



## Transcript

# The Challenge of Uncertainty: Iran's Ambitions and Choices

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**Robin Niblett:**

We have three distinguished speakers very well placed to be able to address this topic. I'm going to kick off in the order in which they will be addressing us. Professor Ali Ansari is known to, I think, all here. He is a professor at St Andrews, director of the Institute for Iranian Studies there but also a long standing associate fellow of our Middle East and North Africa Programme. We have shared this stage before. You were just noting not when the room looked like this so it must have been a while ago. He has published widely on this topic including his more recent book 'Crisis of Authority: Iran's 2009 Presidential Election' where he really dug under the surface of that more dramatic period of Iran's recent internal development. So I'll be kicking off with Ali in a minute on the domestic politics.

Then we'll be turning to Dr Shahram Chubin who is now a non-resident scholar on the Carnegie Nuclear Policy Program based in Geneva where he served for eight years as Director of Studies at the Geneva Centre for Security Policy. And again a long-standing expert not just on Iran but on the Middle East in general and he will be tackling more the foreign policy dimensions of Iran's choices and how that is developing.

We will then move to Dr Hassam Hakimian who is now director of the London Middle East Institute at SOAS [School of Oriental and African Studies], reader of economics there. He has been associate director of the Cass Business School. He's affiliated with a number of other research institutes and fellowships and I would note in particular his role in the Economic Research Forum which I see here is a network of Middle East economists based in Cairo. So somebody who is looking at the Middle East not just from the outside but very much from the inside as well and I think that is what we're trying to provide here; at a moment of extensive commentary about Iran, an opportunity from three experts to try and get under the hood to get inside into some of the drivers within the country as opposed to treating it as this unpredictable player that is often not disaggregated, let's say, in terms of the choices and ambitions that it has.

So with that introduction and trying to then hold everyone to five minutes, if I can, having taken up at least five myself with that introduction, let me turn first to Ali and try and leave a good 35 minutes if we can for Q&A. Ali kick off, give us your thoughts.

**Professor Ansari:**

Thank you very much Robin. Before I start if Robin would just allow me to have 30 seconds extra because I just wanted to say that this whole day today, this Iran day that we've had and we a bit of a roundtable today, is largely instigated as it happened by a very good friend of mine, Chris Rundle, who sadly passed away last Saturday. He was meant to have been here. He was a very good friend and very close, and in both a personal and professional sense he was a great sport. He will be sorely missed. It was a great shock to all of us who knew him.

I'm going to be talking, giving some thoughts on the domestic politics in Iran. I should say at the outside that to my mind the dominant theme as far as the domestic political situation is concerned is the state of the economy and I wanted just to stress that, just to emphasise that if I didn't mention it is because Hassan will be talking about it more in the final section. But clearly in the last two years there has been degradation in the state of the economy, not helped obviously by the sanctions being imposed, sanctions that, I think, have surprised many in Iran, but also a reflection of the lack of accountability and transparency in the country.

Many of the crises, many of the problems that led to the crisis in 2009, the election crisis in 2009, I think, persist. I think it's a gaping wound, and a wound that has yet to be properly healed. And by that I mean really that the elite fractures continue. We have a situation where many particularly in the Ulama continue to resist the temptation, shall we say, to come on board at least in a public way in supporting the post-2009 events and also the developments that have taken place since that time, both in an overtly political sense but also perhaps more interestingly in a theological sense. I think post-2009 many of the aspects of the theological development of the Islamic Republic – and I use that term very loosely by the way because in terms of a republic I don't think a republic exists anymore – what you are seeing is a continuing consolidation and centralisation of power within the Supreme Leader's office. I want to clarify that and say it's not necessarily with the Supreme Leader himself but with his office and the cohort around him which is becoming tighter and tighter. So where as previously where you may have had a broader range of people basically sitting at the top table providing advice, providing different opinions [and] this is becoming narrower and narrower.

What we saw really in the recent parliamentary elections, and something again that I use very loosely, was essentially a clash of personalities rather than a clash of policies. So if you look at what the result of that election will be,

and we still don't know what the final result of those elections will be – on this occasion they have proved remarkably slow in providing a result – but actually what they have been rather good at is telling us what the turnout would be. And here I want to draw your attention to the fact that what was very important for them is to show in a very public way that the scars of 2009 had been healed, that people had moved on. We were told way back in January that the turnout was going to be 65%. We were told two days before the election by that extremely reliable news agency Fars that the turnout was going to be 65% and funnily enough, it was.

Interestingly enough I want to sort of to draw to your attention that two days later there was a presidential election in Russia and funnily enough there Mr Putin also achieved an election victory of 65% on a 65% turnout. So someone is writing a very accurate script somewhere and lots of people are following it.

But this also goes to the heart of the fact that what we're really seeing today in Iran is politics, popular politics is a show, it's theatre and we've returned unfortunately to the pre-revolutionary and not even just the pre-revolutionary, perhaps to the earliest going back, almost going back down to the pre-constitutional era of politics as just an aspect of theatre. So what we're seeing is further centralisation of power around the personality of the leader. And ideology, which we can discuss later, which is extraordinarily radical I have to say even by Shi'a standards and one which most of the Ulama don't agree with. A move where the presidency seems to be being diminished, there's already been discussion that perhaps this may be the last election that Mr Khomeini will have to endure because he has already mentioned that perhaps in the future we will not have direct elections for the presidency, what we'll have instead is a president elected through the Medrese. So when Robin had that Freudian slip about the Prime Minister he may have actually been right in the usual Chatham House way about knowing exactly what is going on in Iran and I'm sure he will blame us for it. This is the direction of travel I think we are going and it has already been said even by hardliners in Iran, and this is probably one of the most fascinating things, that even those people who in 2009 were supporting the developments are now being cut out.

Now there is one exception to this and I will basically leave you with this, one exception in this rather short roundup and that is that [Former President] Rafsanjani has been reinstated as the Head of the Expediency Council and Rafsanjani, as you know, has been an old friend of the Supreme Leader. Perhaps that relationship has been strained – his daughter is about to go to prison we understand – but he is been reinstated in his position as the head of the Expediency Council. And I do wonder with the negotiations that may be

coming up in a month, perhaps in Istanbul I'm not sure, that perhaps Mr Rafsanjani is being kept behind as an insurance policy that just in case things get a bit too rough they can wheel him out as Mr Pragmatic to perhaps provide a more productive side to the regime. Thank you.

### **Robin Niblett:**

Thank you very much Ali. Five minutes bang on and a nice selection of topics for us to be able to dig into in a minute. Shahram let me turn to you now. Put Iran in this broader foreign policy context please.

### **Shahram Chubin:**

Well I think five or six minutes is an executive summary. I'm going to give you an executive summary of an executive summary, if you like.

A few questions: has Iran's regional standing declined and does it recognise it? Secondly, are sanctions biting? The answer is yes, I think, to both questions. Does Iran take the military threat seriously enough given the fact it believes the West is in decline and there's a lot of bluff? I think the answer is no. Is it willing to make enough concessions to avoid a military strike or harder sanctions, even harsher sanctions, crippling sanctions? That is to make a strategic decision, not a tactical one [but] a strategic decision over and beyond the nuclear issue. My answer to that is no. I won't even take five minutes on this.

What has been the Islamic Republic's reaction to the Arab Spring and to this range of pressures that it's been under? That is the military threat a possibility, the sanctions, the domestic divisions, and the narrowing of the base domestically. And I think its response has been to intensify its investments regionally and to diversify them as usual. To accept discussions in April – the location not yet known – but probably in order to buy time.

Now, as you know experts on Iran disagree. I wanted to quote one recent paper and I think that the author might be here, he was this afternoon. [Inaudible] said Iran's foreign policy has become less adventurous. Well I'm going to spend three minutes arguing that's not the case. The new environment Iran finds itself, first there's a proud question, which is the importance of foreign policy for revolutionary regimes, if you like the relationship between domestic legitimacy and foreign policy, I will just leave it at that. That seems to me an important issue for so called or self-confessed

revolutionary regimes. And the revolutionary model, the resistance model – something Iran has bragged about a lot – is still there in their minds.

But I think the real break in foreign policy started in 2005 with Ahmadinejad and it went onto the offensive. It went onto the offensive and they said it themselves. They said that the previous administrative, Khatami and others were defensive and retreating. They said they should be proactive. They should create situations of strength. No issue in the region should be settled without Iran being there. These were bargaining chips, these were hedging strategies. And they began to look at Palestine not as a humanitarian issue of Muslim solidarity but as a strategic issue. This was news to the Palestinians of course – that they were the front line for the defence of the Gulf. This was Ahmadinejad's foreign policy and this was new.

And Iran had a wider security perimeter. Not just there but in Central Asia and in Central America and Latin America. And you had in this period, 2005 – 2010, the beginnings of the fears of sectarian polarisation, the Shi'ite arc and so on from Jordan, the Saudis and the [inaudible] on the Shi'ites. And the last event of that period was Iran's repression of the Green Movement in 2009 and therefore I think the tarnishing of its model.

Now in 2011, what happened? Iran was barely mentioned by any country that had instability. The Arab Spring was far from being an Islamic awakening in the sense that Mr Khamenei wanted it to be. Iran was irrelevant. Resistance became resistance against repressive governments, not against Israel. Israel and the Palestinian issue and indeed anti-imperialism in general took back seats in the Arab Spring. The Arab Sunnis in the Gulf particularly drew a very sharp line on the question of Bahrain, between Iran, Shi'ite Iran and the Sunni Arabs. The sectarian issue became much, much deeper as a result of 2011 and I think this is a huge constraint on Iran's model in the region. And the Islamists return in various countries, I think, is a local phenomenon; that is to say specific to each individual, not a global Jihadist model.

Iran's reaction has been, as I said, first to mention the Islamist awakening and still talk in terms of rejection, axis and resistance. Even Hamas and Hezbollah have not defected but certainly gone cold on some of this talk. Secondly, Iran has avoided direct confrontation where it might have responded as in Bahrain. Thirdly, I think it has intensified its investments everywhere. Arms from Iran have been found in Yemen, in Sudan, it's had naval visits – two naval visits – in Syria and it has provided money, arms, training and technology to Syria. And I won't mention the shadow war with Israel where it has been involved in purported assassination attempts all the way from the United States through

to Thailand, including Azerbaijan and India along the way. So Iran has spread quite widely with naval visits and shadow wars and so on.

And on the nuclear issue I think it's been blowing hot and cold, zig-zagging its policy and waiting to see if it can buy time. I'm not going to talk about the nuclear issue; if it interests you we can talk about it in the discussion. I think the big question is: is Iran ready for a strategic deal, a deal in which it reassures the international community about its nuclear intentions? And the other side of it is: is the international community members agreed on what they would offer Iran in exchange for a more intrusive access, or temporary freeze, or whatever? Those questions we could discuss later.

My general proposition on this would be that Iran has not made the strategic decision and the Western countries have not agreed yet what would be a common base, what would be a yes, for Iran. What would be a yes for Israel would be different to what would be a yes for Germany. And I dare say what would be a yes for Obama would be different to what would be a yes for Romney.

The other problem, and this is my last point really, is that Iran is playing for time. It does not see the West as – even though it's been by surprised by the European Union's support for harsher sanctions – as inevitably united and it will seek, I think, to create new bench marks in its programme, a new *fait accompli* as basis for negotiation and not make the strategic decision required to come to some agreement. After all I don't think impossible if think about it logically, for Iran to have some nuclear enrichment and the international community to have reassurance that enrichment will not go beyond a certain level and is not being used for a covert nuclear weapons programme. But I don't see that, so I'm a little bit pessimistic so I will leave it at that.

### **Robin Niblett:**

Thank you very much Shahram. Bang on. I think you touched on all of the points and have given us now plenty to think about next. But let's go back inside Iran. Hassan, tell us a little bit about the economy in particular and I think therefore some aspects of the vulnerability of the country or not as a result.

### **Hassan Hakimian:**

Talking about the state of Iran's economy is not exactly for the light hearted. But let me follow Ali's lead in alluding to our northern neighbour Russia by just taking up the first and second by citing a popular Russian joke. Legend has it that Boris Yeltsin, the former president of Russia, was once asked to describe the state of the Russian economy in one word to which he responded very emphatically by banging on the table, 'Good!' Then he was asked to describe it in two words, which he responded equally emphatically, 'Not good!' Apologies to our Russian friends in the audience and also to those who have heard this joke before; I'm happy to stop here if you want but I assume you want me to go on.

We've had two very elaborate and sophisticated discussions by our previous two speakers on the state of internal politics and also foreign policy of Iran and I think the message from both speakers is to try and understand Iran in its complexity [and its] contradictions. Iran is not an easy case to understand. And I want to echo that sentiment that understanding the state of the Iranian economy is not that easy either. Not because Iran is the sort of tabloid press title that especially after the recent round of sanctions a lot of people want to believe [that] it's on the verge of collapse. One reason is that sanctions are biting very hard. The Iranian economy is at tethers and it is mismanaged and therefore bingo. Sanctions are going to work and then we can all go home.

I want to take a strong exception to that because it is a very, very simple-minded approach to understanding: A) how sanctions work, and B) how the situation might pan out. Just to understand how important the economy is to Iranian politics let us remember that last week Iran's New Year, the year of 1390 was officially designated as the year for internal production and supporting Iranian labour and capital. The year before that, 1389, let us remind ourselves was designated as the year for economic Jihad. Now two years in a row the economic... allusions to the economic problems, challenges [and] constraints obviously make their way into official designation of the importance of the New Year.

Five, ten years back if you looked at popular daily press and proclamations by officialdom, you would often see populist arguments that sanctions are actually good for the Iranian economy and we should embrace them. Why? Because in sanctions the national economy is protected on the basis of historical experience, for example Latin America during the Great Depression, where a degree of domestic or indigenous economic growth did take place. None of that pervades anymore because there is acknowledgment or



admission of the difficulties that sanctions have posed against Iran and as Shahram said, perhaps the surprise by the unity of the 27 European countries have for once come up with an agreement and that was for sanctions against Iran.

Iran's economic problems are many – I won't bore you with all of them. One problem is the lack of transparency that Ali mentioned and that is simply that for the last three years we have not had official macro statistics of the kind that you would very easily be able to extract for other countries. We only just had some data released but there is some doubt, let's put it mildly, about the voracity of official data that stop and start at convenient points in time. So the statistics have to be taken with a great pinch of salt.

More seriously, Iran's problems are, I think, at a very high level of abstraction, to do with structural problems, for instance the youth bulge, which is common to other Middle Eastern countries as well. This is nothing unique to Iran, a very high unemployment rate particularly youth unemployment [and] the dominance of the oil sector.

Secondly, institutional challenges: Institutions that are very complex to understand. Iran, perhaps with the exception of the Vatican, is the only other theocracy in the world in the 21st century where you have the state or I should say the mosque and the clergy interfused and that poses challenges in order to understand what's going on at the level of the third level, which is the discretionary policy level.

So to sum up this first part of my five minutes analysis of Iran's economy, [it] is really complicated by intense factional politics that was mentioned. This intricate web or labyrinth of decision making bodies, one of which makes decisions, another one which implements and yet a third one which maintains oversight, and a fourth one which adjudicates in case there are discrepancies. This makes things very very complex. At the same time of course there is an odd coexistence of the veneer of an official probity on the one hand that sits very oddly with widespread patronage, a spate of banking scandals, record non-performing loans in the banking sector and a very highly skewed concentration of wealth.

If you put all that to one side, let me just say a few words about sanctions. On considering sanctions, this is in a sense a case study, or the text book case, for sanctions to succeed. You have severe weaknesses for agilities in the domestic economy, sanctions are biting hard by all accounts, and therefore sanctions success should be assured. I want to express, as I said, severe

doubt about the sanctions and I will give three broad headings and I would be very happy to elaborate these in the discussion time. The first is the mechanism of how these sanctions work. And by the way these points apply just as much to Iran than to the theory and practice history of sanctions in general.

The first one is the mechanisms. How sanctions are expected to work is often not quite explained clearly. A more sophisticated model relates on cost-benefits. If you raise the costs to the target government and reduce the benefits of the type of behaviour they engage in, therefore, rational behaviour would drive the target government to the point where they will give in. I think in this case we have a highly ideologue state, the form which the perceptions of costs and benefits may be very, very different from actors outside. Therefore, as we have seen from highly ideologue states elsewhere the threshold for pain, especially for the ordinary folk, may be very high. That actually explains the persistence of sanctions and the longevity of regimes such as in Zimbabwe [and] such as in North Korea. They haven't given in.

A less sophisticated theory considers sanctions in the following terms. There is a deep connection between the economic cycle and the political cycle. You tighten the screws and the hardship caused internally will result in internal strife and a change of regime. Well if there was such a simple one to one relationship between economic and political cycles we would be at a loss on how to explain the Arab spring, which came at a relative period of prosperity. We would also be at a loss to explain the Iranian revolution of 1979 which came at the back of the first oil boom in Iran.

Secondly, if we were to judge success by hardship against ordinary people, this is a foregone conclusion. Look at Iraq. Look at the infant mortality, look at number of people pushed under the poverty line, look at the lucky ones those that left the country. Four million left the country; these were highly mobile, sophisticated, skilled workers.

So I think we have to make fundamental distinctions when looking at sanctions between Iran, the Iranian people and the regime and unfortunately, the word Iran increasingly skips this distinction. And the practical implication of that is where sanctions were, at least until recently, presented in terms of sophisticated sanctions, target sanctions since 23 January 2012 – the day the EU joined the US in widening the scope of sanctions and sanctions against the central bank, that distinction has been blurred. And the consequences for ordinary Iranians have been very, very severe. I find it very odd that the weight of sanctions should be on the middle class and the lower income groups in

Iran when they are in many ways already victims of the target regime, if you like.

I think this is one of the fundamental flaws of sanctions which has been seen elsewhere and is probably why, if sanctions have been applied as collective punishment, they do not succeed. History has shown that in general about one third of sanctions succeed in attaining their stated objectives. And I haven't even said anything about what is really exactly the objective of these sanctions. I am happy to stop there and would be happy to take up questions.