

Iran Under Khatami: A Political, Economic, and Military Assessment

by [Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson), [Michael Eisenstadt \(/experts/michael-eisenstadt\)](/experts/michael-eisenstadt)

Oct 1, 1998

ABOUT THE AUTHORS



[Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Patrick Clawson is the Morningstar Senior Fellow and Research Counselor at The Washington Institute.



[Michael Eisenstadt \(/experts/michael-eisenstadt\)](/experts/michael-eisenstadt)

Michael Eisenstadt is the Kahn Senior Fellow and director of The Washington Institute's Military and Security Studies Program.



In-Depth Reports

Introduction

Muhammad Khatami's surprise victory in the May 23, 1997, Iranian presidential election generated much enthusiasm at home and much interest abroad. For Iranians, the massive popular mandate -- Khatami received 70 percent of the vote with a nearly 90 percent turnout -- showed their disillusionment with the ruling establishment. Khatami's victory stirred hopes that change was possible within the current system, hopes reinforced by Khatami's symbolic gestures showing a new leadership style (riding Tehran buses, dispensing with large entourages, and mixing with common people). Abroad -- in the Arab world, in Europe, and even in the United States -- the new leadership was seen as an opportunity to break with the rigidity of the past and to put relations on a new, nonhostile footing. President Clinton's hope was that Khatami's election may "bode well for the future." The essays that follow ask how has that hope held up since Khatami took office in August 1997.

The analysis here is an update of three 1996-1997 publications from The Washington Institute: Michael Eisenstadt's *Iranian Military Power: Capabilities and Intentions* (Policy Paper no. 42), David Menashri's *Revolution at a Crossroads: Iran's Domestic Politics and Regional Ambitions* (Policy Paper no. 43), and Eliyahu Kanovsky's *Iran's Economic Morass: Mismanagement and Decline under the Islamic Republic* (Policy Paper no. 44). Because those publications cover in detail developments through 1996, the analysis here is only of developments since 1997.

The theme of this volume is paradox: Khatami campaigned on domestic issues while saying little on foreign and security policy, but his first year in office saw progress on the latter front while domestic policy has been a continuing struggle. The forecast offered here is that, going into his second year, Khatami faces more of the same. The domestic scene is mixed at best: The economy has been hit hard by the declining oil prices, and Khatami's

conservative opponents have proved politically resilient. By contrast, foreign policy is going well, with even the United States searching for an improvement in relations, and on the security front Iran has made real strides in promoting the indigenous production of modern weapons, including missiles.

Problems at Home

As Menashri explains, Khatami went from strength to strength on the domestic political scene in his first few months. The Majlis (parliament) approved his entire cabinet, as his conservative opponents seemed shell-shocked and unsure how to react. Yet, the situation changed by the spring of 1998. On the one hand, those dissatisfied with the pace of change and the harsh realities of Islamist rule rallied around Ayatollah Hosein 'Ali Montazeri, mounting major demonstrations in early March, early April, and mid-May. Even more troubling, the conservative opposition went on the attack using two key institutions it controls, the Majlis and the judiciary. Tehran Mayor Gholam-Hosein Karbaschi was arrested on April 5 on transparently political charges of corruption; Karbaschi has been well known for raising funds through dubiously legal means, but he used the money mostly to improve municipal services, unlike the many officials who steal openly for their own benefit. Then, after months of criticizing Interior Minister 'Abdollah Nuri for allowing students to protest against conservative repression and for licensing free-minded publications, the Majlis dismissed him on June 21. In Karbaschi's case, despite massive street protests that forced his release pending a judicial verdict, he was subsequently tried and found guilty on July 23. Khatami's conservative opponents seem to have regained their nerve, and they hold many levers of power.

If the political scene is fraught with danger for reformers, the economic outlook is even more gloomy. Kanovksy documents the fundamental structural economic problems facing Islamic Iran. The country's reliance on oil and gas has deepened since the time of the Shah, such that the Iranian government relies on these two exports for most of its revenue and 80 percent of the country's foreign exchange. Yet, the oil and gas industry itself has atrophied; only massive foreign capital can renew it. Attracting that capital would not be easy even were there no political risk concerns: The world is awash in cheap oil, and many countries are vying to win investments by the oil and gas multinationals. As for Iran's non-oil economy, the Khatami coalition is deeply torn between those who want to unleash market forces and those who yearn for a return to the early revolutionary practices of strict controls in the name of social justice. Kanovsky explains that even on those areas where Khatami has promised reform, little has been done and no coherent program for progress has been proposed. Given the gloomy oil prices of 1998, Khatami will be lucky if the economy does not slide back into the massive deficit financing of the early 1990s, which would run the risk of repeating the foreign debt crisis if too much is borrowed abroad and of reigniting high inflation if too much money is printed to cover the budget deficits.

Success at Improving National Security

Whereas the domestic scene has been difficult for Khatami, foreign affairs for him have been one triumph after another. The December 1997 Organization of the Islamic Conference (OIC) summit in Tehran went well both for Iran and for Khatami personally. In the following months, relations with Iran's Gulf neighbors improved remarkably, with frequent ministerial visits. Saudi Arabia did little to investigate the June 1996 Khobar Towers bombing that killed 19 Americans, evidently out of a desire to avoid finding evidence of Iranian involvement. Meanwhile, Iranian-European relations warmed with the resumption of high-level visits and regular meetings -- rebaptized as constructive engagement rather than critical dialogue, to avoid the implication that Europe was critical of Iranian behavior. The April 10, 1997, German court verdict in the Mykonos case, which held Iran's leadership personally responsible for terror assassinations on European soil, was forgotten. Europe's preoccupation became how to support Khatami, who was seen as the great liberal hope.

Perhaps Khatami's most dramatic initiative was on Iranian-American relations. His January 7, 1998, interview with Cable News Network (CNN) caught the American imagination, even though his softer rhetoric often masked

unchanged positions. For instance, many were satisfied with his comment about the 1979 U.S. embassy hostage crisis, which expressed regret for hurt feelings ("I do know that the feelings of the great American people have been hurt, and of course I regret it"), but not for the egregious violation of international law that the seizure of the embassy represented. His hardline remarks ("certain foreign policy decisions of the U.S. are made in Tel Aviv and not in Washington") were passed over in the enthusiastic reception of his call for "civilizational dialogue." That call was followed soon by the first postrevolutionary visit to Iran by American athletes, and it elevated to a higher profile the long-standing sport and scholarly contacts (for years, Iranians by the thousands -- including Olympic teams and other athletes -- have visited the United States). Khatami reiterated Iran's rejection of government-to-government dialogue, but the United States persisted, breathing life into its long-standing offer to hold such a dialogue. In a June 17, 1998, speech at the Asia Society in New York, Secretary of State Madeleine Albright welcomed "signs of change" in Iran, adding "We are ready to explore further ways to build mutual confidence and avoid misunderstandings." In short, Khatami was able to create a perception of change that led to a less wary U.S. stance -- and he did this without conceding on any of points of substance.

Khatami was also the beneficiary of a changed mood in the United States about economic sanctions, which had been the principal U.S. instrument to contain Iran. The changed mood had two causes. First and most important was European pressure. European opinion is unsympathetic to sanctions in general, on the theory that trade relations promote positive political change. Europeans were livid about the secondary boycott provisions of the Iran-Libya Sanctions Act (ILSA), which they regard as unacceptable in principle, irrespective of the purpose to which it is put. Faced with intense European hostility, in spring 1998 the United States clarified a change in policy that had been in the works since October 1997, namely, the retreat from the threat of a secondary boycott over European investment in Iranian oil and gas projects. This decision had little to do with developments in Iran, being based instead on the desire to avoid an open split in the Western alliance.

A secondary factor weakening support for Iran sanctions has been the U.S. business community's lobbying against sanctions as a whole, which is likely to intensify, as U.S. oil firms want the same freedom to invest in Iran that is now available to European firms. That lobbying has changed the mood in Congress. Rather than considering broad sanctions, its 1997-1998 actions on Iran have been more focused. The Iran Missile-Proliferation Sanctions Act (IMPISA), which passed both houses overwhelmingly in June 1998, targeted only firms that were violating an international arms control agreement -- in practice, certain Russian firms. Even so, President Clinton vetoed IMPISA, instead imposing by executive order sanctions on seven Russian firms that Moscow determined had violated Russian technology-export regulations. For Iran, the implication of the new sanctions-wary mood is that U.S. sanctions are not likely to become tougher and may ease.

To be sure, not everything has been rosy for Iranian foreign policy during Khatami's first year. The Taliban in Afghanistan consolidated their hold on Kabul and advanced toward complete control over the entire country, despite Iranian supplies of arms and advisers to their opponents. Taliban rule is a serious security problem for Iran, especially because more than a million Afghans work in Iran and the border is riddled with smuggling. The Taliban are viscerally hostile to Shi'a Islam and are politically allied with extremist Sunni terrorists active in Pakistan and eastern Iran, an area with a large Sunni minority.

Other than the Afghan setback, Khatami's first year was generally good for the Iranian military, because it made progress in addressing a major security shortcoming -- namely, its dependence on potentially unreliable foreign arms-suppliers. Faced with this strategic vulnerability, Iran has for years wanted to manufacture its own weapons systems, but it rarely had much success. Despite years of effort, for instance, Iran made little progress toward an indigenous missile production capacity. Things have changed recently, as demonstrated by the flight-test of the Shehab-3 missile, which has the range to reach Tel Aviv, Ankara, and Riyadh. That was not the only advance on the

military industries front in Khatami's inaugural year. Iran also unveiled the Thunder-1 and -2 self-propelled guns, the Tosan (Fury) light tank, the BMT-2 and Cobra armored personnel carriers; announced that production of the propeller-driven Parastu (Swallow) and jet-powered Dorna (Lark) training aircraft would commence shortly; and started mass production of the Boraq armored personnel carrier and the Zulfiqar main battle tank.

Implications for the United States

The debate about Iran policy in the United States has become a debate about whether to retain a hard line or to open up. Cast that way, the obvious winner has been to open up, in response to the more open Iranian society that cheers visiting American wrestlers and witnesses vigorous political debate in a press remarkably free by regional standards. Indeed, U.S. policymakers have reason to be more excited about Iran than about anywhere else in the broad surrounding region. The Arab-Israeli peace process looks moribund, the coalition containing Iraqi president Saddam Husayn is crumbling, and South Asia's nuclear weapons are a massive headache. By contrast, with Iran, one can hope for a real breakthrough in relations, which would be both a major symbolic event and a true strategic victory -- demonstrating that Western and Islamic civilizations need not be hostile, tempering fears about terrorism and proliferation to hostile powers, and improving the security of the unstable but vital Persian Gulf.

Unfortunately, the enthusiasm is out of place. A friendly embrace by the West -- much less by the United States -- could be dangerous for Khatami, as it might galvanize his conservative opponents and cast him as a puppet of the perfidious foreigners. Measured progress is the best that can be expected, even if Khatami decides that he wants reconciliation, given the domestic constraints he would face. Unlike Mao Tse-Tung's China, there is no common enemy that could bring Iran to cooperate with the United States, as long as Iran remains confident that Washington could and would prevent Saddam from exercising regional hegemony. Moreover, from a certain realpolitik perspective, Tehran's unwillingness to talk to Washington makes sense: The small gains could be offset by a major loss in influence among radical enemies of the West, who have given Iran an entree into arenas like the Balkans where it could never otherwise hope to be a player.

The most important consideration tempering any enthusiasm about reconciliation is that Iran under Khatami retains too many of the problematic policies of the past for the United States to rush into a friendly embrace. Khatami's frequent pronouncements on the evils of Zionism are no change from the past; his government continues to deliver arms to Hizballah. Khatami continues to endorse the fatwa against novelist Salman Rushdie, and the government continues to assassinate dissidents abroad (though nearly all in northern Iraq). The development of missiles has been increased, as shown by the first test-flight of the Shehab-3 missile. And Iran has not fulfilled its reporting obligations under the Chemical Weapons Convention, which it joined in January 1998.

Nonetheless, Khatami's the May 1997 election offers a number of opportunities for U.S. policy toward Iran. It holds out, for the first time since the 1979 revolution, the prospect of more normal relations with the Islamic Republic. It also provides an opportunity for the United States to test the willingness of the new Iranian government to alter its policies in the areas of greatest concern to the United States: terrorism, its violent opposition to the Arab-Israeli peace process, and the development of weapons of mass destruction (WMD) and the missiles to deliver them. The concluding chapter by Eisenstadt and Clawson analyzes the issues involved, with particular emphasis on how to evaluate the experience with sanctions and where next to take them.

The U.S. reaction to the Khatami's election has been cautious, which is understandable in light of the history of the U.S.-Iran relationship. Washington, moreover, has been quite deft in responding to Iranian overtures, and the tone taken by senior U.S. policymakers can best be described as guardedly optimistic. Whereas the United States has taken a number of positive steps in responding to the new conditions in Tehran, more could and should be done -- mainly in the realm of supporting people-to-people contacts.

Although such individual contacts can play an important role in reestablishing more normal relations between Iran and the United States, the major issues dividing the two countries will be resolved only in the context of government-to-government talks. Yet, Tehran has ruled out such contacts for now. Thus, substantive official contacts might still be years away. In the meantime, people-to-people contacts should continue, as they can help to create a psychological climate in both countries in which open, routine, official contacts can eventually occur, and the U.S. government should continue to support the Iranian people -- the principle engine of political change in Tehran.

At the same time, Washington has been insufficiently resolute in maintaining the tough sanctions that have borne beneficial results in the past, and which are one of America's main bargaining chips vis-a-vis Iran. There is no contradiction in pursuing both dialogue and sanctions; the United States did so with the Soviet Union for decades. At the same time, the United States should be prepared to ease or lift sanctions if Iran demonstrates that it has altered or abandoned the policies that led to the imposition of sanctions in the first place.

Thus, Washington faces a challenge. It should continue its efforts to establish an official dialogue with the regime in Tehran and to reach out to the Iranian people to support their desire for change. Yet, it needs to continue pressuring the regime, by applying economic sanctions, to change its policies on terrorism, the violent obstruction of the Arab-Israeli peace process, and WMDs and missiles. Getting that mix right, and deciding on the proper policy tradeoffs with Tehran, will not be easy.

At the same time, barring major changes in Iranian foreign and defense policy, the United States should continue with efforts to delay and obstruct Iran's efforts to modernize and expand its armed forces -- particularly in the WMD and missile arena. Delay buys time for the United States and its allies to develop countermeasures (like the U.S.-funded Israeli Arrow missile defense program). Plus the longer required for the development of WMD and missiles, the likelier that during the meantime, less hostile elements will control Iranian foreign policy -- meaning they may cancel the WMD programs. In other words, regarding Iranian WMD, given the excellent prospects that over the longer run Iran's policy will become less aggressive, delay means victory.

• **14 Pages**

RECOMMENDED



BRIEF ANALYSIS

[Tracking Anti-U.S. Strikes in Iraq and Syria During the Gaza Crisis](#)

May 4, 2024

◆
Michael Knights,
Amir al-Kaabi,
Hamdi Malik

[\(/policy-analysis/tracking-anti-us-strikes-iraq-and-syria-during-gaza-crisis\)](#)



BRIEF ANALYSIS

Is Kataib Hezbollah Behind the Saraya al-Ashtar Claimed Attack on Israel?

May 4, 2024



Michael Knights,
Amir al-Kaabi,
Hamdi Malik

[\(/policy-analysis/kataib-hezbollah-behind-saraya-al-ashtar-claimed-attack-israel\)](/policy-analysis/kataib-hezbollah-behind-saraya-al-ashtar-claimed-attack-israel)



BRIEF ANALYSIS

Nuclear Agency Chief Visits Iran: Expectations and Next Steps

May 3, 2024



Simon Henderson

[\(/policy-analysis/nuclear-agency-chief-visits-iran-expectations-and-next-steps\)](/policy-analysis/nuclear-agency-chief-visits-iran-expectations-and-next-steps)

TOPICS

[Arab & Islamic Politics \(/policy-analysis/arab-islamic-politics\)](/policy-analysis/arab-islamic-politics)

[Energy & Economics \(/policy-analysis/energy-economics\)](/policy-analysis/energy-economics)

[Gulf & Energy Policy \(/policy-analysis/gulf-energy-policy\)](/policy-analysis/gulf-energy-policy)

[Military & Security \(/policy-analysis/military-security\)](/policy-analysis/military-security)

REGIONS & COUNTRIES

[Iran \(/policy-analysis/iran\)](/policy-analysis/iran)