

Iran Confident As Sanctions Tighten

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Brief Analysis

Iran sees itself in a strong position relative to the West and therefore believes it has little reason to be forthcoming in nuclear negotiations.

As tighter U.S. and EU restrictions on Iran enter into force on June 28 and July 1, respectively, the Islamic Republic's leaders are sounding remarkably confident about the nuclear impasse. Tehran believes it is in a strong position relative to the West and therefore sees little reason to be forthcoming in negotiations. On the contrary, it still finds resistance to be useful in dealing with the P5+1 (i.e., the United States, Britain, China, France, Russia, and Germany). On June 18, Supreme Leader Ali Khamenei stated, "Victory is not possible without...taking risk. We stand [for our cause]...Our enemies...should know that obstinacy, arrogance, self-importance, and unreasonable expectations will not get them anywhere against the Iranian nation." The challenge for the United States and Europe is how to persuade Iranian leaders that they have exaggerated both their own strengths and the West's weaknesses.

IRAN SEES THE WEST AS PREOCCUPIED

Iranian leaders believe that Europe is completely preoccupied by an ongoing financial crisis that has proven its economic model to be a failure. They also see the United States as being focused on the presidential campaign and exhausted by two long, inconclusive wars in the region. In Tehran's eyes, both parties -- especially the United States -- want a deal with Iran more than Iran wants a deal with them.

Iranian leaders also see no prospect of military action any time soon, certainly not before the U.S. elections in November. Even after November, they believe Western leaders will be so worried about the potential impact a war would have on their fragile economies that they will step back from confrontation. Tehran certainly does not feel any

rush to respond to the P5+1's demands -- it believes that the West is more worried about the prospect of Israeli military action than about Iranian nuclear progress.

IRAN SEES THE ARAB UPRISINGS AS GOOD FOR IT, BAD FOR THE WEST

In Iran's view, the events of the past year show that political Islam is on the march, whether in Egypt, Libya, Yemen, or Tunisia. Iranian leaders take great satisfaction from what they see as the rejection of secular leaders. As for the Syria crisis, they seem to believe that the most likely scenario is the Assad regime surviving but becoming more isolated, which would make it even more reliant on Iran. In the worst case, neither the West nor Israel would gain from Assad's fall, since Syria would be in turmoil and Islamists unfriendly to the West would become an increasingly important player.

IRAN SEES ITS ECONOMIC SITUATION AS GREATLY IMPROVED

Over the past few years, higher oil prices have flooded Iran with money. Even with their recent retreat, today's prices are "only" four times where they were in 2002. In August 2011, prior to the latest sanctions escalation, the International Monetary Fund predicted that Iran's 2012-2013 oil export revenue would be \$104 billion, or four-and-a-half times the 2002-2003 receipts of \$23 billion. Even if export volumes were cut in half and Iran received only \$50 per barrel, its inflation-adjusted earnings would still be higher than they were a decade ago. Tehran also has substantial financial reserves; even if 70 percent of these funds are unavailable, as some suggest, Iran could still draw from more than \$30 billion in foreign exchange reserves.

Iranian hardliners do not regard the country's economic situation as a top priority. That said, Iran has had higher annual growth since 2007 than the United States and Europe, feeding the regime's perception that its economy is doing better than the West's. Iranian leaders took satisfaction in removing government subsidies on various items at a time when their oil-rich Gulf Cooperation Council neighbors were making massive welfare expenditures designed to forestall unrest. And although inflation obviously rose in the aftermath of quadrupled energy prices, they believe that the impact on families has been offset by the regime's increased monthly cash payouts. In short, Iranian leaders see their economic situation as quite good, especially compared to the crisis-torn West.

IRAN DOES NOT SEE SANCTIONS AS A THREAT TO THE REGIME

Ayatollah Khamenei and the commanders of the Islamic Revolutionary Guard Corps are quite confident that whatever economic consequences the sanctions hold, their political ramifications will be small. They do not believe that popular resentment stemming from high inflation or unemployment pose a threat to the regime, and they see little possibility of significant political unrest in the near future.

Indeed, a lack of ideology, organization, and leadership has made Iran's democratic forces idle for now. The symbolic leaders of the 2009 opposition Green Movement -- Mir Hossein Mousavi and Mehdi Karrubi -- have been under house arrest for two years, and their supporters have been unable to generate political action that might press the regime to free them.

IRAN SEES FEW ADVANTAGES IN A DEAL WITH THE P5+1

In recent weeks, Iranian leaders have argued that the West is not serious about the nuclear negotiations -- the same

accusation the West made against them for years. According to former president Akbar Hashemi Rafsanjani, the head of the Expediency Council and a noted pragmatic figure, last week's Moscow talks "showed that the West is not willing to make a deal and is not honest. They want to rely on bullying alone to meet their goals."

In Iran's view, the West would see any nuclear compromise as only a first step, demanding more transparency and inspections before fully lifting sanctions. Even complete resolution of the nuclear issue would only lead the West to emphasize other problems with Iran. As Intelligence Minister Haydar Moslehi put it on June 20, "By raising human rights, sanctions, and terrorism, America and the West are trying to tighten the screws on the Islamic Republic...The real reason behind their confrontation is none of these issues, but instead Islam and the discourse of Islamic Revolution."

Furthermore, Iranian leaders believe that cutting a deal would not stop the ongoing cyber attacks on their nuclear program, nor the assassination of Iranian nuclear scientists. In their view, Israel and the West are determined to gravely damage the program whether Tehran makes a deal or not.

IMPLICATIONS

Tehran's views regarding its own strengths and the West's weaknesses have an element of truth to them, but only a small one. For instance, although EU leaders are primarily concerned about the financial crisis, that fact has not led any significant figure in Europe to propose cancelling or even postponing the ban on Iranian oil. This is true even in Greece, Iran's main European oil customer and the country most affected by the financial troubles. And while Iran's economic situation is better than a decade ago, the Iranian people remain profoundly unhappy about it, believing their circumstances could be much better if not for the international isolation brought on by the hardliners.

The challenge for the P5+1 is to change the perceptions of Iranian leaders -- a difficult task given their remarkable ignorance about the outside world, combined with self-confidence and ideological blinders that lead them to believe Iran is the rising power and the West is on the decline. Ultimately, changing this mindset may require a profound shock of some sort, be it remarkably tough sanctions, more-complete political isolation, or military action.

Washington has long advocated sanctions as the key to spurring Iranian compromise, and the announcement of the latest round of financial measures certainly seemed central in getting Iran back to the negotiating table. At the end of the day, however, such measures have not persuaded Tehran to make even the minimum compromises that would be acceptable to the P5+1. Expecting the new sanctions alone to spur Iran toward a more favorable position may therefore be unrealistic -- Washington and its allies would be well advised to plan additional sanctions.

Finally, while Iran's leaders are no democrats, they are influenced by public opinion. The chances of getting through to them will therefore improve if the West is able to communicate to ordinary Iranians the realities of their country's situation. This need underlines the importance of penetrating the regime's electronic curtain, as President Obama emphasized in his March 20 address to the Iranian people.

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