

The Effect of Economic and Social Processes on Iranian Foreign Policy

Raz Zimmt

During the Iranian presidential election campaign in the summer of 2013, candidate Hassan Rouhani stated that the centrifuges in the Iranian nuclear facilities should continue spinning, provided that the lives of the citizens and the economy move forward. This statement, which he repeated in a speech to students at Shahid Beheshti University in Tehran in December 2013,¹ expressed Rouhani's recognition that rescuing the Iranian economy from its deep crisis required the removal of the sanctions, even at the cost of compromising on his country's nuclear policy.

This is not the first time that internal constraints forced the Iranian leadership to adapt foreign policy to the changing circumstances at home. Following the 1979 Iranian revolution, Iranian foreign policy was recast on the basis of the revolutionary ideology and overall strategic goals. Nevertheless, since the revolution, the Iranian regime has demonstrated a large degree of pragmatism and willingness to deviate from its policy, even on matters of principle requiring a personal decision by the Supreme Leader. Among the considerations that have influenced foreign policy are social and economic processes underway in Iran in recent decades.

Guidelines for Iranian Foreign Policy

Since the Islamic Revolution, Iranian politics have been marked by ongoing tension between the political institutions elected by the public, including the President and the Majlis (parliament), and the unelected political institutions,

headed by the Supreme Leader. The Leader serves as the head of state and holds the main governing authority in his hands. This authority was further extended in the framework of the amendments made to the Iranian constitution following the death of Ayatollah Ruhollah Khomeini, leader of the Islamic Revolution, and the transfer of government to the hands of his successor, Ali Khamenei, in 1989.

From a constitutional standpoint and regarding control of the power centers in Iran, the Supreme Leader has the final say, while the President carries out the policy dictated by the Supreme Leader. While the President's authority in internal matters is extensive, the decision about foreign policy strategy is traditionally considered to be reserved exclusively for the Supreme Leader, who in this case receives assistance from the Supreme National Security Council and a limited group of advisors, such as Ali Akbar Velayati, the Supreme Leader's senior advisor for international affairs, who is also a former Minister of Foreign Affairs. When former President Mahmoud Ahmadinejad tried to deviate from this principle, he encountered firm resistance from the Supreme Leader. Shortly after he was elected President in 2005, Ahmadinejad began to display excessive involvement in issues relating to foreign policy and sought to alter the policy of the preceding government, which focused on relieving tensions in the international arena. Khamenei, who objected to the President's increasing intervention in foreign affairs, declared in June 2006 the establishment of a strategic council for foreign relations headed by Kamal Kharazi, who was Minister of Foreign Affairs in the government of former President Mohammad Khatami. This council was designed as an advisory body for foreign policy, and its establishment was interpreted as an expression of Khamenei's dissatisfaction with Ahmadinejad's conduct and an attempt to step up supervision over him.

Although the current Supreme Leader does not readily deviate from his revolutionary world view, Iranian policy from the beginning of the revolution showed a large degree of pragmatism. There are ostensibly differences and contradictions in the conduct of Iran's leadership since the revolution, especially since the death of Ayatollah Khomeini. Along with an emphasis on the political and economic interests of the Iranian state, Iran strives to realize revolutionary Islamic ideals; while emphasizing Islamic unity, Iran waves the flag of particularistic Iranian nationalism. These apparent contradictions, however, are misleading. Iran's policy is actually a combination of Islamic ideology and a revolutionary Islamic vision with

Iranian nationalistic concepts and state interests. This combination is what enables Iran to realize most effectively its historic ambition to achieve dominance and hegemony in the region and become a regional, even a global, power. Under certain conditions, Iran's leadership prefers the interests of the Iranian state to revolutionary and Islamic ideological concepts, in the belief that this flexibility is temporary and does not supplant the long term strategic and ideological goals. In other cases, Iran prefers to act in accordance with its ideological vision by striving toward revolutionary changes and bringing about a new regional and international order. Underlying the considerations dictating Iranian policy are also internal constraints that force the leadership in Tehran to take internal public opinion into account and adjust its policy to the changing reality.

The Economic and Social Situation in Iran

Easing social and economic distress and achieving political freedom were among the important objectives of the Islamic Revolution. With the revolution in its 38th year, the Iranian regime has not yet succeeded in satisfying the desires of its citizens, and the gap between the public and the revolution's institutions is widening. In recent years, Iran has faced a severe economic crisis, in part due to structural problems in the Iranian economy, such as dependence on state oil revenues, the weakness of the private sector, and widespread corruption, some of which result from poor economic management and some from the sanctions. Signs of the economic crisis are clear among the entire population, but its effects are especially conspicuous among young people.

Due to the sharp rise in the birth rate during the 1980s, Iran today has a young population. Despite the steep fall in the birth rate to 1.27 percent in 2012, which was achieved as a result of the supervisory efforts of the regime starting in the late 1980s, Iran's demographic momentum continues to this day, because millions of young people born in the 1980s have sought to enter the labor market. In the summer of 2015, a report published by the Statistical Center of Iran revealed that the unemployment rate among young Iranians in most Iranian provinces had reached 20-30 percent.² Moreover, in a report published by the International Monetary Fund (IMF) in 2009, Iran was in first place among 91 developing countries experiencing a brain drain. According to the IMF figures, between 150,000 and 180,000 educated Iranians with academic degrees emigrate from Iran each year. The high

unemployment rate, low income of lecturers and experts, an inadequate level of science, and political and social instability were cited as important factors encouraging a brain drain, which costs Iran over \$50 billion in annual revenues.³

Since the implementation of the nuclear agreement signed in the summer of 2015 between Iran and the world powers, Iran's economic situation has improved. At the same time, Iran has found it difficult to unfreeze the tens of millions of dollars deposited in overseas accounts and frozen following the sanctions. Banks and companies in the West are still recoiling from a renewal of business relations with Iran, mainly out of fear about the reaction of the United States. In January 2017, President Rouhani called a press conference on the first anniversary of the implementation of the agreement, at which he presented its achievements, principally a steep rise in oil exports and the opening of the Iranian economy to foreign investment. Rouhani said that over the previous year, Iran's growth rate was over 7 percent, an unprecedented achievement. He noted that a solution to the unemployment crisis, especially among young people, depended on foreign investment. He emphasized that all the sanctions related to the nuclear program had been removed following the agreement, and that the remaining banking problems were unrelated to the agreement. His opponents, on the other hand, argued that the economic figures clearly indicated a worsening in Iran's economic situation over the past year. They attributed this inter alia to the steep decline in the rial, the continued rise in the prices of basic commodities, despite the government's claims about a dramatic fall in inflation to less than 10 percent, and a rise in unemployment. According to Rouhani's opponents, while many European trade delegations visited Iran in 2016, these visits produced only a few transactions that did not help solve the economic distress among Iran's citizens, above all the growing unemployment.⁴ Figures published by the IMF in February 2017 also indicate a mixed trend. The IMF estimated the economic growth rate in Iran during the Iranian year ending on March 20 at 6.6 percent, and the medium term growth rate at 4.5 percent. It also pointed to a dramatic drop in inflation. On the other hand, the IMF cited the high unemployment rate, and warned of the effect of the secondary American sanctions on the willingness of Western companies to return to business dealings and investments in Iran.⁵

Complementing the economic distress is the widening gap between the ruling institutions and the religious establishment and the younger generation.

Many young people distance themselves from the values of the revolution and adopt a Western lifestyle, despite efforts by the authorities to halt what they perceive as a culture infiltration by the West. For example, Ali Jannati, Minister of Culture and Islamic Guidance in Rouhani's cabinet, admitted in December 2013 that the government's efforts to forbid the use of satellite dishes by Iranians to view television broadcasts from abroad had failed, and that over 70 percent of Tehran's residents watched these broadcasts.⁶ Ayatollah Seyyed Ahmad Alam-ol-Hoda expressed the religious establishment's concern about society's alienation from the Islamic values when he stated on the eve of the anniversary of the revolution that Iranian society was now worse from a cultural standpoint than it was before the revolution. He complained that young people preferred to watch satellite television broadcasts and movies or listen to music than to deal with religious matters.⁷

Another social trend likely to arouse concern in the religious establishment is the secularization process underway in Iranian society and the erosion in the status of clerics in recent years. Blogger Reza Taran, a theology student at a seminary in Qom who authors a personal blog on the lives of theology students, has commented in recent years on the gap between the religious establishment and citizens. He attributes this disconnection to a continual decline in the status of the clergy since the Islamic Revolution. He contends that before the revolution, clerics were identified with the struggle of Iranian citizens for justice and against oppression and exploitation by the authorities, and that this greatly contributed to sympathy toward them among the general population. Today, clerics are identified with the Islamic regime, and instead of criticizing the government and supervising its activity, they have become the executors of its policy. He claims that their relatively advantageous economic status also alienates clerics from the common people.⁸

Acknowledging the Situation, Offering Various Solutions

The economic and social distress of Iranians and their demand for change has not escaped the attention of the regime, which is aware of the public's expectations and recognizes the need to respond. However, Iranian authorities are divided about the necessary solutions prompted by the internal challenges. Since his election as president, Rouhani has expressed his commitment to cultural and social changes. The President selects his issues carefully, and has thus far preferred to focus on economic issues and the nuclear agreement in an effort to have the sanctions removed. It is nevertheless evident that he is

determined to lead gradual changes in an effort to reduce the government's interference in people's lives and provide a response to the public's demand for change. His rivals in the conservative camp, on the other hand, headed by Supreme Leader Khamenei, steadfastly oppose internal reforms, which they regard as liable to jeopardize the regime's stability. The government's initiatives in internal policy have not gone without a response from the conservative camp. The regime has had to allow the President to institute some changes due to its recognition of the public's demand for change, which was expressed in the election results. Senior regime officials are nevertheless determined to set red lines for the President and his government; they believe that crossing these lines is liable to subvert revolutionary values and pose a real challenge to its stability. In their efforts to thwart any attempt to promote significant reforms, the conservative establishment has no scruples about exploiting its control of the judicial branch and the security and law enforcement agencies.⁹

An internal dispute between President Rouhani and his right wing conservative opponents is also underway in the economic sphere. While Rouhani seeks to take advantage of the removal of sanctions to attract foreign companies to the Iranian economy, the Supreme Leader continues to emphasize the need for a "resistance economy" consisting mainly of reducing Iran's dependence on foreign parties and self-reliance. From the conservatives' perspective, the return of the foreign companies to Iranian markets is likely to expand the exposure of Iranian society to Western influences that are not limited to the economic sphere, and jeopardize the economic interests of the Revolutionary Guards, whose involvement in national economic projects has increased due to the international sanctions and the abandonment of Iran by the foreign companies.

Foreign Policy as a Response to Internal Constraints

The regime's recognition of the public's desires and its sensitivity to internal pressure has a clear influence on foreign policy. In the decade following the Islamic Revolution, and especially as the revolutionary enthusiasm in Iran began to wane, the regime showed increasing awareness of public opinion and the need to take it into account in its strategic decisions on foreign policy issues. One prominent example was Ayatollah Khomeini's decision in July 1988 to approve a ceasefire after eight years of war with Iraq, contrary to his rejection throughout the war of any solution that did

not include the overthrow of the Ba'ath regime. The decision, which was justified in retrospect by his heir, Khamenei, was taken as a result of the difficult military situation caused by Iran's battlefield losses against Iraq, the heavy loss of life, and the difficult blow to the Iranian economy. These factors led Khomeini to believe that continuation of the war was liable to jeopardize the regime's very survival. When Khomeini realized that taking the decision served the interests of Iran and the Islamic regime, he agreed to change his earlier views on the subject. He appealed to the nation in an emotional speech, in which he said that he had been willing to drink the "poisoned chalice" in order to serve the interests of the revolution and the regime.

Another example of the influence of internal considerations on Iranian foreign policy can be seen in the position taken by Iran in the conflict that erupted in 1988 between Azerbaijan (a Shiite Muslim country) and Armenia (a Christian country) over the Nagorno-Karabakh territory. Iran tried to adopt a balanced approach toward the two enemies, even though it served as the main supply route to Armenia, thereby in effect serving the Armenian war effort in its struggle against Azerbaijan. In this case, Iran, which feared that the success of secular Azerbaijan was liable to encourage separatist aspirations among the large Azeri-speaking minority in Iran, gave preference to its state interest over religious solidarity.

Iran's consent to return to the nuclear negotiating table under the influence of the economic sanctions and its acceptance of compromises on its nuclear program constitute a significant expression of its willingness to agree to substantial concessions in response to pressure. The economic sanctions severely damaged the Iranian economy and exacerbated the frustration among the public, which was reflected in the results of the presidential elections in the summer of 2013. Rouhani's victory, which championed the most moderate of the six candidates competing in the elections, reflected the criticism of the nuclear policy adopted by the regime and the public's demand for a change in the nation's priorities. Even though public criticism of the nuclear program itself, its importance, and its value was rarely heard, the presidential election campaign provided – for the first time – a platform for voicing sharp criticism of Iran's nuclear policy. The election results proved that Khamenei's contention that the Iranian people could withstand heavy economic pressure for a prolonged period, as it had during the Iran-Iraq War, was mistaken. The escalating economic crisis resulting from the

sanctions culminated in growing pressure on the Supreme Leader to agree to concessions out of concern that continuation of the current crisis was liable to undermine the regime's stability in the long term. The election of Rouhani and the renewal of the nuclear negotiations created an opportunity for renewed consideration of the role of the nuclear program in Iran's priorities, after years during which the idea of even discussing the matter was regarded as taboo.

The regime's sensitivity to the public's views was also clear in cases in which Iran deviated from its official policy. An example of this is Iran's military intervention in the civil war in Syria. The heavy losses among the Iranian combatants in Syria led in 2016 to a significant reduction of the Iranian order of battle there. The regime's recognition of the public's sensitivity toward the heavy price in casualties exacted by the continuation of the military campaign forced it to supply explanations that could justify the Iranian presence in Syria. These explanations include the use of Shiite religious symbols, the glorifying of sacrifice and defense of the Shiite holy places, and an emphasis on the importance of involvement in Syria for preserving the interests and national security of Iran. Although internal criticism of the Iranian aid to the Assad regime was limited mostly to intellectuals and political activists identified with the reformist movement, the regime could not ignore the challenge it posed, especially when economic distress provided fertile ground for criticism of the regime's policy. One expression of such criticism can be seen in the widespread wave of protest that swept through Khuzestan Province in mid-February 2017 following prolonged halts in the supply of electricity and water caused by severe dust storms accompanied by heavy rain. These events further aggravated distress among residents of the province, where members of the Arab minority comprising 2 percent of Iran's population are concentrated. Following the crisis, voices were heard in Iran blaming the severe situation in the province on the faulty priorities of the authorities, who continued their support for the Syrian regime, instead of addressing distress in Iran.¹⁰

The influence of internal considerations on Iranian foreign policy does not imply that there is a clash in all cases between the public's views and those of the regime on issues relating to national security and foreign policy. A survey of Iranian public discourse, especially through the social networks, shows the regime's ability to recruit public support in matters perceived by Iranians as involving critical national interests or a feeling of national honor.

For example, the restrictions imposed by President Trump on the entry of Muslims into the United States, including Iranians, aroused strong opposition among the Iranian public. The presidential directive was perceived by Iranians as not only an unjust decision, but also a humiliating and contemptuous act. It reignited the known sensitivity among Iranians to expressions of arrogance and insults to their national pride. The widespread criticism of the directive succeeded in uniting both residents and exiles, despite the political differences of opinion that are usually typical of Iranian society.¹¹

The public letter by 30 Iranian exiled activists calling on President Trump to cancel the nuclear agreement and extend the sanctions against Iran also led to sharp responses by Iranians. Following the publication of the letter, which the exiles sent to Trump in late December 2016, thousands of responses appeared on the Iranian social networks, all of them by critics of the regime, objecting to its content and accusing the senders of treason. The responses to the letter reflected the broad opposition in Iran to the sanctions policy, which is perceived as an illegitimate means of pressure by the West that violates Iran's sovereignty.¹²

The internal dispute is also reflected in the attitude on policy toward the United States. Recognition of the need to reach a nuclear arrangement with the West that facilitates the removal of sanctions forced Khamenei to allow Rouhani to negotiate with the United States. In contrast to the President's position, however, which sees potential in direct dialogue with the United States for adopting a more open policy towards the West, the Supreme Leader remains opposed in principle to any possibility of normalizing relations between the two countries. Even before Trump's election, Khamenei attacked the United States on a number of occasions, and stressed that he did not trust it. In response to Trump's taking office and a change in the attitude of the American administration towards Tehran, Khamenei thanked the new President for exposing the true face of the United States to the world. He again expressed his position that the "Great Satan" must not be trusted, and that no hopes should be pinned on those who oppose the very existence of the Islamic regime in Iran.¹³

Conclusion

The influence of social and economic processes on Iranian foreign policy reflects the pragmatism typical of the Iranian regime's policy since the Islamic Revolution, and to a greater extent since the late 1980s. The Iranian regime

is sensitive to internal criticism, responds to external and internal pressure, and is willing to adjust its policy, even at the price of substantial ideological concessions, when critical national interests require this.

The readiness of the Iranian regime to deviate from its policy nevertheless depends on its subjective interpretation of the risks and opportunities facing it. This interpretation can change according to the various perceptions of the world – which are sometimes contradictory – of the different sections in the regime's leadership. These perceptions can also provide different answers to the question of the correct strategy for ensuring critical Iranian interests, above all maintaining the regime's survival. Radical elements in the regime can respond to growing pressure at home or from outside by increasing repression at home and defiance in foreign affairs in order to neutralize potential threats to the regime's stability and deter the enemies of the Islamic republic. More moderate elements in the Iranian leadership, on the other hand, are likely to respond to pressure with willingness to make the regime's stance more flexible, and to adopt a more moderate policy.

The Iranian public is not monolithic, and does not adopt a uniform stance on the national agenda. Furthermore, despite the widening gap between parts of the public, especially young people, and the regime and the values of the Islamic Revolution, the public in Iran frequently shows willingness to stand behind the regime in cases that it regards as reflecting damage to critical interests or a feeling of national honor, such as a challenge to Iran's territorial integrity, threats of military attack, and others.

It is therefore important that the influence of internal processes on foreign policy be taken into account not only by the Iranian regime, but also by decision makers in the West in designing their policy toward the Islamic republic. Internal processes in Iran, the internal balance of power, the Iranian public's views, and the reciprocal relations between society and regime must all be considered when formulating policy towards Iran. The internal processes in Iran have the potential to change Iran's policy, and in the long term, perhaps even encourage political change. Those who believe that such change is essential must nevertheless take into account how Western policy affects the transformation of this potential into real change.

Notes

- 1 *Fars News Agency*, December 7, 2013.
- 2 *Tasnim News Agency*, January 5, 2016.
- 3 “Brain Drain Continues in Iran,” *Financial Tribune*, November 10, 2016, <https://financialtribune.com/articles/people/53254/brain-drain-continues>; and Bijan Khajehpour, “Can Rouhani Reverse Iran’s Brain Drain?” *al-Monitor*, January 12, 2014, <https://www.al-monitor.com/pulse/originals/2014/01/iran-economy-diaspora-reconciliation-sustainable-progress.html>.
- 4 Raz Zimmt, “The Anniversary of the Nuclear Agreement and Iran’s Internal Political Conflict,” *INSS Insight*, February 20, 2017, <http://www.inss.org.il/publication/anniversary-nuclear-agreement-irans-internal-political-conflict/>.
- 5 Ladane Nasser, “Iran’s ‘Impressive Recovery’ Clouded by ‘Uncertainty,’ IMF Says,” *Bloomberg*, February 28, 2017, <https://www.bloomberg.com/news/articles/2017-02-28/iran-s-impressive-recovery-clouded-by-uncertainty-imf-says>.
- 6 Associated Press, “Iran Says 70 Percent of Tehran Watching Banned TV,” *Daily Star*, December 17, 2013, <http://www.dailystar.com.lb/News/Middle-East/2013/Dec-17/241442-iran-says-70-percent-of-tehran-watching-banned-tv.ashx#axzz2r7T1RaYi>.
- 7 Iranian Students News Agency (ISNA), January 13, 2014.
- 8 For more details about the erosion in the status of clerics in Iran, see “Letters from the Religious College,” blog of Raza Taran, <http://www.rezataran.ir/>.
- 9 Raz Zimmt, “Revolution at a Crossroads: The Struggle for the Nature of the Islamic Republic,” *Strategic Assessment* 17, no. 1 (2014): 69-82, <http://www.inss.org.il/publication/revolution-at-a-crossroads-the-struggle-for-the-nature-of-the-islamic-republic/>.
- 10 Thomas Erdbrink, “Protests in Iranian City Where ‘Everything Is Covered in Brown Dust,’” *New York Times*, February 19, 2017, <https://www.nytimes.com/2017/02/19/world/middleeast/iran-ahvaz-pollution-protests.html>.
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- 12 “An Open Letter by Iranian Dissidents to President-Elect Donald Trump,” *Taghato*, December 24, 2016, <http://taghato.net/article/30837>; “Response by Reformists to Dissidents’ letter to Trump,” *Feraro*, December 27, 2016.
- 13 Supreme Leader’s website, February 7, 2017.