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IRAN: THREAT OR OPPORTUNITY?

A SELECTIVE ECONOMIC ENGAGEMENT STRATEGY PROPOSAL

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Iran: Threat or Opportunity? A Selective Economic Engagement Strategy Proposal

A selective economic engagement strategy with Iran will be more effective towards achieving US interests than the existing strategy of containment. Iran's opaque pursuit of nuclear technology, lack of democratic freedoms, poor human rights record, and support for terrorism conflict with the US interest of peace and stability for the region. The absence of overt engagement with Iran has failed to resolve these issues or alter Iranian behavior. A strategy of engagement utilizing economic means targeted at the Iranian general populace, coupled with a public diplomacy effort espousing economic and political reform provides a way to influence Iranian behavior and build a relationship that supports US interests.

This paper summarizes the relations between Iran and the US since the fall of the Shah, the reasons why current containment strategy is not effective, and highlights rising conditions that are conducive to engagement. An engagement strategy centered on selective economic engagement and public diplomacy is proposed, with elaboration of how the strategy can advance US interests. The strategy's potential for success is subsequently analyzed by examining its potential to overcome obstacles to execution and its effectiveness when put into action.

Current State of Affairs

The US hostage crisis in 1979 during the overthrow of the Shah effectively brought US and Iranian formal relations to an end. Relations worsened over the next decade due to US support of Iraq during the Iran-Iraq war, Iranian-sponsored terrorist group attacks, kidnappings and murder of American citizens, and the tragic shootdown of an Iran Air airliner by a US cruiser. Continued behavior counter to US interests in the 1990's led to increased economic sanctions, the most punitive enacted under President Clinton's policy of "dual-containment" against Iraq and Iran in 1995-96.¹ The 1997 election of politically moderate President Khatemi

led to limited engagement with Iran, but his negligible success to gain domestic reforms against the hard-line Council of Guardians reduced US motivation to improve bilateral relations. President Bush's 2002 statement labeling Iran a member of the "Axis of Evil" further estranged efforts for rapprochement.

An assessment of sanction effects on Iran does not indicate success. The US has banned any bilateral trade, US foreign investment, or US foreign aid to Iran. US sanctions also penalize third party countries (with business in the US) for investing in Iran's energy sector or providing weapons technology. The sanctions were initiated with the intent of "not trying to change the Iranian regime per se but rather its behavior..." yet the outward behavior of the regime after 24 years has not notably changed.²

One reason for the sanctions ineffectiveness is their limited impact on Iranian trade. Eighty to ninety percent of Iran's export trade is oil, a resource easily sold in any market. Iran compensated for the loss of the US market by shifting sales to other international buyers.³ Non-oil trade with the US has been impacted to a degree, yet many US and Iranian goods still reach the other's market via third party re-exportation, the most notable occurring in Dubai, UAE.⁴ It is estimated "under the table" trade totals between the two nations approach \$750 million annually.⁵

The US investment ban has affected Iran's economy to a degree, but many other nations also bypass investing in Iran (with the exception of the energy sector) due to austere Iranian foreign direct investment policies.⁶ The threat of US repercussions on third country investment in Iran's energy sector has not prevented some European and Russian companies from bidding on Iranian oil and gas contracts, which indicates the failure of US sanctions.⁷

Recent events indicate the likelihood of an environment conducive to engagement. Dissent within Iran against the extremist ruling clergy has been on the rise. An initial sign was Khatemi's election as a moderate candidate in 1997. In 1999, 2002 and 2003 Iranian students openly demonstrated against policies and decisions rendered by hard-line Islamic clerics. In September 2003, Iranian Vice President Ebtekar made a surprising comment about Iranian youths breaking social mores by stating, "The government should recognize and not suppress this rebellion. Islam teaches us that people are free and that religion cannot be imposed on them."⁸

There have been indications of a desire to engage with the US. US actions against Al Qaeda in Afghanistan received tacit support from Iranian entities.⁹ A 2002 Gallup Poll conducted for the Iranian government showed 74 % of the adult population supported dialogue with the US (the conservative judiciary discredited the poll and performed their own, which said 83% of Iran distrusts America).¹⁰ In April 2003, Iran's former president Rafsanjani stated support for holding a referendum on restoring ties with the US.¹¹ In May 2003, US and Iranian officials held secret talks in Geneva as part of a UN meeting to discuss postwar Iraq.¹²

The lack of progress in bilateral relations over the past 24 years indicates the need for a different approach. The US presence in neighboring Afghanistan and Iraq requires some level of engagement with Iran to facilitate US efforts. The US needs to move forward and engage Iran now to proactively create a regional environment amenable to US interests.

Selective Economic Engagement Strategy

The United States should effect selective economic engagement with Iran that benefits the common Iranian citizen (versus the ruling clergy or military) to demonstrate how economic interaction with the US can improve Iranian quality of life. A major part of the engagement

effort involves a robust public diplomacy campaign espousing the benefits of US trade for the average Iranian. Once market entry is achieved, the public diplomacy effort would be redirected to inform Iranians about US culture and democracy (as practiced in America) in order to capitalize on growing dissent with the hard-line rulers. Creating economic inroads into Iranian society can establish a cultural “beachhead” to influence political reform and provide a foundation for dialogue that furthers US interests.

The proposed strategy requires the modification of economic sanctions against Iran. The US would need to authorize trade in selected non-military or non-dual use goods consumed by the average citizen. Restrictions on US investment in Iranian housing, medical, educational, and non-nuclear energy sectors would also need to be lifted. Lastly, US sanctions against foreign aid to Iran would have to be repealed.

Lifting trade restrictions on items directly consumed by a typical household serves multiple US interests. First, there is a direct benefit to US manufacturers by gaining access to a new market for their products. Second, and probably more important, associated marketing efforts to sell those products to Iranians indirectly “markets” the US and its culture to Iran. Household wares, furniture, kitchen appliances, clothing, school supplies, televisions, and internet service can literally provide a “foot” into Iranian doors. Iranian citizens would benefit from the introduction of US goods by increased competition in their marketplace, which could ultimately lead to lower prices. US internet service providers would also enhance the public diplomacy effort by providing additional “windows to the world” for Iranians and help increase the number of internet users beyond the estimated 420,000 in Iran today.¹³ Bilateral trade would give rise to business relationships and create another means to positively represent America. US

companies normally establish their own in-country political contacts to effect business, which could serve as informal conduits for promulgating US government interests.

Strictly regulated US investment in Iran can positively impact the local populace by improving the economy. Iran's economy requires significant foreign investment in order to remain viable, which has led Iran to enact limited regulatory improvements to attract foreign direct investment.¹⁴ US investment in housing, medical and education sectors would result in direct benefits to regular Iranian and present US investors in a favorable light. US investors may not flock to Iran if restrictions are lifted, but making US capital available could induce further economic reform and lead to greater US economic influence.

Lifting sanctions (and third country penalties) on investment in the non-nuclear energy sector can improve bilateral relations while reducing tensions with foreign entities trying to pursue the same opportunities. Iran's domestic energy use is increasing by 7% a year, which is 6.5 times the global average.¹⁵ Iran has pursued nuclear power as a means to meet its energy needs, which has led to assertions about a parallel nuclear weapon program. US investment in non-nuclear power programs, such as hydroelectric dams or geothermal power plants, both viable in Iran, could motivate Iran to reduce its need for nuclear power. US investment in Iran's petroleum industry and resulting increase in oil production would help improve Iran's economy while also benefiting the US companies involved. There is the risk that Iran could apply increased oil revenues towards programs counter to US interests. If such a situation arises, the US can simply re-impose sanctions on investments in the energy sector. The US can offer a carrot, but still holds a stick.

US foreign aid to Iran for housing, medical and education projects is a means that puts benefits directly into the hands of the people. USAID project management controls funding and

has the capability to put locals to work on projects that benefit their communities. USAID also has means to implement cultural exchange programs, which, if successful and done with scrutiny, can provide Iranians with first hand experience of American democracy.

Public diplomacy is critical for the success of the proposed strategy. The message at the outset must communicate that the US intent for renewal of bilateral activity is to improve the quality of life of the Iranian citizenry. This places Council of Guardians in a position that if they deny American economic overtures, they act against the interest of the Iranian people. The most critical part of the public diplomacy effort would begin after bilateral economic activities commenced, modifying the message to emphasize American culture and democracy. The typical Iranian opinion of the US is formed from two sources: Hollywood and the CIA history in Iran.¹⁶ The lifestyles, opportunities and freedoms the regular American enjoys are relatively unknown. The intent of public diplomacy would be to create informed opinion on America rather than a “popular” one. This would serve US interests by planting the seeds of thought in Iranian minds that a government that shares power is infinitely preferable over one that is an absolute power.

There are multiple means to execute a public diplomacy campaign in Iran. Numerous press outlets along with an established broadcast journalism infrastructure provide ample media resources. Eighty percent of the population watches television, and many have access to satellite dishes which can receive broadcasts from the US.¹⁷ The possibility exists that Iranian media resources would not be objective in delivering the intended US message, or would be co-opted by hard-liners to distort it. Resources external to Iran would need to be utilized from the outset to ensure the US public diplomacy message is clearly heard. Radio Farda, a Voice of America production directed at Iran, and satellite TV networks are resources that provide such utility.

The selective economic engagement strategy seeks to avoid directly benefiting the Iranian government or military. However, the strategy considers the possibility of assisting government reformists in gaining popular support and countering the influence of the Council of Guardians. If Khatemi supports engagement with the US and directs his ministries to facilitate it, the US public diplomacy effort would credit his efforts, thereby increasing his popular support. The same would be done for any other public reformist. There is growing apathy in Iranian society towards reformist politicians, mainly due to their inability to enact domestic reforms over the veto power of the Council of Guardians. This apathy was displayed during 2003 Tehran elections when only a 12% of the voters went to the polls, resulting in hard-liners winning most seats on the city council.¹⁸ Increasing popular support for reformists could be the first steps towards effecting regime change.

Probability of Success

The probability of success depends on 1) gaining US support to execute the plan, 2) Iran agreeing to participate, and 3) the strategy's effectiveness to influence Iran's behavior. Specifically, the US wants to resolve issues with Iran's nuclear program, lack of democratic freedoms, human rights violations and support of terrorist groups.

Initially, the strategy must overcome US domestic hurdles. Congressional and Executive Branch authorities with sentiments against Iran have to be convinced engagement is the better course of action than containment/sanctions. The lack of progress after 24 years of non-engagement speaks for itself. Economic engagement provides access where none exists today. A strong point for this strategy is its minimal cost. The public diplomacy and initial aid effort are the only outlays, which could be offset by revenues accrued through trade with Iran. It must be noted that this strategy requires some level of "rehabilitation" of Iran to the US public.

Economic overtures could be justified for Iranian assistance in Afghanistan and abstention from the US-Iraq war.

Iranian acceptance of US economic overtures is not assured. A desire to engage with the US exists in Iran, but probably not within the Council of Guardians. The strategy places the Council in a position where rejection of the initiative shows insensitivity to the populace, which can undermine the Council's authority. A "yes" opens the door to engagement, while a "no" also serve US interests, though to a much lesser degree.

If Iran permits US economic engagement proposals to move forward, measurements of success are both objective and subjective. A major objective success would be a verifiable Iranian commitment not to pursue a nuclear weapons program, either by agreeing to substantial international inspections or canceling their current nuclear power programs. This strategy provides alternative options for Iran to meet its energy needs, utilizing US or other foreign investment resources. Sunk costs in existing nuclear power facilities may lead Iran to ignore those alternatives, which would leave their nuclear weapon intentions under suspicion. A means to ensure the nuclear issue is dealt with at the outset is to make all US investment ventures and lifting of third country penalties contingent upon an agreement to allow unimpeded international inspections of nuclear facilities. Removal of third country repercussions on investment in the energy sector would bring additional pressure from other countries for Iran to acquiesce and resolve the nuclear weapon issue. Since diplomatic relations do not exist, a third party country would need to be drafted to act as a US intermediary and negotiate an agreement by Iran to submit to inspections by the International Atomic Energy Agency. The best candidate for the job would one of the major European states that wants to invest in Iran's energy sector. The

intermediary could also provide utility in negotiating the necessary details required to launch economic ventures.

The strategy's ability to influence democratic reforms has strong potential because they create dialogue between Iranians and Americans, which essentially is non-existent today. In fact, initial success occurs when the dialogue starts. That dialogue, along with information made available through public diplomacy and product marketing efforts, will put a realistic face to American culture and democracy for Iranians and let them decide for themselves if their system needs improvement or not. The recent history of public demonstrations against the ruling clerics is a good indicator this strategy has potential to succeed. Substantial success would exist when the Council of Guardians and their sub-councils are removed from the electoral, judicial and legislative processes of the government. The ultimate decision of when and how that occurs rests with the Iranian populace. This strategy helps facilitate that decision. One significant characteristic of this strategy is the time factor required to achieve results - there is no time table, because one cannot calculate when a person forms an opinion strong enough to act on it. However, it does get the clock started.

Recent events have increased the probability of the strategy's success to influence Iranian behavior in regards to human rights. Ms. Shirin Ebadi, an Iranian Muslim, was recently awarded the Nobel Peace Prize in for her work on women and children's human rights in Iran. She was greeted by thousands upon her arrival back Tehran, with a large number giving a "hostile reception" to the reformist deputies present at the airport, expressing a sense of betrayal at their lack of progress to effect political reforms.¹⁹ Human rights already has a movement inside Iran. This strategy will help support it via the same dynamics which can influence democratic reform.

State support of terrorism is not directly targeted by this strategy, but can be indirectly influenced by effects that occur within the Iranian government. Linkage exists between Iran and Palestinian Islamic groups opposed to the Arab-Israeli peace process. Effectively dissolving those links requires direct engagement with the government of Iran via a third party intermediary or at a formal diplomatic level. The economic engagement strategy provides the initial step for the latter.

Conclusion

Current strategy with Iran does not involve any true engagement, which has proven counterproductive to influence the state's behavior. The selective economic engagement strategy provides ways to initiate interaction that is selective in nature on purpose. The intent is to engage the people of Iran in order to influence change within the society and ultimately the government. The strategy effects initial engagement through economic interaction (most interstate relationships historically were built upon trade) accompanied by public diplomacy emphasizing the US purpose of engagement is to improve the quality of life of the Iranian people. Part of improving their quality of life is to present American culture and freedoms to let them better understand us, and motivate them to incorporate reforms into their own environment. The strategy provides a means for addressing the issue of proliferation of nuclear weapons in Iran, along with democratic reform and human rights. Iran's sponsorship of terrorist groups is only indirectly treated by this strategy. The strategy's ultimate goal is to achieve the US interest of peace and stability in the region. It provides a groundwork of dialogue and interaction between the two nations to serve as a basis for working towards formal diplomatic relations in the future.

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