

Prepared Testimony of Dr. Ray Takeyh
Professor of National Security Studies & Director of Studies, Near East and South
Asia Center, National Defense University
October 29, 2003
House subcommittee on Financial Services

Iran and World Bank Loans

Much has changed in the Middle East during the past year. Saddam's tyranny has been finally displaced and even the most recalcitrant Arab despots are speaking the language of political reform. In the midst of these cataclysmic changes, the one state in the region whose priorities and policies appear constant is the Islamic Republic of Iran. On the surface, the clerical state seems committed to its course of confrontation with the United States and to its defiance of international norms on issues such as terrorism and proliferation of weapons of mass destruction.

The remarkable events of the recent past, however, have had a subtle yet perceptible impact on Tehran's foreign policy, opening the possibility of international pressure having a measurable impact on Iran's behavior. Throughout the late 1990s despite the assumption of the presidency by the reformist Muhammad Khatami, factional politics, competing centers of power and the legacy of revolution obstructed Iran's uneasy transition from a revisionist to a pragmatic state. Too often, national interests were sacrificed at the altar of revolutionary dogma.

However, the exigencies of the post Iraq war period and the massive projection of US power on Iran's periphery have finally shattered old taboos and engendered a new consensus behind a foreign policy of pragmatism. For the first time, the clerical estate is exhibiting much more sensitivity toward international opinion and is finally responding to multilateral diplomacy. Paradoxically, it took the arrival of the more hawkish Bush administration and its wars in the Middle East to finally press Tehran toward a more judicious suppression of its retrograde revolutionary impulses.

As the recent Iranian acceptance of the IAEA mandates reveal, should the international community come together and press Iran, Tehran will respond positively. The suspension of World Bank loans to Iran can make an impression on the recalcitrant theocracy only if they are part of a larger, multilateral strategy. The mere denial of such loans to Iran, absent other measures, will have only a marginal impact and is unlikely to fundamentally alter the demarcations of the debate within Iran's corridors of power.

The trajectory of Iran's Foreign Policy: Since the Islamic Republic's inception in 1979, Iran's international orientation has undergone a steady yet halting march toward pragmatism. For Ayatollah Ruhollah Khomeini, the founder of the republic, the export of the revolution overrode the demands of Iranian national interest and the restrictions of statecraft. The Grand Ayatollah saw himself as acting not on behalf of a state, but the entire Islamic community. He therefore felt limited compunction about interfering in the

internal affairs of sovereign states. Iran would continuously sacrifice its tangible interests in order to foment uprisings in the Gulf, intensify Palestinian rejectionism and provoke unneeded confrontations with the United States. International isolation, economic hardship and a devastating eight-year war with Iraq were the sole byproducts of Khomeini's divisive diplomacy.

Khomeini's passing in 1989 inevitably led to a reassessment of Iran's foreign relations, as the task of reconstruction after the Iran-Iraq war necessitated coming to terms with the international community. However, the continued primacy of revolutionary passions prevented a fundamental break with the past. The substantive revision of Iran's orientation had to await the ascendance of the moderate cleric Muhammad Khatami to the presidency in 1997. Although Khatami and his reformist allies failed to usher in a liberalized theocracy, they did set the stage for Iran's integration into the international community and generated an internal coalition that was much more sensitive to international sensibilities and concerns.

The reformist foreign policy focused on expansion of trade, cooperative security measures and diplomatic dialogue as a means of advancing Iran's interests and projecting its influence. Along these lines, Iran normalized relations with the Gulf states and the European Union and resisted the temptation of exporting its Islamist message to the contested lands of Central Asia. Ideological dogma and the propagation of revolutionary Islam were not only inconsistent with the reformist perspective, but also had a limited utility in the age of globalization.

Khatami's accomplishments, however, were qualified. Policies on key issues such as Iran's hostility to the United States and the Israeli-Palestinian peace process continued to derive from a self-defeating ideological calculus. Confident of their ideological verities and secure in their confrontational posture, Khomeini's remaining disciples—particularly the Spiritual Leader Ayatollah Ali Khamenei—employed their impressive institutional powers to undermine initiatives designed to lessen tensions with the "Great Satan." Beyond ideological rigidity, Iran's factional politics held foreign policy issues hostage to the domestic political stalemate. The conservatives, mindful of the enormous popular credit that reformers would reap should they succeed in normalizing ties with Washington, systematically subverted all such efforts. Through much of the late 1990s, Iran was a perplexing state whose foreign policy was driven by a contradictory mixture of revolutionary convictions and practical considerations. The Islamic Republic had reached an impasse.

The reactionary elements of the Iranian state could afford their confrontational ideology, as the benefits garnered by such militancy outweighed the costs. The American colossus was too distant, its leaders too fickle and its struggles against terrorism more symbolic than real. The Bush administration, however, with its expansive vision for the Middle East and its military displacement of two recalcitrant regimes, has now confronted the Iranian Right with realities it can no longer ignore and responsibilities it can no longer evade. A powerful coalition of reformers and conservatives is coalescing around the understanding that, in the altered regional landscape, Iran must come to terms

with the international community. Although Iran's domestic political terrain is still too fragile and contested for a grand deal, it is uniquely suitable for sustained international pressure. Iran's theocracy is much more attuned to the demands of the international community and is much more prone than in the past to make concessions should it confront international solidarity.

Multilateral Success: No other issue has disturbed the Bush administration and indeed the entire international community, more than Iran's desire for nuclear weapons. The largely completed Bushehr plant, the extensive uranium enrichment facilities in Natanz and similarly advanced uranium conversion plant in Esfahan indicate that Iran has invested considerable sums in its nuclear infrastructure. The Bush administration's success in this realm came when it crafted a multilateral consensus against Iran's proliferation tendencies. The successful US diplomacy managed to obtain a unanimous resolution through the IAEA demanding Iranian compliance with its non-proliferation agreements. The US pressure alone would not have succeeded had it not been buttressed by concrete measures by the Europeans and Japan. The European Union's refusal to complete its trade and cooperation agreement with Tehran unless the theocracy accepted the mandates of the IAEA made an important and indeed decisive impression on Iran rulers. In the meantime, Japan was similarly important in propelling Iran toward the proper path, as Tokyo resolutely refused to sign additional commercial contracts with Iran, particularly in the area of oil exploration, until Tehran abided by its non-proliferation pledges. The combined pressures of US and its allies ultimately forced Iran into acquiescing to the IAEA and accepting its enhanced protocols.

The reality remains that Iran's militancy is not constant; its pragmatic curtailment of terrorism in the Persian Gulf and Europe demonstrates that diplomatic pressure can encourage moderation from the Islamic Republic. The lessons of the experience of the European and Gulf states are indeed instructive. Long-standing practices of the Islamic Republic were the assassination of dissidents living in Europe and support for opposition forces in the Gulf sheikdoms. These reached their apex in 1992, when Iranian agents assassinated exile Kurdish leaders in Mykonos restaurant in Berlin. The 1997 conviction of Iranian agents in a Berlin court led the European Union to promptly withdraw its envoys from Tehran while Germany imposed trade restrictions on Iran. Given the value of European commercial and diplomatic ties, Iran abandoned the practice of targeting exiles abroad and in essence, closed one of the darker chapters in its terrorism portfolio. Similarly, a precondition for Saudi Arabia and the Gulf states normalizing relations with Iran was its cessation of support for opposition groups within those countries. Once more, given the strategic and economic value of resumed relations, Iran ceased its interference in the internal affairs of Gulf states. Both episodes reveal that confronted with multilateral economic pressure, Iran will accept the demands of the international community and cease its objectionable practices.

Conclusions: The suspension of World Bank loans to Iran will not impact Iran's deliberations on issues of terrorism and weapons of mass destruction. The trajectory of Iran's foreign policy and its overall conduct reveals that the theocracy responds only when it is confronted with multilateral pressure spearheaded by its important commercial

partners, particularly the EU and Japan. A US policy that encompasses American pressure and European determination will have far-reaching effects on Iran and extract important concessions from the theocracy. Should the suspension of the World Bank loans to Iran be part of a larger, concerted, multilateral economic pressure then it will produce the desirable results. However, as a solitary measure, it is unlikely to be an effective tool of coercing Iran in the right direction.