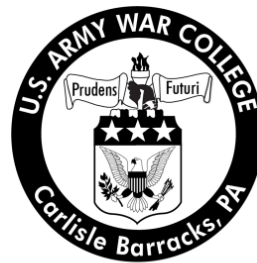


Middle East Stability and the Economic Ambitions of Iran

by

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United States Army War College
Class of 2012

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MIDDLE EAST STABILITY AND THE ECONOMIC AMBITIONS OF IRAN

by

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The strategic economic goals and ambitions of Iran and the Iranian capability to attain them present a challenge that when understood could provide an opportunity in which engagement is possible. Recent events within the Middle East and the actions of Iran have resulted in significant socioeconomic and security issues within the region that warrant examination of the effectiveness of current U.S. policy. It can be argued that the future strategic environment of the Middle East is dependent upon the ability of the United States, in cooperation with international and regional partners, to effectively engage the Iranian government. Iran's pursuit of nuclear weapons, support of terrorism, by proxy aggression toward Israel and others, and potential emergence as a regional power further threatens to destabilize the Middle East. Iran is postured to further upset the already tenuous balance of power in the Middle East given the uncertain outcome of the Arab Spring and the withdrawal of the United States military and its international coalition partners from Iraq. This paper will explore the economic ambitions of Iran that underscore their actions and the strategic implications of these policies as they relate to the United States National Security Strategy for the region.

MIDDLE EAST STABILITY AND THE ECONOMIC AMBITIONS OF IRAN

2011 may be viewed as one of the most important years in the 21st Century for shaping the future of the Middle East. The watershed events of 2011 have been numerous and may well represent a tipping point for power and influence within the region. The opening of Iran's Bushehr Nuclear Power Plant in September and evidence of a Uranium enrichment program within Iran have sparked deep concerns in the international community.¹ The revolutions, civil wars, and protests that define the ongoing Arab Spring, and the withdrawal of American Troops from Iraq in December of 2011, created a power vacuum in the Middle East which both Turkey and Iran have sought to fill. President Mahmoud Ahmadinejad confirmed Iran's desire to fill this void as early as 2007, when he was quoted as saying "The political power of the occupiers is collapsing rapidly... soon, we will see a huge power vacuum in the region. Of course, we are prepared to fill the gap, with the help of neighbors and regional friends like Saudi Arabia, and with the help of the Iraqi nation."²

Not since the American invasion of Iraq in the 1990s, which greatly diminished the military power of Iran's longtime nemesis Saddam Hussein, has Iran been in a better position to exploit its regional environment and fill the void of power and influence.³ The liberation of Iraq and death of Saddam Hussein, the severe weakening of the Taliban and degradation of its illicit activities have solidified Iran's position as the premier power in the Middle East. In less than a decade, Iran's primary antagonists have effectively been eliminated. As the balance of power shifts within the region, Iran has become more assertive in the application of all elements of its national power to serve its national interests.

President Mahmoud Ahmadinejad continues to espouse the right of Iran to develop its nuclear program, to include the enrichment of uranium.⁴ As recently as March 2012, Iranian state television quoted Ahmadinejad as stating that “Iran doesn’t care about your bombs, warships and planes...western powers should recognize the rights of nations and cooperate with them to survive.”⁵ Iran’s deep-seated enmity toward Israel and vehement rejection of western influence remains center stage in its foreign policy rhetoric. Iran’s naval exercises in the Strait of Hormuz and threats to close the waterway if sanctions are imposed on its oil exports serve as further evidence of its assertiveness and desire to dominate the regional political and economic landscape, while challenging Western interests.

Ray Takeyh suggests that Iran has undergone a change of course over the last decade in which the traditional tension between the pragmatic and revolutionary forces internal to Iran have been replaced by a “war generation” with imperial ambitions that leverages any perceived advantage to their uppermost limits.⁶ Iran’s development of nuclear technology, demonstrations of naval power in the Strait of Hormuz, and open opposition to U.S. influence in the region have served to bolster national pride among many Iranians, scoring a domestic victory for the Supreme Leader and Ahmadinejad. A new national narrative centered on Iran’s position of regional power has revitalized the identity of Iran among its people as the fervor of the “revolution” fades.

In terms of traditional measures of economic power, Iran is the largest and arguably the most influential state within the Middle East. Iran has the second largest economy in terms of gross national product (GDP) and the second largest population in the region.⁷ The proven oil and gas reserves of the Islamic Republic are the second and

third largest in the world respectively and collectively represent approximately 26% of total global reserves.⁸ Iran's geographic position in the Middle East, and as a bridge into Central Asia, the Caspian Basin, and the Trans-Caucasus, their transportation infrastructure and extensive coastline along the Gulf of Oman and the Persian Gulf provide the Islamic state access to sea lines of communication for trade and the projection of naval power in these waterways, to include the Strait of Hormuz.

In this paper I will explore the economic ambitions of the Islamic Republic of Iran and discuss the tensions, opportunities, and vulnerabilities that influence their ability to attain them in support of national interests. I will frame the discussion regarding Iran's economic aims within the context of current United States policy toward the Islamic Republic to support the assertion that a U.S. policy of engagement through direct dialogue is the best approach to address Iran's potential emergence as a regional power.

The theocratic political structure, internal power politics, the role of quasi-state actors, Iran's national identity, and the national interests derived from the 1979 revolution all play a part in defining the economic objectives of the Islamic Republic. To better understand the economic aims of Iran it is useful to explore these dynamic relationships to identify the forces that create tension between Iran's ruling clerics, public and private institutions, the people, regional actors, and the broader international community. As these relationships emerged from the political and economic issues that arose under the rule of the Shah during the Pahlavi Dynasty it is important to first provide the historical context that set the conditions for the revolution.

The Pahlavi Dynasty and the Pre-Revolution Economy of Iran (1960-1979)

The state of the Iranian economy in the two decades preceding the 1979 revolution was one of substantial growth and prosperity.⁹ Inflation averaged below 3.7% with an annual real growth rate of 9.6% for the period of 1960 to 1977 according to World Bank records.¹⁰ All sectors of the economy experienced significant growth and expansion as billions of dollars in oil revenues fueled government investment in urbanization, infrastructure, industry, agriculture and hydrocarbons.¹¹ Though the government exerted control in oil, defense, and other key industries, the private sector exercised an increasingly active role in the economy.

The 1975 Law for the Expansion of Ownership in production enterprises, as one of the principles of the Shah's White Revolution, provided for the sale of shares to workers and private investors.¹² As a result of the Shah's policies, significant private investments, and soaring oil revenues, the national output of Iran grew by nearly 1,800 percent from 1960 to 1978.¹³ This period was also marked by improvements in health and education with decreases in infant mortality, malnutrition, endemic diseases, and illiteracy. The Pahlavi government's emphasis on rapid growth, modernization, social welfare reform, and expansion into the global economy appeared to produce remarkable gains to the benefit of the entire Iranian community, in large part due to land redistribution programs, job growth, higher standards of living, and low to moderate inflation.¹⁴ However, the social health of Iran was not as vibrant as its economy. The policies of the Pahlavi regime rewarded the sociopolitical elite thus increasing the gap between the lower and upper classes, using the military and secret security force (SAVAK) to repress the voices of the middle class and a growing opposition movement.¹⁵

By 1978 the government's expenditures in its national defense, nuclear energy industrialization, and social welfare programs exceeded revenues. Falling oil prices (largely leveraged to fund other government programs), as well as insufficient physical and plant capabilities were inadequate to meet domestic demand for imports. The economy was out of balance as rapid growth resulted in a shortage of skilled manpower, material, and energy inputs to sustain the unprecedented growth of the previous twenty years.¹⁶ As a result of the economic imbalance, the government became increasingly vulnerable to attacks by opposition groups. In an attempt to stabilize society and the economy, the Shah instituted emergency price controls and restrictions to curb demand and fight rising inflation.¹⁷ These measures were implemented too quickly, came too late, and proved to be ineffective in the face of high global inflation, increasing raw material costs, and decreased demand for oil on the international market.¹⁸ In the late 1970s social unrest spread rapidly in the face of continued economic decline which threatened the Shah's tenuous hold on power in Iran.

The long history of repressive and brutal actions by the Shah's government, coupled with the poor state of the economy, rocked the confidence of the private business sector and alienated the Iranian people.¹⁹ Despite the Shah's state rescue and recovery programs, unemployment in construction and unskilled labor industries compounded the problems facing the Pahlavi regime.²⁰ Critics of the Shah's regime and the momentum of opposition movements gained strength and popular support as the economic situation failed to improve.²¹ The Shah's desire to achieve regional military superiority, emerge as a major industrial power within a generation, and create a Western European style welfare state had proved to be overly ambitious, ultimately

resulting in the fall of the Pahlavi regime in 1979.²² The return of Khomeini to Iranian soil on February 1 of that year marked the end of the longstanding Pahlavi dynasty, as the military largely withdrew to a position of neutrality and rebels took control of key sections of Tehran.²³

Power Politics in Post Revolutionary Iran

In the wake of the 1979 Islamic Revolution, Iran was transformed from a largely secular pro-Western monarchy into a theocratic state in which the fundamental law of the nation became that of Sharia Law.²⁴ The most influential leaders of the state in turn became the religious clerics of the Shi'a Islamic religion, with primary power over the state given to the Supreme Leader (Marja al Taqlid).²⁵ In the decades following the revolution there has been constant tension within the political landscape of the Islamic Republic comprised of the conservative right, the pragmatic right or centrists, and the reformists of the Islamic left.²⁶ Unlike western politics, Iranians are not divided into parties, but rather prefer to align under political factions that represent a coalition of like minded organizations.²⁷

The traditional hardliners of the conservative right have sought to maintain the Islamic principles that formed the foundation of the revolution by consolidating power and instituting populist economic policies.²⁸ There are several groups that make up the conservative bloc, such as the Combatant Clerics Association (or Jameh) and Party of God (Ansar).²⁹ The conservatives are primarily comprised of protectionists that fiercely defend the velayet-e-faqih system of rule by the jurisprudent, in which the Supreme Leader is granted power over all aspects of Iran's Shi'a Islamic society.³⁰ The pragmatists prefer more Persian focused technocratic leadership and support market oriented economic reform, including foreign investment.³¹ The reformist hardliners on

the other hand seek to moderate clerical rule by strengthening civil institutions with more liberal social policies, Reformers are more tolerant of ethnic and religious minorities and favor economic efforts designed to redistribute wealth.³² For the first decade of the Islamic Republic's existence the Ayatollah Khomeini struggled to consolidate his power as the Supreme Leader by forming a tenuous alliance between these competing political camps. Within two years of the revolution the conservatives emerged as the dominant political school of thought and actively sought to eliminate those that opposed their views.³³

Since the revolution centrists such as President Rafsanjani (1989-1997), and reformers such as President Khatami (1997-2004), have attempted to institute more liberal reforms without any notable success.³⁴ These political schools of thought were unable to sustain support for such changes in the face of opposition by conservative clerics within political and economic circles.³⁵ Some political factions of conservative clerics, such as the Party of God, and opposition groups have employed violence to force resignations and suppress reformist media, while using Iran's court system to halt reforms.³⁶ Though some reforms were ultimately instituted due to strong popular opinion, the changes were in fact unremarkable. The conservatives eventually regained control of Iran's parliament in 2004. The election of President Ahmadinejad, an avid conservative, in 2004 marked a return to revolutionary values and more authoritarian governance.³⁷

Ahmadinejad's reelection in 2009, in the highly contested presidential election that sparked what was referred to as the green revolution, has made any hope of sweeping reforms unlikely. If the conservative clerics maintain control of Iran's

parliament in the upcoming 2012 elections, the trend of pragmatic conservative politics will continue to underpin Iran's policy designed to advance national interests. It is important to understand that any attempt at reform by Iran's president, parliament, or other political or social organization is subject to the approval of the Guardian Council and ultimately the Supreme Leader. Landmark change will not occur without the support of Khamenei as Iran's highest political and religious authority in the Islamic Republic.

National Interests and Iranian Economics under the Islamic Republic

The national interests of the Islamic Republic of Iran have remained virtually unchanged since the 1979 revolution. Survival of the Islamic Republic as it exists today, the resistance of foreign influence, and the promotion of Islam are central to Supreme Leader Ayatollah Khamenei's current policy for Iran and serve as the national narrative that underpins and subordinates all other policy.³⁸ As the founder of the Islamic Republic, Ayatollah Khomeini's vision for an ideal Islamic society emphasized the spiritual over the material, where the economy was a secondary consideration to the religious tenets of Islam.³⁹ In other words, Khomeini believed that an austere and puritanical lifestyle better facilitated the intellectual, cultural, and spiritual development of man and society.⁴⁰ The Islamic Republic therefore rejected Western capitalist economic models and chose to place the majority of Iran's natural resources and key industries under government control.⁴¹ Through public ownership the government would ensure Islamic principles were promoted in the conduct of business and served the greater good – Islam. The equitable redistribution of wealth and greater social welfare for the “deprived masses” were central concepts in Khomeini's Islamic economy.⁴²

The official policy was to promote social justice by reorienting the Iranian economy away from consumption, and attaining self-reliance and self-sufficiency.⁴³ To

achieve this objective Iran had to pursue import substitutions, deter foreign investment, and reject outside pressure from free market systems. Under Article 44 of the Iranian constitution the private sector is limited, and is intended to supplement the economic activities of the cooperative and state sectors.⁴⁴ Iran's economic policies where in reality tantamount to economic isolation and ran counter to accepted international norms where the advancement of society is promoted through economic development and integration into international systems.⁴⁵

Excessive state ownership in petroleum and industrial sectors, state welfare programs, government subsidies, religious and ideological tensions, restrictions on foreign investment, heavy reliance on oil revenues, and international sanctions have resulted in the relatively poor performance of Iran's economy. Attempts to reconcile Islamic theocratic ideals with the economic reality of globalization, international free market economies, and the fiscal impact of mounting sanctions since 1979, have proved frustrating for Iran's leadership since the revolution.⁴⁶ The articles and provisions of Iran's constitution and the Guardian Councils interpretations of Shi'a Islam under Sharia Law are significant obstacles to resolving these tensions, but are still secondary to the power and influence afforded the Supreme Leader.

The Iranian Constitution and Islamic Economic Principles

The majority of the articles under the Republic's constitution are designed to preserve Islamic values for a "just society," in accordance with the interpretation of Sharia Law by the Guardian Council, where the people, their property, and the fruits of their labor support the advancement of state objectives for Iranian society.⁴⁷ Strong public and semi-private ownership affords the state greater control and access to revenues, while limiting the potential influence of an educated middle class in the

private industry.⁴⁸ In turn, the Islamic state has safeguarded the Islamic Republic from undo foreign influence by limiting outside investment and ownership under article 44 of Iran's constitution.⁴⁹ However, this in turn sacrifices opportunities for growth attributed to health levels of private sector and foreign investment competition in the global economy. Oil revenues, which accounted for 73% of government revenues from 1990-1995, continue to be used as a crutch to support economic development in Iran's limping economy.⁵⁰

Iran's economic policies have also created an underground economy by which private industry competes with quasi-state actors and semi-private commercial entities such as the Bonyads (non-profit foundations) and Islamic Revolutionary Guard Corp or IRGC (a branch of Iran's military).⁵¹ These non-private organizations and economic stakeholders enjoy the advantage of low interest loans and limited government oversight, which provide for a distinct advantage over private sector competition.⁵² The Bonyads and the IRGC therefore have no vested interest in reforms intended to privatize industry, and any effort to do so has, and will continue to be, resisted by these organizations due to their great influence within Iran's political circles.⁵³

Challenges and Vulnerabilities

Sanctions. U.S. policy towards Iran has centered on sanctions that are intended to strain Iran's economy by restricting revenues generated from exports and limiting the import of military equipment, dual use items, and advanced technology. Recent U.S. and EU sanctions against the Islamic Republic's Central Bank have the potential to cripple the state if critical oil customers support the measures. For instance, If China, Japan, India, and South Korea found alternate oil suppliers it would reduce Iran's oil revenues by up to 60%.⁵⁴ The economic pressure exerted on the government,

institutions, and people of Iran by decades of sanctions has been significant. Any progress made toward a more prosperous and stable economy within Iran has been, and will continue to be, hampered by international restrictions placed on its financial, energy, trade, and business sectors.

Black Gold Economy. The discovery of oil in Iran by the British in 1908 served as a blessing and a curse for the Iranians. It established the strategic importance of Iran within the international community and provided extensive revenues to fund rapid growth and modernization projects in the 20th century.⁵⁵ To the detriment of Iran, these revenues have been excessively leveraged to fund military modernization, welfare programs, and government subsidies representing a significant percentage of the country's gross domestic product.⁵⁶ Despite Tehran's attempts to diversify the economy, the oil and gas industry is still the critical engine of economic growth. Oil revenues accounted for sixty-five to seventy percent of government revenues in fiscal year 2008-2009, although it comprised only around 10% of the gross domestic product.⁵⁷ This trend has remained fairly steady over the last few decades.

Since the 1950's the propensity to use oil revenues as a fix for the economic and social ills, and to offset inefficiencies in public owned sectors has created an appetite for government spending that is subject to oil price fluctuations in global markets. Additionally these funds have been used to curtail the impact from sanctions imposed on the Islamic republic since its inception, further compounding the problem of oil revenue dependency. Though Iran's oil production is limited as a member of the Organization of Petroleum Exporting Countries (OPEC), its production capacity has not

been restored to pre-revolutionary levels and remains a major hurdle to economic growth and sustainability if Iran's quotas under OPEC were to increase.⁵⁸

Social Issues. Iran is currently faced with significant domestic economic challenges that threaten the legitimacy of the Islamic regime. Iran's population has more than doubled since the 1979 revolution resulting in a large youth bulge. Unemployment has exceeded 10% for over a decade, with over 750,000 new entries into the job market every year.⁵⁹ As a result, nearly one in five Iranians lives in poverty and relies on government subsidies for subsistence. Excessive government spending, high inflation, and subsidies for food, fuel, housing and other social programs have depleted Iran's Oil Stabilization Fund reserves.⁶⁰ Iran's exposure to economic pressure is further exacerbated by fluctuations in international oil prices, sanctions, and a largely inefficient state-dominated business sector.⁶¹

Attempts at economic reform intended to address these issues have generated mixed results in recent years due to internal resistance from various groups within Iran's political establishment.⁶² Internal domestic economic mismanagement and poor fiscal policy have also impacted Iran's ability to overcome vulnerability in its economy.⁶³ The Islamic Republic's efforts to privatize industry and reduce subsidies have been slow in coming. President Ahmadinejad's continued attempts to control interest rates, and increase the money supply have not generated any marked improvement in the domestic situation and may be contributing to higher inflation rates.⁶⁴

Successful transition to a more market-based economy that encourages robust private ownership and foreign investment would have a profound positive impact on Iran's economic situation, but the ability of Iran's leadership to effect needed changes in

the face of a broad range of sanctions is questionable. In addition, internal resistance by the political elite and other influential economic stakeholders is expected to remain as a significant obstacle to reforms.

The Bonyads. These institutions are charged with providing for the disabled war veterans, aiding the poor and propagating Islam, having control of the confiscated assets of the Shah and access to nearly 40% of the nation's non oil economy.⁶⁵ The United States and several independent analysts believe that the foundations of the bonyads channel their profits to support various ideological, political, and personal causes, wielding considerable political clout within the Islamic republic's political and economic systems.⁶⁶ These powerful foundations do not pay taxes, are only subject to oversight by the Supreme Leader, and are ripe with corruption. Any legitimate effort by the legislative, economic, or judicial bodies of the government to institute controls or reforms that jeopardize the interest of the bonyads have met with stiff opposition from the conservative clerics that operate them.⁶⁷ The Congressional Research Service, in a 2010 report on Iran's economic condition, goes on to say that many of the shares of public companies have in fact been sold to the bonyads bringing the government's efforts to privatization public industry into question.⁶⁸ Despite the considerable influence of the bonyads, they currently remain under the direct control of the Supreme Leader and their activities are therefore assumed to be approved by Khamenei. The clerics that operate the bonyads prefer that the status-quos be maintained and therefore represent some risk to the legitimacy of Khamenei and Ahmadinejad as large segments of the Iranian population and the international community view them as being ripe with corruption and elitist cronyism.⁶⁹

The Islamic Revolutionary Guard Corps (IRGC). As a branch of Iran's military, the IRGC is also an influential entity within Iran's economic and political systems. Originally established in post revolutionary Iran, the IRGC has a substantial involvement in commercial activity within the construction, petrochemical (oil and gas), and telecommunications sectors that are undergoing privatization.⁷⁰ The Revolutionary guard has also won several lucrative construction contracts over private enterprise further exacerbating any real effort at economic reform.⁷¹ The IRGC is responsible for the protection of the Supreme Leader, and by virtue of this relationship has become a major power broker in Iranian politics. The U.S. has imposed sanctions against the IRGC, asserting that the Republican Guard supports terrorism and engages in money laundering, illicit trafficking, and black market trade designed to undermine U.S. interests and circumvent sanctions on trade.⁷²

Iran's Economic Objectives – Regional Influence and International Prestige

Iran's economic objectives are designed to support more salient diplomatic and military outcomes. Resisting Western influence and promoting regional hegemony have primacy in the narrative of Iran's national interests. The state's economic endeavors serve as the ways and means by which to achieve them. Iranian foreign policy remains "U.S. centric" in an attempt to exploit and promote anti-American sentiment around the globe using oil and gas revenues to reward its friends, partners, and allies.⁷³ The leaders in Tehran perceive the United States to be an existential threat to the survival of the Islamic Republic and are employing a dual track strategy of deterrence and economic competition to counter it.⁷⁴

The presence of the United States and its non-Middle Eastern coalition partners in the region restrict the ability of Iran to exert its influence to achieve regional

hegemony and continue to frustrate Iran's leadership as they pursue their economic goals. The continued levying of sanctions against Iran serves to further reinforce Tehran's view of the United States as its primary opposition to achieving not only regional supremacy, but political legitimacy within the international community and recognition as a global economic player.

This presents an opportunity to engage Iran through a combination of economic incentives and normalized relations, but only if the United States clearly conveys a message to Tehran that it is willing to reexamine its policy of isolating the Islamic Republic in favor of normalized relations. Establishing diplomatic relations through third party nations, followed by direct dialogue and a series of meaningful trust building "quid pro quo" concessions could begin to cool historically heated rhetoric on the part of both Iran and the U.S. Much like the approach taken toward China by President Nixon and Henry Kissinger in the 1970s, a solid first step is needed to set the course for better relations over the next decade or two.

Increased Oil Refinement Capacity. Iran currently imports thirty to forty percent of its gasoline from external suppliers, which are under pressure to restrict trade activity with the Islamic republic due to sanctions.⁷⁵ Iran is actively pursuing projects to increase its crude oil processing capacity to reduce its reliance on gas imports. According to the National Iranian Oil Refining & Distribution Company (NIORDC), one of the four subsidiaries of Iran's Ministry of Petroleum, seven of its nine existing refineries are scheduled for upgrades and improvements, which are projected to increase crude oil and gas condensate production from 1.6 million barrels per day (2007 levels) to 3.3 million barrels per day by 2012.⁷⁶

In 2009, Iran had increased its refinement capability to 1.86 million barrels per day, representing a 16 percent increase since 2007.⁷⁷ Increased crude oil and gas refinement capacity will effectively reduce Iran's exposure to potential sanctions on its gas imports. Construction of Iran's new Persian Gulf Star Oil refinery is scheduled to be completed by 2015 as part of the Islamic Republic's Fifth Five Year Development Plan according to Iran's Oil Ministry. However, new sanctions designed to restrict international business with Iran's Central Bank will, if effective, reduce the state's oil export revenues, which are needed to fund the multi-year upgrade and improvement projects.⁷⁸

Power Partnerships – China & Russia. U.S. policy makers continue to be frustrated by the role that China and Russia play in countering U.S. efforts to contain and isolate Iran.⁷⁹ Iran has been highly effective at leveraging the trade relationships with both Russia and China, specifically their dependence on oil exports, to garner support against U.S. and international sanctions. On January 9, 2012, China proved yet again that building international support for sanctions against Iran is difficult at best. Chinese Deputy Foreign Minister Cui Tiankai publicly rebuked the U.S for the latest sanctions imposed on Iran, refusing to link Iran's nuclear program to trade.⁸⁰ This announcement came on the eve of a visit to China by U.S. Treasury Secretary Timothy Geithner that was intended to secure support for these expanded sanctions on Tehran's oil industry.⁸¹ Tiankai went on to say that "The normal trade relations and energy cooperation between China and Iran have nothing to do with the nuclear issue...We should not mix issues with different natures, and China's legitimate concerns and demands should be respected."⁸² Russia followed China's lead, effectively killing any

hope of passing any meaningful resolutions regarding sanctions against Iran through UN channels.⁸³

Despite the setbacks at the UN, the United States and the European Union (EU) have successfully managed to reduce the demand for Iran's oil exports within the broader international community; however, the willingness of China to fill the purchasing gap negates any impact that sanctions would have on Iran's oil revenues. It is important to note that Iran's ability to produce and export oil, as well as stability in the region, is critical to China's interests given that nearly 50% of China's oil imports come through the Strait of Hormuz with a significant percentage of that oil provided by Iran.

Oil prices have recently topped \$99 to \$103 per barrel, which is well above Iran's estimated break even point of \$85-95 per barrel.⁸⁴ With little or no drop in export quantity, current oil price levels will generate a modest surplus in Iran's oil revenue reserves thus minimizing internal pressure to enact needed economic reforms in spite of sanctions. In addition, Iran-China trade has risen by 52% following U.S. and UN sanctions imposed against Iran in June 2010, with total trade between the two countries expected to exceed \$45 billion by March of 2012.⁸⁵

Though Russia is a trade partner with Iran, total trade between the two states had only grown to about \$3.5 billion as of 2008, which according to Russian officials is attributed to the negative impact of the global financial crisis.⁸⁶ Of greater importance is the cooperation between Russia and Iran in the energy sector in which Russia is assisting Iran in the development of its oil, gas, and electrical production capacity. Iran and Russia are estimated to collectively hold 18% of the world's crude oil and 40% of the world's natural gas reserves. In July 2010, Iran and Russia signed an agreement

establishing a joint oil exchange, which has the potential to become a leader in the global market with a combined production capacity of nearly 15 million barrels of oil per day.⁸⁷ If successful, the new exchange would serve to challenge the long term monopoly held by the New York and London exchanges in crude oil commodity trading.

Regional Trade and Energy Cooperation. The presence of U.S and NATO troops in the Middle East and South Asia are considered a significant threat by Iran. In response Iran has actively pursued an economic strategy designed to strengthen regional relationships by investing in energy and transportation infrastructure that promotes mutual cooperation and trade. By partnering with neighboring countries on various projects, Iran has successfully secured a position of greater economic and political influence within the region. Iran's regional investments in the last decade have provided access to previously untapped markets in Afghanistan, Iraq, and Turkey and contributed to Iran's success at countering U.S. efforts aimed at isolating Iran through sanctions. Creating regional interdependence on the economic front has generated significant political and diplomatic gains for the Islamic Republic.

Iran has actively pursued bilateral energy security agreements with Turkey, Iraq, and Afghanistan in a bid to extend Tehran's influence within the region by creating a dependence on Iran's power generation and oil pipeline infrastructure.⁸⁸ Agreements with Turkey are the most extensive and effectively transform its boarding neighbor and regional competitor into a cooperative partner.⁸⁹ In February 2011, Iran and Turkey signed yet another trade agreement worth a potential \$30 billion over the next five years.⁹⁰ As one of only twelve nations with which Iran has signed preferential and free trade agreements, this trade pact highlights the Islamic Republic's desire to further

improve trade relations with Turkey.⁹¹ Greater ties with Turkey will improve Iran's economic position in the region by expanding trade opportunities, improving diplomatic ties, and alleviating the impact of sanctions. In addition, Turkey may be compelled to favor Iranian interests as a member of the UN and other influential regional and international councils, further degrading the perceived U.S. hegemony within the Middle East. However, it may be possible to leverage Turkey, as a NATO ally with aspirations of joining the EU, to use its growing influence with Iran to initiate meaningful and productive diplomatic talks.

Since supporting the United States in toppling the Taliban regime in 2001, Iran seeks to increase its economic ties with Afghanistan.⁹² Iran committed over \$660 million toward the reconstruction of Afghanistan between 2002 and 2006 for infrastructure improvements to roads and rail systems linking Afghanistan and Iran.⁹³ As a result the Iranian port of Chabahar has replaced the Pakistani port of Karachi as the main transit shipping route for Afghan trade goods. Iran further encouraged this trade relationship by granting Afghan exporters significant discounts on port and warehousing fees and giving Afghan vehicles full transit rights on Iranian road systems.⁹⁴ A multi-billion-dollar project intended to connect the rail systems of Iran, Afghanistan, and Tajikistan is already underway, providing landlocked Afghanistan with further access to global markets through Iran's ports.⁹⁵ Iran has also provided assistance to improve electrical power and transportation infrastructure in the border provinces of Herat, Farah, and Nimruz, which are aimed at drawing these western Afghan border areas closer to economic dependence on Iran.⁹⁶

According to Kenneth Katzman, a specialist in Middle Eastern affairs, Iran may also be seeking to use economic weapons against the Afghan government to complicate the U.S. mission by limiting the supply of fuel to Kabul and Western Afghanistan.⁹⁷ There is also evidence that Iran has provided direct payments to the President Karzai government in an attempt to drive a wedge between Afghanistan and the United States.⁹⁸ In addition, trade between Afghanistan and Iran has increased from \$10 Million in 2001 to over \$500 million in 2006, and is expected to exceed \$1 billion by 2011.⁹⁹ Though this may appear small in comparison to other countries, but it represents a significant percentage of Afghanistan's total trade.

Iran has employed a similar strategy in Iraq with the added advantage of a Shiite dominated government under Iraqi Prime Minister Nouri al-Maliki. Between 2006 and 2010 Iran and Iraq signed seven agreements intended to promote greater bilateral trade and cooperation.¹⁰⁰ By 2010, construction of a pipeline between Basra Iraq and Abadan Iran was underway and Iran was awarded a \$1 billion contract to rebuild Basra. Iran also finalized plans for the sale of electricity to parts of bordering Iraq, and granted Iraq \$1 billion in credits used to build a new airport in Najaf.¹⁰¹ During a visit to Bagdad in July of 2011, Iran's Vice President, Mohammad Reza Rahimi, stated that the two countries had "agree to increase the value of mutual economic and trade exchange, which is expected to reach 10 billion dollars by the end of the current year (2011), to 20 billion dollars in the near future."¹⁰² Iraqi Prime Minister Maliki went on to say that "this visit paved the way for Tehran and Baghdad to expand their cooperation in the areas of energy, oil, electricity, gas, industry and agriculture among other fields."¹⁰³ On May 20, 2006, Iraq's Foreign Minister, Hoshyar Zebari, supported Iran's right to pursue

“peaceful” nuclear technology, which bolstered the creditability of the Islamic Republic’s longstanding assertions regarding its nuclear program.¹⁰⁴ Iran’s appears to be effectively exerting influence within Iraq, establishing viable economic and political relationships with their former regional rival that resulted in significant gains. Most notably was the revision to the U.S.-Iraq Security Agreement in January 2009 that included a provision that precluded the U.S. from using bases within Iraq to launch attacks against neighboring countries.¹⁰⁵ Iran successfully exerted its influence to ensure the inclusion of the provision in the final agreement after its attempts to derail U.S.-Iraq talks had failed.

Economic Support of Military Objectives. Iran’s policy of deterrence against perceived aggression by the United States has a strong military emphasis which requires the economic means to support the strategy. Developing the capability to engage in low intensity asymmetric warfare and support of terrorism, modernization of the military, increase in indigenous missile and antimissile systems, and its nuclear energy program (based on ambiguity in uranium enrichment efforts) serve as strategic ways and means to deter or influence other states, while providing leverage during diplomatic negotiations when and if needed.¹⁰⁶ Sustaining a viable economy is essential to maintaining Iran’s deterrence against outside influence or interference by the United States and its supporters, including Israel.

Current United States Policy toward Iran

The United States has struggled to address the challenges presented by the Islamic Republic of Iran since the 1979 revolution, which resulted in the overthrow of Reza Shah Pahlavi. The U.S. strategy towards relations with Iran has predominately been one which seeks to isolate the Islamic Republic through punitive diplomatic, trade,

technological, and financial sanctions as motivation to change its behavior.¹⁰⁷ This basic framework of carrot and stick diplomacy has been employed by every administration in the past thirty-two years without generating any notable change in Iran's behavior.¹⁰⁸ The U.S. National Security Strategy, published by the Obama administration in May 2010, goes so far as to suggest that not only has U.S. policy failed, but that Iran has become even more threatening as a result of past policy.¹⁰⁹ However, twenty-eight months into his first term, President Obama appears to be following the same policy to contain Iran – sanctions. It short relying more on sticks rather than carrots in dealing with Tehran.

This is not to say that sanctions imposed by the U.S., EU, and UN have not applied substantial pressure on the Islamic Republic, but that they lacked the full support of the international community, specifically support by Russia and China as permanent members of the United Nation's Security Council.¹¹⁰ In the absence of consolidated and consistent international pressure, Iran has managed to absorb, minimize, or evade the full brunt of various sanctions for three decades.¹¹¹ Even though sanctions may appear successful from an economic perspective in that they significantly increase costs to the regime and cause the general population profound economic hardship, they have also entrenched Iran's leadership in a strategy of intransigence and tight domestic control.¹¹² Not only has the Islamic regime managed to exert greater control over its people, but sanctions and United States rhetoric surrounding Iran's nuclear program have provided the framework around which its leadership has constructed a new narrative of national pride. Ahmadinejad and Khamenei have used the sanctions as a catalyst to generate enthusiasm in Iranians and to bolster the

nation's post revolutionary identity as an emerging regional power, capable of attaining greatness despite hardship and the interference of outside forces. This has in turn given the regime increased credibility with its people and solidified support for the theocratic system within Iran.

The 8 November 2011 report by the IAEA has generated a great deal of concern regarding Iran's nuclear program and in turn has ensured that the potential for a "nuclear Iran" continues to dominate the Iranian narrative on the international stage. The latest round of sanctions against Iran's Central Bank and oil exports, in response to the IAEA report, have met with the same vitriol and rhetoric from within Iran's political system as in the past. However, broad international support is in evidence and for the first time Iran's oil revenues are at risk. On December 28, 2011, Iranian Vice President Mohammad Reza Rahimi stated that Iran will close the Straits of Hormuz if the West imposes sanctions on its oil exports.¹¹³ This response, along with the exercises conducted by the Iranian navy in the Strait of Hormuz in January 2012, may indicate that the Islamic Republic understands the significant threat these new sanctions pose to Iran's national interests. However, Iran had not acted upon its threats at the time this report was finalized.

Conclusions

As with most nations, the economic power of the state serves to support the advancement of its other elements of power, whether the objective is to increase leverage in diplomacy (cooperative or coercive), enhance or expand military capability, energy security, support domestic programs and improve quality of life, or to improve industrial capacity for better competition in international markets. Iran's ambitions are no different with the exception of two key points. Iran utilizes its economic power to fund

terrorism by proxy through Hama and Hezbollah, underwrite its nuclear program, and exploit vulnerabilities in alternate markets to circumvent sanctions levied against the Islamic Republic. Iran's primary goal is therefore to project its influence throughout the region, while undermining U.S. interests and countering America's containment strategy.

Ayatollah Khamenei and President Ahmadinejad are pursuing a "look east" policy, in which they are seeking to replace western trade and energy partners with other nations in Asia and the Middle East. This strategy is proving effective in generating agreements where dependent partners are obligated to underwrite Iran's political aims to ensure favorable relations and access to oil, gas, pipelines, ports, and power generation infrastructure. America's policy of containment is failing to garner desired results in isolating Iran, eliminating its support of terrorism, and denying it access to weapons and technology. In addition, the Iranian government has proven capable of quelling internal unrest as evidence by suppression of the Green Movement in 2009 and the fact that it avoided any major ill-effects of the Arab Spring. Hoping for a popular uprising within Iran to effect regime change is ill advised and will not change the perception of the United States by the general population of Iran.

The United States should therefore revise its policy of containment and consider adopting an engagement strategy that deliberately seeks to alleviate U.S.-Iranian tensions. Though any such strategy would not result in immediate gains, the same degree of patience demonstrated with China in the 1970s and 1980s could begin to tip the scales in favor of a more cooperative and productive narrative. Accepting the legitimacy of the Islamic Republic of Iran would serve as a major first step toward

normalized relations and greater regional stability within the Middle East. Though the Obama administration was chastised for purported attempts to engage Iran as recently as January 2012, it may indicate that we are on the right path. Slowly Integrating Iran into international political and economic systems may well succeed where the policy of containment has failed. Despite its continued political and diplomatic rhetoric, Iran's economic ambition and policies appear to be moving in the direction of increased privatization, modernization, and partnership where private and foreign investment are favorably considered essential to economic growth and stability. These conditions, coupled with the opportunities presented by Iran's relationship with key external economic partners, such as Turkey, may provide the entry point needed to identify common ground upon which to begin a constructive dialogue. However, the opportunity must first be recognized by both parties before any movement can be made. The United States has arguably missed similar opportunities in the past, fearing that it may appear weak and favoring a policy of status quos. It is time that the U.S. re-conceptualizes its view of Iran and recognize that Iranian-U.S. relations are at a crossroad where a policy of isolation can give way to engagement through direct dialogue, using common economic interests as a foundation for deliberate discussions.

Endnotes

¹ An IAEA report on nuclear verification in Iran was circulated on 8 November 2011 to the Agency's Board of Governors and the UN Security Council. The report was issued by the IAEA Director General. It covers developments since the last report on 2 September 2011, as well as issues of longer standing claims that Iran has continued its atomic weapons development program in varying degrees, to include: fissile material production, high explosives testing, warhead design, and Shahab-3 re-entry vehicle. IAEA Director General, "Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolutions in the

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⁸ Keith Crane, Rollie Lal, and Jeffery Martin, *Iran’s Political, Demographic, and Economic Vulnerabilities* (Santa Monica, CA: Rand, 2008), 67-68.

⁹ Jahangir Amuzegar, *Iran’s Economy under the Islamic Republic* (New York, NY: St. Martin’s Press, 1997), 3.

¹⁰ Jahangir Amuzegar, *Iran’s Economy under the Islamic Republic*, 5.

¹¹ Amuzegar, *Iran’s Economy under the Islamic Republic*, 4.

¹² Ibid., 4.

¹³ Ibid., 5.

¹⁴ Glenn E. Curtis and Eric Hooglund, ed., *Iran: Country Study*, 2nd ed. (Washington, DC: U.S. Government Printing Office, 2008), 41.

¹⁵ The SAVAK (Sazman-e Ettelaat va Amniyat-e Keshvar) served as the Shah’s secret police. Formed under the guidance of U.S. and Israeli intelligence officers in 1957, SAVAK developed into an effective secret agency whose goal was to sustain the government of Iran as a monarchy. At its height, SAVAK was a full-scale intelligence agency with more than 15,000 full-time personnel and thousands of part-time informants. SAVAK was a primary target for reprisal by opposition groups after the 1979 Revolution, when Khomeini officially dissolved the

organization. Some 61 SAVAK officials were among 248 military personnel executed between February and September 1979. Curtis and Hooglund, *Iran: Country Study*, 277.

¹⁶ Ibid., 46.

¹⁷ Amuzegar, *Iran's Economy under the Islamic Republic*, 8.

¹⁸ Ibid., 9.

¹⁹ Curtis and Hooglund, *Iran: Country Study*, 47.

²⁰ Amuzegar, *Iran's Economy under the Islamic Republic*, 11

²¹ Curtis and Hooglund, *Iran: Country Study*, 47.

²² Amuzegar, *Iran's Economy under the Islamic Republic*, 11.

²³ Curtis and Hooglund, *Iran: Country Study*, 52.

²⁴ Ibid., 208.

²⁵ Ibid., 216.

²⁶ Keith Crane, Rollie Lal, and Jeffery Martin, *Iran's Political, Demographic, and Economic Vulnerabilities* (Santa Monica, CA: Rand, 2008), 67-68

²⁷ Curtis and Hooglund, *Iran: Country Study*, 229.

²⁸ Ibid., 231.

²⁹ Ibid., 231-232.

³⁰ Under article 107 of the constitution of Iran, the faqih, or guardian jurist, is selected by the Council of Experts to serve as the Supreme Leader of the government. Islamic Republic of Iran, "The Constitution of Islamic Republic of Iran," http://www.iranchamber.com/government/laws/constitution_ch08.php (Accessed October 4, 2011).

³¹ Crane, Lal, and Martin, *Iran's Political, Demographic, and Economic Vulnerabilities*, 21.

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³³ Amuzegar, *Iran's Economy under the Islamic Republic*, 16.

³⁴ Curtis and Hooglund, *Iran: Country Study*, 230-231.

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³⁶ Ibid., 209.

³⁷ Ibid., 207.

³⁸ Mohsen M. Milani, "Tehran's Take; Understanding Iran's U.S. Policy," *Foreign Affairs* 88, 4 (July/August 2009), 46.

³⁹ Amuzegar, *Iran's Economy under the Islamic Republic*, 17.

⁴⁰ *Ibid.*, 17.

⁴¹ Curtis and Hooglund, *Iran: Country Study*, 149-150.

⁴² Amuzegar, *Iran's Economy under the Islamic Republic*, 18.

⁴³ *Ibid.*, 23.

⁴⁴ Curtis and Hooglund, *Iran: Country Study*, 151.

⁴⁵ Amuzegar, *Iran's Economy under the Islamic Republic*, 23.

⁴⁶ Curtis and Hooglund, *Iran: Country Study*, 150.

⁴⁷ Islamic Republic of Iran, "The Constitution of Islamic Republic of Iran," http://www.iranchamber.com/government/laws/constitution_ch06.php (Accessed October 4, 2011).

⁴⁸ Article 44 of the Islamic Republic of Iran's constitution stipulates that the economy of the Islamic Republic of Iran is to consist of three sectors: state, cooperative, and private, and is to be based on systematic and sound planning. The state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the State. The cooperative sector is to include cooperative companies and enterprises concerned with production and distribution, in urban and rural areas, in accordance with Islamic criteria. The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors. Ownership in each of these three sectors is protected by the laws of the Islamic Republic, in so far as this ownership is in conformity with the other articles of this chapter, does not go beyond the bounds of Islamic law, contributes to the economic growth and progress of the country, and does not harm society. The [precise] scope of each of these sectors, as well as the regulations and conditions governing their operation, will be specified by law. See Chapter 4 of the Islamic Republic of Iran's constitution for more articles that define the role of government in the economy and the conduct of business under Islamic law. Islamic Republic of Iran, "The Constitution of Islamic Republic of Iran," http://www.iranchamber.com/government/laws/constitution_ch04.php (Accessed October 4, 2011).

⁴⁹ Article 81 of the Islamic Republic of Iran's constitution restricts foreign enterprises and forbids the granting of concessions to foreigners or the formation of companies or institutions dealing with commerce, industry, agriculture, service, or mineral extraction, is absolutely forbidden. Islamic Republic of Iran, "The Constitution of Islamic Republic of Iran," http://www.iranchamber.com/government/laws/constitution_ch06.php (Accessed October 4, 2011).

⁵⁰ Curtis and Hooglund, *Iran: Country Study*, 150.

⁵¹ Sometimes referred to as “Islamic conglomerates,” Bonyads (Persian for “foundation”) are semi-private charitable Islamic foundations or trusts that are believed to wield enormous political and economic power in Iran. They were among the institutions used by the regime to help nationalize Iran’s economy after the 1979 revolution. The largest Iranian charitable trust is the Foundation of the Oppressed and War Veterans (Bonyad e-Mostazafan va Janbazan, MJF). With over 200,000 employees and 350 subsidiaries, the MJF has an estimated value of more than \$3 billion, at least 10% of Iran’s gross domestic budget (GDP). The Islamic Revolutionary Guard Corps (IRGC) was founded in 1979 by the Ayatollah Khomeini and is a branch of the Iranian government’s military. The IRGC is comprised of five branches: the Grounds Force, Air Force, Navy, Basij militia, and Qods Force special operations. Shayerah Ilias, *Iran’s Economic Conditions: U.S. Policy Issues*, (Washington DC: U.S. Library of Congress, Congressional Research Service, April 22, 2010), 8

⁵² Many believe that Bonyads enjoy a significant advantage over private companies. Prior to the unification of Iran’s exchange rate system, the Bonyads were able to access foreign exchange at deep discounts compared to private enterprises. Bonyad officials are known to have longstanding connections with politicians, and frequently get special access to credit at state-owned banks. In addition, bonyads get privileges on taxation and import duties. Some critics contend that economic and political reform in Iran will not be significant unless bonyads are reformed. Some also contend that they contribute to political corruption and limit the funneling of oil wealth to the poor. Bonyads also may limit privatization, because shares for many of Iran’s national companies undergoing privatization are given to bonyads, rather than wholly private enterprises. On the other hand, the IRGC, through its powerful connections, frequently acquires business contracts for new projects at the expense of private sector businesses. The IRGC also serves as a leading investment tool for many of Iran’s leaders. Some analysts believe that the Revolutionary Guard benefits from Iran’s economic isolation. With foreign businesses unwilling or unable to enter into deals, the Revolutionary Guard faces less competition for acquiring new contracts. However, because the IRGC frequently does not have the technical expertise that many international companies do, the IRGC sometimes subcontracts to international companies, making a profit as an intermediary in the transaction. Ibid., 8-9.

⁵³ Ibid., 6. See also Brian Murphy, “Iran’s Bonyards Stifle Economy,” <http://www.highbeam.com/doc/1G1-157187519.html> (Accessed November 11, 2011).

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⁵⁵ Fareed Mohamedi, “The Iran Primer: Oil and Gas Industry,” <http://iranprimer.usip.org/resource/oil-and-gas-industry> (Accessed 10 January 2012).

⁵⁶ Iran’s longstanding subsidies—to support consumption of refined oil products and natural gas—have also become a huge burden on the Iranian budget and its balance of payments. Iranians pay as little as 38 cents for a gallon of subsidized gasoline. This has resulted in runaway consumption and rising imports of gasoline. Iran currently imports up to 40 percent of its refined oil needs, because its own refineries cannot handle the volume needed for domestic consumption. Gasoline imports, which have to be paid for in hard currency at world market prices, account for around 3 percent of Gross Domestic Product (GDP). This, however, does not

measure the true cost of subsidies. Total petroleum subsidies, including for consumption of those domestically produced, accounted for 20 percent of GDP. Fareed Mohamedi, "The Iran Primer: Oil and Gas Industry," <http://iranprimer.usip.org/resource/oil-and-gas-industry> (Accessed 10 January 2012).

⁵⁷ *ibid.*

⁵⁸ *Ibid.*

⁵⁹ Shayerah Ilias, *Iran's Economy* (Washington DC: U.S. Library of Congress, Congressional Research Service, June 12, 2008), 5.

⁶⁰ *Ibid.*, 1-2.

⁶¹ *Ibid.*, 2.

⁶² *Ibid.*, 6.

⁶³ *Ibid.*, 33.

⁶⁴ *Ibid.*, 8.

⁶⁵ Keith Crane, Rollie Lal, and Jeffery Martin, *Iran's Political, Demographic, and Economic Vulnerabilities* (Santa Monica, CA: RAND Corporation, 2008), 16.

⁶⁶ Shayerah Ilias, *Iran's Economic Conditions: U.S. Policy Issues*, 7. Also see the following for details on the role of Bonyards in Iran's political and economic structure. Keith Crane, Rollie Lal, and Jeffery Martin, *Iran's Political, Demographic and Economic Vulnerabilities*, 16-18.

⁶⁷ Keith Crane, Rollie Lal, and Jeffery Martin, *Iran's Political, Demographic and Economic Vulnerabilities*, 18.

⁶⁸ Ilias, *Iran's Economic Conditions: U.S. Policy Issues*, 8.

⁶⁹ Michael Eisenstadt, "Iran's Islamic Revolution: Lessons for the Arab Spring 2011?," Strategic Forum 267, April 2011, <http://www.ndu.edu/inss> (Accessed November 11, 2011)

⁷⁰ Shayerah Ilias, *Iran's Economic Conditions: U.S. Policy Issues*, 8

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⁷² *Ibid.*, 11.

⁷³ Mohsen M. Milani, "Tehran's Take; Understanding Iran's U.S. Policy," Foreign Affairs 88, 4 (July/August 2009), 46.

⁷⁴ Milani, "Tehran's Take; Understanding Iran's U.S. Policy," 46.

⁷⁵ Mohamedi, "The Iran Primer: Oil and Gas Industry," <http://iranprimer.usip.org/resource/oil-and-gas-industry> (Accessed 10 January 2012).

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¹⁰⁸ *Ibid.*, 1298.

¹⁰⁹ Barrack Obama, *National Security Strategy of the United States of America*, (Washington, DC: The White House, May 2010), 26.

¹¹⁰ Takeyh and Maloney, "The Self Limiting Success of Iran Sanctions," 1310.

¹¹¹ The 2007 report by the GAO regarding sanctions against the Islamic Republic noted that Iran's global trade ties and leading role in energy production make it difficult for the United States to isolate Iran and pressure it to reduce proliferation and support for terrorism. This is as true today as it was in 2007. U.S. Government Accountability Office, *Iran Sanctions: Report to the Ranking Member, Subcommittee on National Security and Foreign Affairs, House Committee on Oversight and Government Reform* (Washington DC: U.S. Government Accountability Office, December 2007), 35.

¹¹² Takeyh and Maloney, "The Self Limiting Success of Iran Sanctions," 1312.

¹¹³ David E. Sanger, Annie Lowery, "Iran Threatens to Block Oil Shipments, as U.S. Prepares Sanctions," December 27, 2011, http://www.nytimes.com/2011/12/28/world/middleeast/iran-threatens-to-block-oil-route-if-embargo-is-imposed.html?_r=1&pagewanted=all (Accessed December 30, 2011).

