

PREPARED TESTIMONY OF
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Changing Iran's behavior

Mr. Chairman and Congressman Miller, thank you for allowing me to come before you to discuss our policies towards Iran, particularly efforts to change Iranian foreign policy behavior through instruments of economic pressure such as divestment. As a representative of the largest grassroots organization representing Americans of Iranian descent in the U.S. - The National Iranian American Council - I want to emphasize that no group of Americans has suffered more from the policies of the Iranian government than our community. Whether they were victims of political or religious persecution, arbitrary arrest or detention, imprisonment or killings of family members, the vast majority of Iranian Americans have made America their home precisely because they have differences with the Iranian government.

In recent years, we have also seen what seems to be a specific targeting by the Iranian government of Iranian Americans. Esha Momeni, an Iranian-American student born in California, was imprisoned a few months ago while visiting Iran to write a Master's thesis on the country's vibrant women's movement. Roxana Saberi, an Iranian-American journalist with NPR and a Miss America finalist, was arrested a few weeks ago while working in Tehran and is still being detained in Evin prison. In both cases, the human rights of these young Iranian-American women were violated by initially denying them legal counsel and by holding them without revealing the charges against them. And the 2007 imprisonment of Dr. Haleh Esfandiari, Director of the Middle East Program at the Woodrow Wilson International Center for Scholars, is of course known to all.

Yet, at the same time, no other group of Americans has visited Iran in the numbers that Iranian Americans have and with each visit, we bear witness to the effects of economic sanctions on the Iranian economy, on the Iranian people and on the Iranian government. Though mostly anecdotal, their observations are instrumental into understanding why U.S. sanction policies have failed to reach their objectives, why further sanctions will likely make little difference, and how the dynamics of Iranian society and Iran's political system can be better utilized to bring about a change in Iranian behavior.

My prepared remarks today will focus on how America's objectives with Iran can best be achieved – ensuring a peaceful Iran that contributes to regional stability, that does not develop a nuclear bomb, and that ceases to support militant organizations.

The cornerstone of our policy towards Iran for the last three decades has been pressure and coercion, particularly instruments of economic pressure. There is no doubt that US economic sanctions have hurt the Iranian economy. Investments in the Iranian energy sector have been reduced, assessment of

the business risk in investing in Iran has increased, and some major oil contracts have been cancelled or put on hold.

Recent financial sanctions in particular have created significant obstacles for the Iranian economy. Banks have had great difficulty in financing projects, export credits have not been made available and capital flight has increased.

Yet, with all the economic pain the sanctions have imposed on the Iranian economy, there has not been a single instance in which that pain has translated into a desirable change in the Iranian government's policies. The sanctions have been effective in hurting the Iranian economy, but they have failed to change the Iranian government's behavior.

As a result, we stand here today, more than fifteen years after the first round of comprehensive US sanctions were imposed, faced with a more powerful and problematic Iran than ever before. Clearly, the sanctions approach has not produced desirable results.

What's worse, the sanctions and economic pressure have actually contributed to several unhelpful developments inside Iran. First, the Iranian people— who tend to have great admiration and respect for America, for American values and for the American people – have suffered the brunt of the economic pressures. The Iranian government, meanwhile, has remained relatively unscathed. While the government can use oil revenues as a cushion to offset the effects of sanctions, ordinary people in Iran do not have that option and bear the brunt of the economic pain.

While the hope has been that the people's anger for their economic duress would be directed towards the Iranian government in order to pressure it to change its policies, this has clearly not happened. Instead, much of the people's anger has been directed towards the United States itself.

Second, wherever sanctions are imposed, a "sanctions economy" emerges in which entities reap a profit from smuggling sanctioned goods. In the Iranian case, this has benefited the Iranian government in two ways. Absent competition from international companies and the demands for transparency and efficiency that accompany outside investments, state controlled industries have become insulated through the protection that sanctions have provided. As a result, sanctions have strengthened the hardline elements' hold and control over the economy, which in turn has strengthened their grip on power. Secondly, entities connected to the government, such as the Iranian Revolutionary Guard Corps, have profited from their involvement in the smuggling trade that has emerged, further benefitting from Iran's economic isolation.

Third, the Iranian government's success in circumventing sanctions has made Iran less sensitive to new sanctions. There is a diminishing return on additional sanctions. By now, the threat of new sanctions on Iran is even more unlikely to compel Iran to change its behavior. Indeed, the last few years of UN Security Council sanctions and financial sanctions have not changed Iran's nuclear course in the slightest. In December 2004, President George Bush recognized this when he said "We've sanctioned ourselves out of influence with Iran. In other words, we don't have much leverage with the Iranians right now."

Paradoxically, by cutting Iran's access to American trade and investments, we have made the Iranians less sensitive to threats or implementation of additional measures to further deprive them of such access.

Finally, economic sanctions have undermined Iran's pro-democracy movement by weakening Iran's civil society and by hampering the emergence of a wealthy middle class – key components of any

indigenous process of democratization. The creation of a middle class whose income is dependent on the advancement of the non-state economy in Iran is essential, mindful of the significant portion of Iranians who are dependent on and tied to the state-controlled economy. As long as the lion's share of the economy is controlled by the state, room for pushing for political liberalization will be severely limited. Here, the impact of economic sanctions has been very detrimental to Iran's indigenous pro-democracy movement, which will have severe implications as Iran continues to move towards a nuclear capability.

But don't we need more leverage over Iran in any future negotiations, and wouldn't additional sanctions provide that leverage, proponents of sanctions may ask? My answer to both questions would be no.

The failure of past U.S. sanctions is not necessarily due to their lack of bite. On the contrary, as explained earlier, the bite has been there and considerable damage has been done to the Iranian economy. What has been lacking, however, is confidence in Tehran that a change in behavior would lead to the lifting of these sanctions. When a government is under the impression that the sanctions it is faced with will be there regardless of the government's behavior, incentives for changing that behavior in the desired direction simply evaporate.

That is the case with regard to Iranian attitudes towards the sanctions regime. It is a sentiment that was cemented during the Bush Administration when several attempts at outreach by Tehran were rebuffed. The most famous case was the May, 2003 proposal, when Washington rejected an Iranian invitation to wide ranging negotiations with the U.S., including on the nuclear issue.

Reality is that Washington has significant leverage over Tehran if willingness exists to trade away existing sanctions for extensive changes in Iranian policies. Tehran is aware that its key objective of political and economic rehabilitation in the region – in which Iran is included into the region's security architecture and granted a role commensurate with its geopolitical weight – cannot be achieved unless it mends fences with Washington. As such, Washington is the gatekeeper of Iran's political future in the region. That is leverage – if, again – there is a willingness to provide Iran with a seat at the table in return for changes in its policies.

In that sense, it is not the threat or imposition of new sanctions that is likely to achieve the desired changes in Iranian behavior, but the promise of lifting existing ones. The leverage sought by proponents of new sanctions already exists – we simply have not utilized that leverage in an efficient manner yet.

It is important to note that this leverage only can be utilized in the context of a negotiation between the United States and Iran. Neither threats nor promises are likely to succeed if they are made from a distance. This is why the President has emphasized repeatedly his desire for diplomacy with Iran. And this is why the timing of the proposed legislation is of concern.

Washington and Tehran currently find themselves in a phase in which both have expressed a desire for diplomacy, but mutual distrust and lack of confidence in the other side's intentions is making it difficult for them to find their way to the negotiating table.

In this atmosphere of mistrust, neither side has much room for error. As difficult as the process of negotiations will be, the process of reaching the negotiating table may be even more sensitive. The slightest misstep – whether a misguided comment or actions that are interpreted as hostile – may set the effort for diplomacy back or even prevent the two parties from reaching the negotiation table to begin with.

The Obama administration has recognized this and spent its first weeks seeking to create a more positive atmosphere through numerous positive signals, including the offer to reach out a hand if the other side unclenches its fist. The Obama administration should be commended for its much needed efforts in this arena.

These efforts, however, will be undermined if Congress passes additional sanctions before diplomacy has begun. Such a step would only reduce the prospects for diplomacy by poisoning the atmosphere and further increasing mistrust between the two capitals, which in turn lessens America's ability to tap into its reservoir of leverage over Iran in the first place.

After a decade-and-a-half of failed sanctions and economic pressure, and three decades of hostility, it is not sanctions or divestment that deserves another chance. It is diplomacy – and the opportunity to use the leverage that sanctions provide in the context of a negotiation – that should be given the space and time to succeed.