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U.S.-IRAN RELATIONS: RECOMMENDATIONS FOR THE NEXT PRESIDENT

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The next U.S. presidential term will coincide with heightened domestic competition for power in Tehran, which will shape Iranian posture toward Washington. As moderates and hardliners in Iran anticipate the succession of aging Supreme Leader Ayatollah Ali Khamenei, the question of President Hassan Rouhani's policy of outreach toward Washington becomes more critical. While the signing of the Joint Comprehensive Plan of Action with the United States empowered moderates, the benefits from the deal have so far been fewer than Iranians had anticipated. Highly skeptical of U.S. intentions and confident in the U.S.' inability to remobilize the international community against Iran, hardliners are determined to sabotage any efforts toward détente. However, increased U.S. engagement with the Rouhani government could empower moderates and lead to more open-ended cooperation between the two countries.

KEY POINTS

- ◆ The Rouhani government will keep the West as its top foreign policy priority, but this will continue to be strongly scrutinized and questioned by his hardline rivals
- ◆ The moderates around Rouhani are dismayed by the Obama administration's post-deal posture and continuing U.S. pressure on the international business community not to deal with Iran
- ◆ Iran's hardliners see immediate benefits to a Trump presidency, viewing him as a personality that is bound to galvanize European and international public opinion against the United States, thus making the re-imposition of any new set of international sanctions on Iran much harder
- ◆ Empowering the moderates in Iran through continued engagement with the Rouhani government may result in greater flexibility in Iran's regional policies that are causing much angst to America's allies in places such as Syria and Iraq

INTRODUCTION

In the 2017-2021 U.S. presidential period, the two key factions in Iran—the moderates and the hardliners—will jostle for maximum influence at a critical juncture, with an eye on 77-year-old Supreme Leader Ayatollah Ali Khamenei’s possible passing. Khamenei, who portrays himself to be above politics but is in fact the critical prop that nurtures the hardline camp, has gradually begun to publicly mention the issue of his succession. Iranian press is now regularly reporting on the unfolding, but largely arcane, succession process.

However, forces surrounding the popularly elected and moderate President Hassan Rouhani do not hide the fact that they will attempt to work toward the selection of a likeminded moderate as Iran’s next supreme leader. This is a goal that is already being eagerly resisted by Rouhani’s hardline rivals in other state organs, such as the Islamic Revolution Guards Corps (I.R.G.C.). Meanwhile, Rouhani’s likely bid for a second presidential term is increasingly tied to whether his spearheading of the July 2015 nuclear deal with the United States has paid tangible dividends.

In this multi-level power struggle, the question of Iran’s policy toward the United States is bound to become even more contentious. Rouhani’s detractors will increase accusations that his government is abandoning basic revolutionary pillars of the Islamic Republic in favor of some kind of open-ended policy of accommodation with Washington. This, they feel, will come at a



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high cost to their domestic political influence and foreign policy agenda. They are, therefore, determined to either sabotage Rouhani’s policy of outreach toward Washington or at least not become its victim. If the next U.S. president proves uncommitted to the July 2015 nuclear deal, Rouhani’s hardline opponents will have been handed a perfect pretext to mobilize against his 2017 bid for re-election, simultaneously weakening the hand of the moderates in the race for the position of supreme leader.

POWER POLITICS IN IRAN

After 37 years, the Islamic Republic of Iran continues to have a tortured relationship with the United States. For Rouhani, and also Khamenei, it is not merely a foreign policy question but a policy challenge that can profoundly shape the future character of the Islamist system. Other powerbrokers in the country, including the I.R.G.C., also see this question as directly impacting their

status. In fact, the American question remains so sensitive in Tehran that the only genuine discussion about it is happening in the context of the implementation of the Joint Comprehensive Plan of Action (J.C.P.O.A.).

The moderates around Rouhani are dismayed by the Obama administration's post-deal posture and complain about continuing U.S. pressures on the international business community not to deal with Iran.¹ And yet, the same Rouhani team continues to look for ways to implement the J.C.P.O.A. that satisfy both sides. For the Iranian president, the U.S. question is proving to be a key obstacle that is preventing an Iranian economic rebirth, which had been Rouhani's main argument for détente with the outside world and one that his 2017 reelection will depend on.

Since signing the J.C.P.O.A., Tehran has seen a flurry of foreign political and economic delegations. Iran is open for business and, as of mid-May, had signed some 100 agreements and secured about \$3.5 billion in foreign investment. Much more has been pledged. For example, South Korea now aims to triple its annual trade with Iran to \$18 billion. In January, Chinese President

Xi Jinping signed a number of deals while visiting Tehran and reached an agreement to increase trade 10-fold to \$600 billion in the next decade. Russia, India, Japan and the big E.U. states of Germany, France, and Italy have all reached major economic deals with Iran. The Rouhani government views these foreign deals not only in terms of monetary and economic value but also with the aim of reducing Iran's regional and international political isolation.

And yet, questions linger about the next U.S. president's commitment to upholding the J.C.P.O.A. and whether a new administration might look for new sanctions to slap on Iran. To further mollify concerned international investors and critical players—such as global banks that have emerged as reluctant linchpins for Iran's international economic reintegration—Tehran might need to have to make additional concessions beyond the realm of its nuclear program. There are questions about Iran's ballistic missile program, its human rights record, as well as its controversial regional policies in places such as Syria and Iraq.

While the Rouhani administration has warily hinted at the benefits of continuing a broader dialogue at home and abroad to include non-nuclear related concerns, it has, in reality, very limited political space for maneuver.² This is doubly true given that the benefits from the nuclear deal itself have so far—or at least as perceived by Iranians—been fewer than anticipated.

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As the next U.S. presidential administration observes events in Iran, it has to be remembered that any additional concessions by the Rouhani government will occur during a heightened tug-of-war in Tehran, which is bound to intensify in the coming months and years until Khamenei's passing. Meanwhile, for Rouhani's hardline rivals, the counter-narrative is very simple. Whether it is the Democratic Party or the Republican Party that is victorious in November is immaterial. They deem improved U.S. policy toward the Islamic Republic to be one that is fundamentally irreconcilable with Washington's interests. To make this case in the coming months, they will use Rouhani's personal record as proof.

IRAN'S HISTORY WITH DEMOCRATS AND REPUBLICANS

For much of its 37-year history, senior officials in the Islamic Republic of Iran have had a preference to deal with Republicans over Democrats. The Republicans were seen as a party of dealmakers that would put mutually beneficial transactional agreements above policy doctrine. In contrast, the Democratic Party was considered to have a built-in interventionist side that often had issues such as human rights in its sight when pursuing foreign policy. This reading of American party politics was

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partially a legacy from the days of the Shah, Mohammad Reza Pahlavi. From the presidency of John F. Kennedy to that of Jimmy Carter, the Shah viewed the Democratic Party as a meddler in Iran's domestic affairs.

Iran's Islamist rulers who came to power after toppling the Shah in 1979 would, throughout the 1980s and 1990s, share his assessment about the Democrats. It was Jimmy Carter's Democratic administration that first put U.S. sanctions on Iran after the revolution, which were then subsequently tightened by President Bill Clinton in the mid-1990s. This consolidated the view in Tehran of the Democrats as improbable partners for a process of détente.

In contrast, during the Reagan and Bush Sr. administrations, numerous efforts were made to find common ground for cooperation and end the open enmity. The earliest such efforts included the mid-1980s arms-for-hostages affair, involving the release of Americans held by pro-Iran militias in Lebanon in return for U.S. arms to Iran and the hope that the exchange would lead to a process of détente. Factional Iranian politics sabotaged that effort, and the exposure of the secret negotiations led to the

Iran-Contra scandal back in Washington. Overnight, the question of Iran became even more toxic among American policy-makers.

Still, the idea of revamping ties endured. In his 1989 inaugural address, President George H. Bush stated that “goodwill begets goodwill.”³ Tehran also began to quietly experiment with greater enticement for U.S. businesses as a way to garner political goodwill in Washington. On paper, it was a good bet. During Republican presidencies from 1980 to 1992, U.S. merchandise exports to Iran had grown from \$140 million to \$822 million.⁴ The moderates around then President Ali Akbar Hashemi Rafsanjani (1989-1997) and his close confidant Hassan Rouhani decided to double-down on U.S. commercial interests in Iran. Throughout this period, Rouhani was head of the Supreme National Security Council (S.N.S.C.), the country’s key inter-agency body that oversees strategic policies.

The first Clinton White House (1993-1997), however, had an entirely different agenda. Since coming to power, Clinton had pursued a policy of “dual containment” of Iran and Iraq. Clinton’s special assistant for the

Middle East, Martin Indyk, had, as early as May 1993, called Iran a “bad investment in both commercial and strategic terms.”⁵ Still, the likes of Rafsanjani and Rouhani were undeterred, believing that adding more incentives would overturn such American calculations.

In a case that had the potential to become a groundbreaking moment, years of quiet commercial negotiations between the Iranian oil ministry and Conoco resulted in a record \$1 billion deal in 1995. The deal, however, was stopped within weeks, as the Clinton administration reacted quickly by banning all U.S. energy firms from working in Iran.⁶ In 1996, Congress passed the Iran-Libya Sanctions Act, going as far as pressing non-U.S. companies from doing business in Iran.⁷ In Tehran, the image of the Democratic Party as the anti-Iran vanguard in Washington sharpened, as the bill had more support among Democrats than Republicans in the House of Representatives.⁸ It secured unanimous backing in the Senate.

From Iran’s perspective, in the post-Cold War era, the Clinton White House had opted to make the Islamic Republic its whipping

boy, at least while America was still engaged in formulating a new global grand strategy. While some U.S. business interest groups—such as USA*Engage—pushed for an American rethink of Washington’s

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Iran policy, the moderates in Tehran, who believed in the profound utility of restoring diplomatic ties with the United States, faced the daunting reality of having very few possible collaborators in Washington.⁹

At home, President Rafsanjani’s high-risk overture to the United States came under much criticism by his hardline opponents. They continue to this day to paint it as an abject failure and damaging to Iran’s national interest. As one hardline news outlet put it last year, by naively relying on the receptiveness of an America that is essentially irreconcilable with the Islamic Republic, Rafsanjani had outsourced Iranian national security to a hostile power.¹⁰

WILL IRAN’S MODERATES LOSE AGAIN?

In the present jockeying for power in Tehran, the hardline camp are quick to remind Rouhani that he had been a key player during that last major ill-fated overture to the United States in the 1990s. They argue the same fate awaits Rouhani’s present efforts to entice the United States to change course via billion dollar contracts that Tehran is dangling in front of U.S. companies.

On paper, the hardliners have a point. For example, the June 2016 announcement by Boeing that it had reached a \$17.6 billion deal to sell 80 aircraft to Iran quickly came under Congressional attack with credi-

ble threats by Democratic and Republican lawmakers hoping to stop it.¹¹ Rouhani has been here before and will be reminded of that fact by his opponents. The first post-revolution Iranian bid for a major contract with Boeing happened in the early 1990s. The deal was scrapped by the Clinton administration, and Boeing was told to find alternative buyers for its aircraft.¹²

It is safe to say the first Clinton administration wrecked any hopes Iranian moderates had for reducing tensions with the United States by appealing to American business interests. The bitterness against the Democrats was evident when Rouhani in 2003—still as head of the S.N.S.C.—first reached a temporary nuclear deal with the European powers.¹³ The George W. Bush administration was not party to that agreement, but Rouhani held the hope that, as the party that in his view represented U.S. commercial interests, the Republican president might reconsider.

But Bush Jr never did, and instead increased the pressure on Iran throughout his time in office, which culminated in Bush’s inclusion of Iran in the “Axis of Evil” in 2002. This removed any lingering perception among Iranian officials of the Republican Party being a potential transactional partner, and killed Iranian hopes for any deal with the Bush administration.

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For Iran’s supreme leader, Khamenei, the question of the United States is not as agonizing. He had reluctantly accepted the J.C.P.O.A. out of the necessity to end the painful international sanctions that gradually ravaged the country’s economy from 2006 until January 2016, but not because he shares Rouhani’s view that some sort of policy reset with Washington is possible, or even desirable.¹⁴

In fact, Khamenei was never interested in an open-ended détente with the outside world, and certainly not with the United States. Anti-Americanism is, after all, Khamenei’s main claim to domestic legitimacy. Better relations with Washington would thus be a net political loss for him.

Khamenei will continue to accept the Rouhani government’s ongoing negotiations with the United States to make sure the J.C.P.O.A. delivers for both sides. However, he would be equally accepting if the next U.S. president opted—as presidential candidate Donald Trump has suggested—to backtrack on the deal. In June, he threatened that he would “set fire” to the nuclear deal if Washington abrogated on its commitments as part of the deal.¹⁵ That statement was purely for the consumption of his hard-

line support base. For Khamenei, the principal aim of the J.C.P.O.A. was to remove international sanctions, and more bilateral U.S. sanctions do not appear to trouble him. Khamenei will abide by the nuclear deal as long as Washington is unable to bring the rest of the international community with it, should the next U.S. president opt to walk back on the J.C.P.O.A.

CLINTON VERSUS TRUMP

Among the U.S. presidential candidate pack of 2016, Bernie Sanders might have been the best choice for Iranian officials. In Tehran, many joyed in Sanders’ criticism of U.S. ties with Iran’s archrival Saudi Arabia and his criticism of Israeli policies. The fact that Sanders was a stalwart supporter of the J.C.P.O.A. was also duly noted. Above all, Sanders just did not cut an intimidating figure as far as his foreign policy agenda was concerned.

Donald Trump’s statements on foreign policy and Iran have been a mixed bag. On the one hand, some of his statements suggest a willingness to cut deals with America’s adversaries—such as Iran—as long as the benefits cut both ways. It might even carry a hint of the type of transactional relations that Iran sought to cultivate with Republican presidents Reagan and Bush Sr. in the 1980s and early 1990s.

In Washington, Trump came under much criticism when he spoke about securing a “better” nuclear deal with Iran. This to many in the Republican foreign policy establishment is tantamount to a continuation of President Barack Obama’s approach to negotiate with, rather than coerce, Tehran.¹⁶ In particular, Iran’s hardliners, clustered around Khamenei, see immediate benefits to a Trump presidency. They view him as a personality that is bound to galvanize European and international public opinion against the United States. In doing so, Trump will make the re-imposition of any new set of international sanctions on Iran much harder. In other words, a Trump presidency is a win-win for Khamenei. He will have seen the burden of international sanctions continue to be removed without having to endure the treacherous dialogue with Washington, which Rouhani has so far defended, but which the supreme leader views suspiciously.

Iranian views on Hillary Clinton are more straightforward. Between Trump and Clinton, Iranians consider her to be far more likely to adopt a hawkish and interventionist foreign policy. In fact, while Clinton has moved to the political left on some issues, thanks to the challenge of Sanders, she has, in Iranian eyes, a foreign policy agenda that could undo some of the progress toward détente that was achieved in the second Obama administration.

Her solid record of support for Israel and President Bill Clinton’s record of confronting Iran in the 1990s are definitely a cause of introspection in the Rouhani government, which is hopeful the process of dialogue with the United States can continue after Obama leaves office.¹⁷ Her positions on the Arab Gulf states, such as Iran’s rival Saudi Arabia, are also a cause of interest in Tehran. Reports that the Clinton Foundation had received funding from the Arab Gulf states, including \$25 million from the Saudis, certainly generated plenty of coverage in Iranian media.¹⁸

Meanwhile, some G.O.P. foreign policy hands that have vowed to back Hillary Clinton in the election remain strongly opposed to the J.C.P.O.A. This development has to be seen in the context of some of Clinton’s past pronouncements on Iran—including her infamous 2008 statement that she would “totally obliterate” Iran should it use nuclear weapons against Israel. Such symbolism will keep even the most pro-engagement voices in Tehran wondering where Hillary Clinton will place Iran on her foreign policy agenda. Still, it seems premature to assume definitively that a Clinton administration will tinker with the fundamentals of the J.C.P.O.A. unless Tehran takes steps to undermine it first in any serious manner.¹⁹

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KEY RECOMMENDATIONS:

- ◆ The next U.S. presidential team has to assume that the American question will become even more partisan in Iran as moderates and hardliners gear up to contest the succession process for supreme leader. In many ways, the American question is merely a pawn in an intra-regime fight, but this reality bodes for added Iranian policy inconsistencies toward the United States and beyond. This needs to be factored in as Washington formulates its post-Obama approach to Tehran.
- ◆ The ability of any U.S. president to shape the outcome of the decision-making process in Tehran is finite. Still, Washington has to acknowledge the basic fact that the moderates in Iran see détente with the United States as a source of domestic and international empowerment, while hardliners see it as a direct challenge to their narrow domestic and foreign interests. Empowering the moderates in Iran through continued engagement with the Rouhani government may result in greater flexibility in Iran's regional policies that are causing much angst to America's allies. The opposite effect is equally plausible should the next U.S. administration take a tough stance on Iran and push the country toward deeper control by hardline actors such as the I.R.G.C. Many in Washington do not consider Rouhani a moderate, but, in the context of Iranian politics, he does promise alternatives to some of the policy orthodoxies that the Islamic Republic has maintained since 1979. The next U.S. president needs to quickly decide whether the political distance between Rouhani and his hardline rivals is worth banking on.
- ◆ While Rouhani comes from a camp in the Iranian regime that has a long and mixed track record in seeking ways to reduce tensions with the United States, Khamenei will remain decidedly suspicious of overtures to Washington. For Khamenei, the process of negotiations with the United States was aimed at one thing: the removal of international sanctions. He has made it clear that unilateral American diplomatic and economic action against Iran does not deter him. Khamenei's reading is that the United States no longer has the capacity to mobilize the international community against Iran as it did between 2006-2013—whether on the nuclear issue or other matters—and he will, therefore, be more reluctant to go along with Rouhani's agenda of broadening the U.S.-Iran conversation to include non-nuclear disagreements. To shape Khamenei's calculations, the next U.S. president has to identify additional leverage points that will be harder for Khamenei to ignore.

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