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Iran and Sanctions: Where the West Has Gone Wrong

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IRAN AND SANCTIONS: WHERE THE WEST HAS GONE WRONG

INTRODUCTION

Sanctions have been the main theme of Western interactions with Iran since the revolution in 1979. In broad terms, sanctions are generally viewed as a means of one country to attempt to correct the activities and behaviours of another country. In the case of Iran, however, in the critical post-revolution years when the country and new regime was finding its path, institutions and para-governmental organizations were established that would essentially allow Iran has shown unmistakeable resilience in front of sanctions, and this resilience evolved and adapted along with the evolution of the sanctions regimes placed upon them. In order to understand how Iran's resilience evolved in the last three decades, and how this resilience helped Iran to adapt to different situations imposed upon them, this paper will explore the sanctions regimes and Iranian policy under three different Iranian presidents. Those presidents are Mohammad Khatami (1997-2005), Mahmoud Ahmadinejad (2005-2013), and Hassan Rouhani (2013-2021).

In Chapter 1, will look at the presidency of Khatami, and how structures in Iran limited his desire for reform, and how 9/11 changed how sanctions were applied to Iran. Khatami is what is considered a moderate in Iranian politics, and his presidency was coincident to the West starting to take issue with the Iranian nuclear program. Despite the Iranians having and nuclear program that dated back to the 70s – and Western powers helping them develop it – it was in the latter part of this presidency that questions about the nuclear program from the West started to be raised. It was also in this presidency that the Iranians started to get on more even footing as they were close to a decade after the Iran-Iraq War, and therefore had the time and resources to start looking at the structures within Iran to make it an economically successful nation. Part of this, was privatization of numerous state enterprises that ended up being bought by organizations like

the Bonyads and Iranian Revolutionary Guard Corps (IRGC). Although during Khatami's presidency, there was work to limit the powers of the IRGC, in following years their power – economic and that within the security infrastructure – grew exponentially. It was partially because of these organizations that the economic change Khatami had promised the Iranian populace, became increasingly unlikely. Here, the linkages between the political elite and para-governmental organizations became so close, that it was not in the interest of those who Khatami required support from to Institute change in the Iranian economic system. With the introduction of the 1996 US Congress imposed Iran and Libya Sanctions Act, and later the attacks of 9/11, doing business with Iran started to become increasingly difficult for many Western countries. Many of these countries had previously enjoyed years (pre- and post-revolution) of economic relations with the Iranians. In the last years of Khatami's presidency, the Iranians were painted as terrorism supporters by the George W. Bush presidency. This was despite the Iranians helping to get the Americans into Afghanistan following the attacks, and also reaching out to the US offering their help following the attacks. It is ultimately during the Khatami presidency, where the more adversarial approach from the West that was accompanied with aggressive sanctions started.

In Chapter 2, the presidency of Ahmadinejad will be explored. Here, Iran became the most sanctioned country in the world. Ahmadinejad very much took an aggressive stance toward the West, and ensured organizations that had previously been marginalized, such as the IRGC, were able to grow and solidify their place in the Iranian economy. By the time of his presidency, there were increasing calls of concern from the US regarding how peaceful the Iranian nuclear program was. As sanctions increased, the IRGC facilitated smuggling given their control of a large amount of Iranian infrastructure such as ports and airports. Along with the Bonyads, they also started conducting trade activity as a means to skirt sanctions. Given the amount of formerly

state-owned enterprises the IRGC owned, trading became a relatively easy activity for them to facilitate. Given his anti-Western rhetoric and growing concerns over the nuclear program, sanctions became more intense. The sanctions became multilateral in that they were done in conjunction with unilateral sanctions from individual countries. Further, financial transactions started to be banned between US citizens and Iranians, so there were fewer places that business entities could ultimately conduct business freely with Iran.

In Chapter 3, the presidency of Rouhani will be examined. By the time Rouhani was elected, Iran was the most sanctioned regime in the world. The debate continued as to whether or not they should be allowed a nuclear program at all, however, just prior to his election the West had reached out and had started secret negotiations on a way ahead regarding sanctions. Rouhani's presidency was very much about balancing domestic factors and external factors. There was a balance to be struck between the pride of the Iranians and ensuring it did not look like they were completely crushed by the West, but also knowing a healthy relationship with the West was necessary given the severity of the sanctions regime. Here, both moderates and conservatives saw that something had to change and Rouhani was viewed as the most likely person to help facilitate this change. Like Khatami, Rouhani was a slave to the structures in place in Iran and therefore drastic changes to the economic structures was unlikely to happen. Ultimately, the success or failure of his presidency will likely be determined on whether JCPOA is successfully renegotiated.

The Iranians are a very proud people, however, their treatment by the West post-revolution at times has been quite inconsistent. This has led to a cycle whereby the West attempts regime change, and in doing so makes the political environment in Iran more conducive to a hardliner narrative, and when the hardliner narrative takes over and speaks negatively about the West or takes actions that are perceived as negative toward the West, the West then places more

sanctions on Iran. Realistically, there are going to be variances in who is elected in Iran and who the Supreme Leader helps elevate to power. However, the West's reactionary approach to Iran – particularly the US – has not caused any drastic change in the way the Iranians act on the world stage or in their region. State behavior is never just black and white. It can easily be argued not regardless of political leanings, both reformists and conservatives in Iran want a strong, proud state, both economically and politically. However, the way the different factions have gone about trying to achieve this is slightly different. In the case of the reformists or moderates, this has involved more dialogue with the West, and willingness to negotiate over the nuclear program. For the hardliners or conservatives, the nuclear program has been used as a means to guarantee regime survival and therefore is not viewed as negotiable. This study will conclude presenting the notion that regardless of political leanings of presidents, structures in place in Iran – such as the Bonyads and IRGC – have made Iran extremely resilient to sanctions. Ultimately, sanctions will not force regime change in Iran, and that the best chance that the West has at a healthy relationship with Iran is dialogue.

CHAPTER 1 – MOHAMMAD KHATAMI: 1997-2005 THE BIRTH OF THE MODERN SANCTIONS

Introduction

The Khatami period set the stage for what the western-Iranian relationship looks like today. There was a shift, and it could be argued a fundamental shift, in how Western countries dealt with Iran. It is relatively obvious as to why the US relationship changed with Iran post-revolution, given they no longer had a more or less compliant regime to deal with. The European approach was much more nuanced, and if it had not been for 9/11 it is relatively likely, that the relationship between the EU and Iran would have largely been what it had been since 1979. And by this, it is meant that there was a relationship that was respectful, conciliatory, and one that would also be of benefit to Iran, in that the EU relationship with the US meant that when the US was riled up about an issue and tried to go after Iran, the EU could either act as negotiator, or outright ignore US actions and continue along with normal relations with Iran. With 9/11 and the US focusing on national security and counterterrorism, they began to leverage and infiltrate the international financial system in a way they never had previously. The relationship with the EU and Iran was fundamentally changed at this point. Although trade continued between the EU and Iran, it became increasingly difficult given the stance the US took post-9/11 to work around American sanctions.

This period in Iran ultimately saw the growth of para-governmental organizations, and these organizations solidifying their role within the Iranian economy. This was partially because of the push for privatization in which numerous state enterprises were sold off. However, it was these para-governmental organizations that ended up buying up many of these enterprises, creating a situation in which many of the political elites had direct economic interests in the Iranian economy. Further, this period saw a marked change in the way sanctions were applied to

Iran. Specifically, with the 1996 Iran and Libya Sanctions Act, investment in the Iranian energy sector was discouraged. With 9/11, the US took a much more aggressive stance than it had in the past when it came to sanctions, going as far as excluding individuals that did business with Iran from the US banking system. Although Khatami had the best intentions with reform, institutional factors within Iran and a post-9/11 reactionary US, ultimately hindered any chance at reform.

Leading up to Khatami

Although this study will largely be concerned with the Khatami presidency on, it is important to give a brief overview of sanctions and the Iranian economy leading up to this period. With the revolution in 1979, the relationship between Iran and the West was fundamentally changed. No longer could the West easily wield influence within Iran's borders, and they had to seriously reconsider what the relationship going forward would look like with a regime that was no longer 'friendly.' For Iran, and the new regime, they had to build a new system in line with the revolutionary goals, but they also had to ensure they had revenue to support the regime in a way that would allow for regime survival. The overarching theme in post-revolutionary Iran and setting up the structures that are in place today is the overarching Shia concept of "guardianship of the jurist" which has been described as a web like structure of Islamic and Republican state entities, in which importance is placed on paramilitary organizations like the IRGC.¹ When attempts have been made by Iranian scholars to classify the regime, "The labels have ranged from 'sultanist' to 'theocratic' and 'competitive authoritarian' to 'military.' This variety points to the complexity of the regime, which defies any one-sided characterization."²

1 Oliver Borszik, "International Sanctions Against Iran and Tehran's Responses: Political Effects on the Targeted Regime," *Contemporary Politics* 22, no. 1 (2016): 23.

2 Ibid., 23.

The 1980s for Iran were largely concentrated around their conflict with Iraq. From 1989 to 1993, the focus of the government was on major economic reconstruction following the eight-year conflict.³ Here, the regime wanted to get rid of the central control and state administration of the economy.⁴ Because they no longer had to fund the war with Iraq, this period benefited from being able to use the funds previously used for funding the war, to support the economic changes.⁵ This was coincident with improving oil revenues which by 1991 accounted for approximately 60% of all government revenues.⁶ It is important to note that during the early 1980s post-revolutionary period, the roles of Bonyads and paramilitary organizations – specifically the IRGC – started to grow exponentially.⁷ Although at the time it was viewed as a means to deconstruct the economic structures of the Shah’s regime, the vacuum created that was filled by the Bonyads and IRGC essentially led to economic structures that would later allow Iran and its economy to still function even in severe sanctions regimes.⁸

Iran has relatively effectively survived sanctions regimes which would have brought numerous other countries to their knees. Iranian economic survival can largely be credited with the role of the Bonyads and IRGC have taken in the Iranian economy post-revolution. In the case of the Bonyads, they are para-governmental charity organizations that were set up after the revolution with the goal of confiscating enterprises owned by the Shah, and the ruling elite that had not fled the country.⁹ This included “...203 manufacturing and industrial factories, 472 large

³ Hassan Hakimian, “Institutional change, policy challenges and macroeconomic performance, 1979-2004,” in *Iran and the Global Economy: Petro Populism, Islam, and Economic Sanctions*, ed. Parvin Alizadeh and Hassan Hakimian (London: Taylor & Francis Group, 2013), 54.

⁴ Ibid., 59.

⁵ Ibid., 59.

⁶ Ibid., 59.

⁷ Engin Sune, “The Role of Para-Governmental and Paramilitary Organizations in the International Political Economy of Iran,” *Gazi Akademik Bakis Dergisi* 12, no. 24 (2019): 46.

⁸ Ibid., 48.

⁹ Ibid., 48.

firms, 101 construction firms, and 230 trade and service companies.”¹⁰ The Bonyads were set up as religious charities. However, they turned into giant private monopolies that were not subject to government overview of their operations. Further, they rewarded loyalty for the revolutionary supporters, and therefore contributed to the ideological and cultural aspects required in an Islamic state.¹¹ Because of this space that they filled in between the public and private sector, it made them extremely unique. The Bonyads were not subject to taxation, but yet are eligible for loans subsidized by the state and at certain points through their history it has been estimated they received 50% of the state budget.¹² Their presence in this space also meant that sometimes they would perform parallel roles two state institutions. For example, the housing ministry provides accommodation for families in need, however, they work alongside the Bonyads in order to ensure Iranians have homes.¹³ The way they are structured also made it extremely easy for them to commercialize, because of the capital that they had seized, and as Iran made its way into the 1990s some of the social functions of the Bonyads decreased, while they started to become more commercialized.¹⁴

Under Hashemi Rafsanjani’s presidency – Khatami’s predecessor – the budgets of state ministries and organizations were cut with the logic that it would make them more financially self-sufficient.¹⁵ However, this resulted in many state organizations becoming involved in the economy as a means to balance their budget.¹⁶ Also during this period, numerous state owned enterprises were being sold, however, there were not public auctions on these companies therefore many of these companies ended up being acquired by individuals that had personal

10 Ibid., 47.

11 Ibid., 47.

12 Ibid., 49.

13 Ibid., 49.

14 Ibid., 50.

15 Ibid., 50.

16 Ibid., 50.

connections to the political regime, and private investors were unable to compete with the economic power of these para-governmental institutions.¹⁷ Essentially what happened, was that an attempt at liberalizing the economy through privatization was manipulated by core institutions in the Islamic Republic, which allowed for these governmental institutions, the Bonyads, and the IRGC to increase their power exponentially.¹⁸ The IRGC and their role in Iran being able to successfully work around sanctions will be discussed in more detail also in the Ahmadinejad chapter of this study, however, it should be noted that it was in the late 80s and early 90s when Iran was in the process of reconstruction that the IRGC, like the Bonyads, started to solidify their role within the economy as they looked for, and found, external sources of revenue outside of the governmental framework.¹⁹

Khatami takes the reigns

When Khatami became president, Iran was in the midst of an external debt crisis.²⁰ As a reformist he took a more nuanced view regarding where the Iranian economy should go, and therefore, tried to attract foreign investors, and to create more opportunities within Iran for investment.²¹ Part of this was trying to marginalise the IRGC, as he did understand that they would make foreign investors nervous thanks to their role within to the state.²² Although his administration had a strong mandate, and despite popularity within the country, he faced many roadblocks thanks to external macroeconomic conditions, much like Rouhani would face when

¹⁷ Ibid., 50, 52.

¹⁸ Ibid., 51.

¹⁹ Nader Habibi, "The Iranian economy in the shadow of Sanctions," in *Iran and the Global Economy: Petro Populism, Islam, and Economic Sanctions*, ed. Parvin Alizadeh and Hassan Hakimian (London: Taylor & Francis Group, 2013), 189.

²⁰ Hakimian, 62.

²¹ Habibi, 189.

²² Ibid., 189.

he would take office after Ahmadinejad.²³ This was coupled with the changing use of sanctions on the Iranian regime. Post-1979, sanctions were characterized around the idea of punishing the new regime, which is very much in line with how the West has generally used sanctions as a means to get the sanctioned country to concede, while avoiding a military confrontation.²⁴ In this period, the US wanted to reduce Iranian influence in the Middle East, and forcing Iran to stop supporting what the US considered terrorist organizations.²⁵ Simply put, sanctions have been at the centre of how the West, and specifically the US, have ‘dealt’ with post-revolutionary Iran.²⁶ In 1981 some of the sanctions were lifted, however, through the 1980s and 1990s, the US was largely alone in pressuring around with sanctions and found it very difficult to find allies to help them wage economic pressure on Iran.

Japan had stepped-in in the immediate aftermath of the revolution and filled the void that the US left when it came to the importation of Iranian oil. Meanwhile, the Europeans largely conducted their policies apart from the US maintaining diplomatic and economic relationships with Tehran, and based around a policy that has been referred to as “critical-dialogue.”²⁷ Although the Europeans did put in some measures because of the hostage crisis, the impact was relatively small.²⁸ Largely, many US allies were not willing to threaten their own diplomatic relationships with Iran.

23 Parvin Alizadeh, “The political economy of petro populism and reform, 1997-2011,” in *Iran and the Global Economy: Petro Populism, Islam, and Economic Sanctions*, ed. Parvin Alizadeh and Hassan Hakimian (London: Taylor & Francis Group, 2013), 76.

24 Ali Fathollah-Nejad, “Why Sanctions Against Iran are Counterproductive: Conflict Resolution and state–society Relations,” *International Journal* (Toronto) 69, no. 1 (2014): 49.

25 Paulina Matera and Rafał Matera, “Why does Cooperation Work Or Fail? the Case of EU-US Sanction Policy Against Iran,” *Croatian International Relations Review* 25, no. 85 (2019): 31.

26 Suzanne Maloney, “Sanctions and the Iranian Nuclear Deal: Silver Bullet Or Blunt Object?” *Social Research* 82, no. 4 (2015): 888.

27 Matera, 31.

28 Maloney, 890.

Despite this desire for change amongst the Iranian populace that did get Khatami elected, it was impossible to get away from the nature of the economy in Iran. Simply put, it was "...still a poorly planned, centrally directed, badly managed, and structurally distorted one."²⁹ In addition to this, there were declining oil prices which resulted in decreasing export revenues, a recession that was coupled with inflation, a weak currency which was suffering from overvaluation, numerous state enterprises that were losing money, and a treasury that was almost empty.³⁰ Although oil prices were out of Khatami's control, he hoped that some of the other contributing factors to this economic state, specifically the structural ones, were things that he could tackle as he felt that Iranians deserved better.³¹ His goal was to have balanced budgets, increased privatization of enterprises particularly those that were not privatized.³² He also wanted to ensure that projects were finished before launching new ones as part of this fiscal responsibility, and he also wanted to ensure that the exchange rate was adjusted to help target economic growth.³³ Not much happened as far as reforms in his first year, but by his second year he had formulated an economic plan that targeted unemployment, called for diversification of the economy away from oil export revenues, tackling inflation, and called to improve the Iranian position with its key partners in trade.³⁴ The plan also need reference to some of the other issues that had effects on the Iranian economy such as lack of a market competition and excessive bureaucratic involvement.³⁵ Although on paper the plan looked promising and seemed to want to tackle some of the key issues, it was ultimately flawed in that it did not get into specifics

29 Jahangir Amuzegar, "Khatami and the Iranian Economy at Mid-Term," *The Middle East Journal* 53, no. 4 (1999): 535.

30 Ibid., 535.

31 Ibid., 535.

32 Ibid., 535.

33 Ibid., 535.

34 Ibid., 536-537.

35 Ibid., 537.

regarding how it was going to tackle the issues, nor how it was going to tackle these issues in the context of Shariah law.³⁶

Under Khatami, there were two main events that drastically changed how sanctions were applied to Iran, these were the 1996 US sanctions against Libya and the sanctions the US pursued following 9/11. The conditions had been set for this more aggressive approach thanks to the Iraq experience in the 1990s that the US had.³⁷ This caused them to develop smart sanctions which were more targeted and included aspects such as “...arms embargoes, financial sanctions on the assets of individuals and companies, travel restrictions on the leaders of the sanctioned state, and trade sanctions on particular goods.”³⁸ The 1996 the Iran and Libya Sanction Act was passed by the Clinton administration, and lasted until 2006 which encompassed most of Khatami’s presidency. It proposed sanctions against investors in the Iranian energy sector, and essentially tried to discourage economic relations between Iran and third parties. It also involved secondary sanctions on European companies that did any for investing in Iranian oil, gas, and production infrastructure.³⁹ Initially, the Europeans did not pay much attention to these sanctions as companies like Total, Shell, and Statoil had respectable investments in the Iranian oil and gas development projects.⁴⁰ The Europeans ended up launching a complaint to the World Trade Organization. Eventually an agreement was reached in which EU businesses had a waiver against US sanctions.⁴¹ The result was ultimately increased tensions between the US and Europeans, and there was no real effect on European interest in investment in Iranian markets.⁴² They went from

36 Ibid., 537.

37 Paul Rivlin, “Leverage of economic sanctions: The case of US sanctions against Iran, 1979-2016,” in *Geo-Economics and Power Politics in the 21st Century: The Revival of Economic Statecraft*, ed. Mikael Wigell, Sören Scholvin and Mika Aaltola, 1st ed. Vol. 1. (New York, New York: Routledge, 2019), 104.

38 Ibid., 104.

39 Matera, 31.

40 Habibi, 182.

41 Matera, 31.

42 Maloney, 890.

the previously described targeted sanctions with largely the US leading the push, with European investors still having fairly open economic relationship with Iran, to a sanctions regime based around international security.

It should be noted that while all of these external pressures were unfolding, Khatami had numerous struggles internally with trying to make the economy more attractive to the West. Unfortunately, the economic situation within Iran was spiraling out of control. When Khatami was elected in 1997, there were hopes from the US and Europe that he would be able to moderate Iranian foreign policy, and therefore allow the US to loosen some of these sanctions.⁴³ However, despite the best intentions of Khatami and his proposals that would have made Iran a more attractive trading partner, factors outside of his control made for an increasingly tenuous situation. In mid-1997 oil revenues started to drop, and caused a chain of events that included difficulty in servicing external debt, which was compounded by inflation, a recession, increasing unemployment, and the Rial drastically decreasing in value.⁴⁴ Khatami was now focused inward and attempting to ensure that his country did not collapse under these economic pressures.⁴⁵ It is very likely if there had been a different economic situation within Iran, i.e. one that was not on the brink, that Khatami would have been in a better place to assure the US and Europeans that change was afoot. Although economic plans had been talked about and targets had been put in place, nothing ever really came out of them. As an example, in 1999 the Supreme Leader approved one of Khatami's development plans which had 36 points, 16 of which were based around economic matters.⁴⁶ Most of this plan was recycled from previous economic plans of

43 Ibid., 182.

44 Amuzegar, 537.

45 Ibid., 537.

46 Ibid., 539.

Khatami's, however, the list of things that needed to be tackled in order to make Iran be seen as a more reliable state to invest in, was substantial.

There was a balance in Iran that seem to be getting increasingly tenuous for Khatami, and this balance was in between ensuring the Iranian people had the economic legs to support their families, but also ensuring that state structures were set up in a way that supported the Iranian economy. As oil revenues continued to fall in the late 1990s, and Iran continued to struggle with foreign debts rising, and shortages of foreign exchange causing then to have a reduced ability to import.⁴⁷ Further, the agricultural sector was not performing well, as the administration was still struggling with attracting foreign investment in non-energy sectors.⁴⁸ They had attempted to have incentives such as tax exemptions and duty free imports, but it did not cause significant foreign attraction to non-energy sectors.⁴⁹

Following the 9/11 attacks, the US became much more aggressive with the states and entities it considered international pariahs. This more aggressive approach was solidified with the 2001 Patriot Act, and Executive Order 13224.⁵⁰ These two pieces of legislation focused around targeting financial transactions and entities that supported terrorism.⁵¹ Although the US did have a significant amount of power in the international financial system, this legislation gave them much more far-reaching power under the auspices of fighting terrorism. The US was able to more successfully apply pressure to funding networks and states they deemed as enemies like North Korea, and after some initial success turned their focus toward Iran. This was confusing to Iran at the time, given after 9/11 they had expressed their support to the US, and facilitated the US

47 Ibid., 542.

48 Ibid., 542.

49 Ibid., 543.

50 Maloney, 892.

51 Ibid., 892.

getting into Afghanistan.⁵² Further, in 2003 when the US invaded Iraq, the Supreme Leader reached out to the Americans an offer to negotiate on a wide range of issues including the Arab-Israeli conflict and Hezbollah.⁵³ However, "...America ignored Iranian offers, because it now was bent on bringing about regime change in Iran. This desire was also the reason why in 2005 the US prevented the peaceful resolution of Iran's nuclear file and instead transferred the dossier to the Security Council..."⁵⁴

With President Bush being hyper focused on counterproliferation and searching out weapons of mass destruction, when the Iranians intensified nuclear activities in 2005, Executive Order 13882 was signed. Here, the Americans started using the same pressure tactics they had on al Qaeda and North Korea to go after a red under the auspices of counterproliferation.⁵⁵ In September of 2006, the US targeted a single Iranian bank for facilitating flows to Hezbollah.⁵⁶ Also in 2006, The United Nations Security Council (UNSC) followed the US' 2005 recommendations, and started looking at the Iranian nuclear issue with a growing consensus amongst the major powers that economic penalties had to be placed on Iran to counter their nuclear program.⁵⁷ The US took the narrative that Iran was potentially laundering money to terrorist organizations and use this to increase restrictions on a radiance. The expansion of how the Americans placed restrictions on Iranians evolved from just targeting Iranian assets within the US financial system and/or trade and investment with American entities, to the Americans

52 Shireen T. Hunter, "Can Hassan Rouhani Succeed Where Muhammad Khatami Failed? Internal and International Politics of Reform in Iran," *Contemporary Review of the Middle East* (Online) 1, no. 3 (2014): 262.

53 Ibid., 262.

54 Ibid., 262.

55 Maloney, 892.

56 Ibid., 892.

57 Ibid., 891.

being able to designate institutions and if anyone traded with those designated institutions, they would be excluded from the US banking system.⁵⁸

Ultimately the strong position of the US dollar and its centrality in the international financial system, gave them substantial power and influence when it came to eventually bringing the EU over to their side when it came to imposing more restrictive sanctions on Iran.⁵⁹ The EU approach to Iran slowly started to change starting in 2002, when it became public knowledge that enrichment of uranium was happening at Natanz.⁶⁰ The EU-Iranian relationship was tested again in 2003 when the US invaded Iraq. Here, the EU started to become concerned that Iranian nuclear facilities would be the next to be targeted by US military forces in the region.⁶¹ The EU did start discussing the possibility of imposing sanctions at this time due to the enrichment of uranium. However, when Iran said they would cooperate with the International Atomic Energy Agency (IAEA), the Bush administration rejected it, and the Europeans took it as proof that their preference for using diplomatic tools was not in line with the approach the US wanted to take with Iran.⁶² The EU-3 (France, Germany, UK) wanted to prevent a potential American attack and in 2003 they proposed economic incentives in exchange for Iranian cessation of enrichment, as well called for the implementation of the “Additional Protocol” which consisted of two IAEA safeguards that gave them additional tools to verify Iranian nuclear activity.⁶³ This culminated in the 2004 Paris Agreement between the EU-3 and Iran which was built around economic incentives. However, the Paris Agreement did not result in significant process as consensus could not be reached on whether or not Iran had the right to enrich uranium.

⁵⁸ Ibid., 893.

⁵⁹ Matera, 35.

⁶⁰ Ibid., 39.

⁶¹ Ibid., 39.

⁶² Hunter, 260.

⁶³ Matera, 40.

Ideology, Power, External Pressures and the circle of the Iran-West Relationship

Although this chapter has discussed some of the proposals Khatami had as far as what needed to be done to improve the Iranian economy and make it more attractive to the West, it is very difficult to have this discussion without addressing some of the structures that hindered him in his desire to reform. Part of this is previously discussed structures such as the Bonyads which is very much have caused a gray area between the public and private sector in Iran. But another part of this has been "...the close intermingling of ideology, on the one hand, and power and interest, on the other, and the formation of networks of political, economic, and personal interests around diverging ideological positions."⁶⁴ This close relationship between the ideology and the system of power unsurprisingly has led to the rise of various factions within the Islamic elite, and increasingly through the 1990s and 2000s power struggles between them developed.⁶⁵ Part of these power structure goals were based along interpretations of Khomeini's legacy.⁶⁶ The reason this connection between ideology and power has become such a barrier to reform in Iran is because of the distribution of power.⁶⁷ In the case of economic reform, if there was encouragement in private sector activity and foreign investment it ultimately "...would challenge the influence of domestic monopolies developed over the years by various foundations , and increasingly by the Revolutionary Guards, and would undermine their economic interests."⁶⁸ As an example, in 2000, when Khatami was pushing for a revised foreign investment attraction law, the Guardian Council blocked it indicating it would compromise the economic independence of Iran.⁶⁹ Realistically, it is relatively safe to assume that many members of the Guardian Council

⁶⁴ Hunter, 259.

⁶⁵ Ibid., 260.

⁶⁶ Ibid., 260.

⁶⁷ Ibid., 260.

⁶⁸ Ibid., 260.

⁶⁹ Habibi, 181.

had a relatively active role in the Iranian economy, and consequently allowing any diversification that would come with foreign investment was not in their interests. Therefore, when leaders like Khatami want to change the economic structures in Iran, it is extremely difficult. Often literature views him as a reformer, and points to the fact that some of the cultural laws were loosened during his tenure. But given this power and ideology linkage, the Iranian economy is in the hands of people whose best interest is to keep as much influence and power in that arena as possible.

This becomes an even more complex conversation when one brings in the external factors such as the price of oil, and sanctions by the US. Although Khatami had the best intentions, he could not control the price of oil which would ultimately be the means for which he paid for the reform. The ideological aspect of the economy also meant that The US was pushing for sanctions that would cause regime change, but yet this external push further gave credence to this ideological aspect being key to the regime survival. Ultimately, it is a very strange cycle. The cycle starts with Iranian leaders understanding reforms have to be made internally in order to make it a more attractive trade partner. Because of structural problems, these changes are very difficult to make. Because these changes cannot be made, the state steps in and infiltrates many parts of the Iranian economy. This state infiltration makes it difficult for the private sector to operate, and also ensures that external actors – such as the West – view the internal economic structures as corrupt because of how linked they are to the government. Finally, the West – largely led by the US – enact sanctions as a means to correct behavior, that essentially the West has caused through sanctions and causing a depression in the economy. Because of said depression, the Iranian economy is unable to diversify, remains reliant on oil, and fall back on these structures as a means for support to ensure regime survival.

As this study moves into subsequent chapters, this cycle is going to be viewed again. Despite the West's best attempts, and increasing aggressivity in sanctions, Iran is still around.

The regime is still in place, and it likely will be for years to come. Although some years have been better than others, this security infrastructure also aids in regime survival, which this study will look at during the Ahmadinejad years. It is important to note, that from the later Khatami period onward, despite more aggressive sanctions the Iranians always find a way to survive.

CHAPTER 2 – MAHMOUD AHMADINEJAD: 2005-2013 MOVING TO THE BRINK?

Introduction

The Ahmadinejad years can be characterized by the notion of dysfunction. This word is useful here, in that it accurately describes the relationship between Iran and the West at this time, but also what was happening internally in Iran. It was really this period that set the stage for the eventual negotiations that led to the Joint Comprehensive Plan of Action (JCPOA). Again, isolation from the international community in numerous instances gravely affected the Iranian economy. However, there was no regime change in Iran despite some weakness starting to bubble to the surface through protests. Inflation continued with the middle class shrinking as people fell out of the middle class and into poverty. This was all happening while the regime took a strong stance on its nuclear program and its approach to the West, and the West – led by the US – continued to take an aggressive approach to the region with the claim of national security as an excuse. Although this Presidency started on a positive note with hard liners being extremely supportive and happy to be in power, as the relationship with the West became a more difficult one, Ahmadinejad became a scapegoat for the Supreme Leader and senior Iranian leadership.⁷⁰

The nuclear program and becoming the most sanctioned regime in the world are the two largest factors to consider when examining the Ahmadinejad presidency. As a result of these factors – with the nuclear program piece feeding into the resulting sanctions – para-governmental organizations continued to grow. Specifically, the IRGC which had been marginalized under previous presidencies. Between the IRGC and Bonyads, third party business deals were able to be struck in other countries, allowing for some monetary flow into the country and for limited trade to continue despite an increasingly restrictive sanctions regime. However, toward the latter

⁷⁰ Reuters, “Ahmadinejad grilled by hostile Iran parliament,” last modified 14 March 2012, <https://www.reuters.com/article/us-iran-ahmadinejad-parliament-idUSBRE82D0NK20120314>.

part of Ahmadinejad's presidency sanctions became more intense. They also took on more of a multilateral flavor, in that sanctions imposed by the UN were done so in conjunction with unilateral sanctions that individual countries had imposed. Further, with the banning of financial transactions between US citizens and Iranians, fewer countries and entities were able to successfully conduct trade with Iran. Although the Iranian regime could have survived without coming to the negotiating table, it would have been to their detriment given a lack of revenues from oil limited economic possibilities.

The IRGC

When discussing the Ahmadinejad administration, it is important to discuss the IRGC, their involvement in the Iranian economy, and how this added an extra layer that allowed for regime survival during sanctions regimes. Ahmadinejad had formerly been in the IRGC. It is likely this is what partially fueled his affinity for the IRGC, but also educated his understanding on how they could be leveraged to skirt sanctions. The IRGC were not originally economic actors. They became a paramilitary force in 1982, whose sole purpose was to defend the revolution.⁷¹ Although IRGC involvement in the economy started to grow post-revolution, it was the sanctions regime that solidified their place as a key economic stakeholder in Iran.⁷² Further, their favourable treatment by Ahmadinejad allowed them to thrive during his tenure.⁷³ They control 60% of the harbors in the Persian Gulf, numerous unofficial airports, and have a significant presence at Iranian borders.⁷⁴ Therefore, as sanctions restricted some of the goods Iranians were able to obtain, the IRGC took to facilitating cross border smuggling as a means to

⁷¹ Sune, 56.

⁷² Fathollah-Nejad, 54.

⁷³ Habibi, 189.

⁷⁴ Fathollah-Nejad, 54.

increase their profits.⁷⁵ The “...IRGC has developed into an expensive socio-politico-economic conglomerate that is believed to possess unrivaled economic and political power in today's Islamic Republic.”⁷⁶ Rafsanjani and Khatami had consistently tried to marginalize them as part of their policies of trying to attract foreign investment, however, this approach came to an end with Ahmadinejad.⁷⁷

The IRGC established their first arms factory in 1984, and were allowed to create a defence industry to help support the Iran-Iraq War.⁷⁸ This was the beginning of their involvement in the economy.⁷⁹ They ended up becoming well organized and were relied upon for reconstruction efforts post war because of how organised they were.⁸⁰ Coincident to Ahmadinejad's presidency, the power of unelected institutions increased mainly because the environment in Iran was not conducive to the creation of a diverse private sector.⁸¹ The same factors that led to the Bonyads acquiring wealth, were what led to the IRGC acquiring wealth.⁸² The IRGC benefited from the post-revolutionary move to sell off assets of former Shah supporters, however, Engin Sune argues they also benefited from three key historical developments that allowed them to get a foothold in the Iranian economy. The first was in the 1990s when Rafsanjani was cutting the budget of state ministries and organizations in order to make them more self-sufficient financially, resulting in many state organizations getting involved in the economy as a means to balance their budget.⁸³ This coincided with the sale of many state-owned enterprises. When these state-owned enterprises went up for sale, they were sold via direct

⁷⁵ Ibid., 54.

⁷⁶ Ibid., 54.

⁷⁷ Habibi, 189

⁷⁸ Sune, 59.

⁷⁹ Ibid., 59.

⁸⁰ Ibid., 59.

⁸¹ Alizeh, 76-77.

⁸² Sune, 50.

⁸³ Ibid., 50.

negotiations, and many of them never went up for public auction.⁸⁴ This was eventually banned in 1994, then it was mandated that state owned enterprises were sold through transaction houses.⁸⁵

The second of these key historical developments happened under the Ahmadinejad presidency.⁸⁶ Here, in an attempt to ensure revenues from oil were ending up on the dinner tables of average Iranian citizens, he started up what was called “justice shares.”⁸⁷ With these “justice shares,” the intent was to expand over-ownership of some of these companies amongst the populace as a means to help with the efficiency in these enterprises, as well as increasing economic competition. The government also was reducing its shares in what it considered nonessential sectors, while it was privatizing 80% of its assets in what it deemed as essential sectors such as mining, banking, heavy industry, and energy.⁸⁸ At this point, While the government was divesting shares, the Tehran Stock Market, public auction, or negotiations were the most common means of selling off these enterprises.⁸⁹ However, private investors were not able to compete with the economic power of some of the para-governmental organizations such as the IRGC, therefore, giving the IRGC a much stronger position to buy out some of these organizations.⁹⁰ This divestment under Ahmadinejad was larger than Rasfanjani and Khatami combined.⁹¹

The third historical development was what Sune refers to as the commercialization of these para-governmental organizations with sanctions. Because of their placement in the Iranian

⁸⁴ Ibid., 50.

⁸⁵ Ibid., 50.

⁸⁶ Ibid., 51.

⁸⁷ Ibid., 51.

⁸⁸ Ibid., 51.

⁸⁹ Ibid., 52.

⁹⁰ Ibid., 52.

⁹¹ Ibid., 52.

economy due to the aforementioned reasons, they were able to conduct trading activities.⁹² In the case of the IRGC, they had effectively replaced the companies that had left Iran as a result of the sanctions.⁹³ Further, because they were largely immune from the rules of government, and had control over some of the key means of power, they were essentially equipped with the necessary mechanisms to function as quasi-legal networks.⁹⁴ Ultimately, the IRGC – next to the Bonyads – have turned out to be one of the largest monopolies in the Iranian economy.⁹⁵ “This is why some commentators define the IRGC as a militarised Bonyad.”⁹⁶ There is also inter-mingling in between the IRGC and Bonyads with former leaders of one being the leaders of the other and vice versa.⁹⁷ Ultimately, sanctions have rewarded corrupt trade practices, as they were required in order to work around sanctions.⁹⁸

A major side effect of sanctions is that they can end up undermining the activities of the civilian population that are conducting themselves lawfully, “...while actors who are part of or close to the ruling system find ways to accommodate themselves to the sanctions regime, even cementing their own position of power. As a result, the power gap between the state and society widens.”⁹⁹ This is essentially opposite to the goal other sanctions regimes such as those that the West impose on Iran, in that they are not weakening the regime, but rather weakening the populace and strengthening the regime.¹⁰⁰

Put simply, a person struggling for economic survival barely has the luxury of engaging as a *citoyen* in the struggle for democracy. Also, economic sanctions widened the power gap between the authoritarian state and civil society, cementing and even boosting

⁹² Ibid., 53.

⁹³ Ibid., 58.

⁹⁴ Ibid., 58.

⁹⁵ Ibid., 58.

⁹⁶ Ibid., 58.

⁹⁷ Ibid., 59.

⁹⁸ Fathollah-Nejad, 54.

⁹⁹ Ibid., 60.

¹⁰⁰ Ibid., 61.

existing power configurations while hollowing out social forces indispensable to our process of democratization.¹⁰¹

The growth of the IRGC, therefore, ultimately allowed for the hard liners to thrive, and for the Iranian economy to survive, because of all the work-arounds of sanctions that were in place.

Whether it be the IRGC's construction arm – Khatam al-Anbia – winning numerous government contracts without having to bid, or just the sheer level of involvement of the IRGC in Iran.

Everything from "...car manufacturing to mining and clothing, even online shopping, there are few industries..." that the IRGC are not involved in.¹⁰² Further, because of how well concealed they are within the economy, they are often very difficult to identify in the Iranian economic landscape.¹⁰³

The UAE and Others

Regional third-party businesses and deals made with countries outside of the sanctions regimes, specifically with countries that were not concerned about repercussions from the US, were also an essential part of the economic landscape during the Ahmadinejad presidency. Due to the weapons embargo on Iran during the Iran-Iraq war, a fairly well-developed network of front companies had been established to allow for the purchase of arms and dual use products.¹⁰⁴ As the US would use its own diplomatic leverage to force countries to stop trade with Iran post-2000, Iran started expanding ties with other partners and finding new partners.¹⁰⁵ One of these were the United Arab Emirates (UAE). Although this relationship was eventually impacted by US sanctions, by 2011 it was one of the leading exporters to Iran.¹⁰⁶ Here, because of local laws,

¹⁰¹ Ibid., 62.

¹⁰² Reuters, "Ahmadinejad grilled by hostile Iran parliament," last modified 14 March 2012, <https://www.reuters.com/article/us-iran-ahmadinejad-parliament-idUSBRE82D0NK20120314>.

¹⁰³ Ibid.

¹⁰⁴ Habibi, 176-177.

¹⁰⁵ Ibid., 177.

¹⁰⁶ Ibid., 180.

Iranians had to find a local business partner in the UAE. This was not extremely difficult, given the large expat Iranian community in the UAE.¹⁰⁷ Most of the exports from the UAE are what is referred to as “re-exports” where by-products that were fully manufactured or partially assembled in the UAE were then shipped to Iran, and quite often smuggled on small boats.¹⁰⁸ A fairly safe assumption can be made that given the IRGC influence over so many ports – and their aforementioned involvement in smuggling – that these products would have been smuggled into, they likely would have been facilitating and/or getting a cut from these activities.

When the US started to wield influence, particularly in Abu Dhabi, the Emirati's started to cut back on banking transactions with Iranians, however, this led Iranian businessmen to set up businesses in Turkey and Malaysia when they moved said businesses out of Dubai.¹⁰⁹ Since 2008, Turkey has had a significant increase in Iranian business entities.¹¹⁰ Turkey also became an important hub for purchase of Iranian oil as sanctions increased during Ahmadinejad's presidency.¹¹¹ Here, Turkey would purchase Iranian natural gas in Lira, and deposit the proceeds into Turkish bank accounts. Then, Iranian gold traders would use those funds to buy gold in Turkey, carrying said Golden luggage to Dubai, then selling the gold for foreign currency.¹¹² This allowed Tehran to bolster foreign exchange reserves which by the 2010s were significantly degraded.¹¹³ Also, the sanctions regimes that Iran was under at this time allowed them to do this

¹⁰⁷ Ibid., 178.

¹⁰⁸ Ibid., 180.

¹⁰⁹ Ibid., 181.

¹¹⁰ Ibid., 180.

¹¹¹ The Atlantic, “How Iran Benefits From an Illicit Gold Trade With Turkey,” last modified 17 May 2013, <https://www.theatlantic.com/international/archive/2013/05/how-iran-benefits-from-an-illicit-gold-trade-with-turkey/275948/>.

¹¹² Ibid.

¹¹³ Ibid.

legally. This loophole was eventually plugged by the Obama administration in 2013 where they prohibited all gold sales to Iran.¹¹⁴

Many Asian companies took advantage of western businesses withdrawing from Iran and increased their presence, further, when some of the larger European banks reduced activities in Iran because of US, sanctions smaller banks stepped in to fill this gap.¹¹⁵ Although the shift toward China in this period should not be overlooked, this shift was not as much about sanctions as it was about making deals with a country that was, and continues to be, extremely lucrative thanks to their demand for oil.¹¹⁶ As sanctions increased and the EU was less willing to purchase Iranian oil, China stepped in. The Chinese share of Iranian oil and gas exports has steadily increased since 2000, making them the largest importer of Iranian gas, and in 2004 they signed a 25-year oil and gas cooperation contract worth \$75 billion.¹¹⁷

All of the work-arounds of sanctions that Iran developed, allowed it to survive despite an increasingly aggressive sanctions regime under the Ahmadinejad presidency. This external support was partially responsible for the survival of the Iranian economy.¹¹⁸ It should be noted, that Iranian GDP grew between 2005 and 2012 thanks to the robust network that they had to mitigate sanctions regimes.¹¹⁹ This is not to say that there were not difficult economic times during the Ahmadinejad presidency. Whether it was IRGC front companies, leveraging countries willing to trade with Iran such as the UAE, Turkey, and numerous Asian countries, Iran was able to maintain revenues coming into the country, and doing so ensured regime survival.

¹¹⁴ Ibid.

¹¹⁵ Andreas Boogaerts, "An Effective Sanctioning Actor? Merging Effectiveness and EU Actorness Criteria to Explain Evolutions in (in)Effective Coercion Towards Iran," *European Security* 27, no. 2 (2018): 146.

¹¹⁶ Habibi, 178.

¹¹⁷ Ibid., 177.

¹¹⁸ Boogaerts, 146.

¹¹⁹ Ibid., 146.

The Nuclear “Issue”

Much like the later part of Khatami’s presidency, the initial years of Ahmadinejad’s presidency were very much influenced by the external geopolitical situation, specifically the Bush presidency and the reactionary nature of the West following 9/11. This was coupled with the nuclear issue. The Iranian nuclear program dates back to the early 1970s under the Shah.¹²⁰ With the assistance of West Germany, France, and South Africa infrastructure for nuclear power plants was constructed.¹²¹ Although there were initial concerns about what the Shah’s intentions were, specifically whether he was about to build a nuclear weapon, he was allowed to proceed with the development of nuclear infrastructure in Iran.¹²² His foreign minister, Ardeshir Zahedi, and the director of the nuclear program at the time, Akbar Etemad, have both indicated that this strategy for the Shah was about creating a surge capacity nuclear program.¹²³ By this, it is meant that the desire was to have the ability to develop a nuclear military capacity with short notice, but without actually doing so unless there was a direct threat.¹²⁴ Because of the isolation from the international community during the early post-revolution years, combined with the preoccupation of Iranian regime in the Iran-Iraq War, through the 1980s not much was invested into the nuclear program.¹²⁵ Rafsanjani’s presidency saw a refocus on the nuclear infrastructure, and this was sustained once Khatami became president.¹²⁶ Through the 90s, the Russians filled the void that the Europeans left behind as far as nuclear technology.¹²⁷ They helped with bringing the reactors

¹²⁰ Colin Dueck and Ray Takeyh, “Iran’s Nuclear Challenge,” *Political Science Quarterly* 122, no. 2 (2007): 189.

¹²¹ *Ibid.*, 189.

¹²² *Ibid.*, 189.

¹²³ *Ibid.*, 190.

¹²⁴ *Ibid.*, 190.

¹²⁵ *Ibid.*, 190.

¹²⁶ *Ibid.*, 190.

¹²⁷ *Ibid.*, 191.

at Bushehr back online after the neglect they suffered during Iran-Iraq more. Also, they provided the Iranians with fuel fabrication technology.¹²⁸

Although George H.W. Bush as well as Bill Clinton attempted to deter the Russians from helping the Iranians, the international community largely ignored the Iranian nuclear program during the 90s.¹²⁹ In 2002, however, revelations from Iranian opposition groups made the US look more closely at previous assessments regarding the Iranian nuclear program and “It suddenly appeared that Iran had not only constructed a sophisticated uranium enrichment capability but was also busy developing a plutonium route to nuclear power.”¹³⁰ Specifically, it was revealed that there was a heavy water plant being constructed and an Iranian enrichment complex at Natanz.¹³¹ The Americans were also concerned in that it appeared that the Iranians were moving closer to self-sufficiency, and therefore less susceptible to attempts at counter-proliferation.¹³² The EU-3 (France, Germany, and the UK) launched negotiations with Iran as a result of this finding, however, the agreement collapsed. And when Ahmadinejad was elected in 2005 enrichment resumed, and Iran banned IAEA inspectors from the nuclear sites.¹³³

Sanctions during the Ahmadinejad presidency will be discussed later in this chapter, however, prior to doing so it is important to discuss whether a nuclear-powered Iran is an issue at all. As was mentioned, the Iranian nuclear program was largely ignored until the early 2000s. Further, it can be argued that often hyperbole is used when discussing Iran and its place in the Middle East.¹³⁴ Kadkhodae and Ghasemi take this view, and there is some merit to it.

¹²⁸ Ibid., 191.

¹²⁹ Ibid., 191.

¹³⁰ Ibid., 191.

¹³¹ Boogaerts, 145.

¹³² Duek, 191.

¹³³ Boogaerts, 145.

¹³⁴ Elham Kadkhodae and Zeinab Ghasemi Tari, "Otherising Iran in American Political Discourse: Case Study of a Post-JCPOA Senate Hearing on Iran Sanctions," *Third World Quarterly* 40, no. 1 (2019): 116.

Specifically, they indicate that Iran has been blamed for many negative behaviors such as supporting terrorism, being human rights abuser, and destabilizing the Middle Eastern region.¹³⁵ Although they do downplay Iranian support to entities such as Hezbollah, the Huthis, and Bashar al Assad, it is worth looking very briefly at these examples as a means in which Iran has been villainized.¹³⁶ If Iran was compared two similar sized countries in the region, such as Saudi Arabia, similar accusations could be made against Saudi Arabia. With Iran, however, the verbiage used to describe the portrays them as very barbaric and essentially villainizes them.¹³⁷

Going back to the foundations of the Iranian nuclear program and that notion of having a surge capability to produce nuclear weapons, the necessity for an Iranian has to be looked at with more clarity. Kenneth Waltz makes the argument that a nuclear armed Iran would actually be positive in that it would help provide stability in the Middle East.¹³⁸ Historical examples, such as North Korea, show that it is unlikely to convince a country to stop acquiring nuclear weapons through sanctions and foreign policy pressures.¹³⁹ Further, if one looks at countries like Japan, they have a very extensive nuclear infrastructure, and would be able to quickly build a nuclear weapon if they desired to.¹⁴⁰ Waltz refers to this as a “breakout capability” where a country could quickly build and test a nuclear weapon, however, stops short of actually testing the weapon.¹⁴¹ Here, it would satisfy the need of Iranian hardliners of having that nuclear weapon capability in their proverbial back pocket.¹⁴² Although this would not be a desired end state for the US and Israel, many states when they reached the “nuclear club” tend to produce regional and

¹³⁵ Ibid., 117.

¹³⁶ Ibid., 118.

¹³⁷ Ibid., 117.

¹³⁸ Kenneth N. Waltz, "Why Iran should Get the Bomb: Nuclear Balancing would Mean Stability," *Foreign Affairs* 91, no. 4 (2012): 2.

¹³⁹ Ibid., 2.

¹⁴⁰ Ibid., 2.

¹⁴¹ Ibid., 2.

¹⁴² Ibid., 3.

international stability.¹⁴³ Israel's nuclear program, has largely gone unchecked, and assuming that an Iranian nuclear program is dangerous goes back to the Kadkhodae and Ghasemi arguments around the verbiage used by the US toward Iran.¹⁴⁴ In this discourse of the West toward Iran, Iran has been portrayed as irrational and therefore a nuclear weapon would be catastrophic in their hands.¹⁴⁵ But is Iran irrational? One can argue that India and Pakistan, for example, have been more cautious since they went nuclear, and there is no indication that the Iranians would be any different.¹⁴⁶ Although the Iranians have been active in asymmetric activity throughout the region, they have yet to close the Strait of Hormuz, knowing that the American response would be absolutely devastating to the regime.¹⁴⁷ Therefore, from the stance of regime survival using a nuclear weapon would not be in the interest of the Iranian regime unless it was in absolute extreme circumstances. The world has yet to see a nuclear war in between two nuclear powers.¹⁴⁸ The argument has also been made that because of Iranian sponsorship of groups like Hezbollah and the Huthis, that nuclear technology could easily end up in their hands.¹⁴⁹ However, if Iran acquires a nuclear capability "...it has every reason to maintain full control over its arsenal. After all, building a bomb is costly and dangerous. It would make little sense to transfer the product of that investment to parties that cannot be trusted or managed."¹⁵⁰ With modern US intelligence surveillance capabilities, the Iranians would also understand that in doing this they would be likely to get 'caught.'

¹⁴³ Ibid., 3.

¹⁴⁴ Ibid., 3; Kadkhodae, 118.

¹⁴⁵ Waltz, 4.

¹⁴⁶ Ibid., 4.

¹⁴⁷ Ibid., 4.

¹⁴⁸ Ibid., 4.

¹⁴⁹ Ibid., 4.

¹⁵⁰ Ibid., 4.

Although Iran and some of its asymmetric actions in the Middle Eastern region has caused instability, so have Wahhabism and its linkages to Sunni extremism. The irony of the US approach to the Iranian nuclear program, specifically after 9/11, is that this drive toward containment and stability was fueled by the concerns around another terrorist attack on US soil. The irony arises when this terrorist attack was conducted by Sunni extremists, not Shia extremists. This is not meant to downplay what another nuclear armed power does to international political dynamics. However, pinning sanctions around the nuclear issue with Iran seems like a convenient excuse to go after a regional power that had not been as easy to control since the 1979 Revolution.

Ahmadinejad and the Sanctions that Followed

When a country sets out to sanction other countries they tend to have very specific economic or political goals. The sanctions put in place during Ahmadinejad's presidency were ultimately what brought Iran to the negotiating table and resulted in JCPOA. "Oil export revenues fell, the inflation rate increased, domestic production decrease, unemployment grew, the currency decade, and the prices of consumer goods rose."¹⁵¹ Despite bringing Iran to the negotiating table, the sanctions did not put the pressure on the regime required in order to have the regime fall.¹⁵² It did increase in-fighting amongst the elites, and caused the previously mentioned breakdown in the relationship between the Supreme Leader and Ahmadinejad.¹⁵³ However, it is important to note that sanctions can lead to political integration of a country because the people in that country being targeted view it as an attack on the whole group, and this was the case in Iran.¹⁵⁴ Because of the heightened economic hardship that sanctions can

¹⁵¹ Borszik, 20.

¹⁵² Ibid., 21.

¹⁵³ Ibid., 21.

¹⁵⁴ Ibid., 22.

cause on the populace of a country, that populace ends up relying on the state more heavily for the provision of public services and therefore can contribute to a more centralised state.¹⁵⁵

Therefore, ultimately with a sanctions regime an unintended consequence can result on more reliance on the state by the populace and therefore a closer relationship between the state and populace.

Ahmadinejad accepted the sanctions that were put on Iran, while the Supreme Leader exploited the sanctions. They used them to attempt to prove to the Iranian people that Western governments were trying to keep the Iranians underdeveloped technologically and scientifically.¹⁵⁶ Further, during his Presidency Ahmadinejad did tours around the country, and went as far as telling Iranians that the nuclear program was part of their national identity and used it as a symbol of “...technological progress and scientific advancement, regional leadership aspirations, and resistance to western ‘global arrogance.’”¹⁵⁷

The comprehensive sanctions in this period resulted in the hard liners becoming more stalwart in the notion of Iran needing a nuclear program.¹⁵⁸ They also caused the regime to have stronger repression tactics on opposition activities as it worked to use many of the aforementioned mechanisms – the IRGC, third-party countries, the Bonyads – to shield the economic domestic impact of sanctions.¹⁵⁹ In 2009, for example, when the Green Movement protested the results of Ahmadinejad's re-election, government security forces came down very hard on the protesters.¹⁶⁰ During the crackdown, Iranian leadership portrayed the protests as being engineered by the US and its sanction policy.¹⁶¹ Further, in 2011 when Ayatollah

¹⁵⁵ Fathollah-Nejad, 55.

¹⁵⁶ Borszik, 24.

¹⁵⁷ Ibid., 25.

¹⁵⁸ Ibid., 26.

¹⁵⁹ Ibid., 26.

¹⁶⁰ Ibid., 26.

¹⁶¹ Ibid., 27.

Khamenei conducted his New Year's speech he specifically linked sanctions as a means of the West to try to pit the Iranian regime and its people against one another.¹⁶²

As previously mentioned, Iranian enrichment at Natanz became public in 2002. Although this is just prior to Ahmadinejad getting elected, this enrichment activity combined with the post-9/11 US foreign policy were what fuelled much of the sanctions regimes during his presidency. This was also coupled with the 2003 invasion of Iraq, after which the EU was increasingly concerned that Iranian nuclear facilities would be targeted by the Bush administration. In 2005, the Iranians intensified nuclear activities under the newly elected Ahmadinejad.¹⁶³

By 2006, largely due to the sanctions from the Khatami era, financial activities between US and Iranian citizens were banned, and the US had sanctions in place that were being applied toward countries that had any trade or economic relations with Iran.¹⁶⁴

American sanctions against Iran had already included all the main types of punitive measures (such as trade sanctions, financial sanctions and assets freezes) supplemented by a number of auxiliary prohibitions such as a ban on travel by Iranian individuals connected to the nuclear and missile programs of Tehran as well as restrictions on the transfer of technologies. The implementation of such a wide range of measures against one country is historically very rare and almost unprecedented.¹⁶⁵

When Ahmadinejad started with anti-Israeli and anti-American rhetoric coupled with publicly indicating that it was indisputable Iran had the right to nuclear technology, the US adopted the Iran Freedom Support Act in 2006.¹⁶⁶ This act was a proponent for the subsidization of any Iranian dissident movements as a means to support the peaceful transition of the Iranian regime.¹⁶⁷ Because of what was perceived as an increasingly aggressive stance by Ahmadinejad,

¹⁶² Ibid., 26.

¹⁶³ Maloney, 890.

¹⁶⁴ Nikolay Kozhanov, *Iran's Strategic Thinking: The Evolution of Iran's Foreign Policy* (Berlin: Gerlach Press, 2018), 88-89.

¹⁶⁵ Ibid., 90.

¹⁶⁶ Ibid., 92.

¹⁶⁷ Ibid., 92-93.

“From the end of 2006, American political circles began to discuss ways of increasing the pressure on Tehran.”¹⁶⁸ The EU was also concerned about an increasingly aggressive Iranian stance under Ahmadinejad and as diplomatic measures continued to fail, they brought their concerns to the UNSC, and in December 2006 UNSCR 1737 was passed and banned the supply of nuclear technology to Iran, and froze assets of individuals and organizations involved in nuclear enrichment in Iran.¹⁶⁹ With these sanctions, they were much more intensive, multinational, and were combined with other unilateral sanctions imposed by countries other than the US.¹⁷⁰ The way the US targeted Iran also changed in 2006 when it started to specifically target Iranian banks, public and private, in addition to their affiliates.¹⁷¹ With these 2006 sanctions, the US targeted Bank Saderat, the largest state-owned bank.¹⁷² Here, they were banned from conducting transactions in USDs, and at the time the US imposed this, at least 20% of the bank’s foreign reserves were in USD as the trade of oil was largely done in USDs.¹⁷³ Banks in other countries followed this lead. In early 2007, Bank Sepah was also targeted by sanctions and denied access to the US financial system. Here, involvement in the Iranian nuclear program was cited, and it was later also mentioned in UNSCR 1747.¹⁷⁴ The EU augmented already existing sanctions that they had put in against Iran in 2007, taking an approach almost as extensive as the US. They froze assets of individuals and entities involved in the Iranian ballistic missile programs, nuclear program, and strengthen sanctions already in place to bring them into

¹⁶⁸ Ibid., 93.

¹⁶⁹ Matera, 41.

¹⁷⁰ Habibi, 175.

¹⁷¹ Sima Motama-Samadian, “The Role of Government in the Iranian Banking System, 2001-11,” in *Iran and the Global Economy: Petro Populism, Islam, and Economic Sanctions*, ed. Parvin Alizadeh and Hassan Hakimian (London: Taylor & Francis Group, 2013), 138; Riven, 105.

¹⁷² Riven, 105.

¹⁷³ Ibid., 105.

¹⁷⁴ Ibid., 106.

line with U.S. sanctions.¹⁷⁵ They even went as far as preventing European institutions from conducting transactions with Iranian banks.¹⁷⁶

From 2007-2010 the UN also passed resolutions 1747, 1803, and 1929. All of these had strong backing from the US and EU. They called for not only the freezing of assets belonging to the IRGC, they also called for more inspections of cargo bound for Iran and the denial of financial and banking services for any activities related to the nuclear program.¹⁷⁷ It should be noted that despite President Obama being in power for the JCPOA negotiations, up until 2009 when he got in western sanctions on Iran were not totally crippling to them.¹⁷⁸ The Obama presidency and the relationship with Iran will be discussed more in the Rouhani chapter of the study. With UNSCR 1929 in 2010, it outlined potential linkages in the utilization of equipment for the petrochemical industry that could also be used by Iran's nuclear program. It also outlined the different spheres of the Iranian economy to which sanctions could be applied such as “...banking, transportation, the oil, gas and petrochemical sectors...”¹⁷⁹ The US then signed their own Bill 2194 which is also known as the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). This banned essentially any financial interactions between American financial institutions, citizens and Iranians, as well as banning Iranians from owning property in the US.¹⁸⁰ CISADA also included punishment for firms investing in the petroleum refinement industry with the aim to constrain domestic production of refined products like gas.¹⁸¹ With CISADA, it was a huge blow to Iran as “...foreign-based financial institutions or subsidiaries

¹⁷⁵ Ibid., 108.

¹⁷⁶ Ibid., 108.

¹⁷⁷ Habibi, 175.

¹⁷⁸ Hunter, 263.

¹⁷⁹ Kozhanov, 93.

¹⁸⁰ Ibid., 93.

¹⁸¹ Habibi, 175.

that dealt with sanctioned banks were barred from conducting deals in the United States or in the US dollar.”¹⁸²

In 2011 the US again went after the ability for countries to report Iranian oil. It further restricted access to foreign currencies “...so that funds from oil importers could only be used for bilateral trade with the purchasing country or to access humanitarian goods.”¹⁸³ With the Obama administration well into its first mandate, the intention was to step up pressure on nuclear non-proliferation.¹⁸⁴

There were also sanctions on the sale of refined petroleum products worth in excess of \$5 million in each 12 months it also sanctioned companies offering transportation, financing and insurance for imported refined products.¹⁸⁵ CISADA coincided with the EU also unilaterally imposing sanctions. These included banning “...medium and long-term trade financing and financial guarantees that are instrumental to trade facilitation...” as well as the prohibition of EU companies investing in the Iranian energy sector.¹⁸⁶ As a result of the sanctions regime, in 2012, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) cut ties with Iranian banks which were subject to EU sanctions, and excluded them from international banking transfer systems, and therefore significantly hindering Iranian banks when they tried to engage in the global financial system.¹⁸⁷ SWIFT cutting ties had a significant impact as it had been relied on heavily by Iran to conduct international transactions.¹⁸⁸ Because by this point Iran could not conduct financial transactions in USDs, it had to switch to the national currencies of some of its

¹⁸² Riven, 106.

¹⁸³ Ibid., 106.

¹⁸⁴ Ibid., 106.

¹⁸⁵ Habibi, 175.

¹⁸⁶ Ibid., 175.

¹⁸⁷ Motama-Samadian, 138.

¹⁸⁸ Habibi, 185.

customers.¹⁸⁹ It attempted to bypass this by converting currencies into gold – such as the aforementioned case with Turkey – however, with tightening multi-lateral sanctions it became increasingly difficult to bypass them.¹⁹⁰ This resulted in the US in 2012 banning gold exports to Iran. Also in 2012, the EU announced sanctions on Iranian crude, and also started pressuring international insurance companies by denying insurance on oil shipments, and the US started to apply similar pressure.¹⁹¹ Iran tried to offset this with its own insurers, however, was not fully effective, as the sanctions also worried numerous Asian customers.¹⁹² This resulted in oil exports falling by 40% in 2012 compared to the same period in 2011.¹⁹³ The assumption by Iranian officials was that the reduction in Iranian crude on the market would push up oil prices, and therefore the West would not sanction them, however, this was not the case.¹⁹⁴

The Quds force was also specifically targeting under Ahmadinejad. Quds is a branch of the IRGC that at times has operated external to Iran, and continues to be targeted by the US to this day. Quds were cited in the Bank Saderat sanctions for supporting Hezbollah.¹⁹⁵ In the Ahmadinejad period, the US imposed sanctions on them in 2007 citing they aided in destabilising Iraq.¹⁹⁶ In 2010, travel bans were placed upon Quds force members which were accompanied by the freezing of assets.¹⁹⁷ They were also targeted in 2011, where human rights abuses in Syria were mentioned as well as aiding the Syrian Government in putting down anti-governmental forces.¹⁹⁸

¹⁸⁹ Ibid., 185.

¹⁹⁰ Ibid., 185.

¹⁹¹ Ibid., 188.

¹⁹² Ibid., 188.

¹⁹³ Ibid., 188.

¹⁹⁴ Ibid., 188.

¹⁹⁵ Riven., 105.

¹⁹⁶ Ibid., 106.

¹⁹⁷ Ibid., 106.

¹⁹⁸ Ibid., 106.

Ahmadinejad at the End of Term

Much of the rhetoric that was used in justification for applying sanctions during the Ahmadinejad presidency was around the nuclear program, and trying to limit the amount of oil revenues Iran had access to. The ‘justifications’ of sanctions by the West were based around Iran and its destabilizing influence in the Middle East, however, the nuclear program was really what drove the narrative. Ahmadinejad’s aggressive rhetoric toward the West did not help, nor did the Supreme Leader’s more aggressive rhetoric. By the end of Ahmadinejad's final term in office, Iran was under a sanctions regime that had never been so extensive in its history. Further, as was seen in the latter part of Khatami's presidency, there was greater cooperation from the EU in the implementation of sanctions. These sanctions were significantly more targeted than they had been in the past. A combination of these targeted sanctions, with the EU actively taking part in a more aggressive sanctions regime placed Iran in a very difficult position. The EU had its own extensive sanctions regime that complemented the US and made basic trade extremely difficult for Iran. In 2012, the EU had been the largest importer of Iranian oil.¹⁹⁹ But as they banned the import of Iranian oil, and made it significantly more difficult for Iranian tankers to obtain insurance, Iranian oil production started to fall drastically. “Between 2011 and 2014, the volume of oil exports fell by 56 per cent, while revenues fell 53 per cent. The falling prices also contributed to the further dramatic fall in revenues between 2014 and 2015.”²⁰⁰ Since 2010, with the international community cooperating with the US, EU, and you win sanctions Iran was significantly hindered when it came to access to international capital markets making importing of goods extremely difficult.²⁰¹ And by 2014, one year after he left office oil revenues fell

¹⁹⁹ Ibid., 108.

²⁰⁰ Ibid., 108.

²⁰¹ Ibid., 110.

meaning the little bit of oil that Iran was selling was making them even less money.²⁰² Although Iran had a very extensive network to mitigate sanctions, for the first time since the revolution they were in a position that was getting increasingly tenuous thanks to the sheer volume of sanctions. Enter Rouhani.

²⁰² Ibid., 110.

CHAPTER 3 – HASSAN ROUHANI: 2013-2021 THE “NEW” KHATAMI?

Introduction

The main themes in the Rouhani presidency were the nuclear program and negotiation. The former was what had led to the latter in this case, and much like Khatami, this policy of reform was very much limited. Given the interplay between power and ideology in the Iranian regime and how these ultimately feed factional interests, reform of the economic structures within Iran is going to be extremely difficult. However, with a shrinking middle class due to sanctions, and a lack of revenue coming into the country this situation was getting increasingly tenuous. A key difference between the Khatami and Rouhani presidencies was that due to the extreme sanctions regime Rouhani inherited, the moderates and conservatives felt something had to change, and they were willing to compromise on a moderate president in order to ensure a more economically productive future.

When Rouhani was elected, there was much hope from the Iranian people given he was not a hard liner and had extensive experience not only in the West, but negotiating with the West. During the last two years of the Khatami administration, Rouhani was Iran’s lead nuclear negotiator.²⁰³ Further, he had spent time in the West for his education at Glasgow Caledonian University, and therefore was much better positioned than some of his predecessors given he had a more in depth understanding of how Westerners thought. He was also a very outspoken critic of Ahmadinejad and at the outset of his presidency was a proponent for dialogue with the West.²⁰⁴ Rouhani's election, however, was very much an example of one of the two paths that Iranian

²⁰³ Al Jazeera, “Profile: Iran’s President Hassan Rouhani,” last modified 21 May 2017, <https://www.aljazeera.com/features/2017/5/21/profile-irans-president-hassan-rouhani>.

²⁰⁴ Ray Takeyh, “Have the Latest Elections Strengthened Iran’s Hard-Liners?” last modified 24 February 2020, <https://www.cfr.org/in-brief/have-latest-elections-strengthened-irans-hard-liners>.

elites have grappled with in recent years.²⁰⁵ There is the hardliner methodology whereby an “economy of resistance” is promoted in which there is an emphasis on reliance on internal markets and trade only with friendly neighboring states²⁰⁶ Then, there has been the Rouhani – and Khatami – approach in which diplomacy and talks with the West are emphasized. However, much like Khatami experience there are structures in Iran, specifically political structures like the Supreme Leader, and how the Islamic republic handles foreign policy that would ultimately limit Rouhani’s success. Further, external factors such as the election of President Trump, created a much more difficult environment for Rouhani to promote aspects like diplomacy and negotiations with the West. Although there is some hope currently with talks beginning between the US and Iran to re-open JCPOA, when the US pulled out of JCPOA it gave hardliners within Iran a very easy example to confirm their narrative that the West cannot be trusted. If it had not been for the Trump factor, Rouhani’s presidency would have likely been viewed as one of the largest steps toward detente with the West since the revolution. Although it is possible that current talks to reopen JCPOA will allow for a kind view of Rouhani when the history of this period is written, this factor remains to be seen.

Ayatollah Khamenei: Supreme Leader in Name and Action

One cannot fully understand Iranian foreign policy and how it approaches external actors unless the Supreme Leader is taken into account. This study has not talked about the Supreme Leader yet, as his role is much more relevant in the discussion of the Rouhani administration. The most important piece to understand, is that Iranian parliament and their role in foreign relations can be extremely limited because it is ultimately the Supreme Leader that has the final

²⁰⁵ Ibid.

²⁰⁶ Ibid.

say.²⁰⁷ From a political culture standpoint, authoritarianism has “...underpinned Iranian politics for most of the country’s 2500-year-long history. In short, one form of autocracy – the Shah’s secular monarchy – was merely substituted with another – Khomeini’s modern revolutionary Islamic theocracy.”²⁰⁸ After the revolution when Ayatollah Khomeini was forming the governmental system in Iran, he wanted to ensure that it would be able to survive despite all of the changes in the modern world.²⁰⁹ As a result, he adopted a “...two dimensional approach to Islamic government: *jihadi* (“combative”) and *ijihadi* (“reformist”).”²¹⁰ With this model, the *jihadi* would represent “...the Islamization of politics in everyday life, and the latter [*ijihadi*] [...] apply a novel interpretation of Islam based on independent human reasoning, to the degree necessary to forge a strong, modern Islamic Iran.”²¹¹ This interplay has been observed in all of the presidencies looked at in this study thus far. In the case of Khatami, it was the elites and hardliners control of key economic functions that led to his lack of ability to implement true reform. In the case of Ahmadinejad, the *jihadi* notion came through in the way the hardliners, including Ahmadinejad and the Supreme Leader, approached the West and leveraged this to verify their narrative of Iran taking an anti-Western approach.

The interplay between *jihadi* and *ijihadi* were solidified when Khamenei replaced Khomeini as the Supreme Leader upon Khomeini’s death in 1989.²¹² When Khamenei became the Supreme Leader, the Islamic Republic was only ten years old, and he wanted to ensure that his power was solidified quickly.²¹³ Further, he wanted to ensure that the conditions were created

²⁰⁷ Ibid; Hunter, 266.

²⁰⁸ Amin Saikal, *Iran Rising: The Survival and Future of the Islamic Republic* (Princeton: Princeton University Press, 2019), 3.

²⁰⁹ Ibid., 3.

²¹⁰ Ibid., 4.

²¹¹ Ibid., 4.

²¹² Ibid., 94-95.

²¹³ Ibid., 94-95.

to ensure that post-revolutionary Iran would survive.²¹⁴ Therefore, he exercised much more power than his predecessor, and like his predecessor he took a hard stance against the United States.²¹⁵ It should be noted that unlike Rouhani and some of his key Ministers – such as Foreign Minister Mohammad Javad Zarif – Khamenei had extremely limited work experience and had not spent a significant amount of time outside of Iran.²¹⁶

As a last chapter indicated, by 2012 Iran was starting to be crippled by sanctions, and internal to Iran this was occurring in conjunction “...with growing corruption, fraud, inefficiency in governmental operations, as well as a chronically underdeveloped taxation system...” which was causing the Iranian economy to head toward stagnation.²¹⁷ Politically, the years leading up to 2012 were difficult as well. Part of what fueled the desire for the Iranian electorate to swing toward a reformist politician while under such crippling sanctions, can partially be attributed to Ahmadinejad's second election in 2009. Here, before the vote count was completed Khamenei declared Ahmadinejad a winner, which broke with the tradition of the Supreme Leader staying silent until all votes had been counted.²¹⁸ This resulted in the Green Movement protests which had been the largest protests since the revolution, and therefore Khamenei used paramilitary forces to crush them.²¹⁹ However, seeing this discontent in Iran, Khamenei could see the populace was disenchanted with the more conservative rule and therefore helped pave the way for Rouhani to get elected.²²⁰

²¹⁴ Ibid., 94-95.

²¹⁵ Ibid., 97.

²¹⁶ Ibid., 97.

²¹⁷ Ibid., 115.

²¹⁸ Ibid., 118-119.

²¹⁹ Ibid., 119.

²²⁰ Ibid., 119.

Hassan Rouhani's First Term: JPOA to JCPOA

Like Khatami before him, Rouhani was elected on a policy of reform and making lives better for Iranians. However, as was seen in the latter part of Khatami's presidency, and the latter part of Ahmadinejad's presidency, the struggle between the hardliners (*jihadis*) and more reformist political stream (*ijihadi*) was increasingly being played out. These "...power struggles have been expressed through various interpretations of the revolution and Khomeini's legacy..."²²¹ As previously indicated, this struggle is exacerbated by the fact that ideology and power are very closely connected in Iran and as a result have made any reforms extremely difficult. Reform ultimately means a change in the "...distribution of power and the economic fortunes of various factions. For example, economic reform and the encouragement of the private sector activity in foreign investment would challenge the influence of domestic monopolies..."²²² This has created a situation where factional interests outweigh national interests.²²³ For Khatami, it meant his reforms did not have a chance given the stakeholders that would have had to agree to them, and for Ahmadinejad it led to his demonization by all sides of the political spectrum toward the end of his presidency.²²⁴ Combine external factors like sanctions, and any Iranian president is dealing with a very delicate situation whereby they are balancing the needs of the Iranian people but – like any politician – are also balancing domestic and foreign policies in a way that is ultimately going to benefit the country but also lead to their re-election.

When Rouhani was elected in 2013, President Obama had already been in office for four years, and had imposed some of the most crippling western sanctions that Iran had ever seen. The

²²¹ Hunter, 260.

²²² Ibid., 260.

²²³ Ibid., 260.

²²⁴ Ibid., 260.

situation in Iran meant that there was more openness to changes and many moderate politicians were arguing that saving Iran should be the key priority of the Rouhani administration.²²⁵

In other words, both reformists and moderate conservatives had reached a point where they were willing to compromise on a moderate president. In addition, the reformers had come to realise that their past extremism had in fact worked in favor of the radical conservatives. Furthermore, both the leadership and the people in Iran had concluded that without moderation in foreign policy, and especially resolving the nuclear dispute, Iran's economic problems cannot be solved.²²⁶

Rouhani also benefited from the fact that this was a time in which the Americans were slowly starting to attempt to withdraw their footprint globally and from the Middle East, and there was an unwillingness from the Obama administration to go to war with Iran.²²⁷ Therefore, they were much more amenable to pursuing the diplomatic option.²²⁸ For Rouhani, when he was trying to frame the necessity for negotiating with the US, he used examples such as the 2009 protests, as well as Ahmadinejad and his policies and how they prevented Iranian access to international markets and therefore cause negative effects on the Iranian economy, such as unemployment.²²⁹

With Rouhani's presidency, it did not revolve around sanctions as much as the previous two presidencies discussed, but rather the negotiations around getting out of the sanctions. By November of his first year in office, a draft agreement had already been struck that would eventually lead to JCPOA. Here, the five permanent members of the Security Council (P5) and Germany, came to an agreement with Iran that would nullify a 2006 resolution that President Bush obtained through the UNSC that had started the significant punishment of Iran for their nuclear program.²³⁰ It should be noted, however, that earlier in 2013 prior to the presidential

²²⁵ Ibid., 263.

²²⁶ Ibid., 263.

²²⁷ Ibid., 265.

²²⁸ Ibid., 265.

²²⁹ Sune, 46.

²³⁰ Matthias Küntzel, "Obama's New Iran Policy: Is America Drifting Toward Appeasement?" *Israel Journal of Foreign Affairs* 8, no. 2 (2014): 25.

elections in Iran, Ahmadinejad had authorized – with Khamenei approval – secret talks in Oman with representatives of the Obama administration.²³¹ Under what was later referred to as the Geneva Agreement, the P5+1 (P5 and Germany) agreed to start loosening some of the sanctions, if Iran suspended 20% uranium enrichment.²³² The talks that paved the way for this agreement started in March of 2013, and once Rouhani was elected and formally sworn in in August of that year, the talks gained momentum.²³³ By the time the talks began in early November, draft text had already been produced.²³⁴ There was some pushback from the French representatives around a heavy water reactor at Arak, which they felt did not have any civilian purpose. “The American-Iranian draft suggested that this reactor should not be activated during a six-month period in which its construction could nonetheless continue.”²³⁵ The French wanted construction halted, and this revision was later adopted with a note that indicated that the Arak reactor could be continued to be prepared for activation, however, with restrictions.²³⁶ Domestically, Rouhani spun the agreement as the West surrendering to the Iranians.²³⁷

With the Geneva Agreement – also known as the Joint Plan of Action (JPOA) – laid the groundwork for what would become the JCPOA. With JPOA, Iran could continue to enrich uranium but had to remain below the 5% threshold, and they were allowed the development of modern centrifuges.²³⁸ Further, enhanced verification in addition to Iran leaving behind “...its long-standing demand for a recognized ‘right’ to enrichment...” were part of the deal.²³⁹ The agreement caused parallels being drawn in between Iranian and Japanese nuclear programs

²³¹ Mark Fitzpatrick, "Assessing the JCPOA," *Adelphi Series* 57, no. 466-467 (2017): 21.

²³² Küntzel, 25.

²³³ Ibid., 26.

²³⁴ Ibid., 26.

²³⁵ Ibid., 26.

²³⁶ Ibid., 26.

²³⁷ Ibid., 26.

²³⁸ Fitzpatrick, 21.

²³⁹ Ibid., 21.

whereby they would have the capabilities to make a nuclear weapon, but would not do so.²⁴⁰ The American stance had changed drastically from 2006 when it came to the Iranian nuclear program. Under President Bush, he accepted that Iran would have civilian nuclear facilities but did not accept the Iranians enrichment program in that it could lead to weapons.²⁴¹ In 2009, Obama accepted Iranian enrichment but only up to 5%, and if Iran shipped in rich materials abroad.²⁴² After this announcement, the Iranians started to enrich uranium up to 20%.²⁴³ By 2012, Obama moved the American “red line” regarding uranium enrichment in Iran further back, by indicating all they wanted was for Iran not to develop a nuclear weapon.²⁴⁴ By the time negotiations started for the Geneva Agreement, the US stopping its demand for Iran to cease enrichment activities was key to the speed at which they proceeded.²⁴⁵

JPOA turned into JCPOA after 16 months of negotiations after the initial JPOA deal was struck. The initial agreement comprised of the following:

Iran’s enrichment capacity would be rolled back for a specific duration; Fordow [an Iranian nuclear power plant] would no longer be used for enrichment; the reactor at Arak would be redesigned so it could not produce weapons-grade plutonium; and verification would be further enhanced.²⁴⁶

The trade-off was that all UN sanctions would be terminated.²⁴⁷ However, there were more negotiations back and forth after this initial agreement. All of the aforementioned pieces were largely there, however, it also included clauses on Iran getting rid of all of its 20% enriched uranium, and called for Iran to limit activities at Natanz and Fordow.²⁴⁸ Also, for 15 years Iran

²⁴⁰ Küntzel, 26.

²⁴¹ Ibid., 27.

²⁴² Ibid., 27.

²⁴³ Ibid., 27.

²⁴⁴ Ibid., 27.

²⁴⁵ Fitzpatrick, 21.

²⁴⁶ Ibid., 22.

²⁴⁷ Ibid., 22.

²⁴⁸ Yousef Ghobadi, Hakem Ghasemi, and Abdol Rahim Eivazi, "Iran Sanctions by European Countries the Comparative Analysis of the Performance of the European Union and the US with Islamic Republic of

was only allowed to use first generation centrifuges, and for eight years any research and development related to enrichment had to be limited.²⁴⁹ Iran was also subject to an IAEA monitoring schedule that was extremely intrusive, allowing them to access any site, at any time, if there were suspicions that said site was involved in producing fissile material.²⁵⁰

Despite all of the UNSCRs being lifted, they were all replaced with one new one, UNSCR 2231. Here, the sanctions could be restored by a majority vote.²⁵¹ Further, there was a ban on conventional arm exports to Iran until 2020, in 2023 UN ballistic missile sanctions were to be lifted as well as the EU and US would lift further sanctions based on good behavior, and by 2024 Iran would be allowed to commence testing for up to 30 advanced centrifuges.²⁵² In 2025, the EU would lift all sanctions and UNSCR 2231 would expire, and 2026 would see the limits on centrifuge numbers lifted.²⁵³ In 2031 most of the remaining limits placed around the nuclear program would expire, and by 2041 the monitoring of uranium mines as well as uranium mills would end.²⁵⁴ The implementation date for JCPOA was the 16 January 2016, and dependent upon the IAEA confirming that Iran had implemented everything outlined in JCPOA.²⁵⁵

By the end of Rouhani's first presidential term in 2017, it had appeared he was successful where his predecessors were not. A deal had been struck with the West, and hopes were high that the Iranian economy would quickly re-bound, and foreign direct investment would finally return to Iran in a meaningful way. In 2012, Iran had a GDP growth of -10%, and by 2017 it was just

Iran's Nuclear Energy After the JCPOA (Joint Comprehensive Plan of Action)," *Acta Universitatis Danubius Relationes Internationales* 12, no. 2 (2019): 12.

²⁴⁹ Fitzpatrick, 23-24.

²⁵⁰ Ibid., 24; Ghobadi, 13.

²⁵¹ Fitzpatrick, 25.

²⁵² Ibid., 28.

²⁵³ Ibid., 26.

²⁵⁴ Ibid., 29.

²⁵⁵ Ibid., 28.

over 15%.²⁵⁶ Further, industrial production was at -12% in 2012 and in 2017 at 12% and rising.²⁵⁷ Inflation was reduced, interest rates were down, as were unemployment rates.²⁵⁸

Within the first six months of JCPOA being signed, Iran hosted numerous trade missions and signed a number of trade agreements.²⁵⁹ This growth was short lived however, as Obama's term as president was done, and the fall of 2016 saw the election of President Trump.

Trump and the Demise of JCPOA

Despite the Iranians having adhered to the terms of JCPOA, with President Trump the calls for a renegotiation of the deal drew stronger from the US. Under JCPOA, the US was allowed to issue Executive Orders applying new sanctions, or reapply the old ones.²⁶⁰ Also, under US law there was a timetable, in which every few months a decision had to be made to continue to waive sanctions that were related to Iran's nuclear program.²⁶¹ During his first year in office, Trump continued to sign these waivers.²⁶² In addition to the waivers, the 2015 Iran Nuclear Agreement Review Act required certification every 90 days that Iran was implementing JCPOA, and linked this to US national security interests.²⁶³ This was how the Obama administration was able to get certification for JCPOA from Congress.²⁶⁴

In the fall of 2017, Trump waived the sanctions however decided not to issue the certification.²⁶⁵ In January 2018, the deadlines coincided for the waivers and certification. Here, he again waived the sanctions however did this as he was pressuring Congress to look at the

²⁵⁶ Cyrus Mehdi-Zadeh, "Iranian Economy Post-JCPOA and its Ambitions," *Global Policy* 9, no. 1 (2018): 154.

²⁵⁷ Ibid., 154.

²⁵⁸ Ibid., 154.

²⁵⁹ Ibid., 154.

²⁶⁰ Fitzpatrick, 51.

²⁶¹ Ibid., 51.

²⁶² Ibid., 51.

²⁶³ Ibid., 51.

²⁶⁴ Ibid., 51.

²⁶⁵ Ibid., 51.

flaws of the deal and indicated that this would be the last time that he would waive sanctions.²⁶⁶ By May of 2018 as the next deadline for waivers approached, the EU tried to persuade Trump to stick with the deal.²⁶⁷ However, Trump had a new National Security Team reinforcing his personal beliefs on Iran. John Bolton took over as National Security Adviser, and started calling for the termination of JCPOA.²⁶⁸ Bolton's views on Iran were not surprising given he was not a proponent of JCPOA, and with Mike Pompeo now the Secretary of State regime change in Iran was viewed as the only way to change their behavior.²⁶⁹ In May of 2018, the US withdrew from JCPOA and arguably, the approach toward Iran had reverted to the approach toward Iran that was taken in the early 2000s with an ultimate desire for regime change.

After JCPOA

Following the US withdrawal from the JCPOA, European powers have consistently tried to get them back on board. The EU has largely abided by JCPOA with the European Commission deciding to implement the “Blocking Statue,” whereby firms were protected when conducting engagement with Iran even if the activities did not abide by the US sanctions regime.²⁷⁰ Ultimately, the EU engaged in all of the areas of implementing JCPOA. SWIFT removed Iranian banks from its systems, and in January 2019 the Instrument in Support of Trade Exchanges (INSTEX) was launched.²⁷¹ INSTEX allowed France, Germany, and the UK a trade channel for European banks and businesses to do business with Iran.²⁷² Although Total, Shell, Vodafone, and

²⁶⁶ Ibid., 52.

²⁶⁷ Ibid., 52.

²⁶⁸ Ibid., 54.

²⁶⁹ Ibid., 54.

²⁷⁰ Materas, 48.

²⁷¹ Ibid., 49.

²⁷² Ibid., 49.

Siemens all announced desire to have more presence in the Iranian market, after pressure from the US Treasury, they pulled out.²⁷³

The US started to take an increasingly aggressive stance to Iran after pulling out of JCPOA, which arguably culminated on 3 January 2020 when a vehicle carrying Qasem Soleimani was hit by US drone strike near the Baghdad airport. Soleimani was a controversial figure in that being commander of the IRGC's Quds Force, he was viewed as a key policy maker when it came to Iranian strategy in the Middle East.²⁷⁴ He was responsible for Quds "...clandestine missions and its provision of guidance, funding, weapons, intelligence, and logistical support to allied governments and armed groups, including Hezbollah, Hamas and Islamic Jihad."²⁷⁵ He was heavily involved in Iranian military activities in Syria and Iraq.²⁷⁶ On 8 January 2020, the Iranians targeted two American airbases in Iraq at Irbil and Al Assad in retaliation for the Soleimani strike.²⁷⁷ Within hours of the strike on US bases, Iranian Air Defence Forces struck a Ukrainian Airliner with two missiles shortly after it had taken off from Tehran.²⁷⁸ Although the Iranians initially denied involvement, they later admitted fault.²⁷⁹ It should be noted that prior to the Soleimani strike, that Iranian-backed Houthis in Yemen had

²⁷³ Ibid., 49.

²⁷⁴ BBC, "Qasem Soleimani: US strike on Iran general was unlawful, UN expert says," last modified 9 July 2020, <https://www.bbc.com/news/world-middle-east-53345885>.

²⁷⁵ Ibid.

²⁷⁶ BBC, "Qasem Soleimani: US strike on Iran general was unlawful, UN expert says," last modified 9 July 2020, <https://www.bbc.com/news/world-middle-east-53345885>.

²⁷⁷ BBC, "Iran attack: US troops targeted with ballistic missiles," last modified 8 January 2020, <https://www.bbc.com/news/world-middle-east-51028954>.

²⁷⁸ Globe and Mail, "Two missiles struck Ukrainian plane 25 seconds apart, Iran says flight recorders show," last modified 23 August 2020, <https://www.theglobeandmail.com/canada/article-two-missiles-struck-ukrainian-plane-25-seconds-apart-iran-says-black/>.

²⁷⁹ Globe and Mail, "Two missiles struck Ukrainian plane 25 seconds apart, Iran says flight recorders show," last modified 23 August 2020, <https://www.theglobeandmail.com/canada/article-two-missiles-struck-ukrainian-plane-25-seconds-apart-iran-says-black/>.

conducted drone strikes into Saudi Arabia aimed at oil infrastructure in 2019.²⁸⁰ Further, in February 2021, Houthis struck an airport in southwestern Saudi Arabia.²⁸¹

In April 2021, Natanz was attacked after new advanced centrifuges had been installed and Iran claimed that it would be enriching uranium above what was laid out in JCPOA.²⁸² The Iranians claimed the Israelis conducted the attack, and after which indicated they would start enriching uranium to 60%.²⁸³ The attack took place as Iranian and Western powers were meeting in Vienna to discuss a way ahead with JCPOA. This tit-for-tat type back and forth has largely been what has characterized the Iranian interactions with the US post-JCPOA, however, there is cause for increasing positivity due to the current talks being undertaken in Vienna.

With the election of President Biden in the fall of 2020, there has been renewed hope that JCPOA still has a chance. The talks include Iran, Britain, China, France, Germany, and Russia with the US delegation being in a separate location in Vienna.²⁸⁴ The EU is coordinating the talks.²⁸⁵ As of late April 2021, Iran and the US have refused direct talks and hopes are that an agreement will be reached prior to the June 2021 presidential elections in Iran.

What Happens Next?

It is unknown what a post-Rouhani Iran will look like, given the elections are to occur after the publication of this paper. However, at the present moment it appears that the US has

²⁸⁰ NBC, "Iranian-backed Houthi rebels in Yemen ramp up drone, missile attacks on Saudi Arabia," last modified 12 March 2021, <https://www.nbcnews.com/news/world/iranian-backed-houthi-rebels-yemen-ramp-drone-missile-attacks-saudi-n1260488>.

²⁸¹ Ibid.

²⁸² France24, "Iran blames Israel for attack on Natanz nuclear site," last modified 14 March 2021, <https://www.france24.com/en/middle-east/20210412-iran-blames-israel-for-sabotage-attack-on-natanz-nuclear-site>.

²⁸³ Reuters, "Iran to begin 60% uranium enrichment after nuclear site incident," last modified 13 April 2021, <https://www.reuters.com/world/middle-east/irans-zarif-says-israel-made-very-bad-gamble-by-sabotaging-natanz-site-2021-04-13/>.

²⁸⁴ BBC, "Iran nuclear deal: Shadow of sabotage hangs over critical talks," last modified 14 April 2021, <https://www.bbc.com/news/world-middle-east-56716472>.

²⁸⁵ Ibid.

again – as it has done numerous times before – shaken Iranian confidence in whether or not they can be considered reliable. It is possible that their actions in pulling out of JCPOA has potentially given the Iranian elite a narrative that is conducive to ensuring a hardliner is elected in the 2021 elections. This goes back to the aforementioned cycle whereby the US punishes Iran, and in punishing them chips away at their own credibility in the US-Iranian relationship, which gives the hardliners ‘proof’ that the US cannot be trusted. Essentially, the things the US/West does in attempt to ‘correct’ Iranian behaviours, ensures the structures within Iran that the West finds most problematic are reinforced. JCPOA appeared to have the potential of a realistic wave forward between the West and Iran. However, what essentially comes down to political partisanship on the part of the US has caused turmoil for other partners seeking a way forward in the relationship between the West and Iran.

In a number of ways, Rouhani had the most potential out of all the presidencies examined in this study to form a detente with the West. And due to crippling sanctions, at the beginning of Rouhani's presidency was perhaps the best negotiating position the West had been in when it came to Iran post-revolution. But much like his predecessors, Rouhani is ultimately a slave to the structures in Iran that reinforce making some of the political elites – such as the IRGC – rich, while the average Iranian suffers the consequences of what seems to be a constant game of international relations chess.

CONCLUSION

How the next Iranian election turns out, as well as the relationship with Iran is ultimately in the hands of the West. With current attempts of bringing Iran and the US back to JCPOA, success could result in another reformist president after Rouhani. As the study has shown, regardless of whether there is a reformist or conservative president in power, there are structures within Iran that allows the country to be extremely resilient to sanction regimes. Even when Iran was under the most comprehensive sanctions, it did not force regime change. The reason the West ended up having success in 2012 and the following years, were the extremely targeted sanctions that were in place, largely thanks to a different approach that the US took to sanctions post-9/11. Regardless of whether Iran has a reformists or conservative president, the resiliency of their current system to sanctions has been proven. Sanctions will not force regime change, however, a healthy dialogue is much more likely to be fruitful in that the lines of communication will be open in the case of an emergency. As mentioned in this study, there has been a cycle the West has consistently been in whereby it sanctions Iran, but yet it is the West that has created the environment that causes them to want to sanction Iran. This is not to argue Iran is completely innocent here. However, the West has to start taking responsibility for some of its actions in this relationship and how it has evolved post-revolution. There is potential for a more fruitful and healthy relationship between the West and Iran, particularly if JCPOA is able to be reinvigorated. However, if any progress is going to be made a more nuanced, educated approach has to be taken toward this delicate relationship.

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