

Back to Crisis Mode: Iran's Quest to Manage Internal Crises and External Pressures

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ABSTRACT

The US withdrawal from the JCPOA will critically affect power dynamics and state–society relations in the Islamic Republic of Iran. While the reform-oriented currents in Iran's political landscape will be weakened, President Hassan Rouhani and Foreign Minister Javad Zarif may emerge as even stronger figures by adjusting their foreign policy conduct to a more confrontational approach. In light of hostile US rhetoric and open military threats as well as intensified enmity from Iran's regional foes Saudi Arabia and Israel, Iranians will rally around the flag, but also continue addressing their manifold grievances. The Islamic Republic will witness the tacit formulation of a new "social contract", in which the ruling elite will have to respond to the most urgent social demands in order to keep its political structure intact. The already existing economic and environmental crises in the country will be exacerbated by the return of US sanctions. Furthermore, protests can be expected to occasionally descend into violent unrest. The Islamic Republic, however, will likely manage to adopt measures to prevent economic hardship from passing a critical threshold and, hence, maintain the system's stability. Yet, ad-hoc measures will fall short of introducing meaningful developmental policies, as the overall priority will be economic and political survival rather than growth.

Iran | Foreign policy | Domestic policy | Sanctions

keywords

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by Adnan Tabatabai*

1. The JCPOA and President Hassan Rouhani's foreign policy conduct

The US withdrawal from the 2015 Iran nuclear agreement known as the Joint Comprehensive Plan of Action (JCPOA) between Iran and the E3/EU+3 – comprising France, Germany, the United Kingdom plus China, Russia and the United States, as well as the European Union¹ – is exerting tremendous pressure on the Iranian government led by President Hassan Rouhani. Just as its completion helped boost Rouhani's presidency, the potential prospect of the JCPOA falling apart is already undermining the goals his government had laid out for its second term (2017–2021). In order to make better sense of the extent to which the "JCPOA crisis" is likely to affect both Iran's foreign policy conduct and domestic power balance, it is important to recall the expectations that came with the deal and the overall logic behind the Iranian elite's consensus to play its part in completing an agreement with the E3/EU+3.

Rouhani ran his 2013 electoral campaign on the promise of resolving the then decade-old nuclear standoff. He presented the resolution of the dispute as the key to both improving Iran's foreign relations and overcoming domestic challenges. When Rouhani announced his candidacy, not many believed he could be a serious contender. He was known as a thoroughly security-minded clerical figure who preferred not to be in the spotlight. He served as a deputy military commander during the 1980–88 Iran–Iraq War, and since then was known as a key strategist in Iran's defence and security apparatus. Portraying him as a Reformer, as was

¹ The group of states composed of France, Germany and the UK (E3) plus the permanent UN Security Council veto powers (China, Russia and USA) is also called the P5+1: the five permanent members of the UN Security Council – China, France, Russia, UK and USA – plus Germany.

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done in many Western outlets and commentaries, was hugely misleading. He was seen by Reformists as an opportunity for future political capital, which is why they activated their mobilisation capabilities for his presidential campaigns in 2013 and 2017, and asked their own candidate Mohammad Reza Aref to withdraw his candidacy in 2013 and support Rouhani's presidential bid.

1.1 The emergence of the "Moderates" as a third political camp

During Rouhani's candidacy and later presidency, Iran's political landscape went through an interesting development. Prior to the 2013 elections, two political camps existed: the Reformists (*estaahtalab-ha*) and the Principlists (*osulgeraa-ha*). Both camps feature organisations that resemble parties in that they represent large coalitions of interest groups and political factions, but are more loosely organised and dependent on key personalities compared to a political party in the Western sense of the term.² The Reformists are those in Iran's political establishment who seek to gradually liberalise the political, cultural and social sphere while pledging allegiance to the Constitution of the Islamic Republic. The Reformists' foreign policy vision entails seeking to normalise relations with Europe and minimise tensions with the United States. Their leading figure ever since their emergence as a political camp in the mid-1990s has been former president Mohammad Khatami (1997–2005). The Principlists constitute the more conservative elements of Iran's political elite. Their overall political conduct is driven by a comparably stronger emphasis on the Islamic Republic's founding principles – particularly the Islamic/Shiite and anti-imperialist dimensions which define a foreign policy that prioritises the Muslim world as well as relations with Eastern (and arguably Latin American) powers.

Rouhani managed to rally behind him moderate and pragmatic elements of both the Reformist and Principlist camps. After eight years of a Reformist government under Khatami followed by eight years with a Principlist administration led by conservative Mahmud Ahmadinejad (2005–2013), the viewpoint emerged that a cross-factional government may serve the country best. The trend towards a new centrist political faction could be observed for some years prior to the 2013 presidential elections, and manifested itself in the formation of the Moderates (*e'tedaaliyoun*). This meant, however, that the more radical currents of both the Reformists and Principlists became side-lined in their own camp as this pull to the centre took shape. Yet, while the most devoted Reformists felt this trend might lead to their political prevalence in the long term, radical parts of the Principlist camp saw their political relevance slowly recede – hence their fierce opposition to any internal and external policy the Rouhani administration has introduced.

² For more information and analysis on the different political groups within Iran's main camps, see: Adnan Tabatabai, "Iran Votes. A Primer on the Elections for Parliament and the Assembly of Experts", in *CARPO Reports*, No. 2 (25 February 2016), <http://carpo-bonn.org/wp-content/uploads/2016/02/CARPO-Report-02-Tabatabai.pdf>.

1.2 Merging domestic and foreign affairs

By linking internal and external affairs through Rouhani's focus on the relevance of the nuclear dossier, his electoral campaign arguably became the first in the history of the Islamic Republic to be mainly defined by a foreign policy issue. Prior to his campaign, foreign policy files did not play a primary role for either the electorate or the political elites. This approach and his electoral victory gave Rouhani the mandate to prioritise the nuclear file during his first term. All other pressing issues were viewed as subordinate, both by the political leadership and by the broader public. Expectations rose that challenges ranging from economic hardship to environmental problems to social and cultural affairs would be more easily overcome once the nuclear negotiations were finalised and an agreement reached.

In a quite unprecedented manner, Iran's media set up an impressively diversified and detailed coverage of the ongoing nuclear negotiations between Iran and the E3/EU+3. Pros and cons were laid out extensively. Apart from technical aspects such as the number of centrifuges and the precise capabilities of Iran's nuclear facilities, ideological considerations such as whether direct talks with the US should be conducted, or how far the West should be trusted, were the subject of heated op-eds, TV talk shows and radio commentary. A media debate as diverse, contentious and informative as the one on Iran's nuclear file would not have been possible, had the state elite not deliberately chosen to foster it. News websites ran specially designated dossiers to cover the ongoing talks. Frequently Asked Questions were offered online to inform readers in full about which components of Iran's nuclear programme were discussed. Opponents of the nuclear accord featured multiple op-eds in which the dangers of dealing with the West were highlighted. Legal experts warned about the continuous psychological effect of sanctions if they were only waived but not lifted. In a similar fashion, TV and radio debates on the nuclear talks were granted prime time coverage. To appreciate this fully, one only needs to compare the media discourse on the nuclear negotiations with that on other foreign policy issues such as the war in Syria or the situation in Iraq, where the range of opinions was, and in most respects still is, much more limited.

As a result, a highly sophisticated public debate about the course of the nuclear negotiations took place among the public. Polls and surveys were conducted regularly to assess the mood among ordinary Iranians on the ongoing talks. It can be argued that the overwhelming support for Iran's negotiating team – headed by foreign minister Javad Zarif – made the country's leadership more inclined towards finding a compromise. Both ordinary Iranians and the Islamic Republic's elite seemed unified on one shared ambition: to "normalise" Iran on the global stage.

The path towards normalisation has entailed four steps in Iran's revised foreign policy conduct: institutionalisation of Iran's foreign relations; finalisation of a multilateral agreement; implementation of the agreement; and de-securitisation

through implementation.³

1.3 Institutionalisation of Iran's foreign relations

For a host of reasons Iran's political leaders and parts of its population share a deeply internalised distrust towards world powers in general and the United States and United Kingdom in particular. The same, however, can be said about how Western countries view Iran. In an environment defined by mutual mistrust, decision-makers in Tehran have developed the preference to process foreign affairs through multilateral institutions, particularly when an issue related to Iran's security interests is on the agenda. The nuclear agreement has been such a dossier.

Iran has thus always insisted on seeing the European Union as the main arbiter of the nuclear negotiations and the United Nations as the legal backbone of the JCPOA through UN Security Council Resolution 2231.⁴ Furthermore, Iran has shown willingness to open a separate confidential talking channel with the International Atomic Energy Agency (IAEA) to address the possible military dimension (PMD) of Iran's past, present and future activities in the framework of its nuclear programme.⁵

1.4 Finalisation of a multilateral agreement

The JCPOA and the IAEA resolution on Iran's PMD case have been two files on which Iranian negotiators have succeeded in achieving a multilateral agreement on a sensitive, security-related issue with international interlocutors. Iran's leadership always made clear that talks – particularly those with the US – were not held simply for the sake of holding talks, but must serve a clear goal. One should therefore invest in achieving a compromise, which could then pave the way for an agreement.⁶ It can be assumed that in no other format than the E3/EU+3 could the leadership of the Islamic Republic have developed an internal consensus strong enough to enter multilateral talks, which would include one-on-one meetings between Iranian and US foreign ministers. Thanks to the multilateral format, Iran's decision-makers were able to justify vis-à-vis opponents on the home front that these were not negotiations with the US, but with a group of states (i.e., the E3/EU+3) under the auspices of the UN. It was this format that helped the Iranian side to finalise the agreement and succeed in getting it ratified in its parliament, which in 2015 was still composed mainly of opponents of Rouhani.

³ On the basis of multiple conversations with policymakers, analysts and experts in Iran, the author of this paper proposes this four-step process as being the underlying logic behind Iran's readiness to finalise and implement the JCPOA.

⁴ UN Security Council, *Resolution 2231 (2015)*, 20 July 2015, [https://undocs.org/S/RES/2231\(2015\)](https://undocs.org/S/RES/2231(2015)).

⁵ Rodolfo Quevenco, "IAEA Board Adopts Landmark Resolution on Iran PMD Case", in *IAEA News*, 15 December 2015, <https://www.iaea.org/node/17168>.

⁶ Ali Khamenei, *Leader's Speech in Meeting with Government Officials*, 23 June 2015, <http://english.khamenei.ir/news/2088>.

1.5 Implementation of the multilateral agreement

Iran's commitment to abide by the terms of the JCPOA has been confirmed by the IAEA in 12 reports since December 2015.⁷ All necessary commitments have been adopted with regard to the number of operating centrifuges, the amount of heavy water that can be stored in Iran, the configuration of Iran's nuclear sites, the shipping of 97 per cent of Iran's enriched uranium abroad and the limitations of the research and development activities of Iran's nuclear programme. It took huge political efforts for Rouhani's government to convince internal opponents of the JCPOA and a sceptical public that these (intrinsically technical but highly politicised) steps were worth taking in order to get to an agreement. On 9 April 2015, a week after Iran and the EU made a political statement in Lausanne heralding the incoming finalisation of the deal,⁸ Supreme Leader Ayatollah Ali Khamenei said that for him the negotiations on the nuclear issue are "an experience [...]. If the other side stops its usual obstinacy, [...] we can negotiate with it over other matters as well".⁹ This sentence very clearly entails the idea that, if implementation went smoothly, it could open pathways to other areas for negotiation. Both President Rouhani and Foreign Minister Zarif made similar comments in speeches, articles, tweets and interviews.

1.6 De-securitisation through implementation

Pursuant to the JCPOA, Iran has agreed to an intensified inspections regime, carried out on Iranian soil by the IAEA. Iran's security apparatus no longer views it as a threat to allow international inspectors to enter nuclear facilities. The Joint Commission – the newly established entity in which all parties of the JCPOA regularly meet – has served as a useful mechanism to address and discuss JCPOA-related issues. In this high-level talking channel it effectively became a new normal for Iranian representatives to interact with US counterparts, addressing sensitive issues pertaining to Iran's nuclear programme and holding discussions on JCPOA-related matters – be they technical or political. The JCPOA has thus contributed to de-securitising high-level exposure to interactions with the US.

During and after the nuclear talks, a direct line of communication existed between Iran's Foreign Minister Zarif and then US Secretary of State John Kerry. In Iran, the taboo against direct contact on the highest diplomatic level with the US was thus overcome. The value of this achievement became clear when ten US Navy Seals

⁷ International Atomic Energy Agency (IAEA), *Verification and Monitoring in the Islamic Republic of Iran in Light of the United Nations Security Council Resolution 2231 (2015)*, GOV/2018/47, 12 November 2018, <https://www.iaea.org/sites/default/files/18/11/gov2018-47.pdf>.

⁸ Spencer Kimball, "Tentative Iran Nuclear Deal Reached in Lausanne After Marathon Negotiations", in *Deutsche Welle*, 2 April 2015, <https://p.dw.com/p/1F2Dv>.

⁹ Ali Khamenei, *Leader's Speech in Meeting with Panegyrists*, 9 April 2015, <http://english.khamenei.ir/news/2045>. See also Office of the Supreme Leader, *Leader's Remarks on the Occasion of the Birth Anniversary of Hazrat Fatemeh*, 10 April 2015, <http://www.leader.ir/en/content/13068>.

were detained and released shortly afterwards in January 2016.¹⁰ The incident occurred on the night before the JCPOA was scheduled to enter its implementation phase, and was able to be resolved in a matter of hours only because the direct line between both foreign ministers was there. Kerry emphasised the indispensable role of diplomacy in this incident, while soberly warning about how badly things could have gone just a few years earlier.¹¹

It is through these carefully taken small steps that Iran sought to normalise its relations with world powers. This was seen as the most promising path towards improving trade relations, securing foreign direct investment and eventually economic recovery and growth. The consensus among key decision-makers in Iran was solid enough to withstand fierce opposition by hard-line elements within the Principlist camp.¹² Rouhani and Zarif were the main drivers behind this conduct – seeking de-securitisation and normalisation through institutionalisation. Yet, it is important to note that the JCPOA would not have been finalised had the Supreme Leader and the top brass of the military and security apparatus, including the Islamic Revolutionary Guard Corps (IRGC), not consented to it. Thus, assumptions that the nuclear agreement was sealed against the will of Supreme Leader Khamenei and/or the IRGC are misleading and ultimately wrong.

2. The JCPOA crisis and its effect on Iran's domestic landscape

Iran's revised foreign policy conduct, as outlined above, did not bear the fruits it had promised. In November 2016, Donald Trump was elected president of the US. He had pledged during the campaign that he would withdraw the US from the JCPOA, which he eventually did in May 2018. Concerns about the new US administration radically changing course on the nuclear agreement had been voiced in Iran. In August 2015, during a panel discussion at the Strategic Council on Foreign Relations in Tehran, Zarif was asked by academic and JCPOA critic Foad Izadi what Iran would do if the next US president did not respect UN Security Council Resolution (UNSCR) 2231. Zarif responded with the assurance that "the US has no choice" but to adhere to UNSCR 2231.¹³ Statements like this are currently haunting Rouhani's government, as clips of public remarks like the one by Zarif have been going viral on Iranian social media channels.

¹⁰ "Iran Frees U.S. Sailors Captured in Persian Gulf", in *CBS News*, 13 January 2016, <https://www.cbsnews.com/news/iran-continues-to-hold-10-u-s-sailors>.

¹¹ Ibid.

¹² The most outspoken and zealous opponents of the nuclear agreement are members of the arch-conservative Resistance Front (*jebhe-ye paaydaari*), a far-right current of the Principlist camp. For an overview of their main critique, see: Adnan Tabatabai, "Iran Nuclear Talks: What do Rouhani's Hard-line Critics Want?", in *LobeLog*, 11 May 2014, <https://lobelog.com/?p=24371>; and "Iran's Rouhani on Global Stage as Opponents at Home Speak Up", in *LobeLog*, 23 September 2014, <https://lobelog.com/?p=26329>.

¹³ See clip of question by Foad Izadi and response by Javad Zarif (in Farsi), 27 May 2018, https://twitter.com/Foad_Izadi/status/1000689323019300864.

2.1 Rouhani and Zarif will survive but their foreign policy approach will not

While the foreign policy conduct championed by Rouhani and Zarif has been effectively thwarted by the US violation of the JCPOA (which it left without justified cause), both Rouhani and Zarif do not have to worry overmuch about their posts. Adjusting their foreign policy approach has not been too difficult a task for them. Almost three years are left in Rouhani's second term as Iran's president. He will overcome his ambitions to de-securitise or even normalise relations with the US, or his attempt to seek what some coined "a domestic JCPOA" (in reference to Rouhani's electoral promises to open up and ease the political landscape in Iran).¹⁴ Instead, he has started to adopt a much harsher rhetoric towards Washington, and unlike during his first term, repeatedly lashes out against Israel.¹⁵

Even though anti-US sentiments are at their peak in Iran due the overly hostile policies coming from the White House, Rouhani's rhetorical shift will cost him dearly in the Reformist camp and among his electorate. At the same time, Rouhani has gained support from conservative Judiciary chief – and newly appointed head of the Expediency Council – Ayatollah Sadegh Larijani-Amoli (who was Rouhani's main target during his second electoral campaign). Perhaps more important for Rouhani has been the support he has received from Brigadier General Qassem Soleimani, the commander of the Quds force – the IRGC branch responsible for operations abroad – who penned a letter of gratitude to the president, praising him for threatening to close the Strait of Hormuz and taking a harder stance against Israel.¹⁶ Similarly, Foreign Minister Zarif has warned that, while he is still advocating engagement, he would decide to opt for independence "at the split of a second"¹⁷ if engagement continues to deliver no significant results or no results at all. Even though hard-line elements keep attacking Zarif, he still garners support from parts of the establishment one would not necessarily expect. None other than conservative cleric Grand Ayatollah Nasser Makarem-Shirazi has criticised those parliamentarians who are asking for Zarif to step down. It is wrong, the cleric has argued, to weaken a minister "who is standing tall against the enemy".¹⁸

¹⁴ "'Great Work' Expected from Rouhani" (in Farsi), in *Iranian Students' News Agency (ISNA)*, 2 September 2017, <https://www.isna.ir/news/96061106245>.

¹⁵ Tom O'Connor, "Iran's President Gets Tough on U.S. And Israel, Giving Him Support He Needs From Shadowy Top General", in *Newsweek*, 4 July 2018, <https://www.newsweek.com/iran-president-threatens-us-israel-giving-him-support-needs-top-general-1008560>.

¹⁶ "IRGC Commander Hails Iran's President Stance on Oil Export", in *Islamic Republic News Agency (IRNA)*, 4 July 2018, <http://www.irna.ir/en/News/82962038>; "General Soleimani's Message to the President" (in Farsi), in *ISNA*, 5 July 2018, <https://www.isna.ir/news/97041307669>.

¹⁷ Italian Institute for International Political Studies (ISPI), *Med2018 – Special Dialogue with Mohammad Javad Zarif* (video), 22 November 2018, <https://youtu.be/3xydLffH6C8>.

¹⁸ "Ayatollah Makarem Shirazi: The Impeachment of Ministers Who Stand Against the Enemy Is Not Right" (in Farsi), in *ISNA*, 28 November 2018, <https://www.isna.ir/news/97090703004>.

2.2 Potential hard-line backlash and elite realignment

Iran has gone through the experience of unmet promises of normalisation before, specifically during the era of Reformist President Mohammad Khatami. Due to the amount of internal pressure on his reform agenda and the hostile policies of then US President George W. Bush, Khatami was not able to deliver. As a consequence, in the decisive second round of the 2005 presidential elections roughly 20 million eligible voters, most likely former supporters of Khatami, decided not to cast their ballot.¹⁹

Thanks to their commitment and ideological zeal, Principlist voters eventually delivered the presidency to hard-line conservative Ahmadinejad, who was then controversially re-elected in June 2009 for four more years. In 2013, it was the Principlists' promise of invulnerability to external pressure that was unmet. Even though neither Rouhani nor his cabinet can be regarded as Reformist, figureheads of the Reformist camp (Khatami included) gave their backing to Rouhani. Their support was essential to mobilise voters not only in 2013, but also in Rouhani's successful re-election campaign in 2017 – held in parallel with Municipal Council elections that also saw Rouhani-friendly candidates win – as well as during the 2016 parliamentary and Assembly of Experts elections, which secured a Rouhani-leaning majority in the *Majles*, the Iranian parliament.

However, Rouhani has so far failed to show proper appreciation towards the Reformists, as he has fallen short of his electoral promise to improve civil rights and failed to include Reformists in his cabinet. In October 2018, Rouhani attended a meeting to engage Reformist leaders.²⁰ The president was heavily criticised but still got the majority of the camp behind him – in the absence of viable alternatives, one can argue. A joint committee was formed to ensure that communication channels between Reformists and the president would be used more frequently.²¹ But given the grievances expressed against Rouhani by many Reformist interlocutors, and the scant attention the president has been paying to them, a tacit rift can be sensed.

Rouhani may very well have come to the conclusion that he no longer needs the backing of Reformists. As a second-term president, he will not be allowed to run again in 2021, and parliamentary elections will be held in 2020 with only one year left in his presidency. For Rouhani, the years after 2021 are increasingly becoming a priority. He certainly wants to ensure he does not end up like Khatami, who is effectively banned from the political scene, or like Ahmadinejad, who has turned into a marginal and at times comical figure (and whose closest aides have been arrested one after the other on corruption charges). As a politician with a three-

¹⁹ See Iran Data Portal: *2005 Presidential Election*, <http://irandataportal.syr.edu/?p=955>.

²⁰ Rohollah Faghihi, "Rouhani Finally Engages with Reformists, But Some See Too Little Too Late", in *Al-Monitor*, 30 October 2018, <http://almon.co/34m9>.

²¹ "Task Force on Coordination between Government and Reformists has been formed" (in Farsi), in *Mehr News*, 4 October 2018, <https://www.mehrnews.com/news/4420448>.

decade track record in Iran's security establishment, Rouhani is equipped with the necessary capital to navigate through the intricacies of the Islamic Republic.

Right after his electoral victory in 2017, Rouhani sat down with top-level IRGC commanders to settle their disputes.²² In general, it should be noted that the most popular IRGC figure in Iran, Soleimani, while rarely commenting on domestic affairs, has presented himself as leaning towards Rouhani's Moderate camp. During the 2016 parliamentary election campaigns, Soleimani threw his political weight behind parliament speaker Ali Larijani,²³ who is known as a close ally of President Rouhani. It will be important to watch how this interaction between Iran's top military brass and Rouhani develops. It will be a decisive factor in Rouhani's post-presidency career.

2.3 Amidst hardship, voters will search for technocrats, not ideologues

Discontent is rife among Iranians. Protests in different parts of the country have become the new normal. In an interesting move, the Rouhani government has brought in legislation that designates certain areas within cities as spaces for peaceful demonstrations, which require no official approval.²⁴ This is meant to de-criminalise demonstrations and allow discontent to be staged in public. At the same time, however, authorities can misuse this legislation to tighten control over public gatherings, and penalise any peaceful protest outside the designated areas. One of the designated areas is near Iran's parliament in Tehran. Almost every day a different group of people gathers in front of Iran's *Majles* to protest against economic and social hardship, social injustice and corruption.

Workers voice anger about unpaid wages, taxi drivers ask for improved social security, others complain about having lost their wealth in one of the many shady private credit institutions that went bankrupt. In other parts of the country environmental challenges have become life-threatening – particularly the water crisis is worsening rapidly.²⁵ Furthermore, unemployment and an overall decline of the purchasing power of ordinary Iranian citizens are exerting tremendous pressure on the government to undertake measures that lead to immediate results. One such measure has been the government's reaction to the days-long truck driver protest, namely the decision to grant 900,000 truck drivers free insurance.²⁶

²² "Top IRGC Commanders Meet President Rouhani", in *Tehran Times*, 24 July 2017, <https://www.tehrantimes.com/news/415341>.

²³ Reza HaghighatNejad, "Hardliners Flinch as Star Commander Backs Larijani", in *IranWire*, 24 February 2016, <https://iranwire.com/en/features/1668>.

²⁴ "'Authorized Protest Venues' Approved in Aftermath of Iran Protests", in *Al-Monitor*, 12 June 2018, <http://almon.co/32de>.

²⁵ Zein Basravi, "Iran: Drought Epidemic Fuels Water Crisis" (video), in *AlJazeera*, 1 August 2018, <https://www.aljazeera.com/news/2018/08/iran-drought-epidemic-fuels-water-crisis-180801141155407.html>.

²⁶ "Free Insurance for 900,000 Truckers Starts Today", in *Tasnim News*, 1 August 2018, <https://tn.ai/1783082>.

But it is nearly impossible to address and respond to all existing grievances in a similar fashion.

There is no doubt that the return of US sanctions will have an exacerbating effect on all the economic challenges that confront Iran. Renowned economists like Djavad Salehi-Isfahani and Bijan Khajepour point to the impact of sanctions in numerical and structural terms.²⁷ The 18 per cent growth of Iran's economy in the roughly two years of sanction relief (2016 and 2017) will now come to a halt. The oil sanctions will significantly reduce state revenues that are annually allocated to the National Development Fund. The Rouhani administration contends that the expected budget deficit will be partly compensated by the reduction of the share of oil income accorded to the Fund, from 32 to 20 per cent, in the new Iranian year 1398 (starting on 21 March 2019).

The depreciation of Iran's national currency (Rial) vis-à-vis the US dollar reached 70 per cent between April and October 2018. The announcement of sanctions return by the US administration caused maximum instability and uncertainty over the summer in Iran's market. This led to capital flight and further lack of investment. Prospects have become grim for Iran's private sector and for the hitherto flourishing landscape of small and medium-sized entities to grow and become further independent from the state, particularly when their business relates to international trade. Inflation went below 10 per cent during the first term of President Rouhani but is now hitting the 30 per cent mark again, and is expected to rise further in 2019.²⁸ Officially, unemployment and youth unemployment rates are at approximately 13 and 30 per cent respectively – figures that are likely to rise further in 2019 – but the official count may be overly optimistic.

For Iran's economy to grow meaningfully, an estimated \$200 billion of investment is needed. With the US primary (that is, sanctions targeting US-based companies) and secondary sanctions (sanctions that can hit companies from other countries than the US) in place, it is difficult to envisage how Iran can secure even 10 per cent of this investment in the medium-term. It is notable, however, that public debate in Iran is addressing these questions more openly and frankly than before.

There is also an overall realisation that the key sources of the country's economic malaise are corruption, patronage and mismanagement – i.e. home-made problems. Fighting corruption is thus a priority for the Rouhani administration. But the fight against corruption has always been directed at political opponents of a sitting government. For a comprehensive anti-corruption campaign to take place, stronger and more consistent cooperation between the three branches of

²⁷ Djavad Salehi-Isfahani, "Iran Sanctions: How Deep Will They Bite?", in *LobeLog*, 12 November 2018, <https://lobelog.com/?p=46635>; Bijan Khajepour, "Iran Faces Budget Deficit, But No Shortage of Means to Cover It", in *Al-Monitor*, 19 December 2018, <http://almon.co/35cu>.

²⁸ See IMF data: *Inflation Rate, Average Consumer Prices* (annual percent change), <https://www.imf.org/en/Countries/IRN#countrydata>.

government is needed. This, however, is often thwarted by pressure groups who even go as far as to send death threats to parliamentarians, as recently happened in the run-up to the vote on a bill directed against terror financing and money laundering.²⁹ The existence of these pressure groups – often tacitly backed by the radical elements of the Principlist camp – has significantly slowed the process to pass legislation to ensure Iran's banking and finance sector is in line with the standards set by the Financial Action Task Force (FATF), the international body overseeing action against money laundering and terror financing. After parliament passed the bill and the Guardian Council rejected it, it is now up to the Expediency Council to resolve this standoff. The Rouhani government argues that Iran needs to be FATF-compliant in order to avoid being completely isolated from the international banking and finance sector. Opponents argue, with reference to the JCPOA crisis, that such international regulations are never to the benefit of the Islamic Republic. The US withdrawal from the JCPOA and violation of UNSCR 2231 has certainly played into the hands of FATF opponents in Tehran. It is the assessment of the author that the bill will eventually be approved. Even so, however, it speaks volumes of the difficulties the Rouhani government encounters in overcoming domestic criticism to its pragmatic course. It has taken a heated year-long internal debate, death threats to parliamentarians and an impeachment attempt against Foreign Minister Zarif (who publicly and openly accused those standing against the bill of benefiting from money laundering) to get to the point of passing the legislation.³⁰

Apart from the incomplete effort to fight corruption, Iran's political leadership has so far failed to engage a younger generation of technocrats in the attempt to modernise the country's economic structure. President Rouhani may have invited a high number of technocrats into his cabinet. Most of them, however, had already served in the 1990s and seem to have outdated concepts of economic recovery and sustainable development. It can be sensed among ordinary Iranians that new faces are sorely needed. It matters less and less whether these new faces represent the Reformist, Moderate or Principlist camps. What is relevant is the sense that this person is a technocrat, and able to fulfil the task he/she is mandated with.

A good example is the current Minister of Information and Communication Technology Mohammad Javad Azari Jahromi. As a 37-year-old he is by far the youngest member in Rouhani's cabinet and has already proven to be extraordinarily responsive to ordinary Iranians on Twitter and other social media outlets.³¹ Azari Jahromi was largely praised when he published a full list of leading cell phone importers who bought 20,000 iPhones using the official exchange rate of 42,000 rials per dollar in order to sell them using the (then) free-market rate of 79,000

²⁹ "Iranian MPs Pass Anti-Terror Funding Bill Despite Death Threats", in *Al-Monitor*, 8 October 2018, <http://almon.co/349y>.

³⁰ "Iran Hard-line MPs Gird to Impeach Zarif", in *Al-Monitor*, 27 November 2018, <http://almon.co/350x>.

³¹ See the official Twitter account of ICT Minister Azari Jahromi: <https://twitter.com/azarijahromi>.

rials per dollar.³² Exposing those entrepreneurs in such an open fashion was unprecedented and is certainly seen by the public as the least officials can do to regain trust in the political establishment.

3. A new social contract to navigate through times of crisis

While discontent is rife among Iranians, there are no indicators that a wave of protests is about to take place, let alone a general uprising. The almost two weeks of continuous protests in December 2017 and January 2018 may have spread throughout the country, yet they were small in scale. In most of the 85 cities where protests took place, the number of people who took to the streets did not go beyond hundreds, and as these protests turned violent they failed to attract solidarity beyond regime-change advocates outside Iran. More importantly, the reactions by officials showed that they have learned their lesson from the 2009 protests, when millions took to the streets after Ahmadinejad's re-election was marred by widespread allegations of rigging. Back then every official statement criminalised the protest movement in its entirety. In reaction to the early 2018 protests, in contrast, progressive and conservative voices alike stressed that it was important to differentiate between legitimate demands of people facing economic hardship, and acts of vandalism, which have to be condemned and punished.³³ While acknowledging the people's grievances is far from solving them, this "softer" response by the state has helped to deescalate and calm the overall situation.

3.1 Rallying around the flag in times of heightened tensions

In the course of 2018, particularly after the US withdrawal from the JCPOA, the Islamic Republic has slowly returned to "crisis mode". It is important to note that this is the *modus operandi* Iran's leadership can best work with. The Iranian state elite is composed of people who have been part of the establishment ever since the foundation of the Islamic Republic in 1979. For them, US pressure and an ever-more-intense sanctions regime are business as usual. The actual exception was the years 2014 to 2017, when some sanctions were lifted and others were waived. It was during those years that factional infighting among Iran's political camps and power centres intensified significantly, and made life tremendously difficult for Rouhani's governmental goals, ranging from social and political reform to the modernisation of Iran's business environment. To a large extent, this infighting was caused by actors with vested interests who were concerned that their uncontested share in Iran's economy would be threatened by a more transparent and competitive

³² "Iran's Youngest Minister Becoming Symbol of Transparency Drive", in *Al-Monitor*, 27 June 2018, <http://almon.co/32nj>.

³³ "Iran Stages Pro-Government Rallies, Cleric Urges Firm Punishment for Protest Leaders", in *Reuters*, 5 January 2018, <https://reut.rs/2m0BuAK>; "Ayatollah Khatami in Friday Prayer in Tehran: Rioters Betrayed the Nation..." (in Farsi), in *Fars News*, 5 January 2018, <https://www.farsnews.com/news/13961015000395>.

market. Furthermore, serious anxiety existed among some clerical heavyweights that a rapprochement with the US was in the making. The very same clerics were relieved when Trump loomed on the horizon. Indeed, the US president perfectly embodies the "evil" that Iran's political establishment has tried to sell to the Iranian population for almost four decades, concerning the nature of US policies. This is seen by the elites as an opportunity to close ranks with an increasingly unsatisfied population, which is now facing even more economic hardship.

The solution to this situation lies in the quest to redefine the "social contract" and revise state–society relations. As outlined above, a trend can be observed that for average Iranians factional politics is becoming increasingly irrelevant. As long as a person can offer tangible solutions to an existing problem, it will not matter whether he/she is a Reformist, a Moderate or a Principlist. The case of ICT Minister Azari Jahromi shows that his good performance as minister washed away most of the scepticism over his background in the intelligence services and apparent involvement in repression of popular dissent.³⁴ The challenges seem to have become too urgent in nature to allow ordinary citizens to dream of political revolutions. Practical solutions are needed more urgently than ever to address economic hardship, environmental challenges, social and cultural issues, as well as the overall security and stability of the country. The violent protests that erupted in 2017–18, albeit small in size, have made Iranians as anxious as the terror attacks in Tehran on 7 June 2017 and in Ahvaz on 22 September 2018. Looking at how mass protests have turned out in Libya, Egypt and Syria, Iranians fear to see their country descending into similar chaos. Iran's leaders bank on this sentiment to dampen any potential appetite for large-scale protests.

3.2 The perfect mix of security, economic relief and entertainment

The priorities of Iran's population as well as their voting behaviour in the past four elections³⁵ can be traced to a host of reasons. One that is underexplored is Iran's age structure. Iranians between 25 and 54 years old account for 48.9 per cent of the population.³⁶ This means that roughly 40.5 out of 83 million Iranians are of an age where most have settled with families, have a job and try to secure a decent living with as little trouble as possible. These 40 million furthermore constitute approximately 72 per cent of the 56.4 million eligible voters, which can be seen as one reason why candidates who ran on a ticket of moderation in all elected bodies were most successful in all elections since 2013.

³⁴ Azar Jahromi worked in the Ministry of Intelligence and Security from 2002 to 2009.

³⁵ That is, for the 2013 presidential elections, the 2016 parliamentary and assembly of experts elections, as well as for the 2017 presidential and municipal council elections.

³⁶ See The World Factbook website: *Iran: Age Structure*, last updated 8 January 2019, <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html#field-anchor-people-and-society-age-structure>.

With Rouhani's government unable to deliver on key demands regarding economic relief, slogans of "moderation" alone will no longer do. That said, populist hard-line politicians will also have a hard time convincing voters that they are the right choice for running the government, as that would raise fears of conflict and increased tensions. If the Islamic Republic's establishment manages to preserve security and stability in the country, the key demand of this largest electoral group will be met. As demonstrated by economist Djavad Salehi-Isfahani, while economic hardship certainly is a reality, Iran is still far from phenomena like "bread protests".³⁷ Through a broad network of welfare institutions the Islamic Republic has so far been able to provide economic relief to those in dire need. But there is a downside to this welfare network. While it feeds the hungry, it falls short of empowering them. Too little is done in terms of capacity-building in order to reduce the dependency of the poorest strata of Iran's society on the state and its welfare network. Yet, these initiatives have still prevented economic grievances from exacerbating even further.

Iran's leadership seems to increasingly understand that the push for social and cultural freedoms will not only not go away, but will actually grow stronger. This is where recent trends have been truly ambivalent. While there are more concerts, theatres, exhibitions and book festivals than ever before in the Islamic Republic, crackdown on artists, journalists and students continues. This is a typical symptom of a context in which a strong push for more cultural and social space is backed by reform-leaning actors and rejected by more conservative and authoritarian elements.

In this regard, it is important to contextualise progress in pace and scope. In June 2018, women and men were allowed into the Azadi Stadium to jointly watch the Iranian national football team's World Cup matches. This was followed by the decision to allow a limited number of women into a regular football match in October and November in the very same Azadi Stadium.³⁸ Developments like these matter, because they hint at how Iran's state elite may try to keep state-society relations intact. Ensuring that Iran's cities remain safe and stable, providing welfare services to those in most urgent need and daring to open up social and cultural spaces to a limited extent could be seen as the recipe to prevent cracks in the country's social and political order. All of this is much easier said than done, however. Apart from the necessary revenues, managerial skills and a sound assessment of societal realities are needed. The author holds the view that the political class of the Islamic Republic is well-equipped to succeed in the quest for a new social contract that keeps the population at ease with the state while it allows the establishment to maintain its grip on power. This path is a far cry from what would be needed for the country's sustainable development, let alone economic

³⁷ Djavad Salehi-Isfahani, "Food Consumption of the Poor in Iran", in *Tyranny of Numbers*, 2 August 2018, <https://wp.me/ptGKe-183>.

³⁸ "Iran Lets Hundreds of Women Attend Asian Champions League Final", in *Middle East Eye*, 11 November 2018, <https://www.middleeasteye.net/node/74283>.

growth. This constitutes the actual tragedy of the looming JCPOA collapse: the Islamic Republic will manage to survive, but it will not have the chance to grow and evolve. If any reform takes place it will most likely be cultural and social – not political – and have more to do with contingent decisions to avoid social unrest than with any real reform process. Such reforms (or liberalisation steps) will only go as far as necessary in order not to endanger the political order or the leadership's grip on power. One may summarise the underlying tacit agreement as "live and let rule" and, respectively, "rule and let live".

It will help if the remaining parties to the JCPOA, particularly the EU and its member states, manage to safeguard some channels of transaction and trade with Iran – for instance through the Special Purpose Vehicle (SPV). In particular, they would maintain newly established paths of knowledge exchange and transfer, which in addition to industrial goods are urgently needed to keep up prospects of development in Iran. The latter, along with economic growth, is what the Iranian population had been hoping to see as the dividend of the nuclear agreement. A total breakdown of the JCPOA would constitute another experience of Western non-delivery despite Iranian compliance in the eyes of Iranians. It may well take another full eight-year presidential cycle (2021 to 2029) before an Iranian leader will be willing to advocate the normalisation of ties with the West.

Conclusion and Recommendations

The Rouhani government's four-step approach towards normalising the Islamic Republic's foreign relations has been critically undermined by the US withdrawal from the JCPOA. The *institutionalisation* of relations with world powers has met its limits, as even a UN Security Council resolution could not ensure compliance by a Security Council permanent member. Iran has learned the hard way that the *finalisation* of a multilateral agreement does not guarantee its proper *implementation* by all parties. Apart from the shortcomings on the side of the E3/EU+3 (particularly the US), Tehran has had to realise that reforming its own banking and financial sector is a much tougher task than expected due to the pushback from actors with vested interests. The *de-securitisation* of sensitive political issues, which seemed to be on track with direct channels between the Iranian and US foreign ministers, and the E3/EU+3 format proving to be an increasingly comfortable zone for Iran to discuss nuclear-related affairs, has also failed. With the US withdrawal from the JCPOA reflecting a highly hostile position towards Tehran on the part of the Trump administration, the Islamic Republic is fully "securitised" again. This will hamper President Rouhani's foreign policy approach, which is mainly based on diplomacy and outreach. Rouhani (and Foreign Minister Zarif) can be expected to change course and adopt a more hard-line and deterring position in Iran's foreign affairs – in fact, this is already happening.

Challenges posed by socioeconomic hardship in Iran may occasionally lead to unrest. Its scope will remain limited, as the Islamic Republic has decades-long experience in providing economic relief to the most deprived strata of society. The political establishment is furthermore likely to grant limited breathing space socially and culturally in order to prevent discontent from passing a critical threshold. The state elite has already proved capable of keeping cohesion when needed. This, in addition to reliance on trade with Eastern powers and some regional neighbours, will ensure the survival of the Islamic Republic in spite of "maximum pressure" from the US. However, survival does not mean growth and development – at least not in the short and medium term.

For sustainable growth and development, relations with Europe are indispensable. European products to modernise Iran's industry and increase its efficiency are as much on the wish list as knowledge transfer and capacity-building to improve the country's managerial capabilities. While frustration over European inability to withstand US pressure is widespread, limited hope remains that European–Iranian trade relations can be kept alive through the SPV, albeit in a limited manner. While the future of Europe–Iran relations will have only limited impact on the domestic power balance in Iran, these relations will certainly affect Iran's foreign policy conduct. Apart from the elite's orientation again becoming increasingly anti-Western, public sentiments opposing outreach to Europe will grow stronger. This trend is not only to the detriment of Europe's security and economic interests in the Middle East but also of its soft power among a nation of 82 million citizens.

The opportunity to turn the SPV into a functional track safeguarding limited trade relations with Iran should, therefore, not be missed. Shared interests in the fields of energy, migration, drug trafficking, extremism and environmental issues continue to provide numerous areas of meaningful and mutually beneficial cooperation. Europe is neither in the position to abandon the transatlantic bond, nor has it the luxury of side-lining relations with Iran – a regional power with formidable influence in the Middle East.

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