

# MIDDLE EAST PROGRAM

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## Iran, the Next Five Years: Change or More of the Same?

*Haleh Esfandiari, Director, Middle East Program*

On March 26, 2014, the Middle East Program convened the second of three meetings on Iran under President Hassan Rouhani, this time exploring possible trends and developments in the next five years under the Rouhani presidency. Since assuming office, like two of his predecessors, Ali-Akbar Hashemi Rafsanjani and Mohammad Khatami, Rouhani has sought to reorient Iran's domestic and foreign policies and to strike out in new directions. The two policies—domestic and foreign—are intertwined and help explain the Rouhani team's decision to go all out for a deal with the United States and its European partners over Iran's nuclear program. A nuclear agreement will serve as a first step toward the reintegration of Iran with the international community and, by securing the lifting of sanctions against Iran's financial and banking sectors, begin the difficult task of rebuilding the Iranian economy. Moreover, if

the nuclear issue is resolved, other sources of friction between Iran and the United States can be addressed, and Rouhani can devote more time to addressing domestic issues.

This publication brings together the papers presented at our second meeting in the current series. Shaul Bakhash, the moderator, gives an overview of Rouhani's priorities and the difficulties he will encounter in meeting his goals. Bernard Hourcade examines the likely outcomes in Iran's next parliamentary elections and the prospects for the emergence of a new centrist consensus that could enjoy the Supreme Leader's support. Bijan Khajepour uses economic data to project trends in the Iranian economy over the next five years. Roberto Toscano considers the prospects for the moderates against the conservatives in Iran's political landscape. Robin Wright concludes with her observations on the Iranian political and social scene following her recent stay in Iran.

## About the Middle East Program

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The Middle East Program was launched in February 1998 in light of increased U.S. engagement in the region and the profound changes sweeping across many Middle Eastern states. In addition to spotlighting day-to-day issues, the Program concentrates on long-term economic, social, and political developments, as well as relations with the United States.

The Middle East Program draws on domestic and foreign regional experts for its meetings, conferences, and occasional papers. Conferences and meetings assess the policy implications of all aspects of developments within the region and individual states; the Middle East's role in the international arena; American interests in the region; the threat of terrorism; arms proliferation; and strategic threats to and from the regional states.

The Program pays special attention to the role of women, youth, civil society institutions, Islam, and democratic and autocratic tendencies. In addition, the Middle East Program hosts meetings on cultural issues, including contemporary art and literature in the region.

- **Current Affairs:** The Middle East Program emphasizes analysis of current issues and their implications for long-term developments in the region, including: the events surrounding the uprisings of 2011 in the Middle East and its effect on economic, political, and social life in countries in the region; the increased use of social media; the role of youth; Palestinian-Israeli diplomacy; Iran's political and nuclear ambitions; the drawdown of American troops in Afghanistan and Iraq and their effect on the region; human rights violations; globalization; economic and political partnerships; and U.S. foreign policy in the region.

- **Gender Issues:** The Middle East Program devotes considerable attention to the role of women in advancing civil society and to the attitudes of governments and the clerical community toward women's rights in the family and society at large. The Program examines employment patterns, education, legal rights, and political participation of women in the region. The Program also has a keen interest in exploring women's increasing roles in conflict prevention and post-conflict reconstruction activities.

- **Islam, Democracy and Civil Society:** The Middle East Program monitors the growing demand of people in the region for the transition to democratization, political participation, accountable government, the rule of law, and adherence by their governments to international conventions, human rights, and women's rights. It continues to examine the role of Islamic movements and the role of Islamic parties in shaping political and social developments and the variety of factors that favor or obstruct the expansion of civil society.

The opinions expressed herein are those of the authors and do not reflect those of the Woodrow Wilson Center. The papers are based on the authors' presentations on March 26, 2014 at a Middle East Program event, "Iran, the Next Five Years: Change or More of the Same?"

## Introduction

**Shaul Bakhash**, *Clarence J. Robinson Professor of History, George Mason University; and former fellow, Wilson Center*

It is quite appropriate that today we should be devoting a discussion to Iran over the next five years, since Iran is once again at a crossroads. A new team, which includes a number of individuals associated with the reform movement in the past, is in office. And the skeptics notwithstanding, it is quite clear that President Hassan Rouhani and his group intend to introduce changes in three significant fields: first, to reintegrate Iran into the international community; second, to loosen the stranglehold of the public sector on the economy, to open the economy up to the private sector and foreign investment, and to come to grips with massive economic problems inherited from the outgoing administration; and, third, to ease controls on political activity and discourse.

Of these three areas, President Rouhani has focused principally on foreign relations and the nuclear issue. After a long hiatus, Iranian officials are engaged in serious negotiations with the P5+1 countries on the nuclear issue. Both the president and his foreign minister, Mohammad Javad Zarif, have reached out to the Europeans. At home, Rouhani has spoken of the importance of opening up the economy to the private sector; and there are signs that the policy of the previous government of granting huge construction, gas, and oil contracts to the business arm of the Revolutionary Guards is being reviewed. Rouhani has spoken publicly of the need to end what he calls the “security state”: the surveillance of society by the security organizations, curbs on access to the Internet, and the like. True, aside from the release of a limited number of political prisoners and a palpable easing of press controls, Rouhani has not made good on all his promises of political liberalization. But it matters that he and his ministers continue to address these issues—a very stark and striking contrast with the growing intrusion into the lives of Iranians by the security

agencies during the eight years of the Mahmoud Ahmadinejad administration.

Of course, we have been there before. During his presidency in the early 1990s, Akbar Hashemi Rafsanjani sought to reorient economic policy and foreign policy in a more pragmatic direction and to ease up on social (but not political) controls. Mohammad Khatami, who followed him as president, ran on a platform of the rule of law and freedom for Iranians. The first years of his eight-year presidency witnessed an unprecedented opening up of the political space. Political parties and societies were established; professional associations reappeared; and numerous new newspapers and journals were published, spearheading a vigorous discussion of such issues as individual rights under an Islamic government, the relationship of religion to the state, and the limits to the Supreme Leader’s authority. Yet both these attempts at reform were thwarted. Hashemi Rafsanjani was stymied during his second term; and a massive conservative backlash undercut and then reversed Khatami’s political liberalization program.

In their attempt to change the direction of the Islamic Republic, these two presidencies did not end in complete failure. Iran is not the country it was 20 years ago. Though still harassed, women in Iran are much freer and play a larger role in society than they did two decades ago. Voters continue to value their limited right to choose their own government, as was evident in the massive protests that erupted following what many believed was a rigged presidential election in 2009. The press, often under siege, is quick to exploit the slightest easing in political controls, as has been evident in the few months since Rouhani’s election in June 2013.

However, it remains the case that these two attempts—Khatami’s was the more serious one—at fundamental change could not overcome the deter-



mination of the conservative establishment to prevent it. It is safe to say that the conservatives remain the strongest political bloc in Iran, still in control of the most important instruments of the state.

This means that Rouhani faces formidable obstacles in his cautious, measured attempt to reorient Iran's foreign policy, to reintroduce sensible management of the economy, and to restore to Iranians some measure of political freedom. Critics on the right are already sniping at his attempt to reach an agreement over Iran's nuclear program with the P5+1 countries. The judiciary and the

security services deliberately seek to undercut his political liberalization measures and have blocked the release of a larger number of political prisoners. Any attempt to curtail the role of parastatal organizations in the economy, to reduce subsidies, and to attract foreign investment to Iran will be firmly resisted. It remains to be seen whether this time, a mildly reformist president will manage to carry his agenda to completion, or whether the pattern of the past will be repeated and a reformist president's initial successes will be undercut or reversed by a conservative reaction.



## The Pattern of the Next Parliamentary Elections

**Bernard Hourcade**, *Global Fellow, Wilson Center; and Senior Research Fellow Emeritus, Centre National de la Recherche Scientifique, Paris, France*

Iran is a republic. Of course, a republic in the making, but one shaped by and rooted in 35 years of political struggle, competition, electoral fraud, and multi-layered despotism.

In Iran, elections matter in spite of fraud. What happened in 2009 demonstrates that fair elections have become a major political and social objective. Even the official data published by the Ministry of Interior show many real political factors behind the figures.

The four-year period of President Hassan Rouhani's mandate is a real turning point: for the first time since 1979, Iran and the United States have had real bilateral meetings and negotiations. The first question at stake—and the cornerstone for a future relationship—is the nuclear issue within the framework of the P5+1.

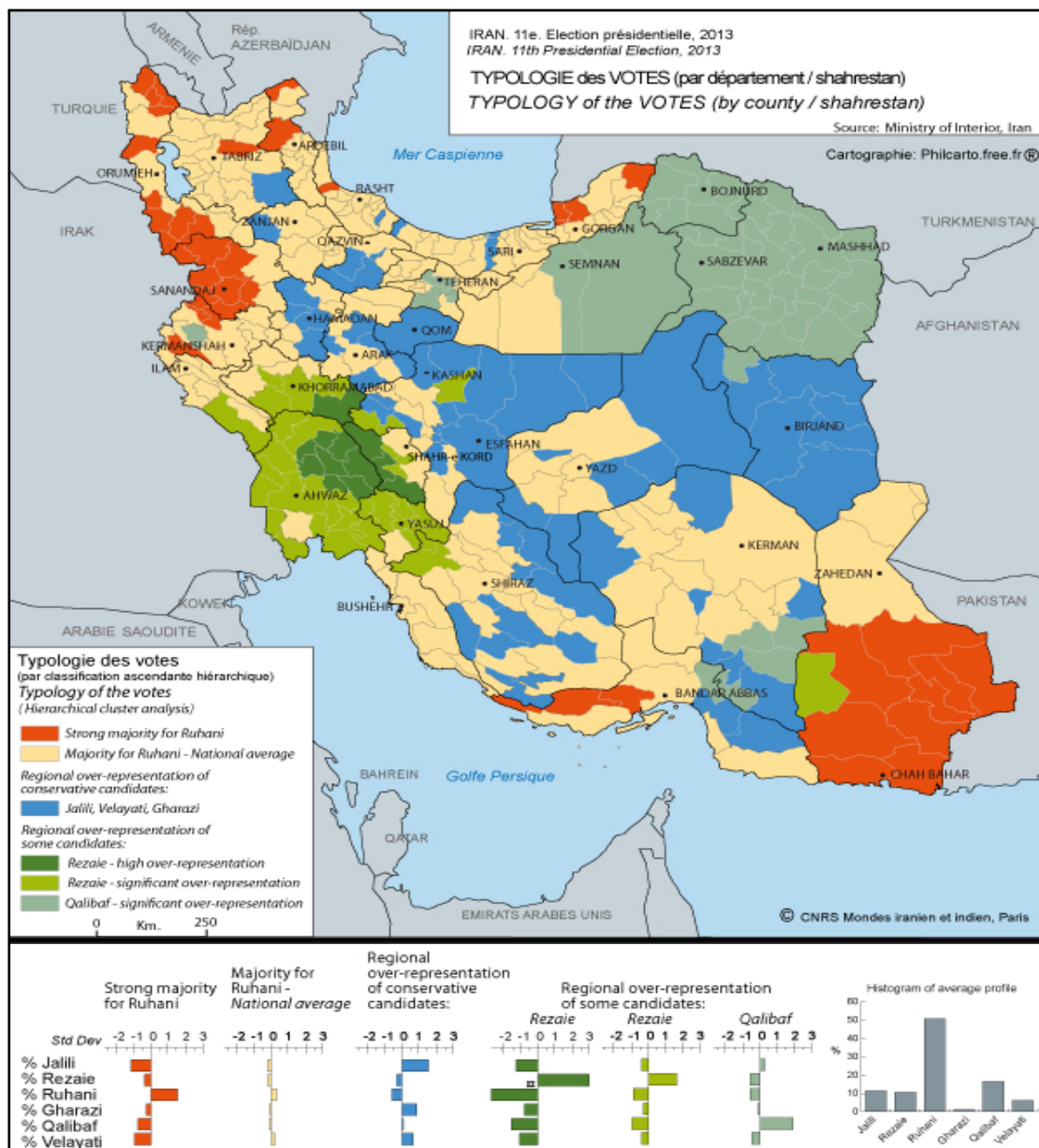
In this context, the next parliamentary elections of spring 2017, during the same period as the next presidential election, will be of very high importance since this national assembly will have to make the government's likely political agreement sustainable. All the political factions are already preparing

for these elections, which will be a historical opportunity to support—or to stop—the emergence of Iran as a stable, consensus-driven, wealthy republic in the Middle East.

### What could be the major factors of the elections?

Ethnicity is often said to be a dominant factor in Iranian politics. This is not true, even if localism is important, because the Western bourgeoisie of Tehran and the illiterate Baluchi or Kurdish peasants have all supported reformist candidates. After nine parliamentary elections, the social and political role of the members of parliament (MPs) is rooted in Iranian culture, and the promotion of local interests is central (public services, infrastructure, employment, and economic opportunities). This pragmatism and localism are, of course, intermingled with various ideological factions, as shown in the maps of the last presidential election in June 2013.<sup>1</sup>





The difference between large cities and villages does not seem to be crucial in determining which candidate Iranians chose in 2013. The new socio-political division between modern city centers and large suburbs, where 20 percent of the country's population now lives, seems to be more influential. The example of Tehran (shown on the following page) is well known and confirms this division, as evidenced by the results of the last presidential election.<sup>2</sup>

The opposition between the "Westernized" bourgeoisie and the new Islamic elite, or middle

bourgeoisie, is no longer a key issue. The contestation of the 2009 election showed that the main political divisions are inside the core of the Islamic Republic, with a real—although limited—political rapprochement between the old and new elites and the middle class.

Today, the main social group is made up of the "grandsons of Khomeini," or those who were born or grew up after the 1979 Revolution. This almost unknown social majority, linked to the Islamic and state institutions, is looking toward globalization. They are very diverse because they

are simultaneously Islamist, nationalist, and open to globalization.

### What large political force is able to support the new policy of consensus?

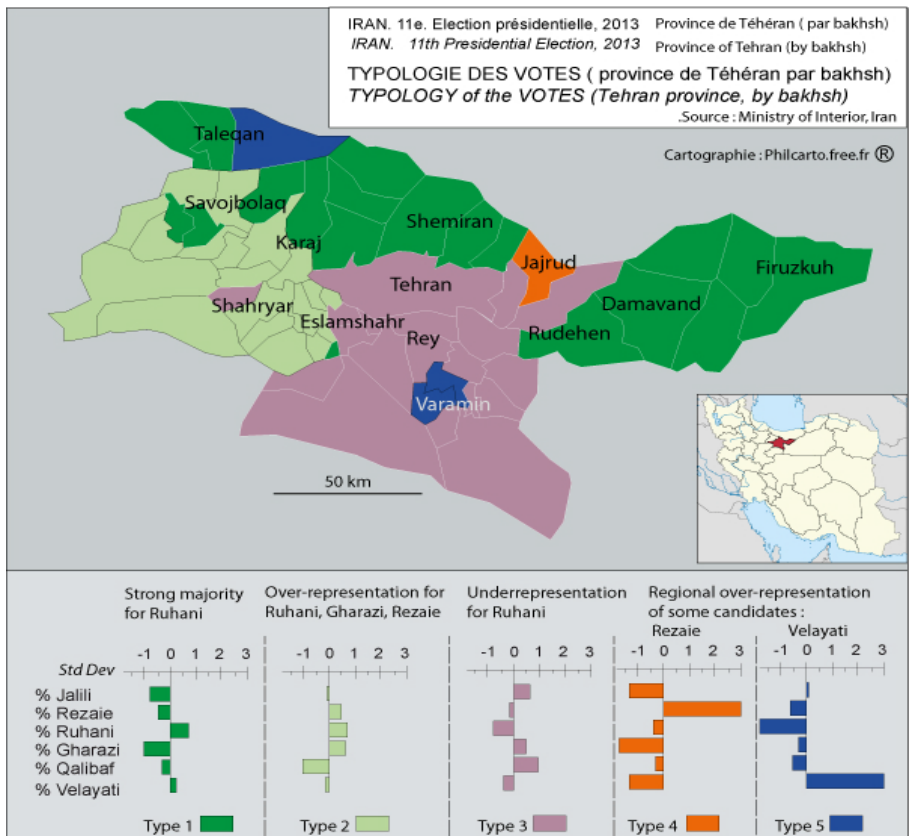
The role of political factions changed after Rouhani developed political consensus among different factions. The cabinet is de facto a coalition of several factions supporting the new government and the policy of dialogue under the leadership of the Supreme Leader. Within the current context of this complex national unity government, further complicated by issues of sanctions and the potential nuclear deal, the minority of Islamist hardliners (mainly the Resistance Front/*Paydari*) have become the new real opposition.

These Islamic “Tea Parties” are very active but comprise no more than one-third of the current *Majles*. They are supported by some preeminent policymakers, clerics, and members of the *Pasdaran* and *Basij*, and they have strong networks, efficient newspapers, and media connections. Their criticism of the negotiations between Iran and the P5+1, specifically on human rights and Syria, remains within the framework of legitimate opposition in any republic. They are a traditional “democratic” opposition and currently do not have the clear sup-

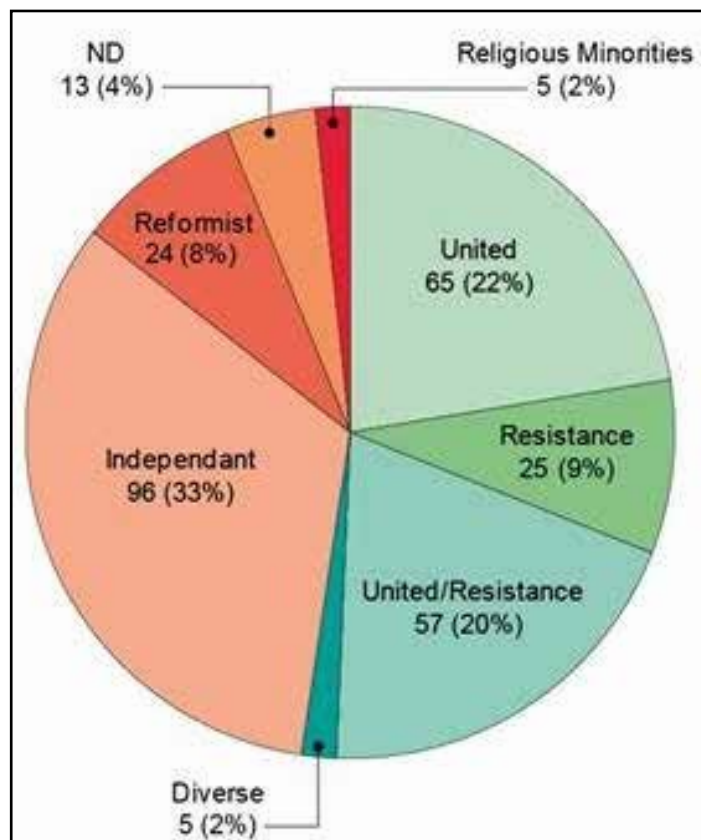
port of the Supreme Leader, who trusts President Rouhani.

The core—or the weak center—of the current parliament is made up of “independents.” They are local MPs but also policymakers who do not want to support any radical faction (reformist or radical Islamist). In the political context of 2012, choosing this political path was a way to oppose the Islamist hardliners (Resistance Front/*Paydari*) and even the United Front of Conservatives (*Motahed*) majority, a group close to the Supreme Leader. Most of them strongly support the new policies of “moderation” and dialogue.” Both groups are open to globalization but also linked to the Islamic cultural values—and political networks—of the Islamic regime. They are good representative of the new middle bourgeoisie.

The main question at stake in the next parliamentary elections will be the emergence—or not—of a political group able to sustain the current imposed consensus supporting the international opening of Iran. A positive strong majority sup-



### Political divisions of the 9th Majles (2012-2017)



The “independent” MPs of the current *Majles*, devoted to local and national interests more than to ideological beliefs, may follow any emerging force or leader able to make a significant positive consensus. But who is able to build up such a political movement that is able to simultaneously protect the national interests of Iran, the Islamic values, and the international opening?

Since the beginning of the Islamic Republic, the *Majles* has played a strong role in supporting or challenging the government and even the Supreme Leader, who now has to take parliament’s opinions into account if he wants to remain the leader of the national consensus. The next Iranian parliament will probably have to ratify—or not—the Additional Protocol of the Nuclear Non-Proliferation Treaty (NPT), a major component of the future political

porting the new policy is necessary for the new economic and political emergence of Iran and to give the international community confidence to lift economic sanctions following political agreement on the nuclear issue.

If the Islamic hardliners obtain the majority of seats after the 2017 parliamentary elections, the international and domestic crises will go on. The same situation may occur if the reformists obtain a majority—since domestic social and political instability will prevail—due to the strong opposition of the hardliners, supported by the efficient conservative Islamic organizations and institutions.

stability of the Middle East. The decision is not only in the hands of Supreme Leader Khamenei. In any case, the first step in this political situation is a quick and strong compromise on the nuclear issue, which remains the cornerstone of any future scenario. In this context, the future is in the hands of the current Iranian government, but also in those of the United States and the P5+1.

#### Endnotes

<sup>1</sup> [www.irancarto.cnrs.fr](http://www.irancarto.cnrs.fr)

<sup>2</sup> [www.irancarto.cnrs.fr](http://www.irancarto.cnrs.fr)



## Outlook for the Iranian Economy

**Bijan Khajepour**, *Managing Partner, Atieh International*

Experts agree that eight years of populist and misguided economic policies under former president Mahmoud Ahmadinejad have landed the Iranian economy in a very deep economic crisis. An economic decline of 5.8 percent in the Iranian year ending on March 20, 2013 and numerous imbalances in the country's economic realities were inherited by the new government when it took office in August 2013. However, as will be shown below, the new government has managed to reverse the negative trends, though a return to a new economic balance will take a few years.

### Snapshot of the Economy

The table on the following page summarizes some of the key indicators in the Iranian economy including projections for the new Iranian year, which started on March 21, 2014.

As can be seen, the Iranian economy has moved out of its stagnation and will potentially grow by about 3 percent in the new Iranian year. This notwithstanding, high inflation and unemployment will persist, especially as the second phase of the subsidy reforms, which include a new hike in fuel prices, will kick in after the end of the Iranian New Year holidays (early April). Amid the negative indicators, the Iranian economy continues to produce a trade surplus, which can be considered a backbone for future economic development. Evidently, the full utilization of the country's economic potential will require further sanctions relief, especially the unblocking of Iranian funds in international banks.

The challenging economic situation is fully appreciated by the Iranian government. Iran's minister of economic affairs and finance, Ali Tayebnia, outlined the depth of the crisis in a speech to the Assembly of Experts on March 5, 2014: he underlined that the key complexity was having high infla-

tion, unemployment, and a budget deficit at the same time. He admitted that inflation had peaked at 42 percent in 2013 and that it was being contained through contractionary policies. He also stated that the country had fallen behind on its own plans that had been drafted in the 20-Year Perspective Document (also known as Vision 2025). He said, "Due to the economic decline of the past few years, the country needs an average annual growth of 11 percent per annum until 2025 to achieve its own goals in economic development and job creation." The decline in capital formation amounted to 32 percent in the year 1391 (that ended on March 20, 2013), and, generally, the economy faced decline in all sectors (with the exception of agriculture).

The minister further outlined some of the problems emerging from mismanagement in the previous government. He explained that "commitments emerging from unfinished government projects" amounted to 4,000 trillion rial (\$160 billion at the current official exchange rate). Furthermore, according to Mr. Tayebnia, subsidy reform payments were unsustainable: additional annual government revenue was 280 trillion rial (\$11.2 billion), but the payout in the form of cash handouts was 400 trillion rial (\$16 billion). Another major disaster was the social housing project entitled the "Mehr Project," which, according to the minister, generated major liabilities for the government and also for the 2.4 million families who paid toward owning an apartment without obtaining one.

In the same speech, Mr. Tayebnia declared that contractionary fiscal policies and containment of inflation would be the government's main priorities. He also opined that export-led private sector growth would be the only route toward job creation and economic growth.



Indicators	1391 (ended March 20, 2013)	1392 (ends March 20, 2014)	1393 (ends March 20, 2015)
GDP growth (real in rial)	- 5.8%	0.5%	3.1%
GDP (nominal in USD at median exchange rate)	\$259.3 bn	\$259.9 bn	\$328.0 bn
GDP per capita (in USD)	\$3,410	\$3,372	\$4,197
GDP per capita (USD) growth (decline)	-34.4%	-1.1%	+24.5%
Inflation Official (unofficial)	30.5% (35.8%)	33.8% (35.3%)	26.3% (34.3%)
Oil and gas exports	\$68.1 bn	\$65.8 bn	\$92.0 bn
Non-petroleum exports (including services)	\$29.9 bn	\$26.8 bn	\$30.6 bn
Imports	\$67.1 bn	\$52.4 bn	\$60.1 bn
Trade Surplus	\$31.0 bn	\$40.2 bn	\$62.5 bn
Unemployment Official (unofficial)	12.2% (20.6%)	11.3% (18.6%)	10.4% (18.8%)
Budget deficit (in % of GDP)	0.7 %	3.0 %	3.1%
Main source: <i>Iran Economics Magazine</i> , March 2014 ( <i>Eghtessad-e Iran</i> ), *Projected			

## Understanding the Decree of “Resistance Economy”

In the midst of the debates on how to steer the Iranian economy out of its current crisis, in February, Supreme Leader Ayatollah Khamenei issued a decree, “Instructions on Achieving a Resistance Economy.” Before taking a closer look at these policies, it is important to note that the process of drafting this strategy started in 2012 in response to the latest wave of intense external sanctions against Iran. In one way, the concept of “resistance economy” was Tehran’s response to increased external sanctions. Despite its revolutionary terminology (such as references to “jihadi culture”), the decree can be considered a blueprint for economic reform and liberalization. In fact, the decree includes progressive objectives (initially from the Vision 2025 document) such as the creation of a “knowledge-based economy,” or policies to “expand and develop entrepreneurship” and “prioritize efficiency by strengthening productivity factors,” or “establishing food and medicine secu-

urity” and a “comprehensive reform of the country’s financial system.”

As such, the decree can be seen as a platform for the new government to introduce needed reforms, especially as it also refers to key areas such as “rationalizing the size of government,” “increasing annual contributions to the National Development Fund,” “encouraging a transparent and healthy economy,” and “preventing an environment that allows for corrupt actions.” In fact, if the government utilizes the momentum created by this decree to improve the country’s overall business climate and pave the way for growth in private sector activity, the likelihood of economic recovery will increase.

## Economic Outlook

Before offering a cautiously optimistic outlook for key economic indicators, it is important to outline the basic assumptions for the future scenario. This author believes that the Iranian economy will gradually recover from the failed policies of the Ahmadinejad years, but restoring economic normalcy will take three to four years. It is also assumed

that there will be a comprehensive deal resolving the nuclear deadlock, but the lifting of external sanctions will take about two years after the signing of the document. Furthermore, the decree on “resistance economy” will pave the way for needed reforms in the economy.

Based on the above assumptions, one can project the following developments up to 2020:

**Economic Growth:** Iran’s GDP will grow modestly by about an annual 3 to 4 percent real growth rate over the next few years. This growth will be achieved as long as reasonable economic and monetary policies are adopted. Should the sanctions be lifted efficiently and significant foreign investment levels be achieved, the growth figure may go up to 5 to 6 percent. However, any faster pace growth would be limited due to the country’s weak infrastructure and inability to absorb high levels of foreign investment.

**Inflation:** The government has been successful in containing inflation. Nonetheless, inflationary impacts will remain due to subsidy reforms and the needed economic adjustments; however, inflation will stabilize at about 10 to 15 percent per annum with a falling trend.

**Unemployment:** There will be a positive impact on job creation due to growing private sector activity. However, unemployment figures will not drop significantly due to the negative impacts of demography, subsidy reforms, and privatization. The trend between 2015 and 2020 will be positive with unemployment falling below 10 percent, partly also due to a lower number of new entrants into the job market.

**Exchange Rates:** In the short run, the value of the rial against the U.S. dollar will consolidate around 30,000 rial, but in a five-year horizon the value will have to be adjusted based on inflation differentials to avoid negative pressure on the country’s growing export sector. Therefore, the exchange rate will fall by about 5 percent annually between 2015 and 2020.

**Composition of the GDP:** The Iranian GDP has been mainly dominated by the service sector

(contributing to about 50 percent of the GDP) with the oil and gas sector as the second largest contributor with about 20 to 23 percent. Considering the fact that industrial and mining activity is on the rise, it is projected that by 2020 the contribution of industry and mining would increase to about 20 percent with oil and gas at 20 percent, agriculture at about 15 percent, and services dropping to 45 percent.

**Ownership of the Economy:** In 2005, about 50 percent of the Iranian economy was owned by the government. However, the government sector has declined through privatization, with the main beneficiaries being the semi-state sector and cooperatives. This trend will continue, and it is projected that the government will control about 25 percent of the economy in 2020, with semi-state institutions controlling about 40 percent, the private sector about 25 percent, and cooperatives about 10 percent.

## Conclusions

Iran is at an important juncture in its economic development. The positive outlook of sanctions relief and a number of reasonable economic and monetary policies have the potential to return the country to a positive economic outlook. However, one should not expect a fast-paced economic recovery, not only because the current economic crisis is very deep, but also because the social and political consequences of fast-paced economic growth would not be manageable in a political constellation like Iran’s. In other words, economic recovery should be managed in a way that does not lead to a new wave of populism that can feed itself from disappointed social classes.

All indications show that the new government understands how to draft and implement sustainable policies; however, the success of these policies will also depend on continued sanctions relief and a gradual normalization of Iran’s relations with Western powers.

# The Prospects for Democracy

**Roberto Toscano**, *former public policy scholar, Wilson Center; President, Intercultura Foundation; former Italian Ambassador to India, 2008-2010; former Italian Ambassador to Iran, 2003-2008*

Until not very long ago, a talk about the prospects for democracy in Iran would have been considered science fiction. After President Hassan Rouhani's election, things have changed—at least allowing for a shift in literary genres from science fiction to thrillers.

The situation is at the same time promising and precarious, making it difficult to articulate any sort of forecast based on rational and solid assumptions. Therefore, I will—at the risk of appearing to suffer from multiple personality disorder—address the question first as an optimist and then as a pessimist.

## The Optimist Perspective

Among Iranian citizens, there is a very high margin of convergence on the goal of attaining the status of “normal country”—meaning a country that is not isolated, is not considered a pariah and a threat, is modern economically, and is respected politically. At the same time, there is also the awareness that such a goal cannot be attained without normalizing relations with the United States. In Iran, there are many reasons for grievance against Washington (from the 1953 coup against Mohammad Mossadeq to the present sanctions), yet what strikes any visitor to Iran, and especially American visitors, is that there is no widespread anti-Americanism, but, rather, a generalized attitude of positive interest and even friendliness. (Especially striking is to compare this with the strong anti-Americanism existing throughout the Muslim world, from Pakistan to Egypt, and even the current anti-American mood within Russian public opinion, and not only Russian officialdom.)

Rouhani's election was made possible by the convergence of voters sharing the views of reformists and regime centrists. In a way it could be

said that the present government is a coalition government, a *Große Koalition* (grand coalition), barring only the radicals in the regime and in the anti-regime. Thus, the political foundation of Rouhani's government is much wider and more solid than the political foundation of former President Mohammad Khatami, who won elections by a wide margin but whose government turned out to be weak not only within the regime but also within the country at large—evidently not ready to accept an accelerated and explicit path to opening up and political reform.

There are still many skeptics regarding the “authenticity” of Rouhani and of his political experiment. Some go as far as defining him as “a wolf in sheep's clothing.” One fact that should help disprove this suspicion is that many important, qualified, and undoubtedly moderate and reformist personalities who were active during the Khatami presidency—and who then scattered to the winds in the years of the Mahmoud Ahmadinejad presidency (shifting to academic posts either in Iran or abroad, and at times to minor and marginal jobs within the government)—are now back in positions of real political responsibility.

The nuclear issue, which was the main stumbling block to the normalization of relations with the United States and with the world, is turning out to be a fundamental step toward that goal. The main obstacle is now the most promising occasion.

Iran has never been a purely theocratic system, but, rather, a hybrid of democracy, theocracy, authoritarianism, and oligarchy. People who would like to see the country evolve in a democratic, pluralistic direction have generally identified the role of the clergy as an overwhelming obstacle. So much so that when Ahmadinejad was first elected in 2005, some liberals expressed the hope that, being a non-



cleric and even an anti-clerical messianist, he would at least get rid of the role of the clergy. Today, what seems more credible, and more promising, is the fact that while religion remains strong within the population, Iranian Shi'ism might revert to a more orthodox interpretation. This is what one sees in Iraq, where religion is definitely a political factor and Grand Ayatollah Ali al-Sistani has exerted true political influence but where there is no acceptance of Ayatollah Khomeini's "political theology" known as *velayat-e-faqih* (the rule of the highest religious ruler, the Supreme Leader, the *Rahbar*). Religion in Iran will remain in the public space (no return to Reza Shah's "Ataturkian" secularism) but without the pretense to rule the country. This type of religion, not *velayat-e-faqih*, is compatible with democracy.

In Iran, culture is also extremely important in a political context, and news from Iran (according to what one hears from artists and intellectuals) is that there have been significant and promising openings.

### The Pessimist Perspective

The president of Iran is actually more of a prime minister (in a presidential type of system) than a president, since the real head of state and government is the Supreme Leader. If it is true that Supreme Leader Ayatollah Khamenei is allowing and supporting Rouhani's actions, there are also signals that he did not sign a blank check but reserves the right not only to oversee but also to curtail and even stop, if needed, the whole process. There is nothing new in this: Khamenei both allowed and limited, and in some cases stopped, very different political formulas that he thought were necessary at a given stage in Iran's politics—from Rafsanjani's normalization of the state and economy to Khatami's reformism to Ahmadinejad's populism.

Khamenei is allowing movement but remains ready to hit the brakes. In the meantime, he is sending out warning signals not to go too far and also not to abandon some fundamental "identity mark-

ers" for the Islamic Republic. Such markers include opposing the release of Mir Hossein Mousavi and Mehdi Karroubi and artificially reviving the Holocaust issue (highly damaging for Iran and highly unpopular within Iranian public opinion) in order to mark the limits of normalization with the United States and also to a shift to a more moderate line on the Israeli-Palestinian issue.

The *Sepah*, the Revolutionary Guard Corps, is another very significant political player that Rouhani has to reckon with. It remains a watchdog for stability against any sign of disorder that could be sparked by excessive democratic expectations. It occupies a relevant role in the economy and will not accept any exclusion from it. Last but not least, the evident desire of Rouhani and Foreign Minister Mohammad Javad Zarif to make Iran's Middle East policy less radical and more flexible (from Syria to the Palestinian territories) finds in the Revolutionary Guards, and in particular in the role played by the Quds Force, a strong limitation, if not an impassable obstacle.

Together with the normalization of international relations, the other basic plank in Rouhani's platform is the straightening out of an economy that emerged from the Ahmadinejad years in shambles. The problem here, however, is that the pursuit of modernization and efficiency will entail social costs and unpopular measures, such as the elimination of subsidies. This could prompt a political backlash in the sense of strengthening anti-reformist populism. Another problem is the fact that in Iran the main obstacle to economic efficiency is not the presence of state companies (which could be privatized) but the existence of a corporatist system in which even private companies are exempt from real competition insofar as they have government support. Iran is not a socialist country, and Iranian capitalism does exist, but it is crony capitalism. Competitiveness will be extremely hard to introduce, and efficiency might entail social costs that could prove dangerous for a project of political liberalization.



## The Realist Perspective

If optimists are generally doves and pessimists hawks, maybe we should promote a third category: that of wise and realist owls. Being, I confess, an optimist, though tempered by realism, I will conclude by saying that things will, of course, be decided by Iranians themselves on the basis of internal tensions, contradictions, and dynamics. At the same time, the external dimension will not be neutral. It never is for any country, but, in the specific case of Iran at the present juncture, it turned out that the external dimension supplied the turning point for the change from Ahmadinejad to Rouhani.

Recognizing the responsibility of favoring a positive evolution of the Iranian system (in order to avoid conflict and because the Iranian people deserve better), we should, therefore, be able to mix

firmness and flexibility—as we seem to be doing in the nuclear negotiations. We would be totally mistaken if we thought we could promote regime change from the outside, but the Iranian regime would be equally wrong if it thought it could survive and thrive by banning real change in the way the country is run. Change will inevitably happen and is already happening.

The hybrid political and constitutional mix that is the Islamic Republic will continue to be a hybrid, but the relative dosage of the individual components will certainly shift—probably introducing real transformation, hopefully in a democratic and liberal direction, even while maintaining previous rhetoric and previous, revolutionary, labels. What is certain is that Iran will remain a very interesting country to follow, to interpret, and to try to understand.

## Iran and the U.S.: What's Next?

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Iran has made a strategic recalculation of its foreign policy because the nuclear deal is in many ways about a lot more than just the nuclear deal. It's really about securing the Islamic Republic's future.

First, the strategic recalculation reflects changes in the regional balance as well as the U.S. role in the Middle East and South Asia. In 2003, King Abdullah of Jordan first used the term Shi'ite Crescent. It defined the new arch of influence radiating from Tehran through Baghdad, to Damascus, and into Lebanon, which challenged many of our allies and changed the regional balance of power.

But since the U.S. withdrawal from Iraq in 2011 and with the U.S. drawdown looming in Afghanistan in 2014, the Iranians now look at a very different dynamic in the region because of the rise of al-Qaeda factions, the potential reemergence

one way or another of the Taliban, the growing Wahhabi influence, and Saudi Arabia's alliances in both South Asia and the Arab world. The Iranians now believe a Salafi circle is surrounding them, which has changed their thinking in very fundamental ways. They no longer see the United States as the threat or the challenge to their interest. They now see the United States as, in some ways, a country with which they have common national security concerns. It does not mean that the United States and Iran are going to be friends anytime soon, but the old adage applies: the enemy of my enemy is my friend. So the Iranians are looking well beyond their immediate circumstances. This is where the vision of the current government is much broader than under the previous president.



The second reason that Iran is in the midst of a strategic recalculation relates to its economy. Tehran's mismanagement, corruption, and the growing economic gap motivate Iran even more than economic sanctions do. Sanctions are a problem, but hardships and rationing during the Iran-Iraq War were much tougher. And back then, everyone was suffering, one way or another. Today, there is a huge gap that contributes to the anger over mismanagement and corruption. Porsche dealers in Tehran cannot keep them in stock—even though a 911 Carrera S costs \$300,000. This profound gap is reflected in the aftermath of the Mehr housing project, which was the centerpiece of President Mahmoud Ahmadinejad's populist economic plan to give people homes. It was a disaster. Iran today is under stress from the gap between opulent wealth and unaddressed poverty—all the more striking because the revolution was carried out in the name of the oppressed.

Iran now needs investment, and for that it needs better relations with the outside world. So the strategic recalculation also has to do with Iran's own revolutionary mission. It is really striking that the revolution's original foreign policy was "Neither East, nor West," and now it's "Both East and West,"—not because it wants to redevelop the kind of relationship they had before the revolution but because it needs these economic partners.

The third reason that Iran will continue to reach out to the foreign community—and to a lesser degree to the United States—is because Iran believes it is strategically lonely. Iranians think they are a minority ethnically on every single border. As a religion, Shi'ites are a minority within the Islamic world. Iran is also lonely in its identity—both politically and in its relations with the outside world—because it thinks of itself as special; it is exceptionalist in its attitudes and the way it forms policy. At the same time, they understand globalization in many ways better than the Arabs in their neighborhood or even the South Asians. And they want to be part of globalization.

The fourth reason for this opening to the outside world is demography. The majority of Iranians have

now been born since the revolution; the majority of voters have been born since the revolution. They do not have the passions of their parents—either against the monarchy or for the revolution. They have a very realist agenda, which was reflected in the June 2013 election. The new public mood is now also reflected in very important sectors of the clergy, who have made a fundamental decision to back Rouhani's initiatives.

The fifth factor is that their goals are fairly realistic. Iran now thinks in terms of breaking sanctions, not ending them. Tehran is well aware that there are additional sanctions imposed for its support of extremist groups and human rights abuses, which will not be part of any deal. So its goal really centers around banking sanctions that have been imposed since the Bush administration that it wants ended or phased out. Tehran also knows that any sanctions relief will come not overnight but will be part of a gradual process, even if there is a permanent deal.

But Iran's political elite also does not share a single opinion about what could be the most controversial decision since the revolution. A complex political spectrum, in very general terms, can be broken down into four political factions—two factions on the reform side and two factions of conservatives, or hardliners. There are the radicals on both sides, and there are the moderates on both sides. President Hassan Rouhani is hoping to pull together the moderate factions from among both the hardliners and the moderates. But the radicals on both sides may reject it.

Finally, the biggest question is whether the Supreme Leader, who has ultimate power in Iran's bifurcated political system, is really on board. He has so far allowed the process to continue. The negotiating team gives him very detailed descriptions of discussions with the world's six major powers. There are reportedly some issues he cares about, while on others he is not as deeply involved.

The bottom line is that there is a genuine prospect for a nuclear deal, but probably with real limits. Iran's goal is not to improve relations with the United States. Its goal is to better its place in the world, improve the economy, and create an endur-



ing following. Iran's next agenda, after a nuclear deal, may be bettering relations in the Arab world. Tehran is deeply worried about the growing Shi'ite-Sunni divide, which is arguably deeper than at any point since the original schism in the 7<sup>th</sup> century, in part because it ripples globally. In the past, tensions have been local or regional, but now the divide spreads right across the Islamic world. And the Iranians want to prevent what they think will isolate them even further than they are now.

So I think that we should not assume that their agenda is any more than breaking sanctions, rather than ending them, and getting Western investment. Then it is more likely to move on to the Arab world as the next foreign policy priority during Rouhani's first term in power. So the United States should not assume that it is going to get better relations over the next four years in ways that are more tangible than the nuclear deal.



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