

Iran's Power in Context

Shahram Chubin

Iran–US relations – strained at the best of times since the 1979 Iranian revolution – have never been worse than during the past six years, due to the much more intense interaction between the two states since the revelations about Iran's nuclear ambitions and the United States' invasion of Iraq. The United States sees Iran as a potential strategic rival, while Tehran views the American presence in the Middle East as a potential existential threat. This has led to zero-sum thinking and has raised the stakes correspondingly. In the process there has been an inflation of the Iranian threat, which is poorly understood and often exaggerated. Depicting Iran as a military threat obscures the real *political* threat the country poses to its region; Iran's regional behaviour has been neglected and overshadowed by the contentious nuclear issue. However, it is precisely Iran's behaviour and goals which feed concerns about its nuclear ambitions.

It is important to put the Iranian threat in context. In recent years, what was largely a bilateral rivalry between Iran and the United States has become displaced and expanded throughout the region: Palestine, Syria, Lebanon, Iraq and the Gulf states have all been affected by the growing tension, and there are signs that Iranian influence is becoming stronger in these areas. Iran's more active and effective diplomacy in the Middle East is due to the conjunction of three separate trends, all of which are reversible. The first is the emergence of a permissive regional environment, hospitable to Iran's

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diplomacy; the second, the ascension of an ideological and hardline conservative government in Tehran, predisposed to a more activist diplomacy; and third, the oil windfall, which freed resources for seeding movements and clients supportive of Iranian goals. However, the influence that has accrued to Iran as a result of these trends is transitory and precarious, and there are constraints on Iran becoming a regional superpower.

Iran–US relations

A foundational myth of the Iranian revolution was that anti-Americanism was the equivalent of anti-imperialism.¹ This belief, together with the revolutionary desire to ‘export the revolution’, has become part of Iran’s identity and *raison d’être*, which includes support for ‘oppressed’ people. Because these concepts are seen as vital to the regime’s legitimacy, and hence security, they would be difficult to drop, not least because the sense of embattlement they engender is an integral part of maintaining elite control of the beleaguered and ‘endangered’ revolution.

In the Iranian view, the United States seeks to dominate the Middle East, and together with its local allies control the region strategically and loot its resources.² Iran’s mission is to keep its independence by fighting this hegemonic and oppressive system and spreading its revolution by ‘presenting a blueprint for an Islamic republic ... and defending the deprived masses in the world of Islam and the wronged people who have been trampled upon by tyranny’.³ In the regional context this translates into calls for the expulsion of the Western presence and support for the Palestinian and other ‘resistance’ forces. Iran’s challenge to the regional order is not military, but political: it is about exerting influence, appealing to the masses or the ‘street’, demonstrating that Iran can confront injustice, presenting a viable model of ‘resistance’, and ‘framing the regional agenda’.⁴ Thus, Iran is very far from being a ‘classic imperial power’ or ‘an unexceptional opportunistic power seeking to exert preponderance in its immediate neighbourhood’.⁵ Rather, it is a revisionist state in terms of status, not territory.

For the United States, the strategic importance of the Middle East has only grown in recent years, shaped by the confluence of such concerns as energy security, international terrorism and nuclear proliferation. Since the

Second World War, US policy toward the region has been encapsulated by the words 'access' and 'denial': Washington has sought political, military and economic access to the region and its resources through allies and bases, and to deny control over the region to any (unfriendly) dominant power. In recent years, the identity of the most likely rival power has shifted from the Soviet Union to Iraq and now to Iran.

In furtherance of its interests the US government has established bases in friendly states in the Persian Gulf (Kuwait and Qatar) and a long-standing naval presence (Bahrain). Washington envisages the evolution of an orderly security system as the Gulf States develop politically, establish competent military forces and cooperate collectively. Iran, with or without nuclear weapons, is seen as bent on the subversion of this system; its determination to 'extend its influence' throughout the broader Middle East is regarded as a 'grave threat to regional security',⁶ as is its desire to exclude non-regional states. Iranian–American rivalry in the Persian Gulf, and beyond, is thus about two competing conceptions of regional order. The rivalry has only intensified as the two states have interacted at closer quarters.

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Iranian defence officials say that Iran faces no threat from a regional state, hence the probable challenge is from 'an ultra-regional power like America'.⁷ They argue that Washington is using the nuclear issue to limit Iran's regional power, which it sees as already so impressive that 'no country in the [Middle East] can stand against it'.⁸ Although this tends to frame the potential development of an Iranian nuclear weapon as America's problem, the impact of such a development would be primarily regional, making the issue of direct concern to the Arab states, though they are reluctant parties to negotiations.⁹ Similarly, no technical fix on the nuclear question will be viable unless the question of Iran's regional ambitions and role are addressed.¹⁰

Still, the idea that the Iranian–American rivalry – seen in its broadest sense as a battle between 'radical Islam' and the Western world – is at the core of Middle East politics is now widespread. The Palestinian issue, for example, has been reframed to focus on the threat from Hamas: said former Israeli Prime Minister Benjamin Netanyahu, 'any area we withdraw from

will be taken over by Iran and its proxies'.¹¹ The 2006 war in Lebanon is seen by some as a war between Iran and Israel and others as a war between Iran and the United States.¹² There are those who argue the Annapolis conference in 2007 was motivated by Iran and the need to confront it.¹³ Certainly, the enlarged US presence in the Middle East and the opportunities afforded by a changed regional context have allowed Iran to confront Washington and its allies on much wider canvas than before.

A permissive regional context

The Middle East has changed over the years in part because of some long-standing trends. Among these is the shift of the region's centre of gravity from the Levant to the Persian Gulf.¹⁴ This has underscored divisions between the rich and poor members of the Arab world. Parallel to this has been the disappearance of Egypt as an Arab leader.¹⁵ This has created a leadership vacuum, which accounts for the proliferation of regional initiatives in 2008 by other players. For example, Qatar has launched an initiative to address problems in Lebanon, Turkey in Syria, Egypt in Gaza, and Saudi Arabia in Afghanistan.

But American policies – and non-policies – have had the greatest effect on the regional landscape. US misjudgement and incompetence, exemplified by the country's entanglement and overextension in Iraq, is generally acknowledged. The effects on America's moral standing and credibility as a leader and ally have been devastating. Those elites in the region who believed in the United States have been discredited. Other policies, such as the failed 'freedom agenda' and the war in Lebanon, have fared little better. Neglect of the Palestine issue has allowed the 'two-state solution' to slip away as a realistic alternative for Israeli and Palestinians alike,¹⁶ which has in turn fed extremism, rage and anti-Americanism.¹⁷ The growing strength and appeal of the rejectionist front led by Iran is directly attributable to US policies.¹⁸ Meanwhile, by shattering the Iraqi state, the United States eliminated Iraq as an effective regional buffer vis-à-vis Iran, whose influence over its neighbour immediately increased.¹⁹ It meant that the old triangular system, in which the three large Gulf powers of Iran, Saudi Arabia and Iraq balanced one another, was replaced by a bipolar structure pitting Iran

and Saudi Arabia directly against each other.²⁰ Moreover, by empowering Iraqi Shi'ites, the US occupation emboldened this traditionally suppressed community in the Gulf, a sensitive security issue for Saudi Arabia and even more so for Bahrain.²¹ (This is not to say, however, that the Saudis see Iran primarily as a Shia threat – on the contrary, Iran is mostly seen as a rival for political power in the region.)

Questions about US judgement and reliability accelerated tendencies among the Gulf Co-operation Council (GCC) states to diversify their foreign policies and pursue relationships with other states.²² It also weakened any impulse to follow Washington's lead, which explains why most Arab states have played a spectator role in Iraq, refusing to open embassies or forgive debts contracted under Saddam Hussein. This has effectively given Iran a free hand in Iraq.²³ If any Gulf state had been disinclined to confront Iran before the US invasion of Iraq, they were all the more diffident afterwards. Arguments for not confronting Tehran, such as a natural wish to accommodate a powerful state, appeared more convincing in the wake of questions about the reliability and judgement of the United States. Given their proximity to Iran, the GCC states had little desire to join any polarising coalition pitting Arab versus Persian.²⁴ Divisions within the Arab world also encouraged a cautious approach; while some states, such as Qatar, Oman and Dubai, enjoyed good relations with Iran, Saudi Arabia, Kuwait, Bahrain and Abu Dhabi sensed a security threat.²⁵ Finally, intimations that the United States might be willing to engage Iran diplomatically, as suggested by the Iraq Study Group report of 2006 (the Baker–Hamilton report) and the US National Intelligence Estimate (NIE) of November 2007, underscored suspicions among Arab countries of a possible US–Iran 'grand bargain' at their expense, encouraging them to take out further insurance against this eventuality.²⁶

Indeed, the poorly worded 2007 NIE was the diplomatic equivalent of an 'own goal': it succeeded in undermining the emerging consensus on stronger measures against Tehran and virtually eliminated the military option as a diplomatic instrument. It may have emboldened Iran.²⁷ Certainly it undermined domestic critics of the regime's nuclear policies. US failures such as these have provided openings for Iranian diplomacy.²⁸

None of this is to suggest that the Arab world is indifferent to the threat posed by a resurgent Iran seeking a nuclear capability. While governments may be reluctant to antagonise Iran – in some cases, their own populations exult in Iranian rejectionism – they have let their opinions be known indirectly. Arab newspaper editor Abd Al-Bari Atwan has suggested that Iran has benefited from the ‘disastrous mistakes’ of others without ‘having to fire a bullet’.²⁹ Arab journalist Abd al Rahman Al- Rashid noted that Iran’s missiles had a longer range than necessary if intended for Israel and concluded they must be intended ‘to obtain special privileges’.³⁰ A third journalist, Tarik Al-Humayd, questioned whether Iranian support for Hamas and Hizbullah, and their designation as ‘freedom armies’, amounted to the ‘hijacking [of] Arab causes to serve Iran’s interests’.³¹ Said writer Jameel Theyabi, ‘Hezbollah is the solid arm of the Iranian regime in the region, while Hamas is about to become the second Iranian arm ... Syria too is working under the umbrella of Iran.’³²

Iranian diplomacy in action

Many Iranians believe that their country has turned a corner and reached a new stage internationally. Commentators point to ‘the gradual transfer of power and influence from America’s camp to Iran’s camp’ and see the spread of Islamism in the region going hand-in-hand with ‘the inclination of regional states to gravitate towards Iran’.³³ Hossein Shariatmadari, editor-in-chief of the Iranian newspaper *Keyhan* and a confidant of Iran’s Supreme Leader Sayyid Ali Khamenei, has described the Middle East as a platform to demonstrate US ‘failures and disappointments’.³⁴ Others have called for Iran to challenge the United States for leadership of the region through a ‘proactive and aggressive foreign policy’.³⁵ The necessary condition for Iran’s ‘advancement’ and greater freedom of action, in Ali Larijani’s words, is the collapse of the America’s ‘exclusive hegemony while suffer[ing] a defeat’.³⁶

A sense of growing power, new to Islamic Iran, has led to a certain braggadocio and recklessness and a coarsening of language that in fact does little to advance Iran’s interests.³⁷ In what has been called the ‘Palestinisation’ of Iran’s foreign policy,³⁸ Iran has insisted that Israel has no right to exist; that only one solution can work in Palestine, namely the one-state solution,

whatever the Palestinians might decide; that the Holocaust is a myth; and that Iran's 'international mission' is to limit Israel's power.³⁹ In brief, Iranian President Mahmoud Ahmadinejad has made 'anti-Israeli rhetoric the defining characteristic of his presidency'.⁴⁰ Khamenei has blessed all of this, arguing that Iran has a duty to stand up to US bullying and 'the iniquities of the Zionist regime'.⁴¹ Khamenei's international-affairs adviser, Ali Akbar Velayati, amplifies this thinking: 'to support Palestine is to support Iran ... To support Lebanon is to support Iran ... To support Iraq is to support Iran.'⁴²

Iranian officials, believing that 'regional and global developments have created new situations in Iran's favour',⁴³ have made tireless efforts to cash in by spreading the message that the United States is 'hated in the region'.⁴⁴ But Iran's greater involvement in Middle Eastern affairs has not been merely opportunistic but also motivated by defence considerations. Though eager to spread its model, Iran was also impelled to extend its influence further afield by its sense of encirclement and the need to engage the enemy in 'forward defense, so as to avoid fighting on its borders. Palestine, in this view, is not a matter of solidarity but strategy: it is now a bulwark – a frontline – in Iran's defense'.⁴⁵

Thus, in recent years Iran has increased its support of the Palestinian resistance. It has been helped in this project by two factors: firstly, the absence of any substantive peace process; and secondly, the fading prospects of a two-state solution.⁴⁶ This has meant that Iran has effectively filled a vacuum. What used to be provocative support for a 'one-state solution' now appears less extreme. When there is no peace process to oppose, looking at alternatives appears more reasonable.

The controversial enhanced US military presence in the region and Washington's extraordinary neglect of the Palestinian issue have provided fertile ground for Iran to pose as Palestine's protector and to generalise its conflict with the United States. The anger and frustration of many Arabs and Palestinians at the blatant disregard for their concerns have made some susceptible to extremist solutions. Iran's willingness to activate the rejectionist front, and to stand up to America, thus has regional resonance, which it would not have had in a different context or with different US policies.

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Related to this is Iran's vaunted 'Hizbullah model' of resistance, which allegedly accounted for the success of that militia in holding off the powerful Israeli forces for 33 days in 2006. Ali Larijani, now speaker of Iran's parliament, has argued that the 2006 war punctured the myth of Israel's invincibility and demonstrated Iran's success in converting the Arab states to Iran's view. Said General Yahya Rahim Safavi, military adviser to the Supreme Leader, 'The combat model of the Palestinians has changed from a focus on Arab ethnical issues to an Islamic struggle under the banner of the Koran and Islamic slogans'.⁴⁷ Larijani claimed the Israeli defeat was 'an outcome of the Iranian Islamic revolution'. Ezatollah Ghafarizadeh, a senior Iranian military officer, claimed that Iran's own resistance was the model for Hizbullah's success by showing it was possible to defeat Israel. For Ahmadinejad the lesson was clear: 'resistance is the only way to defeat Israelis and their masters'.⁴⁸

Iran's belief that negotiations will lead nowhere without 'resistance' has fuelled its support not just for Hizbullah but also, more recently, for Hamas.⁴⁹ Hamas accepts this reasoning: said a Hamas spokesman, 'what we learned from Hezbollah is that resistance is a choice that can work'.⁵⁰ If Hizbullah can eject Israel from Lebanon in 2000 and fight it to a standstill in 2006, there may be lessons for other resistance forces. And if Iran can claim to be the tutor of the Shia organisation Hizbullah, what better way to bridge the sectarian gap than to cross over to sponsorship of a Sunni resistance force like Hamas, especially when it has become a political party on a par with Fatah?

Iran's activism is not without its regional critics, however. Egypt's Foreign Minister Ahmed abu al-Gheit depicted Iran as 'on a surge', playing many cards in Iran's but not in the Arab world's interest: 'What we see in Lebanon [are] gains by an Islamic party by which I mean Iran'.⁵¹ The head of Egypt's Foreign Committee was more blunt: 'We will not allow Iran to export the Islamic revolution to Egypt', he said, adding that Egypt would not tolerate the presence of an 'Iranian Islamic Emirate in Gaza'.⁵²

Iran's only steadfast Arab ally since the revolution has been Syria. Originally, a shared antipathy to Saddam's Iraq was the cement holding this odd couple together, but a shared sense of being threatened by the

United States has caused the countries to become closer than at any time since the late 1980s.⁵³ Iran supplies arms to Hizbullah with Syrian assent, and the Syrian regime regards the 'Tehran–Damascus–*Hezbollah* axis' as the only thing keeping the United States and Israel from dominating the entire Middle East.⁵⁴ Neither state wants to see Iraq emerge as a US ally or base; both would prefer to see the United States exit humiliated and bloodied from their neighbour.

Indeed, since the demise of Saddam Hussein, Iran has largely seen Iraq 'through the lens of its conflict with the United States'.⁵⁵ The prime consideration for Iran is to prevent the emergence of an Iraqi threat. Tehran aims to do this by influencing the shape and orientation of a future Iraq, not by exerting territorial control.⁵⁶ Iran's foremost concern is the continuing US military presence, as Khamenei emphasised to Iraqi Prime Minister Nuri al-Maliki in mid 2008.⁵⁷ A permanent presence would mean 'control and domination', and former Iranian President Hashemi Rafsanjani pointedly warned that 'if the US remains in Iraq, there will be no security in Iraq or the region'.⁵⁸

Iran's current concern is to ensure that any Status of Forces Agreement does not allow major US bases in Iraq and that any agreement specifically prohibits the use of Iraqi territory from attacks on neighbouring countries.⁵⁹ The December 2008 agreement between Iraq and the United States leaves Iran relatively reassured in this respect. Tehran expects under these circumstances to be able to influence the future course of Iraqi politics at least enough to assure its own security interests. However, its activism in Iraq and support for various Shia as well as other groupings has not gone unnoticed. The political empowerment of the Shia Muslims in Iraq and the example this poses for other similarly oppressed Shi'ites in the Gulf States (notably Bahrain) has increased suspicions about Iran's intentions amongst the country's Arab neighbours.⁶⁰

Iran has shown insensitivity in other dealings with its Persian Gulf neighbours, further complicating an already fragile environment. Putting aside the suspicions engendered by the gaps between Sunni and Shia, Arabs and Persians and smaller Arab states and their larger neighbour, Iran's pretensions to Muslim leadership were bound to create strains. During Iran's

attempts to 'export the revolution' in the 1980s, most directly to Bahrain and Kuwait, the Arab states combined to side with Iraq and oppose Iran.⁶¹ The Gulf Co-operation Council was formed in 1981 with Saudi encouragement, and since then the GCC states have been wary of Iran, adopting different postures and mixes of deterrence and accommodation. All of these states to varying degrees look to the West, and primarily the United States, to offset and balance their powerful neighbour. None is interested in confronting Iran or otherwise provoking it, but equally, none is interested in supporting Iran's pet project: the expulsion of the United States from the Gulf and the substitution of a regional security arrangement through defence cooperation with Iran.⁶²

Indicative of Iran's obsession with its own revolutionary principles is an obliviousness to others states' concerns and the impact of its utterances on those states' receptivity to Iranian initiatives. This is reflected in a tendency periodically to show a disregard for its neighbours which borders on contempt. For instance, in July 2007 Shariatmadari resurrected Iranian territorial claims to Bahrain. A year later, Deputy Foreign Minister Manouchehr Mohammadi suggested that 'the next crisis [for the Persian Gulf] is the legitimacy crisis of monarchical and traditional regimes. Considering today's conditions these systems cannot survive.'⁶³ Iran has made efforts to appeal to the Arab street over the heads of their governments: Khamenei has observed that there is an 'unfortunate' gap between the sentiments of the populace and the policies of their governments, saying 'they don't have the same voice as their nations'.⁶⁴ Shariatmadari has called for attacks on Israel, including its citizens worldwide, threatening that if Arab governments resisted they should be toppled.⁶⁵ Playing the 'Arab street' card may not be directly threatening to Iran's neighbours, but it puts them on notice about their potential vulnerability to Iranian propaganda.⁶⁶ At the same time, a decision to expand Iran's presence on the island of Abu Musa, long disputed with Abu Dhabi, managed to unite the otherwise fractious Arabs against this 'illegitimate action on an indivisible part of the UAE'.⁶⁷ The Gulf states might be forgiven, in light of all this, for assuming that the Iranian offer of a defence pact resembles a Chicago-style protection racket.

A hardline president

Security policy in Iran is the product of a 'consensus' formed in the Supreme National Security Council. Though presided over by the president, in reality the final decisions are made by the Supreme Leader. In his willingness to do anything to preserve his position, Khamenei is decidedly pragmatic, but by inclination and preference he is a hardliner, comfortable with pure revolutionary ideologues like Ahmadinejad. Ahmadinejad represents a new generation of leader, forged in the war with Iraq and dedicated to the revolution's ideals (promoting the Islamic model, seeking social justice, fighting oppression), which they see as having been betrayed by the previous president, Mohammad Khatami, who pursued a policy of fence-mending and détente toward Iran's Persian Gulf neighbours and Europe.

Ahmadinejad is a passionate ideologue and populist demagogue who has enlisted a new, poor, rural constituency and helped revive the flagging revolutionary spirit. He also has a special constituency, the Revolutionary Guard, whom he has rewarded accordingly.⁶⁸ He respects and defers to the Supreme Leader, who finds his firebrand style convenient to sideline the reformists, who threatened to make his post obsolete. Khamenei has endorsed Ahmadinejad's confrontational style, to the point where the Supreme Leader – uncharacteristically – is identified with it, and thus with a particular faction within the Iranian government.⁶⁹ With the perception that the United States is 'on the run' there is little incentive for him to depart from his own preferences and rein in his favourite president.

In Ahmadinejad's narrative of embattlement, the whole world has 'ganged up' on Iran, which valiantly stands for principle and moral values.⁷⁰ This 'Cuban option' has its uses, excusing failures and disappointments by reference to the actions, such as international sanctions, of others.⁷¹ Ahmadinejad uses confrontation to enhance his domestic standing.⁷² By tapping into Iranian national pride and nationalism he has tried to energise support for the regime and the revolution. And by depicting his predecessors as faint-hearted, willing to sell out the revolution's aspirations and principles, he has cornered the market on an activist,

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offensive foreign policy. In this he has the support of Khamenei: Iran, says Khamenei, has ‘an offensive stance (*Tahajomi*) ... If ever we can deliver a political blow to America or Israel, we will surely do so.’⁷³ This ‘dynamic foreign policy’, according to Khamenei, is more in line with ‘revolutionary concepts’ than the mistaken ‘passive policy’ of the previous government and of Ahmadinejad’s contemporary critics: ‘Some want to undermine the revolution by using the pretext of rationality, moderation and refraining from turmoil. This cannot be done ... It could be that they are tired themselves but attribute it to the people.’⁷⁴

Ahmadinejad’s confrontational policies have been congenial to the leadership and so far relatively free of cost. By mobilising the masses and appealing to the Arab street, the president has given the Supreme Leader wider recognition and popularity in the Arab world and reinvigorated his revolutionary core of supporters within Iran.⁷⁵ By marginalising the reformists and discrediting their passive, reactive policies as little more than subservience, Khamenei has made criticism of Ahmadinejad’s policies more difficult. US mistakes and failures, including the ill-advised NIE, have also made it harder for critics to demonstrate the risks and costs of Ahmadinejad’s policies. But this could change: a major setback in the region that marginalised Iran or caused a united Arab front to emerge; a breakthrough agreement by Hamas in Palestine or Hizbullah in Lebanon; or a clash with the United States could ignite controversy and intensified debate in Iran about the wisdom of the prevailing course.

Oil: a two-edged sword

Iran’s regional activism and support of the Hamas and Hizbullah ‘resistance’ movements have been aided by the oil windfall of recent years. But as the term ‘oil curse’ suggests, a fall in the price of oil can succeed its rise with dizzying rapidity, and can do so after recipients of oil rents have become addicted or at least habituated to them. Iran has additional problems: it has a record of economic mismanagement and is under international sanctions. The recent decline in oil prices threatens to have a major impact on Iran’s economy and ability to continue as paymaster of the ‘resistance’, and on Ahmadinejad’s political fortunes.

According to the Central Bank of Iran, oil generates 80% of foreign earnings and 60% of government revenues, or roughly 30% of GDP in a given year, although this varies according to oil prices.⁷⁶ Whatever the exact statistics, it is enough to note that in the first half of 2008 Iran received \$54 billion in oil revenues, which is double what Iran was earning per year during the Khatami era.⁷⁷ When oil prices were high, Iran had plenty of cash to spread around as it pursued its more offensive foreign policy. Exact figures are elusive, not least because cash payments were complemented by arms, training and contributions to social or charitable activities, but it is clear that Iran has gone beyond the usually cited \$100 million per year payment to Hizbullah in recent years. For example, in 2006, in addition to its usual contribution, Iran re-supplied Hizbullah with arms consumed in that summer's war with Israel.⁷⁸ Iran also paid \$10,000, via Hizbullah, to every Lebanese citizen whose house had been destroyed in the war. One source puts Iran's total disbursement to Hizbullah in 2006 at \$1.2bn.⁷⁹ In addition, Ahmadinejad made commitments to Islamic Jihad and Hamas, and the Iraqi militias Jaish al-Mahdi, the Badr Brigade and other Sunni equivalents. In July 2005 Iran offered the Iraqi government \$1bn in aid.⁸⁰

It is impossible to put an accurate price tag on the annual costs of all these commitments. It is clear, however, that these investments in expanding Iran's regional influence have grown with the oil windfall and will contract with the oil-price slide. The gap between \$147 oil in the first half of 2008 and \$50 in the last half is bound to curtail Iran's capabilities, if not its ambitions.⁸¹ Indeed, falling oil prices will almost certainly have painful domestic consequences as well. The boom in oil revenues increased dependence on the commodity, postponed necessary reforms and cushioned Iran from the effects of international sanctions.⁸² Economic mismanagement, which has fuelled inflation and popular expectations, will be exposed for what it is with sharply diminished revenues and the pessimism engendered by a global recession that is likely to last several years.⁸³

If oil prices continue to slide, Iran will soon face some unattractive choices. The government has already raided the oil stabilisation fund. According to some sources, over the last three years Iran's foreign-currency reserves

have been regularly siphoned off to current expenditures, leaving Iran with anticipated reserves of less than \$10bn by the end of 2008.⁸⁴ This implies a growing budgetary deficit, which according to the International Monetary

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Fund is unsustainable if oil prices remain in their current range under \$75, as Iran has 'limited access to international financial markets due to sanctions'.⁸⁵

Given its shortfall in revenues, if the government is unwilling to cut back on expenses it will be faced with a choice between printing money (an inflationary strategy) or seeking to add to revenues by raising taxes or reducing subsidies. Its attempt to impose a relatively modest sales tax of 3% this year brought the bazaar out on strike and was quickly reversed.⁸⁶ Cutting sub-

sidies will be no more attractive for a populist president. If, as seems likely, demand for oil remains limited, reflecting the sluggish global economy, Iran cannot count on an increase in oil revenues in the near term. It is an ugly reminder to Iran of its limitations as a producer: having no spare capacity, it cannot look forward to benefiting from increased production, whether prices rise again or not.

Mismanagement and the slowdown will make Iran's economy more vulnerable to sanctions, which have already begun to bite in the financial sector. UN Security Council sanctions leave Iran in a poor position to seek access to international credit. Sanctions have already crimped Iran's trade with the United Arab Emirates, principally Dubai.⁸⁷ Further, the country has been unable to invest in the maintenance and upgrading of its oil infrastructure and has difficulty maintaining its current production rate of nearly 4m b/d. With inadequate refining capacity for its domestic needs Iran would be very vulnerable to sanctions that targeted its imports of petroleum products, especially gasoline.⁸⁸ Unfortunately for Tehran, the prospect of more sanctions is increased by the election of US President Barack Obama. The new president will come with none of the baggage of his predecessor and a greater willingness to engage in diplomacy, but with no greater tolerance for Iran's spoiler policies in the region or its nuclear ambitions.

Iran will not collapse because of decreased revenues; it survived a similar situation in the 1980s and will, no doubt, try to make a virtue out of necessity by appealing to the revolutionary spirit while blaming sanctions and foreign enemies for any difficulties. It is likely, however, that Ahmadinejad's policies of confronting the international community, supporting resistance forces, throwing money at problems against specialist advice and making populist promises of improved living standards will face increased domestic criticism. The opportunity costs of funding insurgents and militias may become more controversial.⁸⁹ After all, by all accounts the Iranian street is no fan of these policies. Some believe that economic constraints will hamper Iran's regional ambitions.⁹⁰ Ahmadinejad's economic and political model may be discredited, especially if a new round of meaningful sanctions is imposed in the first half of 2009. At the very least, economic constraints should encourage a domestic debate about what kind of regional role Iran should play, and at what cost.

Constraints and limits to Iranian power

Iran has a great past and potentially a great future, but has been stuck in a revolutionary rut for three decades. As a result, it has exerted itself only to counter perceived threats to its revolutionary identity and to promote its mission abroad. Tehran has become habituated to seeing threats everywhere: in the West's presence in the Middle East; in the existence of Israel (surely a discretionary foe?); and in the forces of secularism, materialism and globalisation ('cultural threats'), to name a few. Meanwhile, the real threat to the country's security – instability in Iraq and Afghanistan – has been treated as a battleground in the fight against the United States. An embattlement mindset suits the ideologues of the regime who benefit from the country's beleaguered status and prevent it from becoming a normal, independent and respected state. Their emphasis on Iran's rights is not matched by discussion of its responsibilities; their insistence on a narrative of victimhood is not balanced by respect for others' concerns.

Iran is not a marginal state like Libya or Syria, but neither is it a great power. It has few friends and fewer allies. By alienating the United States and Europe, Iran has increased its dependence on Russia for diplomatic

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support, nuclear and other technology and conventional arms. It has thus compromised its vaunted 'independence', inhibiting the pursuit of its interests in the Caspian and Caucasus. Iran has neither hard nor soft power. It has leveraged US mistakes in the last few years as its principal source of influence in the region. Playing on regional frustrations and anger, Iran has positioned itself as a spoiler and given rejectionism a new fillip in the Arab street. But these are limited and wasting assets, dependent on continued US errors and the failure of peaceful alternatives for Palestine. Iran can offer a rejectionist 'war option' but not a solution; for that the Arabs must turn to others. Iran's conventional military capabilities, especially its power-projection capabilities, are limited, even with respect to, or in comparison with, its immediate neighbours.⁹¹

Iran's economic model is a clear failure in comparison to that of its smaller southern neighbours, whence large numbers of Iranian entrepreneurs have fled. Unable to diversify its economy or invest in its energy infrastructure, Iran is storing up trouble for itself. With oil prices sliding Tehran has to rely on Saudi Arabia for cuts in production to protect it against further price deterioration and associated political repercussions.⁹² The damaging effects of corruption, subsidies, a bloated government and the operations of *bonyads* (unaccountable 'foundations' that dominate the non-petroleum sectors) have caused the country to haemorrhage talent abroad.

Iran's political model has few if any takers, as even Iraq is demonstrating. A revolutionary government presides over a post-revolutionary society; the gap between state and society has widened. Iranian people – though not the government – may be said to have found the 'middle ground between quietism and martyrology'.⁹³ Nationalism alongside Islam is a part of a proud Iranian identity, but there is little appetite, or precedent, for regional domination or even leadership.

Iran's regional influence has come from a convergence of several factors: US mistakes and vulnerability, regional anger and the appearance of an ideological government in Tehran with access to unprecedented resources.

None of these are permanent. Iran's resources have already shrunk, the conservative government is being discredited and the United States is in the process of rehabilitation. The structural constraints on Iran have become more evident. The Arab Sunni states, though divided and ambivalent, are all concerned by Iran's forward policy and nuclear ambitions. None of them wishes to exchange the United States for Iran as a security manager of the region. The limits to Iranian influence are also clear. Hizbullah, as a militia, may be dependent on Iran for arms and training but is also a Lebanese political party. It is thus a partner rather than client. The same applies to Iran's relations with Syria, its sole Arab friend. In troubled times this relationship appears solid, but with a more flexible attitude on the part of Israel and the United States, Syria may drift away from Tehran's embrace.

In Iraq, Tehran has considerable influence. This is normal given the number and complexity of ties between the two neighbours. But even here, too much Iranian interference or overreaching risks a backlash. Favouring a particular militia in Iraq risks alienating others and creating blowback, for once they become strong, militias cannot easily be controlled. Even the vaunted region-wide ascendancy of the Shi'ites, which *appears* to favour Iran, in fact reveals the constraints on any putative leadership role for Tehran. Sectarian polarisation, whether in Iraq or throughout the wider region, would limit Iran to (at most) a sectarian constituency – a minority in the region – and constitute a setback to Iran's Arab street strategy designed to transcend the sectarian divide. Moreover, any emphasis on sectarian issues would range the Arab states defensively against Iran and bury any Iranian regional project in the Persian Gulf. Iran's perceived arrogance and attitude of 'blatant superiority', which treats the Arab states as 'hostages', is widely felt and resented, hampering any Iranian leadership potential.⁹⁴ In short, Iran remains a limited threat. Hying Iran's power and importance encourages its parasitical policy of feeding on disorder and understates its vulnerabilities.⁹⁵

The arrival of a new American president at last permits a policy that puts Iran into proper perspective. Too often in recent years the US discussion of Iran has in fact has been a debate about America itself, filled with partisan rancour and cant. Now it is time to see Iran for what it is: a political threat and regional nuisance with many weak points, which can be played on.

Neither a colossus nor a failed state, its primary focus is regime survival. It is now the job of the Western foreign-policy community to communicate firmly but quietly that regime survival and regional destabilisation may be incompatible.

Notes

- 1 See Olivier Roy, *The Politics of Chaos in the Middle East* (New York: Columbia University Press, 2008), p. 130. Anti-imperialism in practice became anti-Americanism, a slant that is all the more extraordinary given the record of Russian/Soviet predatory behaviour in the region.
- 2 Ayatollah Ali Khamenei, for example, expressed this view on Iran TV Channel on 8 May 2008.
- 3 Ayatollah Ali Khamenei, in a broadcast on Iran TV News Channel on 3 June 2008.
- 4 See Emil Hokayem, 'To Counter Iranian Ambitions, the Gulf Needs Greater Self-Confidence', *The National*, 14 August 2008, <http://www.thenational.ae/article/20080814/OPINION/152591015/1002-36k->; and Shibley Telhami, 'It's Not About Iran', *Washington Post*, 14 January 2008, p. A21.
- 5 Richard Haass, 'The New Middle East', *Foreign Affairs*, vol. 85, no. 6, November–December 2006, p. 6; and Ray Takeyh and Vali Nasr, 'Getting Iran Inside the Tent', *International Herald Tribune*, 7 December 2007, p. 8. This exact formulation is repeated in Ray Takeyh and Mark Brzezinski, 'The Time For Threats and Insults is Past', *International Herald Tribune*, 12–13 January 2008, p. 4. For a gross exaggeration of Iran's power and importance see Robert Baer, *The Devil We Know: Dealing with the New Iranian Superpower* (New York: Crown, 2008).
- 6 Condoleezza Rice, 'Rethinking the National Interest', *Foreign Affairs*, vol. 87, no. 4, July–August 2008, p. 18. See also Thom Shanker, 'Gates Sees Iran As Still-Serious Threat', *New York Times*, 9 December 2007, <http://www.nytimes.com/2007/12/09/world/middleeast/09gates.html>.
- 7 Mohhammad-Bager Zolghadr, deputy chief of the Armed Forces, quoted in the Iranian newspaper *Farhang-e Ashti*, 26 August 2008, BBC Monitoring, 1 September 2008.
- 8 This claim has been made repeatedly by Ali Larijani, secretary of Iran's Supreme National Security Council 2005–07, and quoted in various sources: Islamic Republic News Agency website, 28 September 2005, BBC Monitoring, 29 September 2005; *Aftab-e Yazd*, 7 July 2008, BBC Monitoring, 9 July 2008; Islamic Republic News Agency website, 11 October 2008, BBC Monitoring, 13 October 2008; and Ali Larijani, Islamic Republic News Agency website, 26 June 2008, BBC Monitoring, 27 June 2008. Mohsen Rezai, secretary of Iran's Expediency Council, and others have made similar observations.
- 9 Jihad al-Khazin, 'Religious Sermon', *Al Hayat* website, 25 September 2008,

- BBC Monitoring, 29 September 2008; Joseph Kechichian, 'Can Conservative Arab Gulf States Endure a Fourth War in the Persian Gulf?', *The Middle East Journal*, vol. 61, no. 2, Spring 2007, p. 303.
- ¹⁰ Shahram Chubin, *Iran's Nuclear Ambitions* (Washington DC: Carnegie Endowment for International Peace, 2006); Emily Landau, 'Now Is the Time to Talk', *Haaretz.com*, 15 July 2008, <http://www.haaretz.com/hasen/spages/1001243.html>.
- ¹¹ Interview of Benjamin Netanyahu by Tobias Buck and Lionel Barber in *Financial Times*, 7 October 2008, p. 7.
- ¹² Ze'ev Schiff, 'Israel's War with Iran', *Foreign Affairs*, vol. 85, no. 6, November–December 2006, pp. 23, 25–6. Richard Norton, 'Why Hizbullah is Winning', *Middle East Journal*, vol. 61, no. 1, Winter 2007, p. 147.
- ¹³ Saul Singer, 'Whatever Palestinians Discuss, The Real Issue is Iran', *Daily Star* (Beirut), 20 June 2008; and David Brooks, 'Present at the Creation', *New York Times*, 6 November 2007, www.nytimes.com/2007/11/06/opinion/06brooks.html.
- ¹⁴ Emile El-Hokayem and Matteo Legrenzi, 'The Arab Gulf States in the Shadow of Iranian Nuclear Challenge', Stimson Center Working Paper, 26 May 2006, p. 8; Marina Ottoway and Mohammed Herzallah, 'The New Arab Diplomacy: Not With the US and Not Against It', Carnegie Papers, No. 94, Middle East Program, July 2008, p. 15; and Olivier Roy, *The Politics of Chaos in the Middle East*, p. 252.
- ¹⁵ For a discussion of Egypt's ailing government and the Saudis' vain efforts to fill this vacuum, see 'Saudi Arabia: Can it Make Peace in the Wider Region?', *Economist*, 11 October 2008, p. 51.
- ¹⁶ Sari Nusseibeh, 'The One State Solution', *Newsweek*, 20 September 2008, <http://www.newsweek.com/id/160030>; Isabel Kershner, 'Memo From Jerusalem: Support For 2-State Solution Erodes', *New York Times*, 3 September 2008, <http://www.nytimes.com/2008/09/04/world/middleeast/04state.html>; Hussein Agha and Robert Malley, 'Into The Lion's Den', *New York Review of Books*, 1 May 2008, pp. 57–60; Olivier Roy, *The Politics of Chaos in the Middle East*, p. 140; Marina Ottoway, Nathan Brown, Amr Hamzavi, Karim Sadjadpour and Paul Salem, *The New Middle East* (Washington DC: Carnegie Endowment for International Peace, 2008), pp. 15, 17.
- ¹⁷ For an overview see Ottoway and Herzallah, 'The New Arab Diplomacy'.
- ¹⁸ See 'Coalition of the Unwilling', *Economist*, Special Report: The Arab World, 19 October 2006, p. 24. Ottoway et al., *The New Middle East*, p. 30; Rami Khouri, 'Why Everyone is Negotiating in The Middle East', Agence Global, 21 July 2008, http://belfercenter.ksg.harvard.edu/publication/18449/why_everyone_is_negotiating_in_the_middle_east.html.
- ¹⁹ Olivier Roy refers to the end of a Sunni Iraq as 'Shattering the Middle East Balance of Power', *The Politics of Chaos in the Middle East*, p. 108.
- ²⁰ Henner Fertig, 'Conflict and Cooperation in the Persian Gulf: The Interregional Order and US Policy',

- Middle East Journal* vol. 61, no. 4, Fall 2007, p. 633.
- 21 See Henner Fertig, 'Conflict and Cooperation', p. 639; and Vali Nasr, 'When the Shi'ites Rise', *Foreign Affairs*, vol. 85, no. 4, July–August 2006.
- 22 This trend has been most marked in the case of Saudi Arabia, which seeks greater independence in foreign policy. Ottoway and Herzallah, 'The New Arab Diplomacy', p. 10.
- 23 See Karen de Young, 'Iraq Finds its Arab Neighbors Are Reluctant to Offer Embrace', *Washington Post*, 16 May 2008, p. 109.
- 24 For a good discussion of the 'structural' aspects of GCC–Iran relations see El-Hokayem and Legrenzi, 'The Arab Gulf States in the Shadow of Iranian Nuclear Challenge'; and Ottoway and Herzallah, 'The New Arab Diplomacy'.
- 25 With Iraq taken out of the balance, some states are also reluctant to entrust their future to Saudi Arabia.
- 26 On Arab suspicions regarding a possible grand bargain, see Fouad Ajami, *The Foreigners Gift: The Americans, the Arabs, and the Iraqis in Iraq* (New York: Free Press, 2007), pp. 213–14; and El-Hokayem and Legrenzi, 'The Arab Gulf States in the Shadow of Iranian Nuclear Challenge'.
- 27 'Nuclear Fallout', *Economist*, 8 December 2007, p. 57.
- 28 Ottoway et al., *The New Middle East*, pp. 35–7.
- 29 Abd Al-Bari Atwan, 'Arabs Urged to Build Strong Military to Counter Iran', *Al Quds Al Arabi* website, 27 September 2008, BBC Monitoring, 29 September 2008.
- 30 Abd al Rahman Al-Rashid, 'Iranian Threat, Now it is Europe's Turn', *Asharq Al-Awsat*, 10 July 2008, BBC Monitoring, 14 July 2008.
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- 33 Payman Tajrishi (ed.), Iran website, 15 December 2007, BBC Monitoring, 16 December 2007; Hanif Ghaffari, Resalat website, 20 February 2008, BBC Monitoring, 25 February 2008.
- 34 *Shariatmadari Keyhan* website, 2 April 2008, BBC Monitoring, 4 April 2008.
- 35 Resalat website, 21 February 2008, BBC Monitoring, 26 February 2008.
- 36 Larijani Fars News Agency, quoted in *MEMRI*, no. 426, 12 March 2008.
- 37 For a discussion of Iran's risk-taking, see Shahram Chubin, 'Iran's Risk-Taking in Perspective', IFRI Proliferation Papers, Winter 2008. With respect to the coarsening of Iran's language, it is worth noting Larijani's comment that the United States should attack Iran 'only if it wanted to see Israel in a wheelchair'. Najmeh Bozorgmehr and Roula Khalaf, 'Dismay as Top Nuclear Official quits', *Financial Times*, 22 October 2007, p. 5.
- 38 The term 'Palestinisation' was coined by Jahangir Amuzegar in 'The Ahmadinejad Presidency: Preparing for the Apocalypse', *Journal of International Affairs*, vol. 60, no. 2, Spring–Summer 2007, p. 49.

- 39 'Ahmadinejad: Iran's "International Mission" to Limit Israeli Power', Deutsche-Press-Agentur, 4 October 2007, <http://www.iranfocus.com/modules/news/article.php?storyid=12677>.
- 40 See David Menashri, 'Iran's Regional Policy: Between Radicalism and Pragmatism', *Journal of International Affairs*, vol. 60, no. 2, Spring–Summer 2007, pp. 153–67.
- 41 See 'Leader's Message on Condemnation of the Zionist Regime's Crimes Lebanon', Center for Preserving and Publishing the Works of Grand Ayatollah Sayyid Ali Khamenei, 1 August 2006, http://english.khamenei.ir//index.php?option=com_content&task=view&id=218&Itemid=26.
- 42 Cited in Amin Tarzi, 'The World's Ninth Nuclear Power: Iran's Ambitions in the Middle East and Beyond', *Turkish Policy Quarterly*, vol. 1, no. 2, p. 63.
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- 44 Ali Larijani, Islamic Republic News Agency website, 24 September 2008, BBC Monitoring, 25 September 2008; and Islamic Republic News Agency website, 15 October 2008, BBC Monitoring, 17 October 2008.
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- 50 Quoted in Taghreed El-Khodary and Isabel Kershner, 'As Israelis Pull Out of Gaza, Hamas Celebrates With its Rocketry', *New York Times*, 4 March 2008, <http://www.nytimes.com/2008/03/04/world/middleeast/04mideast.html?ref=middleeast>.
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- 52 Asriran.com, 11 Aban 1387, quoted in *Iran Early Bird*, 2 November 2008.

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- 54 Patrick Seale, 'The Syrian–Lebanese Embrace', *International Herald Tribune*, 24 October 2008, p. 8.
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- 56 *Ibid.*
- 57 Sayyid Ali Khamenei, *Voice of IRI*, 9 June 2008, BBC Monitoring, 10 June 2008. See also Nazila Fathi and Richard Oppel, Jr, 'US Troops Causing Instability: Iran's Religious Leader Tells Iraqi Premier', *New York Times*, 10 June 2008; and 'A Partnership With Iraq', *Washington Post*, 15 June 2008, p. B6.
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- 59 Ali Larijani, IRI News Network, 12 September 2007, BBC Monitoring, 13 September 2007. See also 'Iraq Wants US Curbed in Attacking its Neighbors', *International Herald Tribune*, 30 October 2008, p. 6.
- 60 See Vali Nasr, *The Shia Revival: How Conflicts Within Islam Will Shape the Future* (New York: Norton, 2006). For a more sceptical look at the Shia impact on regional politics, see Michael Broning, 'The Myth of the Shi'ite Crescent', *Daily Star* (Beirut), 21 May 2008; Pat Proctor, 'The Mythical Shia Crescent', *Parameters*, vol. 38, no. 1, Spring 2008, pp. 30–43; and Roger Shanahan, 'Bad Moon Not Rising: The Myth of the Shi'a Crescent', Lowy Institute Analysis, September 2008, available at <http://www.lowyinstitute.org/Publication.asp?pid=893>.
- 61 This has since coloured Arab perceptions of Iran as a revolutionary state. See Fertig, 'Conflict and Cooperation in the Persian Gulf', p. 629.
- 62 For a discussion of Iranian opposition to US bases in the Middle East (Kuwait, Bahrain, Oman, Saudi Arabia and Qatar), see Hashemi Rafsanjani, interview with *Al Jazeera*, 28 June 2008, BBC Monitoring, 1 July 2008. For a discussion of Iran's idea of defence cooperation see Defence Minister Mostafa Mohammad Najjar, 'We Consider Our Neighbours as Our Allies', Islamic Republic News Agency, 29 August 2008, <http://www2.Islamic Republic News Agency.ir/fa/news/view/line-17/0808292026183234.htm>. Former Iranian Revolutionary Guard Commander Yahya Rahim Safavi has reassured the GCC that Iran 'is not covetous of their lands and is even prepared to sign a joint defence pact with them', ISNA website, 23 May 2008, BBC Monitoring, 26 May 2008.
- 63 *Keyhan*, 9 July 2007. The GCC saw these statement as 'irresponsible ... grave ... hostile'. See Al Arabiya TV, Dubai, 7 August 2008, BBC Monitoring, 8 August 2008. For criticism of these statements by Iranian reformists, see *Mardom Salari* website, 9 August 2008, BBC Monitoring, 15 August 2008.
- 64 Sayyid Ali Khamenei, Iran TV news channel, 3 June 2008, BBC Monitoring, 4 June 2008. It is regrettable, he says, that some countries subordinate the interests of the region to those of the United States. See *Voice of IRI*, 8 February 2008, BBC Monitoring, 12 February 2008.

- ⁶⁵ See Report of Mehr News Agency, 4 October 2007, BBC Monitoring, 5 October 2007. The more pointed threats came in an editorial in *Keyhan*, 26 January 2008, quoted in *MEMRI*, no. 1828, 27 January 2008.
- ⁶⁶ Iran has an Arabic-language TV network, Al-Alam, aimed at an Arab audience.
- ⁶⁷ GCC Secretary General Abdurrahman al-Attiyah, quoted in 'GCC Chides Iran Over Facilities on UAE-claimed Island', AFP, 16 August 2008, http://afp.google.com/article/ALeqM5jKWFwdIofnq7X_3btzLU-y7ftwQ. See also Nicole Stracke, 'Where is the UAE Island Dispute Heading?', Gulf Research Center, 25 September 2008, http://www.grc.ae/?frm_action=view_newsletter_web&sec_code=grcanalysis&frm_module=contents&show_web_list_link=1&int_content_id=54549&PHPSESSID=5bf9fe1d73e0b01a40d421dfcce31333. For background detail on the Gulf states' differing responses to Iranian policies, see Dalia Kaye and Frederic Wehrey, 'A Nuclear Iran: The Reactions of the Neighbours', *Survival*, vol. 49, no. 2, Summer 2007, pp. 111–28.
- ⁶⁸ See Akbar Ganji, 'The Latter-day Sultan', *Foreign Affairs*, vol. 87, no. 6, November–December 2008, pp. 45–66.
- ⁶⁹ Although there is a broad agreement on the necessity for 'regime security', there are very different notions within the Iranian regime of how this is to be achieved and, indeed, how and in what direction the regime should evolve. Thus foreign policy in practice can vary from Khatami's relatively moderate policies to Ahmadinejad's confrontational approach. Khatami is not alone in *not* seeing Middle East politics in zero-sum terms. Rafsanjani and Mohammad Qalibaf (mayor of Tehran and probable presidential candidate) have criticised this approach as applied to Iraq and elsewhere, noting areas of common, overlapping interests with the United States and others. Mehr News Agency, 12 February 2008, BBC Monitoring, 13 February 2008; Scott Macleod and Nahid Siamdoust, 'A Gentler Iran', *Time*, 19 March 2008, <http://www.time.com/time/magazine/article/0,9171,1723711,00.html>.
- ⁷⁰ Confrontational policies clearly serve factional ends as they tend to strengthen hardliners; see Sanam Vakil, 'Tehran Gambles to Survive', *Current History*, December 2007, especially p. 420.
- ⁷¹ See Tim Guldemann, 'The Iranian Nuclear Impasse', *Survival*, vol. 49, no. 3, Autumn 2007, pp. 169, 175.
- ⁷² Roy, *The Politics of Chaos in the Middle East*, pp. 126–7; see also Guldemann, 'The Iranian Nuclear Impasse', pp. 171–2; Ali Ansari, *Iran under Ahmadinejad: The Politics of Confrontation*, Adelphi Paper 393 (London: Routledge for the IISS, 2007).
- ⁷³ Sayyid Ali Khamenei, 'Leader's Address to Executive Officials', The Center for Preserving and Publishing the Works of Grand Ayatollah Sayyid Ali Khamenei, 30 June 2007, http://english.khamenei.ir/index.php?option=com_content&task=view&id=198&Itemid=31.
- ⁷⁴ *IRI Network*, 9 September 2008, BBC Monitoring, 10 September 2008. Shariatmadari has said that 'a brief study of the performance of the

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- ⁷⁶ Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran, 'Annual Review 1383 (2004/05)', September 2005, available at http://www.cbi.ir/default_en.aspx. Quoted in Elliot Hen-Tov, 'Understanding Iran's New Authoritarianism', *Washington Quarterly*, vol. 30, no. 1, Winter 2006–07, pp. 172, 178. See also Mohammad Reza Bahonar, *Aftab-e Yazd*, 27 October 2008, BBC Monitoring, 3 November 2008. By one estimate, Iran's oil income averaged \$21bn per year between 1997–2004, totalling \$173bn, but between 2005–08 the total reached \$200bn. Associated Press, 'Iran Feels Economic Pain as Oil Prices Fall', *International Herald Tribune*, 31 October 2008, <http://www.iht.com/articles/ap/2008/10/31/news/ML-Iran-Feeling-the-Pain.php>. An Iranian source goes further, asserting that the government's oil income in the past three years has exceeded the 'entire country's oil revenue in the history of Iran's oil'. *E'temad-e Melli*, 13 October 2008, BBC Monitoring, 15 October 2008. The IMF's figures tell a similar story, with oil revenues of about \$17bn in 1999/2000 increasing to an estimated \$66bn in 2007/08 and government revenues from oil going from 10% to 21% of GDP. See *Islamic Republic of Iran: Selected Issues*, IMF Country Report no. 08/285 (Washington DC, August 2008), p. 40. Other sources include *Iran: Facts and Figures*, Annual Statistical Bulletin, OPEC, 2007.
- ⁷⁷ The figure \$54bn is from Ann Fifield, 'Oil Price Fall Puts Squeeze on Iran's Cash', *Financial Times*, 23 October 2008, p. 4.
- ⁷⁸ Robin Hughes, 'Iran Replenishes Hezbollah's Arms Inventory', *Janes Defence Week*, 3 January 2007, p. 17.
- ⁷⁹ Associated Press, 'Iran Feels Economic Pain as Oil Prices Fall'. Notes Graham Fuller, 'despite considerable financial resources of its own, the loss of Iranian funding would significantly constrain [Hizbullah's] range of activities, especially its anti-Israeli guerrilla campaigns, even if the loss would not bring it to its knees.' Graham Fuller, 'The Hizbollah–Iran Connection: Model for Sunni Resistance', *Washington Quarterly*, vol. 30, no. 1, Winter 2006–07, p. 143.
- ⁸⁰ One source estimates that Iran contributed \$150m to Hamas during the second half of 2008; see 'Iran Pledges to Continue Support for Hamas', *Asharq Al-Awsat*, 26 May 2008, <http://aawsat.com/english/print.asp?artid=id12877>. For a discussion of Iranian contributions to both Hizbullah and Iraq (amounting in the latter case to \$10m in grants and

- \$2bn in soft loans) see Barbara Slavin 'Mullahs, Money and Militias: How Iran Exerts its Influence in the Middle East', *USIP Special Report 206*, June 2008, pp. 11, 15. One assumes that Iran is also actively funding at least some Afghan warlords, if only as an insurance policy (as it did the Northern Alliance earlier).
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- ⁸³ For a discussion of Iranian economic mismanagement see Najmeh Bozorgmehr, 'Iran Banks Struggle with Credit Shortages', *Financial Times*, 5 November 2008, p. 6.
- ⁸⁴ Associated Press, 'Iran Feels Economic Pain as Oil Prices Fall'.
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- ⁹¹ Anthony Cordesman, *Conventional Armed Forces in the Gulf: An Overview*, Working Draft (Washington DC: CSIS, 23 June 2008), http://www.csis.org/media/csis/pubs/o80623_gulfmilbal.pdf.
- ⁹² With antiquated technology, diminished production and growing domestic consumption, some analysts predict that Iran may not have *any* oil available for export within five years. Roger Stern, 'The Iranian Petroleum Crisis and United States National Security', *Proceedings of the National Academy of Sciences of the USA (PNAS)*, vol. 104, no. 102, January 2007, <http://www.pnas.org/content/104/1/377.full.pdf+html>. The irony of Tehran relying on Saudi Arabia is not lost on observers; see Jean-Michel Bezat, 'The Drop in Oil Weakens Several Producing States', *Le Monde*, 26–7 October 2008, p. 13.
- ⁹³ Fouad Ajami uses this phrase in *The Foreigners' Gift*, p. 253, in reference to Iraq.
- ⁹⁴ See Tariq Alhomayed, 'Iran and Israel: The Escalation Continues', *Asharq Al-Awsat*, 1 July 2008, <http://www.aawsat.com/english/news.asp?section=2&id=13258>. Mark Mazzetti quotes Iraqis trained in Iran: 'Iranians believe they are superior to everyone' in 'US Report Details Iranian Role in Iraq', *International Herald Tribune*, 20 October 2008, p. 4.
- ⁹⁵ Vali Nasr's characterisation of Iran in 2004 still seems applicable: 'Iran is currently a tired dictatorship teetering on the verge of collapse'. Vali Nasr, 'Regional Implications of the Shia Revival in Iraq', *Washington Quarterly*, vol. 27, no. 3, Summer 2004, p. 20. For a persuasive analysis, see Geoffrey Kemp, 'Our Imaginary Enemy', *National Interest*, May–June 2008. Says Kemp, 'Having the capacity to cause damage may give Iran a strong hand to play in regional geopolitics but this does not mean it can be a regional hegemon', pp. 33–4.