architecture of transnational outlets to reach Arab audiences. Although this strategy is now bolstered by recent technological advances, it is not new—the importance of "psychological

[14] Open Source Center, 2007.

warfare" has long been a fixation of Iran's revolutionary leadership. For example, in a 2006 Arabic monograph on the subject, *The Role of Media in Political and Cultural Conflict* (Dur Wasa'il al-A'lam fi al-Sira' al-Siyasi wa al-Thaqafi), the Supreme Leader praised the historic role of radio, TV, and other media in cultivating Islamic ideals after the revolution, mobilizing Arab support for Hizballah, and deflecting misrepresentations of the Islamic Republic.

In general, however, Iran's media aspirations in the Arab sphere have fallen short. According to available media surveys, Iran's major transnational Arab media outlet, *Al Alam*, has lagged its pan-Arab competitors, *Al Arabiya* and *Al Jazeera*, in both credibility and popularity.[15] And according to RAND interviews conducted in early 2007, even Iran's Shiite co-religionists in Saudi Arabia's Eastern Province consider the channel heavy handed and too ideological.[16]

Iran and Anti-Shiism

One concern expressed by Arab states, especially in the Gulf, is that Iran is pursuing a divisive sectarian policy, attempting to agitate Arab Shiite populations and inspire them to greater activism and even militancy. Such fears are not new; they date back to the post-revolutionary period. Yet the prospect of a U.S. withdrawal from Iraq, Iran's nuclear ambitions, and recent Iranian statements about filling the regional "power vacuum" have only intensified Arab alarm. A recent editorial in *Al Sharq Al Awsat* lambasted Iran for behaving like a "sect" and for embracing the same "colonialist logic of vacuum-filling" that informed

---

[15] According to a poll conducted by Iran's own state broadcasting research arm of 1,400 adults in Beirut and southern Lebanon following the Israel-Hizballah conflict, only 22 percent of respondents stated that they watched *Al Alam*. In 2004, however, an Intermedia Survey reported that 78 percent of Iraqi viewers had access to satellite dishes and that *Al Alam*'s total audience reach was at 15 percent, compared with over 60 percent for the most popular channels, *Al Arabiya* and *Al Jazeera*. Moreover, the station received only single figures for reliability and importance as a source of information. (*BBC Monitoring*, 2008)

[16] RAND discussions with Shiite religious leaders and activists in Qatif, Dammam, and al-Ahsa, Eastern Province, Saudi Arabia, March 15–20, 2007.

the U.S. intervention in the Middle East after Britain's "east of Suez" withdrawal.[17]

Here again, such rumblings are more accurately seen as windows into deeper problems of Arab political illegitimacy and governance. Nowhere is this more apparent than in Bahrain, where the regime has traditionally used the specter of Iranian omnipotence to portray any moves toward reform and democratization as "sectarian" or "Iranian backed." Yet the real challenge posed by Iranian-backed Shiite actors, such as the Lebanese Hizballah, lies not so much in their sectarian threat to Sunnis per se, but in their populist, non-sectarian challenge to the old political order. Analogies drawn by Egyptian oppositionists to "Nasser 1956—Nasrallah 2006" provide a stark example of this dynamic at work.[18] Similarly, recent reports of conversions to Shiism by Arab Sunnis are more a reflection of status quo frustration than the result of any concerted proselytizing efforts by Iran.

For their part, Iranian leaders are generally careful not to make statements that will inflame sectarian tensions—for example, referring to the Taliban and al-Qaeda as takfiris,[19] extremists, or reactionaries, but rarely as Sunnis. Such distinctions are probably made with domestic audiences in mind; when Majles Speaker Haddad-Adel addressed the largely Sunni population of Sistan-va Baluchestan in November 2006, he emphasized the absence of discord in Iran between Sunnis and Shiites by pointing to Iran's support for both Shiite Hizballah and Sunni Hamas.[20]

Nonetheless, some Arab regimes have played up the sectarian character of the Iranian challenge, probably to curry popular support for what is essentially a balance-of-power strategy against Iran. As noted by F. Gregory Gause III, anti-Shiism is a way to "sell" an anti-Iranian policy and dampen public enthusiasm for Iran's defiant nuclear

---

17 Al-Hasan, 2007.

18 Valbjørn and Bank, 2007, p. 7.

19 *Takfiri* is an appellation for Muslims who excommunicate other Muslims as unbelievers. For Jihadi ideologues, violence against persons excommunicated this way is legitimate.

20 Valbjørn and Bank, 2007, pp. 10–11.

posture.[21] Thus, we see in Saudi Arabia the recirculation of old anti-Shiite fatawa, many of which originated in the Saudi-Iranian ideological "cold war" of the 1980s. One key example is the renewed popularity of an anti-Shiite book written shortly after the revolution by an influential Syrian-born Saudi cleric. This tract was quoted extensively by Abu Musab al-Zarqawi in a four-hour diatribe recorded shortly before his death in June 2006.[22]

The most immediate victims of this trend are Arab Shiite populations, especially on the Arabian Peninsula. Increasingly, Bahraini, Saudi, and to a lesser extent Kuwaiti Shiites have been portrayed by Salafi hard-liners and some regime officials either as disloyal "fifth columns" for Iran or as agents of sectarian discord (fitna).[23] A notable example is Egyptian President Hosni Mubarak's televised declaration that Arab Shiites' "loyalty is always to Iran" and "not to their countries."[24] More recently, a senior Saudi establishment cleric attacked Saudi Arabia's leading Shiite figure, Hassan al-Saffar, for allegedly promoting excommunication (takfir) of Sunnis.[25]

Such accusations, however, are unjustified. Gulf Shiites generally regard Iran with spiritual and emotional affinity, rather than as a political model for emulation, and have pushed for cross-sectarian dialogue. Many appear unwilling to jeopardize hard-won political gains made in the 1990s to serve as Tehran's retaliatory proxies. Shiite intellectuals

---

21 Gause, 2007.

22 The book (al-Gharib, 1988) is by Muhammad 'Abdallah al-Gharib, believed by many analysts to be a pseudonym for Muhammad Surur Zayn al-Abidin, an influential Syrian-born cleric who taught in Burayda. Al-Zarqawi, n.d., is the transcript of al-Zarqawi's audio recording.

23 Wehry, 2007; also Jones, 2007.

24 Mubarak's statement was carried on *Al Arabiya* TV, on April 9, 2006. Also see Anon., 2006. In Egypt, this tactic is not new; recall that the Islamic Revolution animated Muslim Brotherhood activists, prompting the Sadat regime to emphasize its narrow sectarian motives throughout the state-controlled media (Mathee, 1986).

25 al-Saffar, 2007.

on the Peninsula have also been vocal critics of vilayet-e faqih, with a resonance that extends well beyond the Gulf.[26]

Despite their protestations of loyalty, however, Gulf Shiites perceive a palpable stall in domestic reform initiatives, which many attribute to Washington's recent focus on building Arab support against Iran rather than promoting democracy.[27] Ironically, this loss of momentum, combined with the hardening of Sunni opinion, could actually reinforce the Shiites' sectarian identity, radicalizing their increasingly youthful populations and creating new openings for Iranian influence that might not otherwise exist.

Understanding these multidimensional effects is of critical importance for U.S. policymakers seeking Arab support against Iran. Every Arab state that elects to align itself with the United States against Iran—whether as a stalwart military ally or a diplomatic interlocutor—has a deep set of domestic and regional calculations in mind that may diverge completely from Washington's calculations. In consequence, U.S. policies toward Iran could reverberate in the Arab sphere in unintended ways and, perhaps, to the potential detriment of other U.S. interests.

Iran's Negotiating Style

The analysis of the previous section highlights the problem of U.S. policymakers viewing Iran through the lenses of other Arab nations. Yet interpersonal negotiations with Iranians are also fraught with pitfalls—as well as opportunities. According to a Persian-speaking Japanese businessman with broad and sustained experience in the Islamic Republic:

---

[26] Examples include Tawfiq al-Sayf's *Nathariyat al-Sulta fi al-Fiqh al-Shi'i* (Theories of Political Power in Shiite Jurisprudence) (al-Sayf, 2002), and Hassan al-Saffar's *Al-Madhhab wa al-Watan* (Sect and Homeland) (al-Saffar, 2006).

[27] In a February 2006 interview with the author, a prominent Salafi reformer and legal expert in Riyadh warned that tensions with Iran would result in a curtailment of social and political reforms; this was subsequently echoed in follow-up interviews with other reformists, activists, and intellectuals in Jeddah, Riyadh, and the Eastern Province in March 2007.

> Negotiating with Iranian business counterparts is said to be stimulating, since they always see room in negotiation, as opposed to the business-like yet dry negotiating style of "take it or leave it" that prevails with some of their Arab neighbors.

This comment raises the larger issues of the "uniqueness" and "normalcy" of negotiating with Iran and, more fundamentally, the necessity of talking to Iranians as a matter of policy.

On the second of these points, the U.S.'s long aversion to talking with Iran has squandered two windows of opportunity to reduce the decades-long animosity between the two states. The first window occurred in 2002, immediately following the Taliban's ascendancy in Afghanistan, when Iran offered diplomatic support on Afghanistan to the United States. At the 2001 Bonn talks on Afghanistan, Iranian diplomacy proved critical in brokering a power-sharing agreement among Afghan factions and tempering the Northern Alliance's insistence on dominance in the new ministries. On the margins of subsequent meetings, Iranian representatives offered to assist the United States in rebuilding the Afghan army and appeared willing to discuss issues beyond Afghanistan, as well. U.S. policymakers gave the Iranians no response on these offers.

Fearing that the United States had its cross-hairs on Tehran after overthrowing Saddam Husayn, Iranian leaders made their second proposal in May 2003. By various accounts, this initiative included Iran's severance of ties with its Levantine terrorist allies, the conversion of the Lebanese Hizballah into a purely sociopolitical party, discussions on the surrender of al-Qaeda operatives in Iran's custody, and entering into serious bilateral negotiations on Iran's nuclear program. Here again, Iran's offer was met with silence.

Gratitude and fear were the twin motives animating these Iranian overtures. Today, both of these motives are absent in Tehran's worldview, replaced by a newfound sense of strategic confidence. Added to this confidence is the plummeting U.S. regional credibility since the fall of Saddam, as well as Iran's perception that the U.S. entanglement in Iraq and, to a lesser extent, Afghanistan constrains the United States both militarily and diplomatically from acting against the Islamic

Republic. Even Tehran's moderate proponents of engagement are faced with the indisputable fact that the Khatami-era attempts at dialogue with the United States yielded little fruit. All of this casts serious doubt on any expectations of a diplomatic breakthrough or grand bargain.

Given such prospects, it may appear that any attempts at negotiation are pointless, particularly given the current regime's ideological predisposition and the seeming absence of any Iranian counterparts from the pragmatist camp. Yet there are reasons why continued negotiations are still important for U.S. policy. First, even if they yield few results, negotiations produce information and broaden America's contacts inside the regime, which may lead to unanticipated openings for influence and will undoubtedly yield a richer understanding of Iran's multipolar system. Second, even if broad agreement is impossible, negotiations can help reduce misunderstandings that can escalate into conflict.[28] Third, the process of talking can help de-mystify Iran, reducing the temptation to treat it as an aberrant actor in the international system that is somehow immune to the normal pressures and interests that inform state behavior. A peculiar form of mystique has defined the U.S. approach to Iran, one that defies America's history of engaging other international actors of varying shades of enmity and insalubrity. After all, the United States has talked to North Korea, Cuba, China, Somali warlords, Serbian paramilitaries, and even the Taliban.

Put differently, there is nothing uniquely exotic or risky about talking to Iranians. As with negotiators from other countries, Iranians expect each side to define the topic of the discussions, to articulate positions along with their attendant logic, and to agree on a common purpose or outcome. Fears of a culturally rooted Iranian preference for duplicity and dishonesty[29] are not only ethnocentric, but also unsupported by the testimonies of those who have negotiated with Iranians. That said, there do appear to be certain characteristics that shape

---

[28] For more on this outcome, particularly in the context of informal Track II negotiations, see Kaye, 2007.

[29] Such accusations are sometimes based on an orientalist and de-contextualized reading of the Shiite doctrine of *taqiyya* (dissimulation for self-preservation in the face of religious persecution).

the Iranian approach to negotiating, particularly in the context of the nuclear issue but also in business interactions.

The first of these characteristics is a tendency to revisit and reopen issues that both sides thought had been resolved. As noted by the Japanese expert:

> [B]e aware that even when the final accord has been reached, your Iranian counterpart may approach you seeking a last-minute renegotiation over the settled conditions in their favor. This may become frustrating and embarrassing to you, especially when you are in front of your company executives who have flown thousands of miles to ink the agreement. They might just want to make a good impression on their bosses, but the bottom line is that they are obsessed about being cheated and exploited by others.

Similarly, other observers have noted an Iranian tendency to defer the resolution of "weighty issues" and have recommended that any concessions to Iranian demands be seen as having been "earned" by the Iranians themselves. An Iranian-born analyst, reporting on his discussions with European Union (EU) negotiators, labeled these tendencies "confidence destroying" and compared the Iranian renegotiation of old agreements to "trying to sell a used rug twice." He also noted a myopic focus on maximizing short-term gains:

> The Iranians get wrapped up in subtle immediate details and miss out on strategic opportunities. They are like poker players in a chess game, constantly misjudging their own hand and focusing on tactical wins to the detriment of long-term strategy.

For further insights into the Iranian approach to negotiation, it is helpful to turn to some of the pioneering work on Iran by such social scientists as William Beeman, who authored a classic work on ta'arof[30]; James Bill, who conducted a study on social relations in Iran; and Marvin Zonis, who not only wrote on the Iranian political elite, but

[30] This important Persian cultural convention embodies exaggerated deference, politeness and self-deprecation.

also tried to discern popular attitudinal factors that resulted from and in turn helped influence Iranian culture and ultimately politics. All three of these scholars spent years living in Iran, are fluent in Persian, and did pioneering work that is still valid: Despite a change in political orientation and organization, Pahlavi Iran and the Islamic Republic of Iran are the same country. Zonis in particular has enumerated characteristics that define the pre-revolution elite and undoubtedly guide the contemporary Iranian approach to negotiation. These include political cynicism, personal mistrust, interpersonal exploitation, and manifest insecurity.[31]

Such generalizations, even if backed by rigorous field research and social science methodology, raise the larger and politically incorrect question of Iranian "national attributes." Here, it is helpful to turn to a decidedly nonacademic yet practical source—a manual written by a large Japanese corporation to prepare its businessman to negotiate in Iran. Business manuals can be especially useful guides, because they detach personal interactions from the ideologically induced tension that frequently obscures political discussions. In what is a very interesting analysis, the author of this Japanese manual, which we translated, sets out elements of the "Iranian psyche." Although somewhat stereotypical and reductionist, they are nonetheless worth considering:

- Individualistic
- Proud
- Value what's inside
- Hospitality
- Merchant at heart
- Artistic creativity
- Anti-establishment tendencies
- Victimization complex.

This last attribute raises the larger issue of whether the threat of force or force itself will spur Iran to negotiate and concede. Certainly, as we saw in May 2003, the credible threat of force is a powerful incen-

[31] Zonis, 1971, p. 11.

tive, but one that the United States has applied unevenly and unconvincingly against the Islamic Republic. In general, many in the Iranian leadership sense that they have been fortunate thus far in escaping the wrath that could follow U.S. exposure of Iranian misdeeds. Moreover, certain organs of the security establishment have vested institutional interests in maintaining a state of siege and keeping the country on a war footing—among its other benefits, this dynamic allows Iran to portray any domestic opponents as agents of foreign (read: U.S.) influence. How long certain segments of the population can endure this intensified crackdown on the allegedly U.S.-inspired "velvet revolution" remains to be seen, although the above-mentioned attribute of cynicism suggests an unusually high threshold for repression and misery as "business as usual."

Nonetheless, criticism appears to be rising among the political elite and even within Ahmadinejad's own power base that he has failed to take the U.S. threat seriously and that his rhetorical belligerence is leaving Iran increasingly beleaguered. If force were applied against the Islamic Republic, a popular uprising or a coup is unlikely but should not be dismissed outright. Probably, Persian nationalism and an impulse to "rally round the flag" will overshadow any previous criticisms of ill governance or diplomatic missteps by Ahmadinejad's coterie. Yet one must also consider the Islamic Republic's pronounced tradition of assigning blame, a tradition rooted in its factionalized structure and reaching back to the termination of the Iran-Iraq war, when then-President Rafsanjani quite explicitly condemned certain individuals' actions. Indeed, Rafsanjani recently emerged as one of the loudest voices for caution in the face of U.S. threats, invoking the authority of Khomeini and former IRGC commander Rezai in criticizing Ahmadinejad's obduracy on the nuclear issue as pushing the country toward war. In early October 2007, Rafsanjani disclosed the existence of a previously secret 1988 correspondence between Rezai and Khomeini in which Rezai warned that the Iran-Iraq war could not be won. With a single stroke, Rafsanjani effectively neutralized time-worn accusations that he alone was the sole proponent of the Iran-Iraq ceasefire, burnished his nation-

alist credentials, and showed that even the leader of the revolution was amenable to compromise if it secured the safety of the nation.[32]

[32] See Nafisi, 2006.