

Iran

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Turkey's Neighborhood Since the End of the Cold War

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Introduction

In order to fully understand the dynamics behind Iranian policy making, in domestic matters as well as in foreign policy, the Constitution of 1980 has to be reviewed briefly. Iran today is the only surviving Islamic Revolutionary state where the policy-making structure is defined by the constitutional and the institutional system that was generated by the 1979 Islamic Revolution.¹ This system is one of the main reasons why there are competing and clashing factions within the policy and decision-making system and by itself contributes a great deal in explaining the policies, that have succeeded or failed, in Iran during the 1990's.

The system that came to existence with the revolution consisted of both elected representatives and non-elected bodies. The main bodies consist of the Vali-ye Faqih, the Supreme Leader who is appointed by the Assembly of Experts; the President who is elected every four years; the Majlis, the Parliament also elected every four years; the Cabinet; the Assembly of Experts elected every eight years with the duty to decide on the successor to the Supreme Leader; the Council of Guardians; the Expediency Council that serves as the organ to arbitrate between decisions of the Parliament and the Council of Guardians; the Judiciary that is presided by a candidate elected by the Supreme Leader; the Armed Forces; and the Revolutionary Guards Corps as well as Bonyads, para-statal and non-state organizations that have ties with the clerics in power.²

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¹ Anoushiravan Ehteshami, "Iran's International Posture After the Fall of Baghdad", *Middle East Journal*, Vol. 58, No. 2, Spring 2004, pp. 179-194

² Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy: Implications for Iran-EU Relations", in *Analysing Middle East Foreign Policies, the Relations with Europe*, Gerd Nonneman (ed.), Routledge, Abingdon, 2005, pp. 174-196.

Therefore one can conclude that the President and the Majlis are the only fully elected bodies in the policy making structure, however the rest of the official bodies are either non-elected or they are under the control of non-elected bodies. Another important fact that shows the limits in the decision-making of the elected representatives is that those representatives can only be elected once they are authorized to become a candidate by the non-elected Council of Guardians.

Iran's political culture has been characterized by clashes between conservatives that promote a return to the main principles of the Islamic Revolution, a more strict political and social order labeled as "shari'atisation" by many authors.³ The conservatives also advocate a more meticulous process whereby candidates to government offices are elected by putting special emphasis on whether or not a candidate's "Islamicity" is sufficient for his candidacy. In the economic area, the conservatives are unwilling to open the economy to outside actors, be they foreign investors or international financial institutions, and support an economic system under the strict control of the state apparatus. However, because of their opposition to liberalization and democratization, conservatives in Iran can not necessarily be labeled as radicals, per se. They are against those ideas because they fear that the implementation of such policies would shaken the very foundations of the Islamic regime and put into jeopardy the changes that are brought to bear by the revolution. The decision-making in Iran, whether on foreign or domestic issues, is generally achieved through negotiations between different bodies rather than being the result of an institutional mechanism.

The Rafsanjani Period

The death of Islamic and Revolutionary leader Ayatollah Khomeini in 1989 open the way for change and reform in Iran because Khomeini himself was an emblematic figure of the revolution and he had strict opinions about how the Islamic Republic should function in domestic as well as in foreign spheres. Ayatollah Khamanei succeeded as the Supreme Leader of the Islamic Republic of Iran. There have been since the 1980's reforms in the Constitution, but none of those reforms were made at the expense of the centers of power's authority. Khamanei remains today the ultimate decision-maker and the authority in the Islamic Republic.

By the end of the 1980's, a need for change in Iranian politics manifested itself.⁴ The pillars of the Islamic Republic of Iran are laid out in the Islamic Constitution that was designed at a time when the fundamentalists did not feel secure about their position. Therefore, the Constitution was designed as a mean to empower the executive bodies with a view to protecting the principles behind the revolution by preventing any forms of challenges against the Faqih. With the deteriorating health of Khomeini, the end of the Iran-Iraq war, and the need of economic restructuring, by 1990s the pragmatists in the Iranian Parliament advocated for a change in the constitution that would provide the president with more power. Ali Akbar Hashemi Rafsanjani was among the main architects of the new Constitution that was drafted in 1988. The new Constitution

³ Olivier Roy, "Tensions in Iran: The Future of the Islamic Revolution", *Middle East Report*, No. 207. Summer 1998, pp.38-41.

⁴ Shireen T. Hunter, "Iran after Khomeini", *The Washington Papers*, No. 156, The Center for Strategic and International Studies, Washington DC, 1992.

abolished the post of prime minister, transferring all the related powers to the president, gave the president the power to select or to dismiss ministers with the confirmation of the Majlis. The constitution also increased the president's say over the conduct of economic and foreign policy. Also the power of the president in matters related to defense and intelligence were increased.

Ali Akbar Hashemi Rafsanjani was the first president to serve under the new Constitution. The new, improved, powers of the presidential post allowed Rafsanjani to pass the First Five Year Development Plan through both the Majlis and the Council of Guardians.⁵ Rafsanjani succeeded to some degree in reducing the tension between the old and new institutions of the Islamic Republic such as the Revolutionary Guards and the regular security forces. Rafsanjani also succeeded in adopting a new approach in international politics and revolutionary thoughts, and ambitions became more moderate. This can be perceived in Iran's attitude during the First Gulf Crisis when the country opted for "active neutrality".

The relative success of Rafsanjani's presidency can be explained by his management abilities, the new Constitution that gave him more freedom of action and also the co-operative role played by the new Supreme Leader Ayatollah Khamanei who kept a lower profile when compared to his predecessor Khomeini. However, Rafsanjani was not able to rule Iran by himself, as described above, the complex system of decision-making and the influence that different fractions had within the policy-making process forces the president to seek a consensus whereby decisions could be reached by each side making compromises.⁶

The Khatami Period

Iran's constitution limits the presidency of a given person to two-terms. Therefore Rafsanjani, having already served as President for two terms between 1989 and 1997, could not run for President in the 23 May 1997 elections. On the other hand the Iranian people, especially the Iranian youth and women as well as other segments of the society that previously strongly supported the creation of a theocratic regime, were increasingly dissatisfied with Rafsanjani's political, social and economic policies. The dissatisfied segments of the population, women, students, disadvantaged economic groups, religious and ethnic minorities, human rights activists and intellectuals, later named after the day of Khatami's election "the Second Khordad" movement, organized a strong presidential campaign for Hojjatoleslam Sayyed Muhammad Khatami.⁷ The participation in the 1997 elections was unprecedented with 80% voter participation. Khatami, became the fifth post-revolution President of Iran, chosen by approximately 21 million voters, equating to nearly 70 percent of the votes cast nation-wide. Khatami's term as president was regarded as a "turning point" for the Islamic Republic.⁸

⁵ Ibid.

⁶ Ibid.

⁷ Jahangir Amuzegar, "Khatami's Legacy: Dashed Hopes", *Middle East Journal*, Vol. 60, No. 1, Winter 2006, pp. 57-74.

⁸ Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy",

Several factors can be listed to explain Khatami's victory.⁹ The dissatisfaction with the Rafsanjani's government is one of the most important reasons in this respect. Rafsanjani's economic policies failed to benefit the population, while allowed a group of nouveaux riches to rise.¹⁰ He was also suspected of leading policies that would benefit more his own family. The reconstruction of the war torn zone of the 1980-1988 Iraq-Iran war did not proceed at the expected rate. The economy remained stagnant. The exchange regime was problematic. The privatization program was a big failure and allowed corruption and irregularities. The inflation levels and the foreign debts had reached historical records. Besides economic problems, the society in Iran claimed changes. The rise in the literacy rate of the population, the urbanization and the growth in the population increased the say of the youth and the women. The society wanted less control over their everyday lives. The young populations resented the controls of the Basiji, a militia formed by volunteers to enforce the norms of the Islamic Regime such as the obligation to wear the veil, or to assure that every woman is accompanied by an appropriate legal male guardian being their father, husband or brother or to prevent gender-mixing in public places.

Another reason why Khatami obtained such a victory at the ballots was the reaction against his rival at the Presidential elections, namely Ali Akbar Nateq-Nuri. Nateq Nuri was the Speaker of the Majlis and he reflected the willingness to enforce Islamic legal and ethical norms in the government and in the society at large. This ambition generated resentment in women, young Iranians and liberal voices. Therefore in reaction to Nateq-Nuri, Khatami that represented the opposite of Nateq-Nuri gained support. In addition, Nateq-Nuri gave signs that he would follow some of the least popular policies of Rafsanjani in the economic arena and he appeared as a status-quo politician to many. As said above, Khatami's campaign promised reforms in the areas of human rights and freedoms, social justice, the rule of law, an improvement of the civil society, an improvement in the economic conditions of all, more equal opportunities in the economic sphere and he also promised reduced tensions with the outside world. This campaign fascinated all segments that recognized the need for change in the Iranian political sphere.

Another reason of Khatami's victory was his personality.¹¹ His lifestyle suggested that he was a clear contrast to his opponents that all led more old fashioned life styles. His appearance, his monogamous life, his sense of humor, his more secular college past, the way he tolerated the opposition's views and his preference of dialogue instead of confrontation made him an attractive candidate for Presidency.

To sum up the main reasons behind Khatami's victory was the strong aspiration toward finding a way of transformation in all political spheres. After two terms of conservative politicians, Khatami's left-of-center policies presented an opportunity for political change in order to keep up with the new conditions under which reforms within the government and the society took place. Change was perceived as essential and the support of the Iranian youth was a key factor in Khatami's triumph.¹²

The changes in the political scene did not affect Iran's long lasting economic problems. The Islamic Republic of Iran has struggled during the 1990's in reconstructing

⁹ Olivier Roy, "Tensions in Iran",

¹⁰ Jahangir Amuzegar, "Khatami's Legacy",

¹¹ Ibid.

¹² Ibid.

its economy that was severely damaged both by internal and external factors that immediately followed the Islamic Revolution of 1979. There have been trade sanctions that were imposed by external powers and important Iranian assets abroad have been frozen right after the revolution. The war with Iraq, which broke out right after the revolution and lasted for eight years, was also an important factor destabilizing the Iranian economy and putting pressure on the country's economic resources. In addition to those factors, the rapid changes that took place in the oil markets had important repercussions on the Iranian economy.

Economic Situation

In order to redress the economy of the country, the government headed by the President Rafsanjani launched the First Five-Year Economic Plan in 1989.¹³ The main objective of the plan was to stimulate the national economy that was struggling with high levels of unemployment, lack of productivity in the industry, high levels of inflation and an increasing imbalance between the rich and the poor within the country. The plan consisted of structural adjustment policies recommended by the International Monetary Fund (IMF) that would provide the government of Rafsanjani with a guide to follow in order to realize their economic liberalization projects and succeed in their structural reforms.¹⁴ The plan included an important part on administrative reforms, through reducing the number of decision making and policy planning bodies in the economic area. It consisted of reorganizing the public administration more effectively by erasing all duplication and overlapping of functions and duties. It was also an attempt to regulate the market mechanisms on more solid judiciary foundations by improving laws and regulations.

The First Five-Year Plan relied on the privatization of large industries, on putting an end to the multiple exchange rates, in encouraging direct and indirect foreign investment.¹⁵ It also consisted of establishing free trade zones, on luring back to Iran the skilled immigrants. In order to put this plan into action, Iran needed capital. This caused a drastic change in Iran's revolutionary principles that were against borrowing from international financial institutions and calling on foreign investment.¹⁶ More than a decade after the Islamic Revolution, Iran for the first time borrowed USD 250 million from the World Bank in 1990. In order to decrease the voices of his critics, Rafsanjani publicly stated that despite this loan the Islamic Republic of Iran was still "true to the ideals of the revolution" and that the loan, by allowing the country to redress its economy, would serve to make Iran a model of Islamic independent state for the rest of the world.

Therefore, the First Five Year Plan can be seen as the first attempt to improve economic, social and cultural affairs in Iran. According to the statistics that are available, during the First Five Year Social and Economic Development Plan the Gross Domestic

¹³ Akbar Shokoohi, "Public Administrative Reform in Iran", *Asian Review of Public Administration*, Vol. VIII, No. 2, July-December 1996, pp. 33-44.

¹⁴ Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy",

¹⁵ Akbar Shokoohi, "Public Administrative Reform in Iran",

¹⁶ Djavad Salehi-Isfahani, "Labor and the Challenge of Economic Restructuring in Iran", *Middle East Report*, No.210, Spring, 1999, pp. 34-37.

Product (GDP) increased by 7.3 percent on the basis of 1988 factor prices.¹⁷ The GDP per capita increased from 197,000 Riyals at the beginning of the First Five Year Plan to 240,000 Riyals in 1993, while the fixed gross domestic investments increased by 13.3 percent. The private consumption increased by 7.7 percent per year, whereas the public consumption increased by 5.5 percent each year during the same period. In addition, the ratio of fixed gross domestic investments to GDP, which had been declining until then, rose from 12.4 percent in 1988 to 16.3 percent in 1993.

The Second Five Year Plan that immediately went into effect after the end of the First Five Year Plan in 1993 aimed at bringing into life more comprehensive regulations than the previous one.¹⁸ The Second Plan put an emphasis on increasing productivity, expanding the agriculture, promoting sustainable economic growth. It also aimed at normalizing the weight of oil revenues in the overall economy by reducing the dependence on oil revenue and promoted a greater expansion of non-oil exports.

The attempts by Rafsanjani to inject a limited amount of capitalism in the Iranian economy faced some resistance in the *Majlis*, where conservative voices raised suspicions about how capitalism and the Islamic regime can be compatible.¹⁹ By 1995, public reaction forced Rafsanjani to leave aside important elements of the Second Five Year Plan such as the floating exchange rate, the elimination of subsidies for consumer staples and the privatization of state-owned enterprises.²⁰ A high inflation rate and a USD 30 billion foreign debt are what Iranians remember of Rafsanjani's liberalization effort.

At the time of his election, Khatami inherited from Rafsanjani an economy haunted by low crude oil prices, inflation, budget deficit, in addition to imbalance in external payments and agricultural problems caused by drought.²¹ Although most of the economic reforms were started during Rafsanjani's term in office, their benefits were visible during Khatami's presidency. Especially during the second term of Khatami, the economic indicators have shown improvement in certain areas. The 2000-2005 Five Year Plan launched by Khatami aimed at removing trade restrictions, at modifying the economic structure and harmonizing the rules, norms and regulations governing production and investment.²² The plan was put in place to achieve the institutionalization of the required structures and the employment of political economic and cultural obligations and essential necessities, which would assure a stable growth in Iran's economy. The real gross production in Iran grew of 4.6 percent per year between 1997 and 2005.²³ The population of Iran continued to rise, although at a slower pace than in previous years, at an annual rate of 1.6 percent. The real per capita income also followed an upward direction, by increasing from USD 1,550 to USD 2,300 per capita with approximately 3.0 percent per year.

To sum up, the sudden increase in crude oil prices that took place between 2002 and 2005 allowed an increase in Iran's oil exports revenues from USD 15.4 billion in

¹⁷ Esmail Abadi, "Second Five-Year Plan, Meeting Iran's Economic Needs", *Iran Exports and Imports*; January-February 1995, No. 33, www.irvl.net/IRAN22.HTM.

¹⁸ Akbar Shokoochi, "Public Administrative Reform in Iran",

¹⁹ Djavad Salehi-Isfahani, "Labor and the Challenge of Economic Restructuring in Iran",

²⁰ Sohrab Behdad, "Khatami and His 'Reformist' Economic (Non-)Agenda", *Middle East Report Online*, 21 May 2001. <http://www.merip.org/mero/mero052101.html>.

²¹ Jahangir Amuzegar, "Khatami's Legacy: Dashed Hopes",

²² Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy",

²³ Jahangir Amuzegar, "Khatami's Legacy",

1997 to USD 36.3 billion in 2005, this increase in return allowed the government to take steps to reduce poverty through subsidies and welfare assistance. Also the non-oil exports increased from USD 2.9 billion to 7.5 billion. The exports in the service sector, on the other hand, tripled during the same period. The rise in the oil revenues also allowed the imports to reach USD 36.6 billion from approximately USD 14 billion. There were also improvements on the unemployment rates, with practically twice as many job opportunities than during the previous Rafsanjani government and unemployment decreased from 15 percent to 11 percent. Although external debts were higher than at in previous terms, during Khatami's rule, the percentage that those debts represented in relation to the GDP of Iran was much smaller. The increase in the oil revenues also allowed the nation to extend their foreign exchange holdings at a record level of approximately USD 34 billion. Khatami was also able to provide the Iranians an improvement in infrastructures; he provided electricity to rural areas, extended telecommunications, Internet access, natural gas lines and construction of housings and beautification of the urban area.

The main reason behind the success of Khatami's economic policies lies in the acceptance that reforms were needed to align Iranian policies with world realities.²⁴ Iran was assisted by the IMF in drawing economic policies and in implementing reforms, which allowed growth while sustaining high employment and low inflation. The main policy that allowed those positive outcomes in the economic sphere has been the simplification of the multiple exchange rates and the establishment of a single floating exchange system in March 2002. Another cornerstone in Iranian economic policy has been the compliance with liberal obligations under the IMF restrictions. Iran during the same period became a member of the World Bank's Multilateral Investment Guarantee Agency. The Iranian Central Bank was also allowed to have more independence from the government, the credits that were allocated through the Central Bank by the request of the *Majlis* were reduced. The Khatami government also launched a reform in the fiscal area in 2002. On the other hand, private banks and insurance companies were issued licenses for the first time since the 1979 Iranian Revolution when banks and insurance companies were included in the nationalization wave. Privatization was also put under the supervision of the National Privatization Organization established in 2001 to centralize privatization policies and as an attempt to put an end to corruption that surrounded the privatization process. However, once again, reforms planned by the Khatami government could not be put into action in a harmonized manner, therefore their success has been limited.²⁵

Foreign Policy

On the foreign policy of Iran, the Rafsanjani term was marked by changes on several fronts. The Rafsanjani government attempted to improve relations with the Gulf States. The invasion of Kuwait by Iraq in August 1990 gave Rafsanjani a window of opportunity to normalize relations with other Gulf States. The countries, previously threatened by Iran's willingness to export its Islamic Revolution were now threatened by a more imminent danger that was the Saddam regime; therefore they presented a

²⁴ Ibid.

²⁵ Ibid.

readiness to cooperate with Iran. The declaration of the Gulf Cooperation Council in 1990 Qatar Summit can be a clear sign of this decision.

With regard to Iran's relations with Europe, the period between 1989 and 1997 has been a period where both sides were willing to leave ideological differences aside in order to explore their mutual functional interests.²⁶ This change in Iran's stance vis-à-vis the other countries resulted from two main developments. The first development was Iran's willingness to have friendlier ties with the Gulf States and its Arab neighbors. This affected positively the possibility of Europeans to increase interactions with Iran, not only because they viewed Iran as an important source of oil and gas but also because with its population of over 60 million people, Iran offered a lucrative trade and investment prospect.²⁷ An additional factor in Europe's willingness to increase relations with Iran was to be able to free their hostages held by the Shia militants in Lebanon more easily and avoiding terrorist attacks on their soils.

From the perspective of Iran, the collapse of the Soviet Union forced Iran to look to other possibilities to balance the US. Iran saw in its relations with Europe a possible source for its foreign loans, credit, investment and technology that the country badly needed to perform its economic rehabilitation, subsequent to the Iraq-Iran war and also to continue the reconstruction of the war-torn regions that were devastated.²⁸ Another event that allowed improvements in the relations between Iran and the international community was the earthquake that hit Iran on 21 June 1990,²⁹ Facing one of the worst disasters of its history, Iran could not deal with the catastrophe on its own. The moderates in Iran thought that this could open a window of opportunity for a more balanced Iranian foreign policy while at the same time providing relief to the victims of the disaster. Iran declared that it was willing to accept foreign aid to deal with the tragedy, including aid from the United States. This call was received by the Western world and aid was granted to the region. Germany and France were the two countries that provided the most aid to the country. On the other hand Saudi-Arabia, another country that had encountered tensions with Iran, sent an important amount of aid. This disaster showed once again that Iran in order to redress its economy in times of crisis or disasters needed to improve its relations with the external world, therefore opt for a more pragmatic rather than ideological approach to foreign policy.

Another important event for Iranian policy makers in the 1990's was the war in the Gulf that followed Iraq's invasion of Kuwait.³⁰ In August 1990, Saddam Hussein's armies invaded and occupied oil rich regions of Kuwait.³¹ The crisis culminated in the intervention of the US-led Coalition Forces to the area and the defeat of Saddam's forces. The most important benefit for Iran was that Iraq, in order to direct all its military assets toward coalition forces in Saudi Arabia, had to cease hostilities on its Iranian border and therefore Saddam had to accept certain terms imposed by Iran, one of which was the

²⁶ Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy",

²⁷ Adam Tarock, "Iran-Western Europe Relations on the Mend", *British Journal of Middle Eastern Studies*, Vol. 26, No. 1, May 1999, pp. 41-61.

²⁸ Abbas Maleki, "Myth and Reality of the New World Order: Challenges to Iranian Foreign Policy", *The Iranian Journal of International Affairs*, Vol. 5, No. 2, 1993. pp. 311-317.

²⁹ Shireen T. Hunter, "Iran after Khomeini",

³⁰ Ibid.

³¹ Matthew C. Wells, "Thermidor in the Islamic Republic of Iran: The Rise of Muhammad Khatami", *British Journal of Middle Eastern Studies*, Vol. 26, No. 1., 1999, pp. 27-39.

signature of the peace terms determined by Iran which imposed the recognition of Iranian and Iraqi joint sovereignty over the contested region of Shat-al-Arab.³² This peace accord heightened hopes for Iranians in diverting their resources to their economic revitalization rather than spending their wealth for military buildups. However the peace accord signed between Saddam and Rafsanjani did not satisfy the Western community that hoped Iran would reject the peace offer therefore prevent Saddam from bringing additional troops to its Saudi Border. The West failed to understand that Iran could not adopt a more pro-Western policy because of primarily the domestic pressures on Rafsanjani government that refrained from appearing too pro-Western to Iranian people.

Iran, after the Gulf War, wanted to be part of a security framework within the Middle East but rejected the idea of any foreign troops being present in the Gulf.³³ However, the Gulf Countries and the Western Countries, especially the United State and Britain, preferred to keep Iran out of any security arrangements that could come to life.

The Gulf Crisis was another event that allowed a relative improvement in Iran-Europe relations by showing that Iran had still a strategic importance in the Post-cold War Middle East and also by Iran acquiring sympathy from the European because of its open door policy towards the Kurdish refugees fleeing Iraq.³⁴ Those events and the resolution of the Rushdie affair caused a great improvement in Iran's relations with European countries including Britain. In addition to European countries, there was a clear improvement in Iran's relations with Saudi Arabia, Jordan, Morocco and other countries during the same period.³⁵

The improvement in European relations with Iran caused a gap between US and European policies regarding Iran. The US, in addition to earlier-established sanctions against the Islamic Republic, included Iran in a "Dual-Containment Policy" announced in 1993. In 1995, the US government introduced new sanctions, which banned all US trade and investment with Iran. The Iran Oil Sanctions Act, that later came to be known as Iran-Libya Sanctions Act, was passed to reprimand any US or foreign trading company that invested more than USD 40 million per year in oil and gas development in Iran by boycotting their imports and denying them loans and US government contracts.³⁶ The reason behind the bill was to put pressure on Europe and any other country to adopt similar policies to the US policy concerning Iran.³⁷ However the impact of the bill was not one that was hoped by Washington, instead of aligning policies with the US the Europeans, declared the US boycott as illegal in international law and adopted a policy of engagement in addition to continuing their trade relations whereas the US continued its policy of isolation plus sanctions. Europeans claimed that a "critical dialogue" would, by engaging Iran, encourage its government to moderate its radicalism. However relations

³² Adam Tarock, "Iran's Foreign Policy Since the Gulf War", in *Remaking the Middle East*, Paul J. White and William S. Logan (eds.), Berg Publishers, Oxford, 1997.

³³ Adam Tarock, "Iran-Western Europe Relations on the Mend",

³⁴ Shireen T. Hunter, "Iran after Khomeini",

³⁵ Christopher Rundle, "Iran; Continuity and Change Since the Revolution - Carrying Water in the Sieve?" in *Politics and International Relations in the Middle East; Continuity and Change*, Jane M. Davis and Edward Elgar (eds.), Ashgate, Aldershot, 1995, pp. 105-117.

³⁶ Adam Tarock, "Iran-Western Europe Relations on the Mend",

³⁷ Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy",

with Britain, although blossoming in trade and investment, failed to improve due to the poor human rights records of Iran and especially due to the Rushdie case.³⁸

By the end of the two-term presidency of Rafsanjani in 1997, the diplomatic reforms proved to be insufficient in promoting change in Iran's international stance. The relations between Iran and the US remained problematic.³⁹ The Clinton Administration proved to be insistent on change in Iran's position on issues such as its efforts to build weapons of mass destruction, its support for terrorism and its opposition to the Israeli-Palestinian peace initiatives, before the US could think about normalizing relations with the Islamic Republic of Iran. Since there were no drastic changes in Iran's position, the US maintained sanctions in place, used its influences for preventing Iran's access to international financial institutions, and used its political weight to influence third parties relations with Iran, such as European countries, Russia and others.

On the foreign policy front, the election of Khatami opened opportunities for better and expanded economic and political ties with the outside world although attacked by sections of the press and the *Majlis* at home. Khatami's foreign policy rested on the principles of détente and confidence building. The policy of détente in foreign policy consisted in pursuing confidence-building measures and at easing tensions with other countries. The main principle adopted in foreign relations was that of peaceful resolution of conflicts and "dialogue of the civilizations".⁴⁰ Khatami advocated that in a globalizing world, all nations had to learn from one another; therefore even the West that was considered as the source of many ills, according to hardliners, had to be studied. Khatami's attitude towards the outside world was not based on ideology, as the foreign policy was since the Islamic Revolution, but more pragmatic.

Iran's relations with a number of Arab states improved during Khatami's terms. He was elected the President of the Organization of the Islamic Conference (OIC) in December 1997. He made frequent visits to a number of developed countries. He succeeded in easing tensions with Saudi Arabia. Relations with other countries of the regions such as Bahrain, Qatar, and the United Arab Emirates improved considerably. On the global arena, Khatami obtained a tremendous diplomatic victory and succeeded in improving Iran's international image, when the United Nations accepted his suggestion to declare the year 2001 the year of "Dialogue Among Civilizations".⁴¹ He also showed that Iran was willing to comply with international norms by signing several international treaties such as the treaties against chemical and biological weapons.

The good efforts of Khatami were hampered by the failures in democratization and liberalization. The human rights violations caused the international community to pursue condemning Iran for its bad records. Those failures caused the trend in European Iranian relations to go back to critical talks rather than constructive dialogue.⁴²

³⁸ Shireen T. Hunter, "Iran after Khomeini",

³⁹ Matthew C. Wells, "Thermidor in the Islamic Republic of Iran",

⁴⁰ Kayhan Barzegar, "Détente in Khatami's Foreign Policy and its Impact on Improvement of Iran Saudi Relations", *Discourse: An Iranian Quarterly*, Vol. 2, No. 2, Fall 2000, pp. 155-178.

⁴¹ Kayhan Barzegar, "Khatamism: A New Political Symbolism in International Relations", *Discourse: An Iranian Quarterly*, Vol. 3, No. 2, Fall 2001, pp. 23-46.

⁴² Ziba Moshaver, "Revolution, Theocratic Leadership and Iran's Foreign Policy",

Iran and the NPT

Another major point of contention between Iran and the world community was Iran's efforts regarding uranium enrichment. Although Iran had signed the Non-Proliferation Treaty (NPT), it was discovered to have a clandestine uranium enrichment program. The international community, against Khatami's claims that Iran had the right to engage in uranium enrichment for peaceful civilian purposes under the terms of the NPT, engaged in talks with Iran in order to convince the Iranians to stop their nuclear program. However, Iran pursued cooperating with the Democratic Peoples Republic of North Korea in developing its missiles, including long-range missiles.⁴³ This cooperation causes concern in the international arena since it can result in nuclear proliferation with press reports that suggest that North Korea and Iran have been working together in research and development phases of their nuclear programs. Reports, stating that Iran has already bought 12 nuclear-capable 3000 km range Kh-55 cruise missiles from Ukraine in 2001 contribute to those concerns.⁴⁴

Even talks about the US were more conciliatory relatively to the past. At the beginning of his term in office in 1997 and 1998, Khatami clearly stated that he was willing to engage in new more peaceful type of relations with the US. The US also responded in a friendly tone. However the improvements were hampered by both the conservative and fanatical fractions of the Iranian government and by strong anti-Iranian lobbies in the US congress.

It can be said that the Khatami years witnessed a clear improvement in some aspects of foreign policy and in terms of the image projected by Iran to the rest of the world. Iran was still balancing powers against its two declared enemies Israel and the US, but it had the support not only of China and Russia, but also new countries such as Cuba, North Korea and Venezuela.

Iran and the Caspian Sea Demarcation

Iran has been at the center of the disagreements over the legal status of the Caspian Sea. Up until 1998, Kazakhstan and Azerbaijan supported dividing the Sea according to each country's shoreline whereas Russia and Iran advocated for the Caspian Sea to be treated as a lake rather than a sea and therefore promoted a condominium solution of equal distribution among riparian states, while Turkmenistan's stand fluctuated.⁴⁵ By the mid-1990's Iran was more willing to make a compromise on its legal claims over the Caspian Sea. This move was due to the willingness of Iran in taking part in the energy projects that were drawn around the area. However this window of opportunity to include Iran in the regional projects was not used and Iran was left out and isolated. This was particularly the case with the "Contract of the Century" signed between Azerbaijan and Western oil companies. Therefore Iran returned to an unreconciling position on the issue.

⁴³ Mark Fitzpatrick, "Iran and North Korea: The Proliferation Nexus", *Survival*, Vol. 48, No. 1, Spring 2006, pp. 61-80.

⁴⁴ Ibid.

⁴⁵ Fred Halliday, "Iran and the Middle East: Foreign Policy and Domestic Change", *Middle East Report*, No. 220, Autumn 2001.

In 1998 Russian and Iranian position on the Caspian Sea's legal status began to diverge when Moscow started to sign bilateral agreements with Azerbaijan and later with Kazakhstan in 2001 and grew closer to the "sea position". Iran made a bold move to show its insistence on the issue and its determination by sending gunboats to threaten a BP explorer vessel scanning a disputed area of the Caspian Sea, therefore starting a crisis. Iran also attempted to heighten tensions in the area and to intimidate Azerbaijan by violating its airspace.

The Iranian position over the Caspian Sea demarcation stems directly from Iran's economic goals, but also from its wider policy principles that consist on preventing Azerbaijan from gaining more wealth and power, increasing its influence in the region.⁴⁶ According to Iran, Azerbaijan represents a potential threat to Iran's national security, on the one hand because of the important Azeri population in Iran, and on the other hand as being a potential rival. Limiting Western influences in its immediate neighborhood is also perceived as essential for Iran's security and the economic gains that will result from the energy projects in the Caspian region provide much needed resources for improving Iran's economic reconstruction. Iran's position can be explained by the fact that it is believed that Iran's offshore waters are not rich in oil and gas and by opting for a "Caspian Sea" rather than a "Caspian Lake" demarcation would cause Iran to lose access to resources closer to its neighbors.

In the domestic area, success in the Caspian Sea demarcation dispute has become a highly political issue. The Caspian Sea is not only of economic and strategic importance but bears also a symbolic importance because if resolved in the terms of Iran it would allow Iran to be accepted as a partner in the energy projects and therefore provide recognition from the regional states as well as from Western states. In addition, the *Majlis* spent considerable numbers of sessions on this issue which was used between different fractions of the government to hamper one another's effort to implement coherent policies. One example can be that the *Majlis*, where many suggest adopting a more nationalistic stand point on the issue than Khatami's position, has used this issue to criticize President Khatami's performance on the issue and his talents as a policy maker.

Once again one can see that foreign policy is not directed by the ideology of the Islamic regime but by material state considerations. Iran's general policy in Central Asia and the Caucasus is led by geopolitical concerns rather than ideological motivations. In issues regarding the area, Iran always chooses the policies that enhance its security and economic considerations.

Iran and Nagorno-Karabag

Officially Iran has chosen to stay "neutral" in the conflict between Armenia and Azerbaijan and preferred to act as a mediator.⁴⁷ One can see a drift from the official ideology of the Islamic regime that claims to be the protector of Shii Muslims on a global scale. There are several reasons behind the neutral posture of the Islamic Republic. First

⁴⁶ Brenda Shaffer, "Iran's Role in the South Caucasus and Caspian Region: Diverging Views of the US and Europe", in *Iran and Its Neighbors*, Eugene Withlock (ed.), Stiftung Wissenschaft und Politik, German Institute for International and Security Affairs, Berlin, 2003, pp. 17-22.

⁴⁷ Abbas Maleki, "Myth and Reality of the New World Order",

of all, Iran has a greater interest in keeping Azerbaijan involved in the conflict.⁴⁸ By doing so, Iran makes it less attractive for Iranian Azerbaijanis disillusioned with domestic realities to support the Greater Azerbaijan idea that encompasses parts of the Iranian soil. On the other hand, Iran fears an escalation of the conflict that can cause waves of refugees from the region and a general instability in the region as a whole but especially in Iran's northwest border.⁴⁹ Iran was concerned with limiting the spread of ethnic and other types of conflict that broke out in the region in the immediate aftermath of the collapse of the Soviet Union in 1991. This concern stems not only because Iran is also a multi-ethnic society that can be highly affected by the waves of independence movements and ethnic nationalism but also because Iran is concerned with the overall stability of the region and about Russia that has on diverse issues been the most important, if not the only, supporter of Iran. Therefore Iran chose to remain neutral on the issue only when the results of the conflict do not threaten Iran's interests or its security.⁵⁰

Iran offered various types of support to Armenia especially at the height of the conflict between Armenia and Azerbaijan in the form of economic agreements that allowed Armenia to gain resources to reinvest in the conflict. For example, Iran offered a route for Armenia to get access to energy and supplies while on the other hand providing an outlet for Armenian trade. The support of Iran can be also explained through its efforts to balance a Turkish-Azerbaijani alliance that allowed Azerbaijan to have military and economic support and also allowed Azerbaijan and the Western world to bypass Iran in accessing world energy markets. However the official position remained neutral and Iranian diplomats have negotiated several instances of cease-fires since 1994.

Turkish-Iranian Relations

During the 20th century, Iran's relations with Turkey remained peaceful, although not always amicable. Until the 18th century, the main reason of tension in the Turkish Iranian relations was the struggle between the Safavid Persian Shi'ism and the Islamic orthodoxy embraced by the Ottoman Empire.⁵¹ The peace accords between Iran and the Ottoman empire reached in the early 1700s succeeded in reducing tensions, by each party recognizing that sovereign states could be parts of the Islamic world community even if their interpretations of Islam do not match.⁵²

In the first part of the 20th century, there have been commonalities as well as divergences in Iranian and Turkish foreign policies. The most important difference was the fact that Turkey was ruled along the lines of the republican constitutionalism established by Mustafa Kemal Atatürk whereas Iran was ruled according to an absolutist monarchy led by Reza Shah.⁵³ Although the political systems of Turkey and Iran were divergent, the fact that both country experienced fragmentation on the domestic level and

⁴⁸ Brenda Shaffer, "Iran's Role in the South Caucasus and Caspian Region",

⁴⁹ Christopher Rundle, "Iran",

⁵⁰ Kaveh Afrasiabi & Maleki Abbas, "Iran's Foreign Policy After 11 September", *The Brown Journal of World Affairs*, Vol. IX, Issue 2, Winter/Spring 2003, pp. 255-265.

⁵¹ Richard H. Pfaff, "Disengagement from Traditionalism in Turkey and Iran", *The Western Political Quarterly*, Vol. 16, No. 1, March 1963, pp. 79-98.

⁵² John Calabrese, "Turkey and Iran: Limits of a Stable Relationship", *British Journal of Middle Eastern Studies*, Vol. 25, No. 1, May 1998, p. 76.

⁵³ Ibid.

foreign occupation resulted in a common concern in both country's ruling regime that was to consolidate their domestic power and to strengthen their regimes, at the same time trying to pursue and independent foreign policy. With those vital concerns in mind, neither Turkey nor Iran saw one another as immediate threat, therefore were not hostile towards each another.

During the Cold War years both Turkey and Iran, fearing Soviet expansionism and Soviet influence in their domestic affairs, were within the pro-Western camp and designed their foreign policies accordingly. By joining the Central Treaty Organization (CENTO) as founding members, Turkey and Iran became regional allies.

During the détente period in the 1960's, with the decrease in tensions between the two superpowers of the international system, both Turkey and Iran could focus on regional problems and causes of concerns. Their efforts in cooperation on a bilateral or multilateral level were supported by the United States. In 1964 Iran and Turkey along with Pakistan founded the Regional Cooperation and Development grouping, which would later turn into the Economic Cooperation Organization (ECO) to promote economic, technical and cultural cooperation among members although the organization failed in achieving concrete outcomes.⁵⁴ At the time, Turkey perceived Iran as a friendly power within the Western camp and most importantly Iran was seen as a *status quo* power, not willing to jeopardize Turkey's position in the region or its security.

The 1979 Islamic Revolution shook the stability of Turkish-Iranian relations. The Islamic Republic of Iran, with its militant Islamist statements and its willingness to export its revolution became a cause of concern for Turkey. This was due to the fact that the Islamic revolution in Iran coincided with the rise of political violence in Turkey, at a time when the Turkish Armed Forces established martial law in 1980, and at a period when the country underwent economic crisis.

Another reason why the Islamic revolution caused fissures in Turkish-Iranian relations was that the ties between Iran and the United States, that strongly supported cooperation and friendly relations between Turkey and Iran as members of the Western alliance, were cut by the anti-American character of the Islamic Revolution.⁵⁵ The Iran-Iraq conflict that broke out immediately after the revolution caused another problem for Turkey since Iraq was then its main energy supplier. In addition, the Islamic Republic's aggressive statements towards Israel, such as the aim to eradicate the state of Israel created another area of tension between Turkey and Iran. Regime change in Iran caused another factor that increased tensions between the two countries, a flow of Iranian expatriates were already in Turkey, but that increased after the revolution.⁵⁶

Another issue rose when in the mid 1980's Turkey became the target of the PKK terrorism. Turkish officials suspected that Iran was supporting the PKK, or if not turning a blind eye to PKK terrorists that used Iranian territory to stage attacks on Turkey through the inadequately controlled Turkish Iranian borders. Turkish officials also accused Iran with interfering in Turkey's domestic affairs and with conducting attacks on

⁵⁴ Richard Pomfret, "The Economic Cooperation Organization: Current Status and Future Prospects", *Europe-Asia Studies*, Vol. 49, No. 4, June 1997, pp. 657-667.

⁵⁵ John Calabrese, "Turkey and Iran: Limits of a Stable Relationship", p. 77.

⁵⁶ *Ibid.*, p. 78.

Iranians living in Turkey. On the other hand, Iran was accusing Turkey of harboring anti-revolutionary forces, such as the Mujaheddin-e Khalq (MKO).⁵⁷

Although tensions between Iran and Turkey that existed before were seriously increased by the Islamic Revolution in Iran and the mutual distrust between the two countries increased dramatically, both Turkey and Iran wanted to prevent conflict or a rupture in relations. This reluctance to escalate the tensions stemmed from the fact that both countries had economic interests in their bilateral relations, with Turkey being an exporter of goods towards Iran and Iran being a major energy supplier for Turkey. The end of the Cold War and the advent of the unipolar world, along with developments such as the developments in the Arab-Israeli peace process and the globalization of the world economy have deeply impacted Turkish-Iranian relations in the 1990s.

In the area of economic cooperation, the 1990s have witnessed positive developments in the relations between the two countries. In August 1996, Turkey and Iran signed two important agreements. A USD 23 billion agreement of gas supply from Iran to Turkey in addition to a gas pipeline construction project, and a second agreement where parties agree to increase the bilateral trade in merchandise to USD 2.5 billion a year.⁵⁸ The signature of the agreements between Turkey and Iran coincided with a period in Turkish political history where the “first Islamic government” of modern Turkey was formed by Necmettin Erbakan whose party the “moderate Islamic” Refah (Welfare) Party won the first rank during the 1995 national elections.⁵⁹ This coincidence enforced the perception that the relations between Turkey and Iran were improving because of the ruling party’s Islamic character, however the agreements were designed long before the Refah Party came to power, and the secular politicians and businessmen in Turkey supported economic cooperation with Middle Eastern countries, especially in the energy field where Turkey had an interest in diversifying its suppliers, as long as those attempts did not jeopardize relations with the Western countries.

The 1990’s witnessed deterioration in Iranian Turkish relations especially due to the threat perceptions of these countries towards their domestic security. The 1990s witnessed an increase in the debates on what the role of religion should be in Turkish public life. The municipal elections of 27 March 1994 bringing the Refah Party to power in big cities such as Ankara and Istanbul, and the national elections of 24 December 1995 that resulted in the victory of Refah Party marked a turning point in Turkish history.⁶⁰ Turkish secular spheres and the military were suspicious regarding Iran’s intentions towards Turkey. There were according to those spheres, attempts by Iranian politicians and media to agitate the constitutional order in Turkey.

Iran was also accused by Turkey in having interfered in Turkish domestic affairs by supporting radical Islamic organizations through institutions in Turkey such as the Institute for Clergymen, Missionaries and Instructors, libraries, clubs, associations propagating against the secular regime in Turkey.⁶¹ The events reached a peak on the night of 1 February 1997, when during the commemoration of the “Jerusalem Day” in

⁵⁷ Ibid.

⁵⁸ Ibid., p. 83.

⁵⁹ Ibid., p. 81.

⁶⁰ Hakan Yavuz, “Turkish Israeli Relations Through the Lens of the Turkish Identity Debate”, *Journal of Palestine Studies*, Vol. XXVII, No. 1, Autumn 1997, pp. 22-37.

⁶¹ John Calabrese, “Turkey and Iran”, p. 85.

Sincan a small town in the environs of the Turkish capital Ankara, posters of Hizballah and Hamas were displayed and the secular regime of the Turkish Republic was strongly criticized by the participants, including the Iranian Ambassador to Ankara, namely Mohammed Reza Bagheri who reportedly called for the institution of Sheri'a in Turkey.⁶²

The Sincan events precipitated the downfall of the coalition government led by Erbakan, of the closure of his party Refah and also caused serious tensions between Iran and Turkey with Turkey expelling Bagheri. Those allegations were denied by the Iranian government, that in turned accused Turkey of interfering with Iranian domestic affairs. Iran accused Turkey of espionage and also of not putting a halt to the activities of the Mujaheddin-e Khalq (MKO). Iran lodged a diplomatic protest when the MKO organized a rally in Ankara. Iran accused Turkey of participating in the US policies designed to isolate Iran.

Another source of tensions between the Islamic Republic of Iran and Turkey has been the Arab-Israeli conflict and the Turkish-Israeli relations. Since 1980's Turkey has stated that the Arab-Israeli conflict was a dispute between Arabs and Israelis in general and refrained from seeing the conflict as an Islam versus Israel conflict.⁶³ Turkey, the first Muslim country to recognize the State of Israel in 1949, has always been careful in its relations with Israel in order to refrain from offending its Arab neighbors.⁶⁴ However the advent of the Madrid Peace Process paved the way for improved relations with Israel. Besides, Turkey, facing an increasing Kurdish separatist terrorism, saw its role within the NATO alliance decrease with the end of the Cold War and was hardly criticized by the Western countries, especially its European counterparts. Those criticisms regarding Turkey's human rights records caused several arms supplier countries such as Belgium, Germany, and Norway to stop their arms trade with Turkey. Therefore Turkey had to turn elsewhere for arms purchases, cooperation and security guarantees.

On 23 February 1996, Turkey and Israel signed a military contract for the modernization of the Turkish military aircraft and then more comprehensive defense and security cooperation agreement that was signed on 28 August 1996 that included an "open skies" clause that allowed Israel to use the Turkish airspace for training purposes as well as for surveillance. When the agreement became public, Iranian officials expressed their suspicions regarding such an arrangement. Then Iranian Foreign Minister Velayati voiced "grave anxiety" and the opposition of the Iranian government to such an arrangement, when at the same time the Spiritual Leader Ali Khamanei insisted on Turkey to reconsider the agreement.⁶⁵ This development contributed to the crisis in Iranian domestic policies by increasing voices criticizing Rafsanjani in his inability to dissuade Turkey from aligning with Israel. All those developments pushed Iran to align with Iraq and Syria in order to balance the Turkish-Israeli military alliance.⁶⁶

The Gulf War in 1991 and the creation of a *de facto* Kurdish autonomous region in northern Iraq were other developments that affected Turkis-Iranian relations during the

⁶² Hakan Yavuz, "Turkish Israeli Relations Through the Lens of the Turkish Identity Debate",

⁶³ Sabri Sayari, "Turkey and the Middle East in the 1990's", *Journal of Palestine Studies*, Vol. 26, No. 3, Spring 1997, pp. 44-55.

⁶⁴ Hakan Yavuz, "Turkish Israeli Relations Through the Lens of the Turkish Identity Debate",

⁶⁵ John Calabrese, "Turkey and Iran",

⁶⁶ Mustafa Kibaroglu, "Turkey and Israel Strategize", *Middle East Quarterly*, Vol. 9, No. 1, Vinter 2002, pp. 61-65.

1990s. The role assumed by Turkey as a NATO member during the war, raised Iranian suspicions as to how far would Turkey go in supporting the US policies in the Middle East, on the other hand, the economic sanctions that resulted from the war caused Turkey to engage in more cooperative relations with Iran especially in the field of energy.⁶⁷ The creation of “safe havens” for the Kurds in Northern Iraq caused a problem for both Iran and Turkey that feared that this would lead to claims to independence by their respective Kurdish populations.⁶⁸ Therefore both countries stated their willingness to keep Iraq as a unitary state. For Turkey, since the mid 1980s, northern Iraq has served as the kitchen for the increasing waves of political violence perpetrated by the PKK. On countless occasions the Turkish Armed Forces used their right of hot pursuit, with the permission of Baghdad and entered the Iraqi territory to kill or capture the PKK terrorists.⁶⁹

Another important factor relating to Iraq is that Turkey has been the destination of many Kurdish refugees fleeing the brutal rule of Saddam. Therefore, Turkish security concerns are highly linked with developments happening in Iraq. Northern Iraq has also become a safe haven for the KDPI that perpetrated attacks against Iran.⁷⁰ Although both countries share similar concerns regarding Iraq and the Kurdish factor, there have been instances where those similar concerns caused tensions between Iran and Turkey. Iran has several times claimed that Turkish Armed Forces have violated Iranian airspace and territory in their pursuit of PKK terrorists. Turkey on the other hand, as stated before, condemned Iranian support for the PKK.

In October 1993, Iran and Turkey signed an agreement according to which neither country would let terrorist organization to act or exist on their soil. The following year, Iran returned more than 28 PKK terrorists to Turkish forces.⁷¹ Both countries later acknowledged that coordination and reciprocity was necessary in their policies against political violence and separatism.

Another area of cooperation and rivalry for Turkey and Iran is the role they both wanted to play in Central Asia and the Caucasus. Since the Commonwealth of the Independent States emerged in the early 1991, Iran and Turkey wanted to increase their influence and power in the newly independent areas of Central Asia and the Caucasus. Both countries underlined the common history, values and linguistic and religious affinities they shared with those populations. Turkey on one hand put the emphasis on ethno-linguistic resemblances whereas Iran underlined the religious commonalities.⁷² Turkey has been supported by the Western countries especially the US, which feared the spread of political Islam in the area, in providing a model to the former Soviet republics. Both Turkey and Iran have established strong relations with the new Central Asian countries and the countries in the Caucasus, however both have also overestimated their capabilities in providing those states with the economic aids and loans that were badly needed there. Both countries also underestimated the resentment that imposing a model would cause in countries that barely freed themselves from the Soviet influence.

⁶⁷ John Calabrese, “Turkey and Iran”,

⁶⁸ Sabri Sayari, “Turkey and the Middle East in the 1990s”,

⁶⁹ Ibid.

⁷⁰ John Calabrese, “Turkey and Iran”,

⁷¹ Ibid, p.90

⁷² Ibid.

Another factor that hampered both Turkish and Iranian efforts to expand their influence and act as “model” in Central Asia was the return of Russia as a strong influential regional power. Russia, with the improvements in the economy stemming largely from the oil and gas revenues, has been during the second part of the 1990s more and more influential in matters it considered related to its “near abroad”. Russian influence that comes not only from its power and proximity to Central Asia and the Caucasus, but that also derives from its historical and organizational ties with the people and rulers of those states, makes it hard for other states to have a say in the region.

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