



ANALYSIS

Iranian foreign policy under Rouhani

Rodger Shanahan
February 2015

LOWY INSTITUTE
FOR INTERNATIONAL POLICY

The Lowy Institute for International Policy is an independent policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia's international policy and to contribute to the wider international debate.
- promote discussion of Australia's role in the world by providing an accessible and high-quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Lowy Institute Analyses are short papers analysing recent international trends and events and their policy implications.

The views expressed in this paper are entirely the author's own and not those of the Lowy Institute for International Policy.

EXECUTIVE SUMMARY

Iran's current president, Hassan Rouhani, was elected on the promise of providing a better economic future for ordinary Iranians. To do this he needs to end Iran's regional international isolation. So far, he has benefitted from the fact that he is not his predecessor. But to make real advances he will need to strike a nuclear deal with the United States and reach out to Iran's suspicious Gulf neighbours.

Rouhani's ability to make significant changes is limited by the power of Supreme Leader Khamenei and other powerful regime forces such as the Revolutionary Guard. Nevertheless his experience as a regime insider, his less confrontational approach, and his grasp of international affairs mean that he may well succeed where past efforts by Iranian political leaders to normalise Iran's relations with the world did not.

The year and a half since Iranian President Hassan Rouhani came to office has coincided with one of the most turbulent periods in recent Middle East history. For the President personally, and for Iran, that turbulence has presented unique challenges, while at the same time offering opportunities. Rouhani's surprise first-round electoral victory in 2013 raised expectations in Iran and abroad that he would usher in a new Iranian approach to regional and international affairs that would leave the country less isolated. To a great degree he has benefitted simply from the fact that he lacks the divisive and quixotic political personality of his predecessor, Mahmoud Ahmadinejad.

There is no question that over the last decade and a half, Iran's regional position has strengthened. The US invasion of Iraq produced the happy coincidence of toppling a key regional adversary and significantly weakening Tehran's principle extra-regional foe, the United States. Iran has helped Bashar al-Assad, its key ally in Syria, to withstand a civil war as well as regional and international efforts to overthrow him. And yet, there is also a fragility to Iran's positions. It has a long list of regional security challenges and deep-seated economic problems that in recent years have been exacerbated by a well-targeted regime of economic sanctions.

Against this background, Rouhani's victory in the presidential elections reflected less a growing confidence in the country's position than a deep concern about its future. Rouhani ran his campaign on restoring hope and economic growth and much of that is linked to ending Iran's international isolation. The aim of this Analysis is to assess the steps the Rouhani government has made to transform Iran's regional and international position. It will examine the key changes in Iranian foreign policy since Rouhani came to power, chief among them the effort to resolve the nuclear issue with the United States. But it will also examine the impact of post-Ahmadinejad Iranian foreign policy on Tehran's relations with its Gulf neighbours and key players in the broader region.

FOREIGN POLICY UNDER ROUHANI

Hassan Rouhani is very much a regime insider. He was involved in the anti-Shah movement in the lead-up to the 1979 revolution. He served on the Supreme Defense Council during the Iran-Iraq war. He was also the Secretary of the Supreme National Security Council and has been a long-serving member of the Expediency Council, a key body that advises the Supreme Leader. Rouhani has no interest in ending or even reforming Iran's Islamic system of government, even if some reformers did back his election as president. What Rouhani does benefit from, however, is the fact that he is not his predecessor. Where former

Hassan Rouhani is very much a regime insider.

president Ahmadinejad was confrontational and parochial, Rouhani is more collegial and worldly.

Rouhani has used his first year in office to improve the Islamic Republic's image in the international community and to portray himself and his government as being ready to deal seriously with the West. His cabinet is full of ministers with advanced degrees from Western universities — indeed, his cabinet has more members holding PhDs from US universities than does President Obama's.¹ That is not to say that they are proponents of Western social values, but having lived in the West they have a much better understanding of Western perceptions of Iran than many of their predecessors did.

...while Rouhani's foreign policy approach differs markedly in style from Ahmadinejad's, the aim of both has been to maximise Tehran's influence in the region...

Ultimately, however, while Rouhani's foreign policy approach differs markedly in style from Ahmadinejad's, the aim of both has been to maximise Tehran's influence in the region — a core foreign policy goal of the Islamic Republic's since its inception. In foreign affairs, Rouhani's freedom of action is heavily circumscribed by the Supreme Leader's authority, as well as the significant influence wielded by the Iranian Revolutionary Guard Corps (IRGC). This is not to suggest that Rouhani has no influence in foreign affairs, it is just that he must compete with other powerful bodies for the ear of the Supreme Leader whose view is decisive on key policy questions. Rouhani is not a product of the IRGC and has sought to reduce not only the presence of its ex-members in government and regional politics, but also to reign in its business activities, particularly where government contracts are concerned. Companies owned by, or those closely connected with, the IRGC have benefitted from sanctions. Iran's economic isolation has seen these companies profit from sanctions busting or has allowed them to fill the space in the Iranian economy once occupied by private enterprise.²

The centrality of the Supreme Leader in foreign policy matters has meant that, despite the change of government in Tehran, there has been a great degree of continuity in Iranian policy. Most notably, Iran remains firmly supportive of the Assad regime in Syria. There are, however, some key differences between Rouhani and his predecessor. Rouhani believes that the key to expanding Iran's role in the region is to strengthen its economy. Ahmadinejad saw economics as purely a matter of domestic policy. For Rouhani, improving Iran's economic situation is not only essential to maintaining domestic support for his government, but is also key to increasing Iranian influence in regional and global affairs. As Suzanne Maloney has noted, Rouhani understands that Iran's economic strength is an integral component of national power.³ For that reason he has filled his cabinet with technocrats and purged Ahmadinejad cronies from key government positions. Indeed, much of the improvement in Iran's economic situation such as currency stabilisation, a reduction in inflation, and a partial restoration of business confidence since Rouhani came to power, has been the result of more competent economic management.

Rouhani is also counting on the perception of Iran as a country with significant unfulfilled economic potential. Iran has an internal market of over 70 million people, a highly educated workforce, and a significant diasporic population that can act as an economic and cultural bridge between Iran, the region, and the West. The prospective end of sanctions has already excited potential investors. As one investment banker noted, Iran “is the last major opportunity out there in the world that can suddenly become accessible, almost overnight.”⁴ A Europe–Iran Forum has already been held in London in October 2014, looking at trade and investment opportunities in a post-sanctions Iranian market.⁵ But the collapse of oil prices has made an already difficult economic management problem even more challenging.

...Iran “is the last major opportunity out there in the world that can suddenly become accessible, almost overnight.”

If Rouhani is going to reorient Iranian foreign policy he will need to address a number of key issues and relationships. First and foremost among these is the nuclear issue.

THE NUCLEAR ISSUE

Rouhani understands that resolving the nuclear issue is critical to strengthening Iran’s economy and ending its international isolation. This does not mean that the President and his government do not support the program. But they believe that the issue has been used by Iran’s opponents to pressure, sanction, and isolate Iran. They think they can reach a workable compromise that will both preserve Iran’s nuclear rights while removing it as an obstacle to Iran’s regional and international engagement. Indeed, the irony is probably not lost on some of Iran’s neighbours. A successful deal may well reduce the nuclear threat from Iran. But if Tehran is able to achieve substantive and extended sanctions relief as a consequence of the nuclear negotiations, the likely result is a potentially stronger and more influential Iran than currently exists and one that is regarded with no less suspicion by regional states than it is now.

A successful resolution of the nuclear issue does not mean that Iran’s influence within the region will improve immediately. It will take years to fix the economy, and Tehran still faces significant challenges in Syria and Iraq. But Tehran is much better at playing the long game than its competitors. Iran has long utilised both proxy groups and long-standing friendships cultivated with co-religionists in the Gulf, Iraq, and the Levant, and it will continue to leverage these to serve its own interests. Indeed, as the sanctions are gradually removed Iran’s ability to support these groups will improve.

Rouhani will need to overcome opposition within Iran to any nuclear deal and his recent suggestion of a referendum on this issue is noteworthy. Iranian politics is no place for the faint-hearted and the President has plenty of conservative political opponents within parliament. Rouhani’s Minister for Science, Research, and Technology was impeached in

August 2014 and the President was unable to replace him until his fifth nominee was ratified by parliament in November 2014.⁶ These domestic political opponents oppose Rouhani and his team simply because they wish to make political capital, and seek to portray any deal as weakening Iran. So far, opposition from groups such as the IRGC has been publicly muted; indeed, they have been generally supportive of negotiations. However, the IRGC and other conservatives are well represented on the Supreme National Security Council where the real input into nuclear negotiation policy is developed. This means that opposition will most effectively be voiced in private, rather than public, forums.

While most Iranians understand the link between the nuclear issue and the country's dire economic circumstances, many see their country's nuclear program as a concrete expression of its scientific and engineering prowess. The exact nature of the concessions that are made in order to achieve a negotiated settlement will have to be articulated to the public very carefully. At the same time, a successful negotiation will enhance Rouhani and Foreign Minister Mohammad Javad Zarif's reputations as leaders able to guide Iran out of international isolation and will buttress their domestic support.

Ultimately, however, any deal will have to gain the support of the Supreme Leader.

Ultimately, however, any deal will have to gain the support of the Supreme Leader. His priority is, and always will be, the survival of the revolutionary system of governance and while the economic sanctions have hurt Iran significantly they have also played well into the Shi'a grand narrative of a besieged minority fighting the forces of oppression. Nevertheless, Ayatollah Khamenei too will understand the greater freedom of action that will be available to Iran if it improves its economic performance. Ultimately, he will have to judge whether the price that is being asked for a nuclear deal is one that he believes is worth paying; and, if not, whether he is confident that Iran's continued economic isolation will not give rise to domestic unrest that would threaten the regime.

THE UNITED STATES

The nuclear negotiations in and of themselves represent a significant improvement in US-Iranian relations in that the two sides have been in deep and prolonged face-to-face negotiations for the first time since the relationship broke down in the aftermath of the revolution. Yet, even if the negotiations succeed, there is little prospect of relations between the two countries normalising quickly given the deep historical mistrust and major differences on contemporary regional issues such as Syria. And if the nuclear negotiations fail then US-Iranian relations will once again become more confrontational.

Beyond a nuclear deal, Rouhani is probably looking to establish some form of working relationship with Washington, the nature of which remains undefined. To that end he is exploiting the growing concern in

the United States, and the West more generally, about the threat posed by radical Sunni Islamists. Following the rise of Islamic State in Iraq he spoke of the potential for Iran and the United States to cooperate in fighting “terrorist groups in Iraq or elsewhere.”⁷ This was, however, a step too far for many within the Iranian regime, including the military. The possibility of overt cooperation with the United States in Iraq was finally killed off by the Supreme Leader’s public statement that Iran didn’t “support any foreign interference in Iraq and (was) strongly opposed to U.S. interference there.”⁸

Despite the Supreme Leader’s current opposition, it is still possible that Tehran could establish closer relations with Washington in regional trouble spots such as Iraq and Afghanistan. In both countries, Iran has permanent interests based on geographical realities and deep historical and religious links of long standing. Its interest in the stability of these countries matches that of the United States, but its commitment to it is likely to exceed that of Washington. In particular, Iran and the West share a common enemy in radical Sunni jihadists who have found fertile ground in Iraq and the Levant. The geographical and historical reality is that Iran has even more interest than the United States in ensuring that Iraq becomes a stable and functioning country. Ultimately, with the right conditions, Washington and Tehran could establish a regional modus vivendi in which the core security interests of each country could be informally acknowledged and rules of behaviour established. This is, however, a long way off.

Its interest in the stability of these countries matches that of the United States, but its commitment to it is likely to exceed that of Washington.

THE GULF STATES

Perceptions of, and relations with, Iran vary amongst the Gulf states. Oman for instance has good relations with Iran and has acted as an intermediary between Washington and Tehran in the past. But it is unlikely that Saudi Arabia will ever trust Iranian intentions in the region. Much of this is related to their respective perceptions of themselves as the leaders of the Muslim world. Iran sees itself as a more independent country and a more advanced society than Saudi Arabia. It is also at times dismissive of what it perceives to be Riyadh’s short-termism and its relatively unsophisticated view of regional dynamics. This view is illustrated by Tehran’s belief that it made a wise choice in backing Assad in Syria, while Saudi Arabia’s support for Islamist factions has fueled the current threat posed by these groups.

While there are some concerns among Gulf states that the United States is pulling back from the region, all of the Gulf states still look to the United States as their ultimate security guarantor. As long as there is a strong US military presence in the region, they calculate that they will not have to deal with a hegemonic Iran. At the same time, a number have concerns about any nuclear deal with Iran. This relates as much to the details of any agreement (which they fear would be too lenient) as it

does to a fear that any regional accommodation that Washington reaches with Tehran will come at the expense of their regional interests.

Nevertheless, the end of Ahmadinejad's presidency has already gone some way to improving relations between Iran and a number of its Gulf neighbours. Kuwait's emir visited Tehran for the first time in June 2014 and met with the Supreme Leader. This followed on from the UAE's re-opening of its diplomatic relations with Iran in November 2013 with a very public display of camaraderie between foreign ministers in Tehran.⁹ It was a far cry from Ahmadinejad's provocative visit to the disputed island of Abu Musa, which so upset the UAE and led to the recall of its ambassador.

Rouhani has also made positive noises about reducing differences between Tehran and Riyadh over regional policy issues. Iran's Deputy Foreign Minister Hussein Amir-Abdollahian visited the Kingdom in August 2014, and Foreign Minister Zarif personally offered his condolences in Riyadh following the death of King Abdullah in January 2015. The appointment of Ali Shamkhani as Secretary of the Supreme National Security Council also sent a message about the Rouhani Government's approach to regional security. Not only is Shamkhani an ethnic Arab, he is a former Iranian Defence Minister who was awarded Saudi Arabia's highest decoration, the Order of Abdulaziz al-Saud, by King Fahd in 2000 for fostering Saudi-Iranian ties.¹⁰ However, Saudi concerns over possible Iranian support for Zaydi Houthi rebels in Yemen, and Iranian concerns over the role Saudi Arabia has played in the plummeting oil price¹¹ underline the fact that while there may be moves to warm up relations to some degree they remain frosty.

There are numerous points of friction between Iran and Saudi Arabia on several levels. As the two most powerful regional states they compete for influence. But there is also a sectarian dimension to this.

There are numerous points of friction between Iran and Saudi Arabia on several levels. As the two most powerful regional states they compete for influence. But there is also a sectarian dimension to this. Saudi Arabia is the birthplace of Islam, is guardian of its two holiest sites, and promotes an austere form of Sunni Islam. Iran is the natural leader of the Shi'a branch of the faith and is the only theocratic state in the world. Shi'a in Saudi Arabia and Bahrain experience significant discrimination, while Sunnis in Iran complain of restrictions placed on their freedom of worship. Both countries share some common interests, including the threat posed by radical Sunni extremists and, in the medium- to long-term, expanding bilateral opportunities for trade and commerce. But it is doubtful whether these could ever overcome the ideological gap separating the two countries, or their leadership rivalry.

THE BROADER REGION

The two other, non-Arab, regional states that will be watching for shifts in Iran's foreign policy under President Rouhani are Israel and Turkey. As far as Israel is concerned, there is little that Rouhani could, or would, do that would change the way that Jerusalem sees Tehran. Iran's repeated

description of Israel as an illegitimate state leaves it little room to manoeuvre in that regard. Nevertheless, in place of Ahmadinejad's Holocaust-denial, Rouhani has struck a softer tone that is designed to portray Iranian opposition to Israel as an issue of politics rather than religion. Rouhani's use of social media to wish a happy Rosh Hashana to Jews around the world, as well as financial support to Tehran's only Jewish hospital, have been high-profile acts designed to signal a departure from previous confrontational policy approaches.¹² Yet, the substance of Iranian policy towards Israel remains unchanged, not least in its support for Hizbullah in Lebanon and for militant Palestinian groups.

Turkey on the other hand has increasingly good relations with Iran although it is very much a pragmatic relationship. Ankara is diametrically opposed to Tehran on the issue of Syria and they are also commercial rivals in Central Asia, but this has not stopped the two countries from finding common cause with each other on a range of issues. Iran has been happy to overlook disagreements over Syria and to concentrate on areas of common interest, such as economic ties. Rouhani has also noted that Iran and Turkey "are determined to increase their cooperation to establish stability in the region."¹³ Iran looks to Turkey as a potential partner given its problematic relations with many of its Arab neighbours. Turkey, meanwhile, sees Iran as a potentially lucrative export market for its goods and services. Both of these reasons can form the basis for pragmatic cooperative relationships; however, neither forms the basis for any deeper commitment given their fundamental religious and regional political differences.

CONCLUSION: IRAN'S FUTURE IN THE REGION

Under Rouhani, Iran has an opportunity to emerge less isolated and more influential in the Middle East, especially given the growing regional leadership vacuum. As a regime insider, and as a more subtle and sophisticated operator than his predecessor, Rouhani has the potential to shift Iranian policy in a direction that is more likely to realise this opportunity. At the same time, there remain significant constraints on his ability to do so — both domestically as a result of limits placed upon him by conservative opponents and the Supreme Leader, as well as regionally from those countries who will continue to view Iran through a sectarian prism.

Rouhani has been able to achieve a good deal by softening the tone of Iranian foreign policy after the coarseness of the Ahmadinejad years. But to make a significant shift in Iran's regional position he will need to tackle certain central issues and improve several key relationships. In particular, the successful conclusion of a nuclear deal is central to strengthening Iran's economy and reaching some form of modus vivendi with the United States. But any deal is unlikely to assuage the concerns of many of Iran's neighbours about its regional ambitions and policies.

Under Rouhani, Iran has an opportunity to emerge less isolated and more influential in the Middle East...

The rise of Sunni extremist groups has given Iran and the Arab world some shared security interests on which they may be able to build. The question is whether this or other common interests are enough to overcome the deep suspicions and differences that remain between Iran and its neighbours.

NOTES

- ¹ Moises Naim, "The Case for Giving Iran's Scholar-Diplomats a Chance," *The Atlantic*, 3 December 2013, <http://www.theatlantic.com/international/archive/2013/12/the-case-for-giving-irans-scholar-diplomats-a-chance/282010/>.
- ² Babak Dehghanpisheh, "Nuclear Deal Heightens Tension Between President and Guards," *Reuters*, 9 February 2014, <http://www.reuters.com/article/2014/02/09/us-insight-nuclear-deal-insight-idUSBREA1804120140209>.
- ³ Suzanne Maloney, "Rouhani Report Card: A Year of Economic Stabilization and Suspense," *Markaz* (blog), Brookings Institution, 19 August 2014, <http://www.brookings.edu/blogs/iran-at-saban/posts/2014/08/07-rouhani-report-card-iran-economy-sanctions-oil>, accessed 29 August 2014.
- ⁴ Jeremy Kahn, "Iran Lures Investors Seeing Nuclear Deal End Sanctions," *Bloomberg*, 18 August 2014, <http://www.bloomberg.com/news/2014-08-17/iran-lures-investors-seeing-nuclear-deal-ending-sanctions.html>, accessed 29 August 2014.
- ⁵ Jonathan Saul, "Corporate Iran Pins Hopes on Overseas Financial Charm Offensive," *Reuters*, 8 October 2014, <http://www.reuters.com/article/2014/10/08/iran-investment-idUSL6N0S13UL20141008>, accessed 19 January 2015.
- ⁶ "Iran's Parliament Votes 'Yes' to New Science Minister," *Press TV*, 27 November 2014, <http://www.presstv.com/detail/2014/11/27/387715/farhadi-rouhani-parliament-vote/>, accessed 19 January 2015.
- ⁷ Parisa Hafezi, "Iran Says Envisages Iraq Role with U.S. if Washington Tackles Regional Militants," *Reuters*, <http://www.reuters.com/article/2014/06/14/us-iraq-security-iran-rouhani-idUSKBN0EP0AC20140614>, accessed 27 June 2014.
- ⁸ Jason Rezaian, "Iran's Leader Says Tehran and Washington Not Aligned on Iraq," *Washington Post*, 22 June 2014, http://www.washingtonpost.com/world/irans-leader-says-tehran-and-washington-not-aligned-on-iraq/2014/06/22/45a496b8-2d5b-47fa-917b-9f2d61a1ccbe_story.html, accessed 30 June 2014.
- ⁹ "Abdullah Bin Zayed Meets His Iranian Counterpart, Opens New Embassy Building in Tehran," *UAE Interact*, 29 November 2014, http://www.uaeinteract.com/docs/Abdullah_bin_Zayed_meets_his_Iranian_counterpart_opens_new_Embassy_building_in_Tehran/58549.htm, accessed 27 June 2014.
- ¹⁰ "Prince Sultan Awards Medal to Visiting Iranian Defence Minister," *Kuwait News Agency*, 1 May 2005, <http://www.kuna.net.kw/ArticlePrintPage.aspx?id=1079560&language=en>, accessed 26 January 2015.
- ¹¹ Michelle Moghtader, "Iran's Rouhani Says Countries Behind Oil Price Drop Will Suffer," *Reuters*, 13 January 2015, <http://www.reuters.com/article/2015/01/13/us-energy-iran-rouhani-idUSKBN0KM0PE20150113>, accessed 26 January 2015.

¹² Thomas Erdbrink, "Iran Delivers Surprise, Money, to Jewish Hospital," *New York Times*, 6 February 2014, <http://www.nytimes.com/2014/02/07/world/middleeast/iran-delivers-surprise-money-to-jewish-hospital.html>, accessed 30 June 2014.

¹³ Parisa Hafezi and Tulay Karadeniz, "Iran's Rouhani in Turkey Says Tackling 'Terrorism' a Priority," *Reuters*, June 9 2014, <http://www.reuters.com/article/2014/06/09/us-iran-turkey-rouhani-idUSKBN0EK14720140609>, accessed 30 June 2014.

ABOUT THE AUTHOR



Assoc. Prof. Rodger Shanahan

Associate Professor Rodger Shanahan is a research fellow at the Lowy Institute for International Policy.

A former army officer, he had extensive service within the Parachute Battalion Group (PBG) and has had operational service with the UN in South Lebanon and Syria, with the PBG in East Timor, served in Beirut during the 2006 war and in Afghanistan. He has also been posted to the Australian Embassies in Riyadh and Abu Dhabi. Assoc. Prof. Shanahan has MAs in International Relations and Middle East Studies from the ANU, and a PhD in Arab and Islamic Studies from the University of Sydney.

He is also on the staff of the National Security College, Australian National University and a part-time member of the Refugee Review Tribunal. He has written numerous journal, media and policy articles, is a frequent commentator on Middle East issues for Australian and international media, and is the author of *Clans, Parties and Clerics: the Shi'a of Lebanon*.

Assoc. Prof. Rodger Shanahan
Tel: +61 2 8238 9185
rshanahan@lowyinstitute.org

LOWY INSTITUTE
FOR INTERNATIONAL POLICY

31 Bligh Street
Sydney NSW 2000 Australia

Tel: +61 2 8238 9000
Fax: +61 2 8238 9005

www.lowyinstitute.org
twitter: @lowyinstitute