

Iran and the West: beyond the nuclear deal

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>>> The West and Iran will face many challenges in implementing the interim deal on Iran's nuclear programme. Yet, there are hopes that the deal could pave the way towards broader improvements in Iran's relations both with the West and with other powers in the Middle East and Asia. In parallel, President Hassan Rouhani's election has led to new expectations for domestic reform. With the 'first-step' nuclear deal signed, the international community should more systematically consider these broader prospects too. Expectations must be pitched at a realistic level: the interim nuclear accord will not immediately unlock progress on other regional or domestic challenges; indeed, it may unleash new problems. But there are at least some genuine opportunities that might, with extreme care and caution, be gradually seized upon to consolidate a better relationship with Iran.

THE REGIONAL AGENDA

The United States (US) and the European Union (EU) have responded positively to the new tone in Iranian diplomacy, while claiming to have their 'eyes wide open' about the likely difficulties ahead. Further efforts aimed at strategic cooperation with Iran on issues of regional importance will be required to sustain momentum from the interim nuclear accord reached in Geneva. Shaping a regional dimension to the improvement of Iran's relations with the West should be a priority for the US and the EU.

HIGHLIGHTS

- The interim nuclear deal with Iran could pave the way towards improved relations with Tehran, but could also give rise to new problems.
- Much diplomatic effort will be required to engage Iran in issues of paramount regional importance.
- It will be crucial to manage expectations of domestic reform to avoid frustration, instability and potential regime backlash.

»»»»» The optimistic logic has always been that if Iran feels less strategically cornered it will feel less reliant on its non-state clients, like Hezbollah. Engaging Iran on matters paramount to regional stability can help pave the way towards a rapprochement of durable import.

The most salient of these issues is the on-going proxy war being carried out in Syria. It is well-known that Tehran still holds considerable sway in Damascus, and is a chief financier of both the Assad regime and Hezbollah. The United States and Europe will need to broaden their diplomatic efforts to encourage a more flexible Iranian stance in Syria. While Tehran is unlikely suddenly to change position on the Syrian conflict or remove its backing for the Assad regime, this must be the moment to engage Iran in dialogue over Syria's future. For good or bad, the West now perceives a need to work with President Assad, while a less ostracised Iran may feel less of a need quite so unconditionally to support his regime. Some slim space for engagement may thus be possible ahead of the Geneva II talks now set for January 2014.

Iran's assistance in Afghanistan, a country to which it is tied both culturally and linguistically, is also of interest to Washington as the 2014 deadline for drawing down military personnel approaches. The US and Iran did initially seek to coordinate efforts to fight the Taliban, but Washington terminated dialogue on this in early 2002. In Afghanistan, the US should seek to include Iran in security cooperation to tackle common challenges. These include increasing stability across Central Asia, and promoting 'new silk road' efforts to lessen Afghan reliance on the US and foment regional integration.

It has become increasingly apparent that Iran holds key influence in Iraq too, particularly under the government of Prime Minister Nouri al-Maliki, who spent many years in exile in Iran during Saddam Hussein's regime. The increasingly authoritarian Maliki has veered his administration towards a more confrontational Shia identity. The US needs to cooperate with Iran in Iraq. The challenge is to ensure that Tehran's influence is used in a productive not malign fashion. This will entail

the West going beyond simply bemoaning Iranian 'meddling' in what is, after all, its neighbour. Washington will need to seek cooperation from both Baghdad and Tehran in the borderlands close to Syria that have steadily disintegrated and are now being utilised by al-Qaeda to transport weapons.

Iranian President Rouhani has said that he wishes to improve relations with Saudi Arabia. Some analysts insist that it is easy to over-state the religious dynamic behind Iranian foreign policy – and that pragmatic cooperation is not entirely unimaginable. Much diplomatic effort will be needed to seize on such thin glimmers of hope. Diplomats in the United States and Europe will also look to evaluate the impact on regional players like Qatar, Kuwait and the United Arab Emirates of any deeper rapprochement with Iran. Gulf geopolitical and geo-economic dynamics will be unsettled if Iran ceases to be hindered by economic sanctions. An already existing antagonism between the Gulf States traditionally allied with Saudi Arabia and Iran could be made worse as competition throughout the region increases. Since the Arab spring began, Western powers have done little to modify their *realpolitik* alliances with Gulf monarchies; the costs of this stasis are now likely to become more apparent.

The relationship between Turkey and Iran will be a factor that weighs heavily in the future of US and European policies. Economic ties between Ankara and Tehran have grown exponentially. Similarly, Iranian tourism to Turkey has continued to grow, and Iranian direct investment in the Turkish economy has risen as Western pressure has led Gulf nations to reduce economic ties with Tehran.

Yet prosperous economic links will not eradicate the likelihood of rivalry between Iran and Turkey for regional leadership. Relations between the two countries recently hit a low point, as Ankara accused Tehran of harbouring and training Kurdish rebels. Notwithstanding Ankara's previous efforts to broker a deal on the nuclear programme, many Iranians believe that Turkey has benefitted from Iran's isolation to assert itself as the dominant power

throughout the Middle East. Western powers will need systematically to include Turkey within their new rapprochement with Iran. Policy-makers in Washington have prioritised security cooperation with Ankara, but coordination more specifically on Iran is still awaited. The ideal path forward would be for Turkey to help bridge the divide between Iran and Saudi Arabia.

Saudi Arabia and Israel have loudly expressed doubts over the reliability of Iran's new promises of cooperation and moderation. At the time of writing, the US Senate may still scupper the interim deal with Iran because of this. As could be expected, the accord will pose a challenge for US-Israel relations. It is right that the international community engage seriously with Israeli concerns. But it is equally important that broader security goals not be compromised as fall-out from the new rapprochement

with Iran. In particular, there should be no let up in current efforts to revive long-faltering Israeli-Palestinian peace talks.

European and US diplomats should seek to broker a deal that might encourage Iran to play a wider role in the Middle East. Such an accord must build on the

implementation of the nuclear agreement, but should also hinge on Iran's policies towards existing regional conflicts. A power-balance among multiple nations could provide the basis for the necessary checks and balances of a more stable Middle East. A system is needed to discourage overtly unilateral or expansionistic policy manoeuvres, and to encourage regional trade and economic cooperation independent of ideological or religious beliefs.

The United States should work in close collaboration with both its European and Middle Eastern partners to provide the sorts of concessions and support necessary to enable such a scenario. It

will need to encourage Iran to adopt measures that promote transparency and allay regional fears. The US has much work to do to assuage the fears of the Gulf States and make them feel part of the new process rather than its victims.

The regional context is growing more unstable, as Sunni jihadists ratchet-up their attacks in Iraq and Syria in part out of fear at Iran's return to influence, and as the Gulf States look on nervously at the incipient shift in regional power. Iran carries considerable responsibility for fanning the flames of sectarianism. But the new government has at least rhetorically indicated a desire to cooperate on this malaise now dominating Middle Eastern geopolitics – notably with a view to countering Sunni jihadist activities. Of course, Western powers should not be dragged into favouring any party in the sectarian struggle. Yet if Iran's new rhetoric develops into genuine political will, a broader shared interest might emerge between the US, the EU and Iran in addressing the rise of sectarianism. Saudi Arabia might also be encouraged to see value in a broader dialogue on radicalism: while it supports some extremely conservative, hard-line Sunni groups across the region it is also nervous about radical groups becoming too powerful in a way that may challenge the Saudi family's own domestic rule.

In sum, new engagement with a less antagonistic president in Tehran should go hand in hand with a comprehensive regional approach. Indeed, leaders fired by the prospect of a new bilateral tenor with Iran must realise that the change in Tehran makes it even more urgent to tackle regional linkages. There has often been talk of the need for a Middle Eastern regional security framework. Rapprochement with Iran would unsettle existing power-balances and render such a framework even more imperative. Yet, while European diplomats have suggested a commitment to encouraging dialogue on such a forum – equivalents of the Organisation for Security and Co-operation in Europe (OSCE) have often been loosely touted – the United States is still reticent to contemplate wider changes. Broader strategic adjustment is still required. None of this is to suggest that positive outcomes are imminent or the most likely, merely that recent developments



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»»»»» with Iran provide some tentative entry points for fashioning a less Hobbesian Middle East.

DOMESTIC REFORM?

A second set of issues derives from debates over domestic reforms inside Iran. Reformers have gained new hope since the June elections. But while President Rouhani has moved to implement a number of reforms, he remains a regime loyalist and will undoubtedly disappoint 'liberals' who hope that he will undertake far-reaching political reform. A crucial challenge will be to manage expectations. Opportunity for modest reforms should not be squandered; but excessive expectations are likely to breed frustration, instability and regime backlash.

Rouhani's stated aim is to restore 'mutual trust' between people and clergy, not to eclipse the latter. His vision appears to be one of more practical technocracy rather than competitive politics as such. Some observers point out that supreme leader Ayatollah Ali Khamenei allowed Rouhani's victory precisely because the latter is more of a regime insider than was Ahmedinejad. Rouhani does not purport to challenge the existing regime; rather, he will try to advance reforms within the system.

Most state institutions remain in the hands of those appointed by Ayatollah Khamenei. A crucial factor will be the positioning of these institutions *vis-à-vis* the new president. Battles are currently afoot within the system over the return of exiles and a number of Rouhani's ministerial appointments. A particularly significant variable will be the balance of power between the clergy and the Revolutionary Guard. So far, policy developments have been mixed, with both new commitments to reform and resistance against change in evidence.

Ironically, after the potency of the Green movement in 2009, when a degree of change came in 2013 it was less the result of a bottom-up tide of pressure than of an elite-generated opening of space. Yet, Rouhani's election does reflect citizens' desire to be able to speak out on issues that directly affect their lives – from corruption to the lack of medicine, and

the collapse of the Iranian rial under the pressure of Western sanctions. A remarkably high 72 per cent of eligible voters turned out to vote in June's elections, reflecting the depth of such day-to-day concerns.

Iran's underlying sociological structure also points towards possible change. Making up nearly two-thirds of the population, the current generation of young Iranians is set to shape the country's future. Youth unemployment is currently estimated at 5 million people.

What are the policy implications of all this for the EU and the US, as well as for international non-governmental organisations (NGOs) wishing to support reform? Western powers and organisations should be highly cautious and not intrusive. They must be acutely aware of how even well-meaning engagements can be counter-productive and awaken potent historical grievances in Iran. Yet, the potential and indeed need for domestic change should not be overlooked.

Many Green reformers are slowly re-entering the public sphere, speaking out in the press for the first time since 2009. The international community will need to decide how to engage with these actors, offering them legitimate protection from repression without stirring tensions that could diminish reform prospects.

International actors could also offer cooperation on dealing with minority rights in a way that is not overtly confrontational. Iran faces pressing minority rights questions that the government does not yet appear to have identified as a priority. A sizeable share of the population is neither Persian nor Shia. Most of this part of the population voted for Rouhani and now awaits better minority rights protection. Low-level protests and discontent among both Kurdish and Turkish/Azeri communities simmer.

International actors could also offer training and capacity-building on media freedom. Given the restrictions on press freedom, and the expulsion of foreign journalists, it is still difficult to gain a clear

idea of what is happening inside Iran at this level. The case should be made that greater transparency will help Iran's own declared aim of fully 're-joining' the international community.

The most pressing priority is economic reactivation – a challenge that extends well beyond the removal of sanctions. A key issue that external support will need to grasp is the complex interstice of economic and political reform. Iranian oil exports have fallen by 60 per cent over the past two years and inflation runs into double-digits. Yet, the government's commitment to far-reaching economic reform is far from evident or clear-cut. Indeed, Rouhani has indicated to the Revolutionary Guard that they can maintain their dominant economic role in return for not blocking the president's more pragmatic foreign policy. This kind of *quid pro quo* is likely to hinder precisely the kind of state-economy separation that is sorely needed to spread wealth to poorer parts of the population.

The measure that is most likely to lead to protests against the new government is the removal of subsidies. Three-quarters of the population depend on fuel subsidies or other allowances; the debt level makes these unsustainable, but fierce battles will ensue over how the pain of cutbacks is distributed. There will be a very fine balance to strike: economic reform is needed to put Iran's finances on a sustainable basis, but overly harsh measures may engender national backlash against the reformist project.

In general terms, the EU and US – as well as international NGOs – should beware of investing too much hope in the singular figure of one ostensibly reformist president. Future relations will depend not only on Rouhani, but also on the thickening of a wider range of linkages between social and economic actors in Iran and abroad – especially as the regime-loyal president may soon disappoint those in Iran hoping that he will advance with far-reaching political reforms. This does not imply confrontation against the regime, but preparing the ground with a range of partners to improve economic and social conditions, as well as governance standards within the current system.

CONCLUSION

The turn to engagement with Iran is welcome news. While most attention has been paid to the thaw in relations between Iran and the US, the EU can justifiably claim to have been ahead of the curve in cajoling a modicum of such engagement from the unpropitious atmospherics that existed with Iran before Hassan Rohani's election. EU foreign policy chief Catherine Ashton and several national foreign ministers have played an important role on the nuclear issue. European and Arab leaders are concerned that Rouhani is only playing for concessions regarding sanctions that have taken a steep toll on the Iranian economy. Yet, for all the uncertainties, the moment of opportunity must be grasped.

To do this, the EU and US must frame the negotiations on Iran's nuclear programme within a context of changing regional and domestic trends. The first step towards a comprehensive nuclear deal achieved in November is a crucial milestone but it is a partial achievement – for Iranians, for the Middle East region and for Western long-term interests. Challenges await in terms of how Iran's relations in the Middle East evolve, and in managing different views on domestic reforms. To reach the goal of a more open Iran, cooperating in a less fractious Middle East, will require a comprehensive and fully committed engagement from the international community.

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