



THE ECONOMICS OF INFLUENCING IRAN

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EXECUTIVE SUMMARY

In the wake of a year of fruitless efforts to engage the Islamic Republic of Iran, sanctions have emerged as the new centerpiece of the Obama administration's approach to dealing with Tehran's nuclear ambitions. While sanctions have had an uninspiring track record, recent events have caused many to reexamine the possibility that this time they may prove effective. Iran's domestic turbulence has changed the context, raising hopes that new international measures can impact the regime's nuclear calculus as well as bolster Iran's nascent opposition movement. In addition, Iran's internal upheaval and American diplomacy have also helped to create new traction within the international community for tough penalties on Tehran. However, despite what many see as an auspicious environment for sanctions, the diplomatic landscape will remain challenging and achieving broad multilateral implementation of strenuous measures is unlikely. Moreover, Tehran's engrained aversion to compromise suggests that even tough new economic restrictions are unlikely to resolve or reverse its most problematic policies.

The challenge for the Obama administration is that it needs to demonstrate real progress on sanctioning Iran, if only to reassure anxious regional allies and forestall pressure for military action, which would likely have devastating consequences. The most effective sanctions strategy will be one that incorporates the following recommendations:

- ❖ Recognize the limitations that economic pressure can have in altering the core security interests of the Iranian regime or in intensifying the internal political tensions within the Islamic Republic;

- ❖ Utilize sanctions as a component of a broader diplomatic strategy to deter Iranian nuclear ambitions and to induce a long-term, gradual change in policies rather than an immediate transformation;
- ❖ Emphasize measures directed against the most repressive elements of the Iranian system;
- ❖ And work collaboratively with major powers and other allies, avoiding actions that punish third countries for their relationship with Iran.

INTRODUCTION

Influencing the Islamic Republic of Iran has proven to be a perennial conundrum for American presidents. The complexity of Iranian politics and the intractability of the problems posed by Tehran's revolutionary theocracy may explain why, over the course of three decades, each U.S. administration has been forced to revise its initial approach to Iran in hopes of achieving better outcomes. The overall result has been an American tendency to oscillate between engagement and pressure, with frustratingly limited results.

And so it goes for the Obama administration. After an initial, high-profile effort to draw Tehran into a serious dialogue both to resolve the nuclear issue as well as transcend it, Washington now finds itself pivoting away from diplomatic engagement to a more coercive policy centered around economic pressure. The shift comes amidst a dramatic new context within the Islamic Republic, characterized by historic turmoil on the streets and bitter divisions among the elites, and at a moment when the international urgency surrounding Tehran's nuclear ambitions has never been greater. This context raises the stakes and heightens the sensitivities of get-

ting U.S. policy on Iran right after so many years of failure.

The turn toward sanctions is a predictable one. Sanctions have proven to be an instrument of American policy toward Tehran for the past thirty years. American use of economic pressure as a means of dissuading Iranian malfeasance began with the freezing of Iranian assets after Iranian students seized the U.S. Embassy in Tehran in 1979 and culminated in the nearly comprehensive ban on trade and investment in Iran that has been in place since the Clinton administration. But, despite the appeal of sanctions, their protracted duration underlines their limitations—particularly when they are unilateral—as a mechanism for categorically revising Iranian policy. Still, many find sanctions attractive because the overall track record of Iranian decision-making demonstrates that Tehran often considers the costs and benefits of its policy options in determining its course. As Iran’s internal strife exacerbates the regime’s vulnerabilities, the prospects for international consensus around new economic restrictions appear more realistic than ever before.

To examine the options and implications for using sanctions to address the multi-faceted challenges of Iran, the Saban Center for Middle East Policy at the Brookings Institution held a half-day symposium in late October 2009. The workshop featured off-the-record panel discussions led by experts on Iranian internal politics and the key actors shaping the diplomatic landscape. The conclusions from that session are presented below.

IRAN’S INTERNAL CONTEXT

Iran currently offers a complicated and contradictory landscape for those seeking to employ economic pressure on the regime. On the one hand, the Islamic Republic is confronting multiple challenges today that would appear to make it more vulnerable than ever before to any new coercive measures implemented by the international community. Yet, on the other hand, Iran’s domestic political turmoil has created uncertainty over how the two distinct Iranian constituencies that are relevant to U.S. policy—the leadership of the Islamic Republic and the Iranian electorate, in particular the nascent opposition known as the Green Movement that has emerged from the unrest that followed the June 2009 election—would respond to new sanctions. This murkiness has made it difficult for the policymaking community to assess whether sanctions would achieve the desired results.

Since the June 2009 election, the regime has faced dramatic protests on the streets of Iran’s major cities, as

well as lingering reverberations that continue to plague the corridors of power. The reformist candidates in that election, former prime minister Mir Husayn Musavi and former parliamentary speaker Mehdi Karrubi, have become identified as the leaders, at least symbolically, of the first grassroots opposition movement to gain any traction against the Islamic Republic since the regime’s inception. Along with Musavi and Karrubi, two other towering figures within the Islamic Republic appear deeply alienated from the current leadership—former presidents Akbar Hashemi Rafsanjani and Mohammad Khatami.

While Iran’s revolutionary state has perennially engaged in fratricidal partisanship, until this past year the wrangling among the elite had always remained contained, its escalatory tendencies held in check by a common commitment to ensuring the survival of the Islamic Republic. As such, contention among Iranian elites had paradoxically served as a force of stability within the country, providing an outlet for elite competition and dissent without seriously threatening the system. That balance was shattered by the election and subsequent clashes, and the invective directed at Rafsanjani, Musavi, and Karrubi from the allies of President Mahmoud Ahmadinejad has been shrill to the point of hysteria. Today, the explicit animosities among Iran’s powerbrokers roil the regime’s policymaking apparatus and undercut its legitimacy even among the bedrock of the republic—the clergy. Tentative efforts by both conservative clerics and moderate reformists to negotiate a sustainable truce among the regime’s elder statesmen have produced little thus far. For a state that has relied upon a supple system of elite consensus, the breach at the top is especially unsettling and raises the specter of the paralysis of decision-making or even regime collapse.

LEADERSHIP RESPONSES TO ECONOMIC PRESSURE

Economic sanctions are typically intended to influence both the cost-benefit analysis of decision-makers and the ability of their government agencies to implement problematic policies. It seems self-evident that thirty years of American economic restrictions and broad export controls on military materiel have imposed functional constraints on Iran’s capacity to cause trouble in the region. But on the arguably more important plane of leadership choices, sanctions have thus far failed to dissuade Tehran from pursuing its most objectionable policies, particularly its efforts to develop a vast nuclear infrastructure.

However, despite the failure of sanctions up until now to change the regime's approach to the world, some observers have argued that the internal developments over the course of the past year and, in particular, the ruptures within the political elite have created a conducive environment for sanctions. Of course, while the regime may be more vulnerable to pressure, as discussed below, it is hardly certain that greater economic strictures as a result of more effective sanctions will alter Iran's most problematic policies.

Proponents of sanctions argue that even modest new measures would create additional hardships on the regime because of the economy that is already reeling from domestic turmoil and the international economic slowdown. Having utilized the revolution's relentless populism to cultivate mass support, Ahmadinejad is particularly vulnerable, both in terms of public opinion as well as elite cohesion, because of the litany of economic grievances that have dominated Iranian debates in recent years. Given their manifest trepidations about internal volatility, Iran's leaders have a vital interest in averting any further deterioration of the economy, which could exacerbate popular unrest and buoy the opposition movement.

In addition, the ascendancy of the Revolutionary Guard paradoxically may enable sanctions to have greater impact on Iranian decision-making. The Guard's expanding economic role makes it a convenient target for focused measures, in hopes that pressures directed at its economic affiliates and business networks that are intimately intertwined with the government could provide new impetus for the regime to moderate. Furthermore, irrespective of the actual costs to the regime of any new measures, international cohesion in applying sanctions may cause some elements of the regime to question their own sense of invulnerability.

This argument for the increasing efficacy of sanctions in compelling Iranian cooperation is grounded in the historical evidence that Iranian policy is often shaped by a rational assessment of costs and benefits. Indeed, in voicing their opposition to Ahmadinejad's approach to the world, a number of centrist Iranian politicians have emphasized the price that Tehran has paid, in terms of potential investment and general economic stability, as a result of his belligerent rhetoric and the United Nations' Security Council censure of Iran's nuclear program.

It is precisely this awareness of the potential price of continuing defiance that appears to have spurred Tehran's preliminary acceptance in October 2009 of an

arrangement that would have significantly reduced its stockpile of low-enriched uranium (LEU). While Iran later backed away from that proposed deal—which would have sent 1200kg of Iranian LEU out of the country to be enriched at higher levels for medical use—its tentative agreement represented the first meaningful result of several years of international efforts to negotiate with Tehran. The process that generated the accord implied newfound Iranian willingness to compromise on the nuclear issue in the wake of the summer's violence and subsequent revelations about a secret nuclear facility near Qom.

Still, it is also clear that the current leadership assesses the risks and rewards associated with its various policy options through the lens of a unique and deeply paranoid worldview, a product of both ideology and historical experience. The eventual collapse of the October 2009 deal points to the potential for pressure to have a counterproductive influence on Iranian policy, particularly because the current constellation of power in Tehran may maintain other decision-making frameworks. Iranian leaders tend to believe that the best defense is a good offense, and under strain are

prone to lash out rather than to moderate their policies or yield to external demands. For Supreme Leader Ali Khamenei, and even more so for the younger generation hardliners who surround Ahmadinejad, there is no middle ground in dealing with Washington or the West. In their view, any act of compromise would merely initiate a perilous process of intensifying pressure intended to eliminate the Islamic Republic. "If you supplicate and show flexibility," Khamenei has warned, "arrogant powers will make their threat more serious."¹

Interestingly, similar logic is deployed by the supreme leader to reject any conciliation with the reformists and street protestors since the June election. In fact, Iran's hardliners tend to view both the post-election unrest and the international objections to their nuclear program as part of a continuum, arguing that the domestic turmoil was instigated by the West as part of a broader plot to force the Islamic Republic to the negotiating table in a fatally weakened position.²

In this respect, sanctioning Iran at a time when the regime is confronting an epic internal challenge may only result in greater obstinacy from the revolutionary state. As long as Iranian leaders perceive themselves to be under siege from a domestic insurrection orchestrated by their longstanding enemies, they may be less capable and less willing to negotiate in a serious and sustained

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fashion with the international community, particularly on the nuclear program—an issue that they have identified as critical to the security of the regime and the state. Even if the sanctions succeed on a purely economic basis—that is, in imposing meaningful costs on the regime and exacerbating public frustration over economic hardships—they may backfire by further entrenching Iranian intransigence.

Historically, Iranian leaders have tended to reject the significance of sanctions, at least rhetorically, and they have celebrated the country’s capacity to withstand external economic pressure, particularly the measures imposed on Iran by Washington. In the immediate aftermath of the revolution, this ethos was philosophically consistent with the revolutionary leadership’s quest for independence and its ambivalence about capitalism and international entanglements. The rupture of Iran’s financial relationship with the United States and the American ban on exporting military equipment to Iran spurred Tehran to invest in its domestic capacity, particularly the security sector. Over time, sanctions have been integrated within the regime’s ideological narrative. Like the war with Iraq in the 1980s, economic pressure represents another component of the international conspiracy to undermine the Islamic Revolution, a plot that has been foiled by Iran’s wise and righteous leaders, who have used sanctions to the country’s benefit by strengthening its indigenous capabilities and sovereignty.

In this respect, the hardliners may perceive merely surviving new sanctions—even at a significant price—as victory, and will portray it as such to their base. “These [past] sanctions didn’t work to our detriment,” Khomeini said in 2008. “We were able to create an opportunity out of this threat. It’s the same today. We are not afraid of Western sanctions. With the blessing of God, the Iranian nation, in the face of any sanction or economic embargo, will demonstrate an effort which will double or increase its progress by many folds.”³ This “blessing” has persuaded Tehran to take a number of steps over the years to mitigate its vulnerability to external economic leverage. Most recently, Tehran instituted a range of measures to minimize gasoline consumption and ramp up refinery capacity in a bid to reduce the country’s reliance on imported petroleum products.

These steps have been a clearly articulated priority for Tehran for at least several years, specifically intended to undercut the prospect of international restrictions on gasoline imports.⁴ The regime is resourceful, adaptable, and well-versed in insulating its preferred constituencies

and identifying alternative suppliers. Through trade and mercantilist diplomacy, Iran has deliberately sought to expand its network of trade partners and reorient its trade and investment patterns to privilege countries with international influence and minimalist interest in political interventions. Iranian leaders are experienced at replacing prohibited suppliers, finding alternative financiers, and absorbing additional costs in order to mitigate the impact of sanctions.

A final element in understanding the prospective response of the Iranian leadership to new sanctions is the historical track record. The Islamic Republic has experienced a number of episodes of severe economic pressure, as a result of volatile oil prices and the severe political crises that ensued after the revolution and during the war with Iraq. None of these episodes of economic pressure generated significant moderation of Iranian foreign policy; instead, when purse strings tightened the Iranian regime coalesced and rallied the public. The current political context is, of course, unique, but a review of Iranian history dispels any illusion that Tehran will automatically buckle when its budget becomes too tight.

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SANCTIONS AND THE STATE OF IRAN’S OPPOSITION

Beyond the reaction of the regime, the other critical uncertainty with respect to sanctions is the response of the Iranian people. Prior to June 2009, the potential popular reaction to additional economic restrictions would have constituted only a minor consideration for U.S. and international policymakers because of the recognition that public opinion played a limited role in shaping the regime’s nuclear policies. Indeed, in the past, the debate in Washington over Iran sanctions mainly focused on efficacy, rather than on the question of public opinion or humanitarian impact. However, the explosion of public outrage in the aftermath of the June election and the persistence of street demonstrations and civil disobedience have profoundly altered the context for U.S. policymakers, and made Iranian public opinion directly relevant to Washington’s calculations.

Ultimately, it is impossible to predict with any certainty how the Iranian population would respond to new restrictions on their economic interactions with the wider world. Just as analysts have contending views about the prospective response of the Iranian leadership to more rigorous sanctions, so too do they have contending

views on the likely reaction of the Green Movement. But what does seem clear is that although the events of the past year point to the dangers of predictions and presumptions with respect to Iranian political activism, expectations that new economic pressure will help galvanize the opposition are overly optimistic.

There is evidence to indicate that the Green Movement opposes sanctions. Several leading Iranian politicians associated with the opposition have publicly rejected economic sanctions, arguing it is not a productive way for the United States or the international community to induce a shift in the regime's approach, either to the nuclear issue or toward its own population. Musavi himself has argued that the regime can evade the impact of sanctions while any new economic measures "will create great pain to many people for whom the plight of being ruled by paranoid statesmen is enough."⁵ Like Musavi, other Iranian intellectuals and scholars have argued that the regime would exploit any new sanctions to rally the nations around anti-American and anti-Western sentiment as a means of maintaining the status quo and justifying further state control over economy and civil society.

However, other prominent opposition supporters—particularly those who are based outside of Iran—have indicated greater flexibility on this point, suggesting that the opposition movement would welcome, and exploit, international measures directed at the repressive elements of the regime, such as the Revolutionary Guard, and its economic assets. "If you explain to the Iranian people that you are sanctioning their enemies, they will support you," filmmaker and opposition spokesperson Mohsen Makhmalbaf has urged.⁶ In a similar vein, others have suggested that sanctions may be a necessary evil, mandated by the urgency of the threat from the regime. As long as the costs are bearable, these people argue, intensifying general economic hardship would strengthen the ranks and resolve of the opposition.⁷ In this view, sanctions can be used in a tactical fashion to exacerbate public dissatisfaction with the regime and help mobilize further challenges to the regime's stability.

Still, sanctions have rarely been welcomed by the populations of affected countries, even in cases where the sanctions targeted unpopular political elites. In the case of Iran, unilateral American economic restrictions have generated little, if any, domestic mobilization against the regime. Iranians attribute blame for their economic predicament to both the international community and their own leadership. In addition, whatever amplifying effect

new sanctions may have on Iranians' overall dissatisfaction with the regime, economic restrictions will not themselves supply the Green Movement with the requisite vision and strategy for undermining a regime that retains the capability and will to repress its citizenry. As a result, sanctions in and of themselves are unlikely to alter the fundamental balance of power.

THE DIPLOMATIC LANDSCAPE

Beyond the uncertainties associated with Iran's internal responses to additional sanctions, the primary factor that will determine the success or failure of sanctions is the level of international cooperation. Mountains of academic studies have confirmed what anecdotal evidence from the real-world examples of Cuba, South Africa, Libya, and Iraq suggest—broad multilateral sanctions tend to be more effective in altering a target government's policies than those imposed by a single actor, even if that single actor is a superpower such as the United States. If the Obama administration's turn toward economic pressure is to achieve more than its fruitless first-year approach of engagement did, then Washington must generate a deep and resilient commitment from each of the essential players in the international community to utilizing vigorous and potentially costly economic instruments against Tehran as a means of altering the Islamic regime's behavior.

Such a multilateral commitment is, of course, the precise deficiency that has mitigated and even undermined thirty years of American economic sanctions against the Islamic Republic. Since the 1979 revolution, sanctioning Iran has largely been the lonely work of the U.S. government, and even at the height of the hostage crisis, America's closest European allies rebuffed U.S. entreaties to join in multilateral sanctions against Iran's revolutionary regime, and eventually enacted only limited restrictions on trade. Over the years, Washington has sought to broaden multilateral cooperation through persistent diplomatic entreaties, moral suasion, and even the application of indirect pressure on allies through the threat of imposing third-party sanctions on countries that continue to do business with Tehran. In the past, none of these mechanisms proved particularly successful in generating significant international buy-in.

Underpinning the international community's historical reluctance to embrace sanctions is a divergence in views on Iran itself and on the efficacy of economic pressures. Few countries beyond the United States have consistently treated the Islamic Republic as a pariah

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state; on the contrary, important international actors such as China and Russia have invested significantly in developing a deep relationship with a country viewed by many as the region's natural powerhouse. And while energy interests and other economic enticements, including Iran's role as a market for Russian arms, have proven a powerfully binding force, dismissing international resistance to sanctions as purely mercenary is overly simplistic. In Moscow, Beijing, and other capitals, Iran remains a strategic ally in a critical region of the world, and they are loath to jeopardize their relationship with this important asset.

Achieving international consensus on tough sanctions is further complicated by divergent perspectives on the likely consequences. Traditionally, Washington has argued that increasing the costs of Iranian malfeasance can alter the regime's policy calculus and dissuade problematic policies. This view of sanctions as an instrument that can affect a recalcitrant regime is not widely shared within the international community. In particular, Moscow and Beijing have repeatedly invoked concerns that rather than inducing moderation, sanctions would provoke further Iranian radicalization and retaliation, either via direct actions against governments that adhere to any boycott or by accelerating their nuclear activities and withdrawing from the Nuclear Non-Proliferation Treaty. Moscow and Beijing's reluctance is also informed by their long memories of their own countries' experiences with sanctions and other forms of Western economic pressures.

In recent years, Russia and China have drawn the lion's share of attention and recriminations for hindering progress on sanctions, and yet ambivalence runs deep throughout much of the rest of the international community. Even within many European polities, the legacy of three decades of "constructive engagement"—an approach that endeavored to moderate Iranian policies by drawing the regime into a more mutually beneficial relationship—has left a residue of discomfort among some leaders with sanctions as the primary policy instrument. In addition, Iran's neighbors in the Persian Gulf region, who revile the Shi'ah theocracy and would prefer almost any outcome to a nuclear-capable Iran, remain deeply skittish about playing a direct role in intensifying pressure on Iran. Their trepidations are based on fears of Iranian retaliation and concerns about preserving their own economy stability in the midst of a global economic crunch. In addition, Saudi Foreign Minister Saud Al Faisal recently dismissed sanctions as too time-

consuming, saying, "We need immediate resolution rather than gradual resolution."⁸

The poor track record of achieving comprehensive sanctions combined with Beijing and Moscow's vocal opposition to sanctions create a final deterrent to today's efforts at achieving multilateral sanctions. In any negotiations involving multiple parties and interests, a single, influential hedger can dissuade other fence-sitters from signing on to an agreement. Such self-reinforcing mistrust within the international community persistently undercuts efforts to achieve a comprehensive sanctions regime. Today, European companies grumble about pressure to forfeit opportunities where their Chinese competitors offer quick substitution with impunity. Tehran has exploited this dynamic, seeking to expand its economic ties in ways that complicate any prospects for Western leverage.

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Despite all these challenges and disincentives to achieving multilateral sanctions, the current environment may offer a rare opportunity to achieve consensus around tough penalties on Tehran. Perhaps most importantly, the Obama administration has devoted considerable energies to enhancing the bilateral relationship with Russia, which has outsize influence on the international debate on sanctions because of its longstanding strategic and economic ties with Tehran. And just as the bandwagoning effect of individual reluctance has impeded sanctions in the past, new cooperation between Washington and Moscow on Iran could coax Beijing to acquiescence. Moreover, official and unofficial campaigns emphasizing the potential political and commercial repercussions of business links to Tehran have persuaded a number of major international corporations to reduce their business ties with Iran. Though largely informal, this reduction in trade could have an important impact on Iranian decision-making, particularly when it affects key industries where adequate replacements for departing investors and trade partners are not available.

Additionally, the domestic developments within Iran have caused a variety of influential international constituencies to support measures against the regime. The vocal sympathy that European publics have shown for the Green Movement has put pressure on their governments to support sanctions. At the same time, the shift in the Iranian balance of power in favor of the hard-line Revolutionary Guard has unsettled states are less concerned with democratic pretenses, such as Russia and China. Finally, Tehran's deliberately provocative

rhetoric on the nuclear program combined with the intensifying concerns of the International Atomic Energy Agency have created a shared multilateral appreciation of the urgency of the need to address Iran's nuclear quest.

Although the prospects for generating broader international consensus around sanctions may be brighter than at any time in recent years, the diplomatic challenge facing Washington remains daunting. Despite the tendency to indulge in hyperbolic rhetoric—for example, Secretary of State Hillary Clinton has repeatedly said Washington would deploy “crippling sanctions” against the Iranian regime—the Obama administration's multi-tiered pursuit of prospective new sanctions tacitly acknowledges the hurdles on the road ahead. The United Nations Security Council remains the starting point and the preferred arena for influencing Iran, but recognizing the perennial frustrations of achieving quick, decisive action at the UNSC, Washington is pursuing alternative arrangements just as assiduously. By identifying additional unilateral measures and pressing like-minded countries to embrace sanctions that exceed whatever lowest common denominator emerges from the UN process, U.S. policymakers hope to amplify the pressure on Tehran.

RECOMMENDATIONS FOR U.S. POLICY

Challenges no doubt exist to implementing comprehensive, multilateral sanctions. But given the United States' desire to influence Iranian behavior on a host of troubling issues, particularly regarding the regime's nuclear program, sanctions remain a mechanism for altering Iran's decision-making calculus that warrants further exploration. The following steps can assist the Obama administration in constructing a sanctions policy that has the highest likelihood of gaining international support, and ultimately of achieving even modest objectives:

- ❖ The international community should be under no illusion that sanctions can offer a silver bullet to solving the problems of Iran's nuclear program or its behavior in the region. U.S. policymakers should underscore that reality in their rhetoric and in their forward planning; even if they “succeed,” sanctions are at best a facilitating mechanism for future diplomatic negotiations with Iran or at worst a prelude to more coercive measures.
- ❖ In addition, sanctions will not resolve Iran's internal tensions. The struggle for democracy in Iran dates back more than a century, and the Islamic Republic's capacity and willingness to repress its opponents remain considerable. Inten-

sifying economic pressure on the regime is unlikely to alter that equation in the short-term, and offers at most an uncertain prospect of helping to consolidate support for the opposition. Policymakers should not mistake sanctions for effective tools of promoting regime change in Iran, and should be cognizant of the potential for popular backlash to be directed against the international community instead of or in addition to the regime itself.

- ❖ Sanctions are most effective if they are deployed as protracted measures against specific targets. Since history suggests sanctions will not reverse the commitment of a leadership determined to acquire nuclear capacity, sanctions should be aimed primarily at deferring that acquisition and eroding the political, financial, and functional domination of hard-line elements of the regime. Financial restrictions on Iranian banks have already raised the costs and complications of doing business, and their impact is felt most immediately by privileged merchants and industrialists with close connections to the regime. These measures should be expanded and augmented. Conversely, broader measures that impact the population at large, such as the legislation to obstruct Iranian imports of refined petroleum products (which has wide support in the U.S. Congress), will enact large costs on international cohesion and on Iranian popular opinion of the United States.
- ❖ To generate sufficient international support for sustaining meaningful economic pressure on Iran, Washington will have to make a credible case to skeptical allies that any new measures can positively impact the nuclear calculus of Iran's current leadership. Efficacy matters for gaining the cooperation of the most valuable U.S. partners, and the relevant metric is not the overall cost to the Iranian economy but the prospect of influencing decision-making.
- ❖ To steel the resolve of fence-sitters on sanctions, the United States should have plans in place for limiting or responding to possible Iranian backlashes, such as retaliation against sanctions supporters or further disregard of global nonproliferation norms. U.S. strategy for mounting effective pressure on Tehran should also incorporate efforts to undercut Iran's perennial tactic of dangling new business opportunities and/or new negotiating ploys at

critical junctures as a means of undercutting international cooperation.

- ❖ Creative bargaining with international partners represents an inevitable dimension of any process of generating a truly multilateral sanctions regime, but horse-trading cannot overcome well-established strategic interests. Russia's cultivation of a special relationship with Tehran has deep roots and continuing relevance for its leadership's strategic ambitions, as does China's interest in achieving multiple sources of energy supplies and acquiring a preferential position in a country with vast petroleum reserves. U.S. cooperation with Russia and China on Iran will be enhanced by a recognition of the durability of these interests. In the multilateral negotiations on sanctions, Washington will achieve more and do so more expeditiously by appreciating the enduring value that other major powers have invested in their relationships with Tehran.
- ❖ Washington should be aware of the trap of extraterritoriality. Washington has considerable international reach and weight by virtue of the United States' centrality to the global financial system. Therefore restrictions that Washington imposes on Iran's trade partners could have a

profoundly chilling effect on Iran's relationships with those trade partners. But penalizing third countries would entail real costs to the prospects of generating a durable multilateral coalition against Iran, as well as to other interests, and both the Clinton and Bush administrations declined to implement the provisions of the Iran (Libya) Sanctions Act for that very reason. The Obama administration should resist mounting domestic pressure for more aggressive steps against partner countries in favor of measures that have broad international support.

- ❖ Sanctions must be narrowly construed, in order to offer any real prospect for obtaining Iranian compliance and for attracting sufficient international support. However, Washington's interests in Iran transcend the nuclear issue, particularly at a moment when Iranian internal dynamics are more fluid than in recent history. For this reason, the Obama administration should make a concerted effort to couple the new efforts at using economic pressure to thwart Iran's nuclear ambitions with an intensification of rhetoric and measures that call attention to Tehran's human rights abuses.

¹ Karim Sadjadpour, "Reading Khamenei: The World View of Iran's Most Powerful Leader," Carnegie Endowment Report (March 2008): 16.

² Mohammad Imani, "The Intersection of Two Parallel Lines," Kayhan, August 29, 2009, available at <http://kayhannews.ir/880607/2.htm#other200>.

³ Speech by Ayatollah Seyyed Ali Khamene'i in Shiraz, April 30, 2008, Vision of the Islamic Republic of Iran Network 1, Thursday, May 1, 2008, World News Connection, Document Number: 200805011477.1_cd440fd14763d95e.

⁴ See for example Khamenei's sermon on October 13, 2007, in which he declares that "we pay billions to import gasoline or import other things in order that a certain section of us—or a segment of our society—can spend and be extravagant. Is this right, I ask you? We, as a nation, have to look at this as a national problem. ... They [the West] have launched sanctions against us time and again precisely because they pin their hope on this particularly negative characteristic of our nation. If we continue to be a wasteful and profligate nation, we will be vulnerable to difficulties. But a nation which refrains from such extravagance and takes care with its expenditures and revenues will not be vulnerable to these difficulties. In this case they can sanction the nation all they like. Such nation will not suffer if it faced sanctions." World News Connection NewsEdge Document Number: 200710131477.1_adcf03c738cd1232.

⁵ Statement by Mir Husayn Musavi, September 28, 2009, available at www.mowjcamp.com.

⁶ Anita Kirpalani, "Shirin Ebadi: The Activist in Exile," *Newsweek*, January 9, 2010, available at <http://www.newsweek.com/id/229965>; See also Ian Black, "Iran should face smarter sanctions, says Mohsen Makhmalbaf," *The Guardian*, November 25, 2009, available at <http://www.guardian.co.uk/world/2009/nov/25/iran-mohsen-makhmalbaf-sanctions>.

⁷ Reuel Marc Gerecht and Mark Dubowitz, "The Case for Gasoline Sanctions on Iran," *The Wall Street Journal* (online), February 23, 2010.

⁸ "Iran Sanctions Raise Saudi Doubts," Al Jazeera English, February 16, 2010, available at <http://english.aljazeera.net/news/middleeast/2010/02/201021641617847397.html>.

