

## Iran:

### One Year after Khatemi's Election

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#### Brief Analysis

Iran has become pragmatic. The pragmatism began not with Khatemi but with the first day of the revolution. As happens with any ideological revolution, there is a significant change between the ideology while in opposition and the policy upon taking power. This bitter reality has forced Iran to deviate from some of its principles. For example, Iran accepted the cease-fire with Iraq not because Iran treated or viewed Iraq differently, but rather because it was very painful to continue the war. Whenever there has been a clash in the past twenty years between the ideology of the revolution and the interests of the regime or state, interest has had the upper hand over dogma. In the case of Israel, there has been no clash between the two. Ideologically, Iran opposes the right of Israel to exist as a Jewish state. The continuation of such a policy does not negate any of the major main Iranian national interests. Indeed, opposition to Israel helps divert public attention from domestic difficulties to an enemy far away. For Iran, raising the Israeli flag or anti-Israeli flag is the ticket to be a central power in the Middle East.

Iranians know when it comes to the Arab-Israeli conflict Iran is a marginal player. If we think of Lebanon as a basketball team, Iran is only a coach. The owner of the team is Syria, and the Iranians are very clearly aware that if the owner wants to dismiss the coach, he can.

#### Khatemi's Influence

There is growing willingness to change policy and become more pragmatic in almost all fields. The question is whether President Mohammed Khatemi has the power to implement these kinds of ideas. The elections a year ago changed the president; they did not change the regime. Furthermore, the president of Iran is not the leader of the country: he works under supreme leader Ali Khomeini. There is growing sense in the public -- among students, young people, women -- that Khatemi can make the difference. The main problem is that within the revolutionary establishment hard-liners are much more powerful than they are seen to be within society. This is a major problem

that Khatemi faces today: his views are accepted by many people in Iran, but within the different branches of government -- revolutionary organizations, the institutions that the revolution created -- the power is still not fully his.

Before Khatemi, Iran had other leaders who were trying to promote moderate policies. But whenever they have taken one step forward, faced with growing criticism, they have taken four steps back. By contrast, Khatemi continues even when criticized. The process of change is not meeting the expectations of many outside Iran, but it is there.

MICHAEL EISENSTADT

Since Khatemi's election there have been some signs of change in Iran's foreign policy. This includes engaging in a charm offensive to mend ties with neighbors, most notably Saudi Arabia, and the opening of dialogue towards the American people by way of the CNN interview. Despite the promising gestures, there is still a lot of continuity on three fronts for Iran:

> First, Iran is still devoting a lot of its resources to expanding its arsenal of strategic missiles. It is building two hybrid liquid fueled missiles, Shahab-3 and Shahab-4, with Russian assistance. These missiles will give Iran enough range to hit Cairo, Ankara, and all of Israel. Moreover, intelligence data indicates that the Shahab-3 is likely to take its first flight in one to two years, while the Shahab-4 will fly in three to four years. Iran is also building a short range solid fueled missile, NP-110, with a range of 150 km with Chinese backing.

Second, Iran is developing its civilian nuclear program which many experts believe will be the foundation for a nuclear weapons program. Khatami appointed Gholamreza Aghazadeh to head the Atomic Energy Organization of Iran, who quickly made it clear that Iran intended to purchase additional reactors after completion of the one in Bushere which has had serious setbacks. Furthermore, Iran has acquired nuclear fuel cycle related technologies from China and Russia which indicates that these countries may be reneging on their past promises not to transfer nuclear technology to Iran. In January, China intended to transfer a uranium conversion plant to Iran even after a promise made to the Clinton administration last October. Russia is also considering selling a 40 mw research reactor and a gas centrifuge enrichment facility to Iran, even though in a May 1995 summit between Boris Yeltsin and Bill Clinton the Russians agreed to not go through with it. The United States has attempted to curb these transfers because they can severely augment Iran's civilian nuclear infrastructure and contribute to the acquisition of nuclear weapons.

> Third, Iran continues to support terrorist groups and attacks on its opponents, although they are occurring at a reduced rate. Senior Iranian officials, including Khatemi, have condemned terrorism, but Iran still trains and funds these groups. Moreover, Iran still has agents stalking American personnel in Bosnia, the Persian Gulf, and Tajikistan. Iran has limited its attacks on opposition groups to northern and central Iraq, because it has come to realize that the costs are too high if they strike in France or Germany. Officials in Khatemi's administration want to change Iran's policy on terrorism so as to lead to better relations with the west. Although Khatemi holds very little power over these matters, of the thirteen assassinations in 1997, only two occurred during Khatemi's term.

Past efforts to deny Iran arms, technology, and funds have yielded a number of important achievements, and such efforts, including sanctions, should continue. However, the United States can no longer rely exclusively on such measures. The United States needs to formulate its policy towards the Iranian government with an eye toward how its actions effect its standing in the eyes of the Iranian people, and its relations with the Gulf Arabs and its Western European allies.

> Small tangible steps by Washington to relax tensions with Tehran would help the United States test Iranian intentions and maintain the momentum of such efforts, and just as importantly avoid an erosion in its standing with both the Iranian people and key allies. Moreover, through its actions, the United States must make it clear to the

Iranian people that it is their government that is the main obstacle to a breakthrough in relations between the two countries, and that this could only come about as a result of government-to-government contacts.

PATRICK CLAWSON

When the U.S. sanctions on Iran were adopted three years ago, there was a great deal of skepticism that these would have much effect on Iran. Contrary to the expectations, sanctions have had a substantial economic impact, holding back Iran's oil and gas development program. In the last year, the impact the sanctions have had has been magnified by the drop in oil prices. Because of low oil prices, Iran is likely to export in 1998 only about \$10 billion of oil, compared to \$16 billion in 1996. Because of this, Iran's budget is going to face a very substantial shortfall. The budget, as passed by the Majlis, was for 86 trillion rials, and the shortfall is now estimated by the Iranian government at 18 trillion rials. Iran has already announced a 25 percent reduction in capital for development expenditures, and that still leaves more than half of the budget shortfall unfilled. In short, Iran's economy is very tight for resources, and many people in Iran think that this has to do with the U.S. sanctions. The U.S. government has been clever enough to position itself to get credit for causing economic problems that were in fact primarily due to other factors.

> The sanctions have had two major benefits for the United States. First, the sanctions have contributed to popular dissatisfaction with the economic situation. This dissatisfaction was one of the main reasons for Khatemi's election. With 700,000 young men entering the labor force each year with only 350,000 new jobs available, it is not surprising a majority of Iranians believe economic prospects to be poor. Without U.S. technology and access to international capital markets, Iran's oil production has stagnated. Iran has become the only OPEC country not able to produce its quota. Iran has attempted to open up to investors, but with unrealistic demands by Iran many have shied away.

Second, the sanctions have deprived Iran of resources necessary for a military build up. For instance, China stopped the delivery of anti-ship missiles primarily because Iran was \$1 billion late in payments. Had the United States not implemented sanctions, Iran would have had a larger military, requiring a larger U.S. military presence in the Gulf, at a considerably higher cost.

> The effects of US sanctions have not all been positive. The economic cost for the U.S. in lost trade is minor and inconsequential. The major damage has come to U.S. relations with Europe. The Europeans do not believe that Iran is as big a threat as the Americans suggest, so they continue with their policy of engagement, attempting to bolster the moderates. But the main reason for the dispute with the Europeans is over a matter of principle about trade policy. The Europeans thought that the creation of the World Trade Organization (WTO) was going to effectively end U.S. extraterritorial legislation, and that secondary boycotts such as those in the Iran-Libya Sanctions Act (ILSA) were not going to happen any longer.

A major thorn for the U.S. has been the French firm Total and its deal to develop the South Pars oil field. The response to the Total deal was not deftly handled by the U.S. government. ILSA provides considerable flexibility, but the administration did not make effective use of this. For instance, it would have been possible to apply limited sanctions which are not subject to the WTO restrictions. The law requires choosing two out of a list of six sanctions, and two of them -- the denial of credits from the Export-Import Bank and the refusal of permission to be a primary dealer in U.S. government securities -- are outside the domain of the WTO. Had the United States adopted these limited sanctions, France would have had no basis for a complaint to the WTO, and it would have been possible for the U.S. government to sustain the deterrent effect of ILSA by darkly hinting that the U.S. would react more severely against other firms that were more vulnerable than Total.

> If the U.S. government were to decide that a general waiver of ILSA was necessary because of strong European reaction, then the time to announce that would have been in August 1997, before the Total deal was announced. This general waiver could have been presented as a response to Khatemi's inaugural in August 1997, and that waiver

would have then been seen as an olive branch by the United States to the new government in Iran, which would have put the ball in Iran's court to respond, and would have created pressure upon European governments to lobby Iran to respond. Instead, by waiting, the United States gave the impression that it was caving to European pressure and that Iran doesn't have to change its behavior, because at the end of the day the Europeans will help.

Maintaining the sanctions is a good idea because the sanctions delay Iran's programs for weapons of mass destruction, particularly its nuclear program. Usually delay is not good enough, because at the end of the day the government concerned is going to acquire these weapons anyway. In the case of Iran, delay is sufficient, because the pressure is building inside Iran for fundamental change.

This Special Policy Forum Report was prepared by Ali Oromchian.

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