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Understanding Iran

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Summary

Over the years, there have been numerous efforts to locate the roots of the Islamic Republic's intentions and motivations in the distinctiveness of its political culture and history. A rich and ancient nation, Iran has always beguiled outsiders. This complexity, combined with America's lack of access to Iran since 1979, has produced a peculiar view of the Islamic Republic, a view defined by mystique and a superficial reading that places too much emphasis on Iran's "abnormal" and "exceptional" characteristics.

This document is a short, accessible guide intended to help U.S. policymakers understand the Islamic Republic. It offers a set of short analytic observations about the processes, institutions, networks, and actors that define Iran's politics, strategy, economic policy, and diplomacy. From these, it sets out an argument for appreciating the challenges and fundamentals of negotiating with Iran. The key findings can be summarized as follows:

- *Supreme Leader Ayatollah Ali Khamenei is Iran's most powerful figure, exerting "negative influence" and arbitrating over diverse actors and institutions.* Khamenei has often been overlooked as a weak and indecisive personality who occupies a powerful post but lacks charisma. Yet constitutionally and in practice, he remains Iran's ultimate political authority. Much of his formal power is exerted indirectly—through the appointment and oversight power he has with respect to Iran's quasi-democratic policy and legislative structures and its armed forces.

It is the informal realm, however, on which U.S. policymakers and analysts should focus most of their attention: The Leader exerts influence through his mediating role over contending factions, personal relationships with top military commanders, and the clerical representatives he has throughout Iran's key security institutions. Since the election of President Mahmoud Ahmadinejad in 2004, Khamenei's influence has grown—to a large extent because Ahmadinejad's radical posturing and increasing unpopularity enable Khamenei to appear more moderate and favorable by comparison.

Yet the Leader is not an omnipotent autocrat. The Iranian system contains numerous checks and balances on his power, resulting in a policy apparatus that can appear excessively ponderous to outsiders. The Leader's exercise of power is, moreover, bounded by his well-known preference for risk aversion and his desire to maintain the status quo.

- *Khamenei's sense of strategic confidence, distrust of the United States, and focus on Iranian sovereignty results in an aversion to compromise.* Some of Khamenei's status quo orientation can be attributed to his reading of Iran's recent gains in the wake of the U.S.-led invasion of Iraq, the 2006 Lebanon war, and other regional events. His speeches and writings evince a sense of strategic triumphalism—that is, the belief that if there is a “new Middle East,” it is one that has tilted in favor of the Islamic Republic.

U.S. policymakers should be cognizant of how this outlook informs Khamenei's aversion to negotiations and compromise. The Leader harbors a deep-seated distrust of U.S. intentions—a sentiment that holds throughout Iran. Compromise, according to Khamenei, will only be seen as a sign of weakness, encouraging the United States to exert greater pressure on the Islamic Republic. For the Leader, justice, Islam, independence and self-sufficiency are paramount, and ultimately intertwined. For Iran to safeguard social justice and promote Islam, it must be politically independent; and it cannot be independent unless it is economically and technologically self-sufficient—hence the importance of an indigenous nuclear fuel cycle.

- *The Islamic Revolutionary Guards Corps (IRGC) exerts significant influence over Iran's politics and economy, much of it occurring at an informal level among networks of IRGC ex-commanders and veterans.*

Among the constituencies over which the Leader presides, the IRGC has emerged as the country's most powerful. The IRGC's estimated 120,000 active-duty personnel fulfill a number of functions related to internal security, external defense and power projection, and regime survival.

Yet it is in the informal realm where the IRGC's presence has been most visible, via a network of ex-commanders and veterans who have ascended to powerful posts in the Cabinet, the legislature, the media, education, and the business sectors. While it is important not to overstate the ideological uniformity or coordination among these individuals, there is a marked sense of common identity and outlook that is broadly technocratic, authoritarian, and populist.

• *IRGC networks control key sectors of Iran's market, a development that could presage increasing factional debates between economically oriented pragmatists and more-dogmatic currents.* The IRGC brings significant financial resources to its political power, controlling an array of subsidiary companies that have penetrated virtually every sector of the Iranian market—from construction and real estate to laser eye surgery and automobile manufacturing. Reportedly, the IRGC also operates illicit smuggling networks that constitute a vast shadow economy.

The IRGC's business ascendancy has been secured through no-bid contracts and occasional strong-arm tactics, such as the IRGC's closure of the newly opened Imam Khomeini International Airport in 2004, reportedly to eject a Turkish contractor that had won a bid on airport operations from an IRGC firm. This has provoked nascent dissent from displaced business elites, who view the IRGC as a mere substitute for the clerical oligarchs.

Despite the IRGC's self-enrichment and political domination, U.S. policymakers and analysts should avoid demonizing the institution as a monolithic whole. Debates and fissures have surfaced among the IRGC veterans on the same subjects that define the broader Iranian political spectrum: reconciling modernization with Islamic legitimacy and, especially, the opportunity costs associated with Iran's defiance on the nuclear program. Pragmatic currents in the IRGC could emerge as an increasingly powerful force.

• *Iran's oil-dominated economy exhibits unique pathologies, some of them related to the bureaucratic disarray and political interference that afflict economic policymaking.* Understanding the dynamics of Iran's oil economy is especially critical for understanding Iran's political processes and gauging regime stability: The availability of revenues may affect the speed of decisionmaking, and greater wealth liquidity enables the regime to manage potential dissent on unpopular policies. Iran's oil exports are large, totaling \$60 billion in 2007 and making up 35 percent of the gross domestic product (GDP). Yet Iran is hindered from fully harnessing this wealth by the so-called Dutch disease, which is the impairment of a balanced, multi-sector economy because of the surfeit of a scarce resource that commands large rents from the rest of the world and impedes development of other sectors of the economy.

This condition is compounded by excessive political interference in the economy, illustrated most starkly by President Ahmadinejad's raiding of the Oil Stabilization Fund to provide subsidies in lieu of carrying out structural reform. Moreover, the regime has largely failed in its efforts to attract foreign direct investment (FDI); foreign capital is deterred by flip-flop policies and lack of coordination among the roughly dozen government bodies that are mobilized in economic decisionmaking.

For the Iranian citizenry, the aftershocks of this mismanagement are felt in widespread fuel rationing, electricity blackouts, and skyrocketing inflation, all of which have provoked a growing backlash against Ahmadinejad. The middle class in Tehran is being hit especially hard, particularly on housing. Yet public awareness of links between these hardships and the regime's expenditures on the nuclear program or the IRGC's illicit activities remains limited and fragmentary. Although the economy remains vulnerable to sudden shocks, such as the disruption of oil through the Strait of Hormuz, it appears more durable for the short term than is commonly assumed. Public forbearance of the regime's economic mismanagement is nurtured by a degree of oil-generated prosperity.

• *Iran's factionalized elite operates in three overlapping clusters, the fluidity and dynamism of which militate against the United States placing its hopes on one particular cluster.* The political factions in contention

over the Iranian economy and other aspects of the state remain the key to understanding the deeper processes of the Islamic Republic. It is possible to generalize the factions as three overlapping and highly fluid currents, or “clusters,” that transcend formal policy institutions, cut across class and social barriers, and have shaped Iranian politics since 1979: conservatives, reformists and pragmatists. All three clusters agree that it is necessary to preserve the Islamic Republic, protect Iranian sovereignty, and extend Iran’s influence. The differences emerge over how to do this, whether and how civil society and pluralism can be reconciled with fidelity to the Revolution, and Iran’s integration with the world.

The current axis of contention is between the conservatives, especially those who have refashioned themselves as “principlists,” and the “pragmatists,” who are embodied in Ali Akbar Rafsanjani. Splits have also emerged among the principlists and the conservatives over Ahmadinejad’s handling of the economy, the nuclear program, Iran’s policy in Iraq, and other issues. The reformists, meanwhile, remain a spent force and are working to rebuild their constituency and reorganize their political machinery. The most significant obstacle they face is that their efforts at rapprochement with the United States under former President Khatami produced nothing—a fact that has been highlighted repeatedly by hard-liners. The pragmatists, for their part, are frequently attacked as “opportunists” by their more dogmatic opponents.

What this somewhat abridged spectrum reveals is the fluidity and complexity of the Iranian environment and the inadvisability of trying to social engineer factional change. Moreover, no single faction lines up neatly with U.S. interests across the spectrum; for example, a social progressive might still see the necessity of supporting Lebanese Hizballah.

• *Iran’s nuclear ambitions are stoked by factional struggles and bureaucratic interests, making the issue less sensitive to external pressure than is commonly recognized.* Iran’s nuclear program—and particularly its retention of an indigenous fuel cycle—has attained a symbolic resonance comparable to then–Prime Minister Mohammad Mossadegh’s nationalization of Iranian oil in 1951. In both cases, energy resources

encapsulate nationalist themes of modernity, sovereignty, self-sufficiency, and non-submission to Western control.

Each faction has used the nuclear program for political purposes, attempting to garner support from key constituencies and frequently invoking public opinion—as a reason for pursuing the program regardless of pressure (the hard-liners) or as a factor for caution (the pragmatists). While most Iranians agree on Iran’s right to unrestrictedly seek modern technologies, consensus clearly fades over the price Iranians are willing to pay for program continuation in terms of sanctions, loss of confidence in investment, capital flight, and estrangement from the international community.

Aside from 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 termination. Foremost among these is Iran’s Atomic Energy Organization (AEO), which oversees the program’s scientific and technical dimensions. Another 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.

U.S. policymakers should understand how these domestic political factors have lent the nuclear program its own momentum, making it less susceptible to international pressure than might be expected.

- *The nonsectarian appeal to Arab public opinion that Iran has incorporated in its dealings with the rest of the Arab world has affected Arab support for U.S. policies in the region.* Iran has long pursued a policy of “hyper-activism” on pan-Arab issues, appealing to Arab public opinion to outmaneuver and embarrass U.S.-allied Arab regimes and to break out of its fundamental cultural isolation from the larger Middle East—what one commentator termed the “Shiite ghetto.” This dynamic has grown more pronounced under Ahmadinejad, as illustrated by his posturing on the nuclear issue and his brazen denial of the Holocaust, which was calculated to embarrass and upstage traditional patrons of the Palestinian cause, such as the al-Saud.

Yet Arab public opinion remains a fickle resource for Tehran, subject to rapid swings, often caused by Iranian policies or missteps. Any

Arab applause that Iran garners for supporting Hizballah or defying U.S. pressure on the nuclear issue is undermined by its policies in Iraq. Even inside Iran, the appeal to the Arab publics, or “Arab street strategy,” has attracted critics, causing Tehran to make a more pronounced effort to engage with its Arab neighbors.

In attempting to build Arab consensus against Iran, U.S. policymakers should be mindful of how public opinion on Iran affects the calculus of Arab regimes. Arab rulers have long recognized that Iran can play the trump card of rejectionism and defiance of the West, which can be extremely appealing to disgruntled Arab publics. Moreover, the United States should recognize that Arab distrust of Iran does not equal de facto support for U.S. policies: Opinion polls frequently show that Iran and the United States are viewed with equal suspicion.

- *The United States must overcome the mystique of talking with Iran while managing its expectations and being mindful of unique Iranian negotiating attributes.* The U.S. approach to Iran is defined by a peculiar form of mystique that defies America’s history of engaging other international actors of varying shades of enmity (for example, North Korea, Serbs, and Somali warlords). This aversion to talking to Iran has squandered several opportunities to reduce tension—in 2001, on the margins of the Bonn talks on Afghanistan, and in 2003, on the eve of the 2003 invasion of Iraq. In these cases, Iran came to the table because of gratitude and fear, two motives that are largely absent today, replaced by a strategic confidence and the perception of diminished U.S. credibility and maneuverability.

There is value in negotiating with Iran, even if the likelihood for a breakthrough is distant. First, negotiations broaden U.S. contacts inside the regime and produce more information about its processes, both of which might generate unexpected openings for influence later. Second, negotiations reduce misunderstandings that can escalate into conflict. Third, negotiations can help de-mystify the Islamic Republic, reducing the U.S. tendency to treat it as an exceptional and abnormal actor in the international system.

U.S. policymakers should be mindful that while there is nothing especially risky or exotic about talking with Iran, Iranians have specific, unique negotiating attributes. First and foremost is their pro-

nounced sense of victimization. Japanese and European negotiators have long noted that Iranians must feel as if they “earned” any concessions to their demands. There is also a tendency to defer the resolution of weighty issues, to avoid incrementalism, and to revisit issues that both sides previously agreed were closed. Others have emphasized the Iranian willingness to maximize short-term gains to the detriment of long-term strategic advantage. Underpinning all of these attributes is the deeply embedded Persian cultural convention of *ta’arof*—a display of exaggerated politeness, deference, and self-deprecation—that has simultaneously enchanted and exasperated Western negotiators.