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Annual Strategic Report



IRAN IN 2018

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Published by Rasanah, Riyadh, Saudi Arabia.
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IRAN IN 2018



EXECUTIVE SUMMARY

The US withdrawal from the nuclear deal was the most important development in the Iranian issue in 2018 on all international, regional, and internal levels. The Iranian government's promises for a prosperous future and openness to the international community faded away, increasing public discontent. The Iranian government anticipated an external attack or tough economic sanctions that would make it lose control over the country. As a hedging strategy, it resorted to adopting a tough domestic policy to suppress its opponents.

1. Internal Affairs

Ideology

The relationship between the three pillars of the Iranian ideology —the government, people, and Hawza— was characterized by mutual violence as the Iranian government felt an external threat is approaching the country. It started to suppress its internal opponents and other religious currents such as the Gonabandi Dervishes who had been excluded from politics after expanding their grassroots supporter base. The Iranian government has used violence against the Dervishes as they reject Velayat-e-Faqih

since December 2017. The other grass-root opposition that the government clashed with for opposing Vilayat-e-Faqih, was the Shirazi movement. The Iranian government arrested Hussein Shirazi, a senior cleric after he compared Khamenei to Pharaoh and criticized religious and political tyranny in the country after massive protests in the cities of Shirazi Shiite communities around the world, mainly, in Karbala, Kuwait, and London.

In 2018, the Iranian government used violence to suppress its internal opposition, which has ideological disagreements with the regime, instead of it trying to find a common ground between the variant ideological perspectives. The regime's extremist policy would fuel mutual hatred and trigger bloody violence if its opposition groups and they were sure the regime would collapse.

Politics

The political perspective of the Iranian government was in align with the ideology of the regime. Domestic violence under the pretext of regulating the internal situation, before being exposed to tough external pressures, made the hardliners more aggressive towards the moderates in light of the decline of the popularity of the Iranian President Hassan Rouhani for many reasons such as the US withdrawal from the nuclear deal and the deteriorating economic situation. This, in turn, deprived Rouhani of pride in his only achievement, as stated by the hardliners , but also resulted in a vote of no confidence against the Ministers of Labor, Ali Rabe'i and Economy, Mas'oud Karbasian because of Iran's economic crisis; then, the hardliners directed parliamentary questions to Rouhani himself which focused on economic issues, constituting a major embarrassment to Rouhani publically. After that, several ministers in Rouhani's cabinet resigned due to pressure from the hardliners in addition to their dissatisfaction with Rouhani's policies and his appointment of moderate fundamentalists in most ministerial positions.

In the second half of 2018, speculation increased about Rouhani's possible impeachment. However, the Iranian regime feared to hold new elections at that critical time, therefore it refrained from removing Rouhani who became peaceful and submissive to his formidable rivals, the IRGC and the Judiciary. Rouhani has become more keen in keeping in line with the Supreme Leader than addressing public demands, leading to a decline of his popularity among Iranians. He was questioned in parliament about the country's economic crisis. He managed to find a way out without getting into direct conflict with the regime and to stay in office till the end of his presidential term. At the time Iranians expected Rouhani to unclothe the covert files of the shadow government that runs the country away from the elected government in Iran, but he only reshuffled his cabinet, expressing full obedience to the Supreme Leader.



Hardliner pressure was also exerted on Iran's Foreign Minister, Mohammed Javad Zarif. This is because of the remarks he made on money laundering in Iran, he was about to be questioned—and possibly impeached—by the parliament. He believed that Iran should meet the European conditions to set up a special financial transaction channel to continue making business between both sides away from the US-dominated SWIFT system. Zarif did not prevail in this battle, but Iran's need for European support made the Guardian Council retract its hardline position on rejecting agreements such as FATF and agreeing on some of the European terms, leading to the inauguration of the financial channel later on. Zarif's achievement in foreign diplomacy protected him from Rouhani's cabinet reshuffling. However, his internal and external powers were undermined.

In 2018, the following questions were raised about the future of the reformist current in Iran: Can this trend continue under the leadership of a new president other than Rouhani? Would Iranians re-elect the reformists after their poor performance in the economy and foreign relations? Would Iranians and those who are in charge of carrying out the elections create an alternative guaranteeing the survival of the regime after the end of the political experience of the reformists and neoconservatives?

Mahmoud Ahmadinejad, the former president, had many disagreements with the Supreme Leader, especially after imprisoning his former assistants, Hameed Baqa'i and Rahim Masha'i. However, he seemed to be very close to the Supreme Leader, taking into consideration the many positions he could not have succeeded to without the approval of Khamenei such as his seat in the Expediency Council. Ahmadinejad is still introducing himself as an alternative to both the reformists and hardliners.

Could he be the Iranian regime's option after the end of Rouhani's second term? In 2018 Ahmadinejad came into conflict with all Iranian political parties including the Chief of the Judiciary Sadiq Larijani, President Rouhani, and the Commander of the Quds Force Qassem Suleimani. They accused Baqa'i, Ahmadinejad's former deputy, of taking money from the IRGC to bribe a president of an African country. Ahmadinejad sent letters to Suleimani holding him responsible for what had happened to Baqa'i and clashed with the Supreme Leader Ali Khamenei himself when he called on him to reform Iran's institutions, particularly, the judicial authority. Khamenei also faced criticism in public from former prominent figures in Iran. Mahdi Karroubi, for example, joined Ahmadinejad and sent an open letter to Khamenei; holding him responsible for the harsh conditions in Iran and calling the Council of Experts to hold him accountable too. These messages and clashes diminished, to a greater extent, however they opened the door for more public criticism against the Iranian regime.

Military

Despite the US sanctions, Iran has exerted all efforts possible to boost its military capabilities. It has displayed its achievements in the military industry; some are real, others exaggerated, and others aimed at psychological warfare to show Iran's capability in protecting its territory and even threatening its enemies.

Security

Iran witnessed two security events that preoccupied Iranian public opinion for several months. The first incident was the shooting on the IRGC military parade on the anniversary of the Iran-Iraq war, reflecting the ineffectiveness of the IRGC and its elements. On the other hand, the Iranian government tried to exploit the attack by pretending that Iran was targeted by regional terrorist groups and internal separatists to give legitimacy to launch attacks against ethnic minorities. The Iranian government feared that its minorities would cooperate with the foreign forces in case of an external attack.

The second security event took place when Jaish al-Adl, kidnapped 12 IRGC Iranian security personnel. This incident constituted two challenges for Iran; the first was internal related to dealing with the Baloch minority and Jaish al-Adl; the second was maintaining a balanced relationship with Pakistan in light of India-Iran rapprochement. These two challenges forced Iran to strengthen its relations with Pakistan for security reasons; gaining more influence in Afghanistan; and opening up to India and linking it with Central Asia, Afghanistan, and Russia via the North-South Corridor that starts from Chabahar Port. In fact, these issues made Iran-Pakistan relations tense, complicating Iran's control over its southeastern borders.

Economy

The economy has played an integral role in Iran's internal, regional, and international political developments in 2018 due to a deterioration in internal economic conditions that were exacerbated after the re-imposition of US sanctions. In order to correctly measure the economic performance of Iran in 2018, we analyzed a number of indicators to identify Iran's macroeconomic performance in 2018 to understand the present and forecast the future. These indicators are: the real GDP growth rate and the growth rate of economic sectors such as: services, industry, agriculture and others; growth drivers of foreign investments, domestic demand, imports and exports; and the development of financial and monetary variables over the year such as: the government's budget, the budget deficit, the size of public debt, the balance of payment conditions, the foreign exchange rate, and the reflection of Iran's fiscal and monetary policy management on the unemployment, inflation, and poverty rates. Then, we tried to identify, through the latest polls, the developments of Iran's living standards. In 2018, Iran experienced many crises including the US withdrawal from the nuclear deal and re-imposition of economic sanctions that negatively impacted Iran's macro-economy and living standards. Most likely, these ramifications would continue in the short-term. According to the International Monetary Fund (IMF) and statistical forecasting, the Iranian economy needs more than five years to restore the same GDP it registered in 2017.

If we exclude long-term international expectations that might change due to future external effects such as the lifting of sanctions, macroeconomic indicators will remain serious in the short-term and will need time to repair the damage in case of resolving the dispute with the United States and the lifting of sanctions on Tehran.

In 2018, the Iranian economy suffered many shortcomings: the biggest increase in the budget deficit in ten years, a decline in the balance of payments due to oil and trade sanctions, increased restrictions on banking services with Iranian banks, a 50% of more devaluation of Iran's local currency, a shortage in foreign currency liquidity, and the rise of inflation rates to more than 40% in some months. Unemployment rates also increased with a contraction in the GDP and capital outflows. This, in turn, resulted in a higher cost of living and a higher rate of people living below the poverty line, threatening stability and security of the Iranian government and society. This was revealed through polls conducted by the University of Maryland showing Iranian dissatisfaction with the current economic conditions; approximately 60% of them were pessimistic about the future.

Without a shadow of a doubt, Iran's hostile foreign policy towards the major international players and its need to continue making business with the outside world will affect its future economic performance unless the Iranian decision-makers achieve self-reliance in trade and economic autonomy, which is impossible to achieve in the near and medium terms.

2. Arab Affairs

Iran is still exerting all efforts possible to expand its spheres of influence across the region, jeopardizing Arab national security. It has recruited its proxy militias in Iraq, Syria, and Yemen. Iran aims to establish sectarian shields and implement its expansionist plans to protect Iranian statehood regardless of the destructive consequences on these countries like the spread of terrorist groups and haphazard displacement, as well as threatening international peace and security.

Gulf States-Iran Relations

In 2018, the Gulf states were determined to face the Iranian expansionist project in the Middle East. This led to open conflicts between both sides through three regional fronts established by the Gulf states. They aimed to thwart Iranian plans of exporting its ideological and political model as well as its destabilizing behavior in the region. Iran aims to establish its theocratic governing model in the Arab countries through its Velayat-e-Faqih doctrine, and to replicate the IRGC model in military apparatuses across the region that would increase hostility towards the international community.

Iran sought to create differences in the Gulf positions on Tehran and to adopt a policy of bilateral negotiations on outstanding issues with each individual state away from the umbrella of the Gulf Cooperation Council. This report analyzed and clarified the external factors affecting Gulf-Iran relations including the US withdrawal from the nuclear deal, the re-imposition of sanctions on Tehran, Russia-China-Iran cooperation and its impact on supporting Iran's policy in the Middle East, and Turkey's role in Gulf-Iran relations knowing that Turkey sought to build balanced relations with both sides. The report also explored the impact of these factors on outstanding issues between Iran and the Gulf states such as the Yemeni and Syrian crises. It also analyzed the results of the external factors affecting Gulf-Iran relations and outstanding issues between them in 2018: Iran's support to terrorist cells in Saudi Arabia and Bahrain, its support to the Houthis in Yemen, its response to Kuwaiti initiatives to mediate between the Yemeni parties, and its support to Qatar against the demands of the Arab quadripartite coalition.

Iraq-Iran Relations

Iraq witnessed parliamentary elections in May 2018. Iran moved intensely to influence voters in favor of the Shiite alliances at the expense of the Sunnis to preserve the gains it had achieved in this country since the fall of Saddam Hussein in 2003 and to implement its plans of establishing a land road linking Tehran to the Mediterranean.

General Qassem Suleimani and the Iranian Ambassador to Iraq Iraj Masjedi played an integral role in unifying the Shiite parties and political alliances to ensure voting for Shiite candidates. Their movement significantly influenced the results of the Iraqi elections when the Conquest Alliance under the leadership of Badr organization's leader Hadi Al Amiri, Iran's closest ally in Iraq even before Nouri Al-Malki, received the second highest votes after the Alliance Towards Reforms. Iranian figures also played a major role in the formation of the Iraqi government when the Conquest Alliance and the other Shiite alliances won the majority of ministerial seats. Until the end of 2018, the government of Adil Abdul-Mahdi had not named ministers for the other vacant ministerial seats as some alliances sought to elect certain names such as the Conquest Alliance that insisted on appointing Iran's loyalist Falih Alfaiyadh, the former commander of the Popular Mobilisation Forces (PMF), as the minister of interior.

The Iranian role in Iraq was expected to increase due to Iraq's need for Iranian gas and electricity that make up nearly half of Iraq's consumption. However, Iraq suffered a shortage of electricity, knowing that the Saudi electrical projects, according to Iraqi officials, need more than two years to make up a part of the electricity shortage in this country. In addition, the Shiite alliances won the majority in the Iraqi parliament and seized the influential positions in the cabinet, and the Shiite militias spread in Iraq while Iran was ranked as the top exporter to this country. Perhaps, in order to help Iraq end its energy imports from Iran, Kuwait, Jordan, and Turkey have to boost cooperation with Iraq and provide it with its electricity needs.

Syria-Iran Relations

Compared to 2017, Iran's influence in Syria increased in 2018 amid regional and international rivalry in this country and Iranian involvement in all battles to displace the Sunni majority from Syrian cities and villages. In the Iranian strategy, Syria is of great importance in the Iranian Land Corridor linking Tehran to the Mediterranean, and in the so-called Shiite Crescent. It is also a safe route for smuggling arms to the Lebanese Hezbollah, maintaining a strong Iranian military presence in the northern border of Israel, which can be used as a bargaining chip when needed.

However, Iran was not the only active player in Syria. There were other regional and international players having goals and interests in this country. To them, Syria is of strategic importance due to its location, natural resources, and influence in regional and international equations. In fact, these players impact the future role and influence of Iran as each has its own agenda in this country. For example, the United States and Israel intensified their military strikes on Iranian sites in Syria while the rift between Israel and Russia over Iran and the future of this country deepened. Indeed, this questions the future of Iran's role in Syria despite its big influence there.

It seems that the Iranians are determined to stay for a long term in Syria through several approaches such as gaining the biggest share in the reconstruction process, applying the strategy of demographic change, and signing security agreements with the Syrian government to control its sovereign institutions. That is how Iran can entrench its military and political influence in Syria in 2019. In fact, this is the most likely scenario as the Syrian environment is good for Iranian expansion due to: the decline of the Syrian Army, the absence of Russian ground forces, and the US military withdrawal from Syria, as well as Russian and Syrian need for Iran to protect their interests and spheres of influence, and for it to consolidate the Syrian government, and to deter its opponents from reigniting civil war in the future.

Yemen-Iran Relations

In 2018, three developments took place in the Yemeni crisis. First, the absence of the former Yemeni President Ali Abdullah Salih and its impact on the Yemeni equation and the Iranian role in his assassination, giving the Houthis the opportunity to make significant achievements and to commit crimes against the Yemeni people. Second, the re-imposition of economic and oil sanctions on Iran and its impact on Iran's capability to continue financing the Houthi rebels who looked for alternative sources due to the US sanctions on Iran. Third, the replacement of the UN envoy to Yemen Ismael Al-sheikh by Martin Griffith and its impact on the peace talks run by the United Nations..

These three developments had a great impact on the Yemeni crisis in 2018 and created a slightly different reality from that of 2017. After Salih, the Houthis achieved victories on the ground and took control of the capital Sana'a. However, they started to prepare themselves for the prospect of diminishing financial support they had received from Iran. With the relative success of the Saudi-led coalition on the front lines, especially the western front, the Houthis were obliged to accept negotiations under the UN umbrella, particularly with the arrival of the new UN envoy, Martin Griffith, resulting in the Switzerland agreement

on the port city of Hodeidah. However, this agreement was insufficient efforts to make peace. It would not result in anything significant in Yemen unless a comprehensive solution was to be discussed rather than reaching partial agreements that might provide a kind of stability to the Houthis in this country, giving them time to strengthen their domestic front. All in all, there is no final solution to the Yemeni crisis unless strengthening all battlefronts against the Houthis side by side with holding peace talks.

3. International Affairs

US-Iran Relations

After two years, the US President Donald Trump succeeded in sweeping away the legacy of his predecessor, former President Barack Obama, on Iran and adopted a new strategy in this regard. On May 8, 2018, Trump announced the US withdrawal from the nuclear deal. By November 5, 2018, Trump resumed all US sanctions on Iran that had been lifted due to signing the nuclear deal between Iran and the P5+1 group in 2015, taking US-Iran relations to square one.

Trump aimed to modify Iran's behavior and adopted the strategy of "intense pressures" to persuade the Iranian government to come to the table of negotiations to curb, what he described as "Iran's malign behavior in the region" after signing the nuclear deal that had given Iran the opportunity to threaten US interests and the national security of US



regional allies. Sanctions were the main tool of the “maximum pressure” strategy, which included: deepening international consensus to increase pressures on Iran, building regional alliances to curb Iran’s regional influence, and inciting Iranian public opinion against the government to undermine its legitimacy.

On the other hand, Tehran adopted a “resistance” strategy in the face of sanctions, relying on the survival of the nuclear deal in accordance with P4 + 1 group formula, a number of significant regional cards, the US failure to squeeze Iran, and on adopting old and new policies to overcome the sanctions on its oil exports and financial transactions. However, the Iranian government faced huge economic challenges described by Rouhani as the worst crisis facing Iran in the last four decades.

Europe-Iran Relations

Europe, especially the European Troika, provided significant political and diplomatic support to Iran. In contrast with the US position on the nuclear deal, these countries vowed to preserve European interests with Iran at both the national and collective levels and to protect their companies working in Iran. They also urged Iran to comply with the nuclear deal in exchange for Europe’s commitment to continue cooperation between both sides. Europe and Iran reached a number of solutions such as establishing an alternative financial transaction system to continue making business between them including trade and insurance services. In fact, the European pledges maintained Iran’s commitment to the nuclear deal as this financial mechanism would limit the impact of the US sanctions on Iran to a greater extent. In addition, maintaining the rift between Europe and the United States was an important political gain for Iran that prevented international consensus about the US sanctions on it and its isolation. However, by the end of 2018 European companies left the Iranian market, the European Troika did not fulfill their pledges, and the European Union did not provide any of the guarantees it had agreed upon with Iran, particularly, the Special Purpose Vehicle (SPV). This aroused Iranians’ suspicions and prompted them to threaten to leave the nuclear deal or suspend some of



its terms at a time the US sanctions incurred more economic, social, and political challenges to the Iranian government. Despite the secondary role played by Europe concerning the dangers of the US sanctions on Iran, this role is important in preserving the nuclear deal. The most probable scenarios in this regard outweigh Iran's commitment to the international agreement even if Europe fails to lessen the economic pressure on this country.

Russia-Iran Relations

The new US strategy on Iran overshadowed Russia-Iran relations in 2018. The US withdrawal from the nuclear deal significantly influenced relations between the two countries. Tehran sought to benefit from its relationship with Moscow to find ways to help it to stand up to the US sanctions as it believes Russia is a supporter, given US-Europe tensions with Russia. On the other hand, Moscow believes Tehran is an important gateway to strengthen its political influence and presence in the Middle East. In addition, the US sanctions on Iran prompted European companies to withdraw from Iran, opening the door for Russian companies to invest in this market. Accordingly, Russia gained significant incentives from Iran due to its supporting position to the Iranian nuclear issue and its presence in Syria after the emergence of the US-Iran crisis. The historic Caspian Sea Treaty of 2018 was one of these incentives. However, under the US sanctions, Russia failed to help the Iranian government to face sanctions in the way Iran was expecting.

China-Russia Relations

China rejected the impositions of sanctions on Iran by the United to remain Iran's first trade partner. After the withdrawal of the European companies from Iran, China moved to fill the gap and invest in this market. At the same time, China stopped granting Iran loans and big investments, leading to the cancellation of Iran joining the One Belt- One-Road (OBOR) initiative. Indeed, China benefited from the current US sanctions on Iran, knowing that the trade balance between the two countries registered \$50 billion annually. In such circumstances, Iran could not ask China to fix the trade imbalance that registered \$7 billion in favor of China, knowing that China refused to open its markets to Iranian products.

Turkey-Iran Relations

In 2018, Iran sought to preserve trade deals with its traditional partners, including Turkey. This was accompanied by Turkey's willingness to take advantage of this partnership with Iran. Ankara maintained trade and economic cooperation with Tehran and announced a willingness to conduct private trade with Iran and to establish a new financial

mechanism away from SWIFT and to deal in the US dollar. This trade partnership strengthened due to common political interests between both sides such as coordination to thwart the Iraqi Kurds' dream of independence and cooperation on the Syrian crisis after standing on the brink of war in 2017. In addition, relations with the Gulf states and political Islam remain part of the Turkey-Iran relations axis and they might direct their tendencies in the same way as the e Syrian crisis and the Kurds' ambitions for independence.



Internal Affairs

Iran continues to be gripped by crisis as recent popular protests against the country's deteriorating economic conditions corroded public confidence in the government and exposed deep fault lines within the regime. The margin of freedom substantially declined in the first quarter of 2018. The crisis then began to gradually wind down, leaving massive political fractures across the wings of the Iranian regime. The regime seemed to be grossly divided despite the apparent control by the Supreme Leader over the decision-making circle in Iran.

Divisions within the Iranian regime cut across all spectrums, including the religious seminary which started to become more vocal about the *Velayat e-Faqih* theory. They were silenced after they were repressed by the regime. However, following the government crackdown, discontent continues to simmer beneath the surface. Rouhani's government is riven by conflict with several of his ministers subjected to Parliamentary interrogation. The Parliament seemed to be targeting Rouhani and his comrades after the failure of the nuclear deal. The Supreme Leader came under a continuous barrage of criticism and insults, most notably from people who in the recent past were considered to be leading establishment figures. This indicates that the divisions within the regime will intensify in the coming phase.

IDEOLOGICAL FILE

The year 2018 witnessed several developments particularly at the level of the religious elite and seminary (Hawza) in Iran. These developments were either triggered by independent clerics within the seminary, by religious elites who support Velayat-e Faqih, or by those who are part of the regime itself and are involved in policymaking.

In this report we highlight the issues and interactions related to the Iranian ideological file, adopting a forward-looking approach to identify the factors impacting the relationship between the seminary and the state. Four main factors are identified and explored in this report:

First: the arrest of the cleric Hussein Shirazi and the demonstrations staged by his followers condemning his arrest

Second: the crackdown on the Dervishes.

Third: the religious classes' criticism of the economic crisis.

Fourth: the ruling elite and its concerns regarding the secularization of the seminary.

First: The arrest of the cleric Hussein Shirazi and the demonstrations staged by his followers

It seems that Iran's political conflict has affected the seminaries as well as religious and sectarian groups. In March, the Iranian authorities arrested the Shirazi cleric Hussein Shirazi, the son of the leading Shirazi Marjaa Sadiq Shirazi. He was released after 13 days of detention.⁽¹⁾ The arrest came after the cleric criticized the Supreme Leader Ali Khamenei and the concept of Velayat-e Faqih in a lecture he delivered in the city of Qom in December 2017 during a wave of massive popular protests.⁽²⁾

The response of the Shirazis was swift and decisive: they staged protests in Karbala and Najaf to denounce Shirazi's detention. They then stormed the Iranian embassy in London and occupied it for several hours, taking down the Iranian flag which was replaced by the flag of the Shirazis. In the aftermath of this riot, the Iranian Foreign Ministry lodged an official protest with the British Foreign Office, saying that the UK did not properly defend the premises of the embassy.⁽³⁾

The Prosecutor General Mohammed Jafar Montazeri on March 10th asserted that there was a well-developed and deliberate plan to sow discord among Muslims. "Unfortunately the center of this group is located in Qom. One of the affiliates of this group has recently breached laws. This act has been deemed as a crime. He was summoned several times on the charges leveled at him but he refused to show up before the prosecution. Officials issued an arrest order against him in accordance with the law."⁽⁴⁾

After the charges against him were explained and he was interrogated, he was arrested. After the summoning and arrest of the defendant, several of the accused's affiliates in some neighboring countries staged protests and committed improper acts. Some of them attacked the Iranian Embassy. The investigations continued to reveal the identity of the detained person until we discovered that he is Hussein Shirazi, son of Sadiq Shirazi and the director of his office in Qom. He was released after 13 days in detention according to the available information and evidence as well as the judgment of the investigator working on the case,"⁽⁵⁾ Montazeri said.

History of the conflict between the Shirazis and the regime

The Shirazi current was launched as a political and religious current by the cleric Mohammed Mahdi Shirazi, a friend of Ayatollah Ruhollah Khomeini, in Karbala in the 1960s. This current was aligned with the Iranian revolution and tailored its platform to embrace *Velayat-e Faqih*. However, the current later renounced *Velayat-e Faqih* in favor of the Shoura of the Jurists.⁽⁶⁾ This change in the Shirazis' position came after the failure to implement *Velayat-e Faqih*, according to their view.

The relationship between the Iranian regime and the Shirazis has been tense since the Iranian revolution in 1979. The founder of the current, Mohammed Mahdi Shirazi, was put under house arrest. He is the uncle of Hussein Shirazi. He remained under house arrest until his death in 2001. Relations between the regime and the Shirazis continue to vacillate with the regime using the policy of carrot and stick with the Shirazis. The Iranian regime seeks to wipe out and defame the Shirazis through denouncing them as proxies or "*the English Shiites*" as the Supreme Leader Ali Khamenei described them.⁽⁷⁾¹

On the other side, the Shirazi current was critical of *Velayat-e Faqih* and the Iranian regime. The regime's officials said that the criticisms leveled



at the regime posed a threat to the future of Shiism, according to Mohsen Araki.⁽⁸⁾

The regime's policy towards the Shirazis is based on restricting their activities and undermining their influence through the imposition of tough measures. The regime did not seek to wipe out the current from Qom or Iran entirely, and the Shirazis continue to remain active in the strategic Shiite hotspot of Qom. There are several reasons for this: the regime does not want to trigger a standoff with the Shirazi community in Shiite hotspots outside Iran, the regime needs to manipulate the Shirazis as a pressure tool in order to enforce some of its policies in the region, and the regime wants to present itself as a rational actor given the Shirazis' radical and exclusive rhetoric towards other Sunni and Shiite factions. On the other hand, the Shirazis need Shiite legitimacy which can only be acquired from Iran, where the largest Shiite population is concentrated. Therefore, Shirazi clerics maintain their presence at the Qom Hawza where they study and promote Shirazism as well as carry out research.

Thus, the relationship between the two sides is expected to continue as it is now. The regime will not seek to eliminate the current completely. It will only curb its role within a specific scope. And the Shirazis will neither seek to escalate the conflict with the regime at home or abroad since it is aware of the fact that any escalation against the regime may result in it being expelled from the Qom Hawza and Iran. In addition, a consequence of any escalation will be a conflict outside Iran between supporters of *Velayat-e Faqih* and supporters of the Shoura of the Jurists. Neither of the two wants this conflict to happen, at least not at this time.

Second: Repressing Sufi Dervishes

Throughout the year, the Iranian regime continued its repressive policies towards the Gonabadi Dervishes. The Iranian regime also executed Ali

Mohamed Yawar Thalath, one of the group's affiliates. He was accused of ramming into Iranian soldiers during the group's demonstrations in February.⁽⁹⁾ Thalath announced that the confessions he made were taken under duress at the infamous Evin Prison. The regime also executed three other affiliates due to their participation in the same demonstrations.⁽¹⁰⁾ They had protested the detention of Ali Tanideh in February.⁽¹¹⁾ More than



300 people were arrested and five others were killed in clashes with security forces.⁽¹²⁾

It is certain that such executions will lead to massive social divisions as the grassroots institutions of the Dervishes who are spread across Iran will be impacted. But the possibility of this anger brewing into revolutionary activities against the regime is low because the Sufi group does not believe in political activism. Additionally, the Dervishes maintain the belief that these setbacks are a trial from God that should not be met with rejection or retaliation. Instead, they should be met with submission and gratitude, according to Sufi literature. Additionally, the Iranian regime's security agencies are highly effective and can exert huge pressure on the group. But it seems the regime has not taken a decision to wipe out the group using its security apparatuses. It just seeks to limit its outreach through security tools and to defame it through its media outlets.

Human rights groups criticized the crackdown on the Sufi Dervishes which included arbitrary arrests, detentions and executions. Human Rights Watch condemned these executions stating, "The Iranian judiciary should immediately halt the looming execution of a member of the Gonabadi Dervish community." Human Rights Watch also called for the release of all Dervish members who had been arbitrarily detained since February 2018 and stated that "Iran should end its crackdown on its minority groups and immediately halt the execution of Mohammad Sallas and grant him a fair retrial. Many of those arrested remain in custody on vaguely defined charges and without access to a lawyer."⁽¹³⁾ On June 21st, 2018, the US Secretary of State Mike Pompeo also criticized the imprisonment of the Dervishes in Iran in a Twitter post.

The differences between the regime and the Gonabadi Dervishes are ongoing and deep-rooted. They stem from their different interpretations of religious principles, jurisprudence and *ijtihad*. These divergent interpretations form the basis of their respective ideologies.

The distinctions between the two are divided into two levels:

First: Theoretical: The Dervishes do not believe in *Velayat-e Faqih*, therefore they do not believe in the guardianship of the Supreme Leader. This led them to collide head-on with the regime which questions all those who do not believe in *Velayat-e Faqih*. As a result, the regime launched a crackdown and imposed strict restrictions on the Dervishes.

Second:Leadership: There are personal differences between the Iranian leadership and the head of the Gonabadi Dervishes group due to ideological and theoretical disagreements. The Sufi leader Ali Tabandeh was one of those who opposed the Shah. After the revolution, he strongly opposed Khomeini. He is still among those who oppose *Velayat-e Faqih*

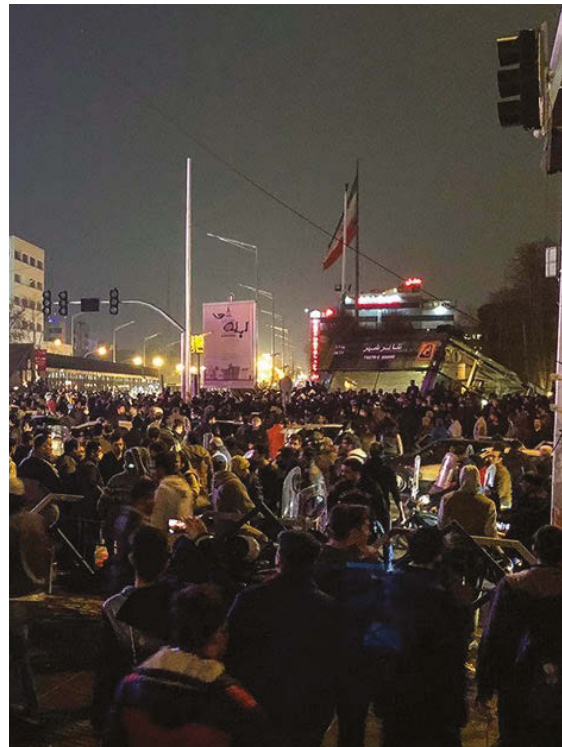
which brought him and his group into direct confrontation with the regime.⁽¹⁴⁾ However, the group shuns all that is related to politics since it embraces a stance of passive jurisprudence which means taking no measures to establish a state or partake in politics until the reappearance of the Infallible Imam.⁽¹⁵⁾

Third: The diminishing popularity of clerics

Iran has seen strong and persistent protests from various groups such as traders, Dervishes, Shirazis, students and other groups this year, which have worried the ruling religious elite. Ayatollah Abdollah Javadi-Amoli, one of Iran's senior clerics, said during his meeting with Ali Rabei, Iran's Minister of Cooperatives, Labor and Social Welfare, following the protests that flared up across Iran this year, "Many people have fled the state or prepared a place to escape to but we have no place to flee to." By this remark, he was trying to express to Iranian officials that if Iran's economic problems worsen and result in more protests, they will all be thrown into the sea by the people. The cleric also highlighted the grave violations by many Iranian officials such as several of them holding dual nationality. He also commented on the continuous increase in wealth of officials. If the people rose up due to these issues, they would revolt against all those responsible and cast them aside. According to Javadi-Amoli, the lack of integrity and impartiality by some officials is unbearable. The significance of his remarks springs from the fact that he is one of the senior hardliner clerics close to Khamenei himself and is a major pillar of the regime and the revolution.^{(16)*}

But Javadi-Amoli was not the only one who was concerned about protests that openly targeted the Supreme Leader and the religious establishment. Other clerics started to warn against Iran sliding into an abyss which would inevitably happen if an all-out revolt flared up against the religious establishment that has been in power since 1979.

Grand Ayatollah Asadollah Bayat Zanjani, who is close to the reformists, announced during his meeting with the Minister of Sport and Youth that the recent protests were partly due to the religious establishment paying no heed to the demands of the youth. He wondered, "How



has the government dealt with the concerns of youth? Has it responded to them in the proper way? No, none of these fears have diminished. But they are on the rise day after day.”⁽¹⁷⁾

There is an agreement between conservative and reformist clerics when it comes to any dangers threatening them and the political system. But the comments of Javadi-Amoli were of great significance due to his senior position within the regime. His remarks unleashed a firestorm in the Iranian arena and across the world. They also stirred controversy on social media. His office attempted to mitigate the impact of these remarks. The spokesman for his office, Rasul Jafarian, indicated that the remarks came during Javadi-Amoli’s meeting with the Labor Minister and they touched on many issues. But the media outlets reacted improperly and interpreted the remarks made by the cleric out of context in an attempt to craft a controversial headline. Javadi-Amoli spoke for about 40 minutes in which he discussed Iran’s administrative and economic situation, embezzlement, bribery and administrative corruption.⁽¹⁸⁾

These remarks by Javadi-Amoli are a sign that there is a genuine crisis simmering within the religious establishment; the situation could erupt at any time. Instead of creating jobs and curbing corruption, state finances are spent without any proper oversight on militias in Syria, Iraq and other parts of the region. The regime has resorted to tightening its grip on the country to suppress society and silence voices of dissent. This strategy, despite paying dividends in the medium-term, may cause the people to revolt and throw Iran’s clerics into the sea as stated by Javadi-Amoli.⁽¹⁹⁾

Fourth: The ruling elite and its concerns regarding the secularization of the seminaries

During 2018, Grand Ayatollah Mousa Shobairi Zanjani met with the former Iranian President Mohammed Khatami along with other reformist figures. Ayatollah Mohammed Taqi Mesbah Yazdi wrote an open letter to Zanjani,⁽²⁰⁾ who is 90 years old, in which he said, “In the aftermath of posting photos on social media showing you standing with some figures who do not respect the Islamic Republic of Iran and the leader of the revolution which caused resentment to spread among followers and students of the seminary[...] I would tell you that your position is attained through respecting the status of the Islamic regime which rules the country, the leadership, and the Marjaa. Therefore, it is necessary for you to respect this and the affairs of the religious authority. You should take due measures to ensure such incidents do not happen again.”⁽²¹⁾ Zanjani declared he and his office “have no comment on the letter, and the students are the ones who will respond to it.”⁽²²⁾

The letter provoked violent reactions within the seminary against the



regime and its treatment of senior clerics, like Zanjani who is viewed as a respected figure across the political spectrum. He is not affiliated with any particular current nor does he embrace the ideology of any one party. He focuses only on lectures within the seminary. Many clerics who graduated were taught by him. The rhetoric of Yazdi was provocative for the clerics who had not heard such language before. A day after the letter came out, Ayatollah Mohammed Andaleeb Hamdani said in an open letter to Yazdi that cooperation between the two has become impossible and he no longer considers himself a member of the Society of Seminary Teachers of Qom.⁽²³⁾ Cleric Youssef Sanei, in a letter he addressed to Zanjani, commented on Yazdi's letter stating that some people wanted to defame clerics in the seminary including Your

Eminence (Zanjani). But the battle ended in favor of the seminary.⁽²⁴⁾

In the meantime, the reformists used Yazdi's message to attack the ruling elite, especially the pro-regime clerics. Mahdi Karroubi said the aim of Yazdi's letter was "to strip the religious seminary of its independence and spread fear and panic in the hearts of clerics."⁽²⁵⁾ This letter will have far-reaching consequences, especially within religious seminaries as the radical actions of the hardliners will lead the country to secularism. For example, one of these consequences could include mounting hatred towards pro-government clerics and increasing support for independent clerics who believe that religion should be separated from the state. They are clerics with different viewpoints. They do not believe in the Islamic government nor do they believe in the direct meddling of clerics in

running the affairs of society.⁽²⁶⁾

This noticeable and gradual change in religiosity within Iranian society and in the lectures delivered in seminaries has raised concerns among the regime's supporters. This concern was evident in the speech of Ibrahim Raisi who addressed the clerics of religious seminaries in Qom, Khorasan, Tehran, and Isfahan. Raisi is responsible for the Razavi Shrine. In his speech, he touched on social secularism which he described as "a threat to the religious seminary today." He added, "The religious seminaries were the cradle of the revolution, they should continue supporting the revolutionary ideology and the criterion of moderation is in following *Velayat-e Faqih*."⁽²⁷⁾

Ayatollah Yazdi also warned of growing secularization within seminaries as opposition to *Velayat-e Faqih* is increasing among their clerics and students. "Within religious seminaries and among Iranian officials there is rising opposition to *Velayat-e Faqih*. Some within the seminary want to separate religion from politics while others are inclining to Iranian nationalism. Both of them are nostalgic towards the secular nationalism that was embraced under the Shah," he said. "Some have come to the belief that if the people cast their votes and choose the president of the republic, what is the need in keeping the post of the supreme leader? Why should we follow the ideology of *Velayat-e Faqih*? Are there any supreme leadership posts in other countries? Opposition to *Velayat-e Faqih* has spread in religious seminaries. The Supreme Leader sensed that the revolutionary ideology was about to vanish in some places, so he ordered seminary clerics and academics to be revolutionaries. The Supreme Leader calling on the seminary clerics to teach revolutionary ideology indicates that the seminaries are about to break away from the revolutionary ideology. Maybe we will be heedless to the fact that the biggest portion of jurisprudence is concerned about political and social issues," Yazdi added. "Some officials today oppose the orders of the Supreme Leader. Despite their continuous praise of the directives and guidance of the Supreme Leader, they disobey his orders. Those officials prefer to embrace nationalism in place of *Velayat-e Faqih*. Some officials have replaced Islam with Iranian nationalism. This is the slogan that was advanced by the Shah: *positive nationalism*, which means excluding all divine and human values,"⁽²⁸⁾ he concluded.

These consecutive remarks by proponents of *Velayat-e Faqih* reflect rising concerns among Iran's religious elite regarding religious transformations occurring in Iranian society. They are afraid to lose the prestigious status they have enjoyed since the 1979 revolution. It is not good for the ruling religious elite that their rule be based entirely on the absolute power of the appointed leaders as they should have grassroots

supporters. They no longer have fertile soil to sow their revolutionary ideas. This static revolutionary ideology is the source of their problems. This is a strategic failure for the regime, not a success, as technological and communication breakthroughs have further led to the people being alienated from the regime's revolutionary ideology which is fast losing its appeal.⁽²⁹⁾

Fifth: Forecasts

These events that occurred throughout 2018 in the Qom Hawza related to the clergy and the ruling religious elite prompts us to raise questions about the future of the relationship among them as well as between the Hawza and the state, and the results of the shifts in the Hawza and their impact on the ruling religious elite. These interactions also prompt us to raise questions concerning religion and its transformation in Iranian society. It is clear that the religious elite, closely tied to *Velayat-e Faqih*, wants to impose its control and vision over the Hawza. It does not accept any degree of independence for the Hawza. This has been illustrated in Yazdi's standoff with Zanjani. If the religious elite strips the Hawza of its independence, despite being apparently in favor of the regime, this move will pose a threat in the medium and long-term. The regime uses the Hawza as a soft power tool to undermine its opposition's voices. If the regime takes absolute control in the religious seminary, it will lose its central and powerful standing in the Shiite world. Therefore, it is likely the regime will not take such a step and will not be able to do so given the power of the seminary. Of course, this scenario is based on a logical approach that would be followed by rational policymakers, not angry and ill-advised clerics. If the regime opts to take complete control of the seminary, it will face a direct conflict with the seminary clergy who are the public representatives of the regime itself. We notice that the four issues raised this year in relation to the seminary and clerics cannot be separated from each other. If the clerics supportive of *Velayat-e Faqih* lose their popular base, they will definitely crack down on religious rivals such as the Shirazis and Dervishes who according to the regime spread secular Islam or English Islam. The regime tends to defame its rivals politically and religiously. The regime is expected to continue the same policy over the coming period to restrict powerful currents and wings within the seminary who are not supportive of *Velayat-e Faqih*.

According to the rise of the traditional approach of the seminary, the most likely scenario is that its political and religious approach will not change. The traditional seminary approach is mainly based on the idea of waiting for the Infallible Imam. In addition, it cannot criticize the regime decisively or wage a make-or-break battle against it. It needs the regime

because the only alternative to it is either imported secularism, which is despised by the notables within the traditional seminary, or a collapse in the networks of intersected interests in politics and trade between the state and seminary. Moreover, the traditionalists within the seminary always claim that politics is not among their missions nor is it within their scope of work. Now, as in the past, their positions have always been taken gradually and at a noticeably slower pace for fear of losing stature and historic position.

POLITICAL FILE

The US withdrawal from the nuclear deal signed between Iran and the six major powers in July 2015 is a major challenge for the Rouhani government, which has been trying to open up to the world and improve the economic situation in Iran for years. After the US withdrawal from the nuclear agreement, Iran entered a new challenge that aggravated its crises in 2018 - the US re-imposed sanctions to stifle Iran's economy and to force the Iranian regime to make more concessions, especially with regard to its nuclear program.

Outside pressures and internal conflicts have triggered a new challenge to the Iranian regime represented in the rise of internal opposition to the Supreme Leader Ali Khamenei and his policies. Former political loyalists within the regime are now among this opposition, challenging the revolutionary idealism claimed by the regime. This opposition emerged in the aftermath of a series of messages sent by the former Iranian President Mahmoud Ahmadinejad and the former parliamentary speaker Mehdi Karroubi to the Supreme Leader Ali Khamenei in 2018, which included direct and indirect criticism of Khamenei himself and his policies, the first of its kind in the history of the Iranian regime.

First: The Rouhani government's dilemma: Outside pressures and internal conflicts

These challenges and resulting economic and political pressures have directly impacted the Rouhani government because it led to the nuclear negotiations with the six major powers and the conclusion of an agreement with them. In August 2018, Iran's hardliners resorted to dragging President Hassan Rouhani and his cabinet ministers into a series of interrogations that led to parliament withdrawing its vote of confidence in two ministers, while two others resigned. They threatened to question more ministers.

In less than one month, parliament dismissed two of Rouhani's cabinet ministers

1. The Parliament pressure on ministers of economic sectors

Political polarization in parliament against the Rouhani government began by questioning the Minister of Labor and Social Welfare Ali Rabi'i on August 8, 2018. After listening to the clarifications and answers from Minister Ali Rabi'i, the 243 lawmakers who attended the session voted to determine whether the minister should remain in office or not. The result came in against Rabi'i after 129 lawmakers voted to withdraw the vote of confidence in him, while 111 lawmakers opposed the motion and three abstained.^[30]

It was expected that the scenario of a vote of no-confidence for the Minister of Labor would also happen as well as for the Minister of Finance

after his economic policies were subject to much debate in Iran. He faced severe criticism from the conservatives in the Iranian regime because of their disagreement on the way he addressed the economic problems created by the US sanctions and because of the big collapse in Iran's national currency. He was summoned to parliament on October 26, 2018, to give answers to the following questions:⁽³¹⁾

- Why did the Minister of Economy fail to comply with the plan of the resistant economy?
- Why did the Ministry of Economy not implement the legal missions within the scope of the banking sector?
- Why did the Minister not implement the plans announced after gaining the confidence of parliament?
- What are the reasons for the Ministry's failure to make the right decisions in organizing the Iranian economy?
- What are the reasons for the Ministry's inefficiency in the preparation and implementation of economic and financial policies?

The Minister's answers to the above-mentioned questions were not convincing. Therefore, 137 lawmakers voted for a no-confidence motion against the Minister, while 121 lawmakers opposed the motion and two lawmakers abstained.⁽³²⁾

Despite the heavy pressure posed on the government by the dismissal of its two ministers, observers do not rule out that perhaps Rouhani gave the green light to moderate members of parliament and to reformists in parliament to support the vote of no-confidence against the ministers of labor and economy. They argue that Rouhani responded to pressure to change his economic team as well as to reduce the pressures and criticisms on himself from all currents including his allies who supported him and brought him to the presidency.

After the dismissal of the Ministers of Economy and Labor, Rouhani made a strenuous effort to prevent his government from falling. He sent a letter to the parliamentary speaker Ali Larijani asking him to stop questioning his ministers. This move came after lawmakers had revealed their intention to question five other ministers, namely the Trade and Industry Minister Mohammad Shariatmadari, the Minister of Roads and Urban Construction Abbas Akhondi, the Minister of Youth and Sports Massoud Soltani, the Minister of Energy Reza Ardkanyan and the Minister of Education Mohammad Bathaee.

2. Questioning and accountability includes Rouhani himself

Rouhani's attempts to stop the interrogations were not successful. Parliamentarians even stepped up their demands against President Rouhani personally when they introduced a bill for questioning him over



the country's economic crisis, the failure of his government's economic policies, and the depreciation of Iran's national currency against the dollar.

The interrogation was preceded by calls to topple Rouhani, while others asked him to resign. But Rouhani stressed that he will not resign and will remain until the last day of his second term. He called on all officials across the country to take appropriate actions to face the new threats that Iran may experience post-US withdrawal from the nuclear agreement. He also called for explaining future opportunities and challenges to cope with outside pressures and solve local problems.⁽³³⁾

After completing the quorum specified in Article 89 of the Iranian Constitution (the questioning of the President in Parliament requires signatures from one-third of the 290 lawmakers),⁽³⁴⁾ Rouhani appeared in parliament on 28 August 2018 to answer the following five questions:

1. Why does the government not take proper measures to combat unemployment?
2. What caused the economic recession, which lasted years, despite the promises and declarations that the country had overcome the recession?
3. What are the reasons for the continuation of international sanctions on Iranian banks?
4. Why did the government fail to control the smuggling of goods?
5. Why had the value of foreign currency appreciated whereas the value of Iran's currency had depreciated?

During his speech, Rouhani tried to persuade parliamentarians by escalating his tone against the United States, stressing that the

government and the parliament followed the same path and no dispute would affect their relationship. He also blamed protesters who took part in the protests that swept across Iran until January 2018 for the US withdrawal from the nuclear deal.⁽³⁵⁾

After Rouhani finished answering the questions, a large number of lawmakers said they were not convinced by his answers. The parliamentary presidential body decided to refer the file to the judiciary for a decision. But the file was closed and not sent to the judiciary on the grounds that the members of parliament failed to say whether Rouhani had broken any laws or had refused to implement them.⁽³⁶⁾

It seems that President Rouhani was confident that the issue would not reach a direct motion of no-confidence in his government. He had this confidence because of the statements by the Supreme Leader Ali Khamenei, in which he stressed the need for Rouhani to remain in office until his presidential term expired to prevent further chaos. He went even further when he said those demanding the government be changed at the moment were walking down the road planned for Iran by its enemies, in reference to the letter by the former President Mahmoud Ahmadinejad in which he demanded that President Rouhani step down from the presidency.⁽³⁷⁾

3. Road and trade ministers submit their resignations to avoid impeachment and a vote of no-confidence

The demand by Iranian parliamentarians for additional ministers to be impeached prompted the Minister of Roads and Construction of Cities Abbas Akhoundi and the Minister of Trade and Industry Mohammad Shariatmadari to submit their resignations, increasing the number of vacant ministerial posts to four.⁽³⁸⁾ Abbas Akhoundi has faced impeachment proceedings three times in the past few years during the tenure of Rouhani's government. However, each time he managed to avert a vote of no-confidence. Before his resignation, he was about to face impeachment for the fourth time due to the frequent criticism leveled at the performance of his ministry.



The minister argued that his resignation came due to disagreements with the government's policy of "state intervention in the market, the way the country's deteriorating economic situation is managed, and the government's disregard for three main principles: obedience to the law, respect for property rights and a competitive market economy." The resignation of Mohammad Shariatmadari was a direct result of the pressure and criticism of the hardliners and their media outlets. This criticism directed towards Shariatmadari was because of weak trade and industry performance, the illegal importing of cars, forging independent political relations to obtain foreign currencies at low prices, importing goods at cheap prices and making large profits from the sale of these goods on the black market.⁽³⁹⁾

4. Cabinet reshuffle

After the dismissal and resignation of a number of ministers, President Hassan Rouhani sent a letter to the Iranian parliament with a list of four proposed ministers for a vote of confidence. The four ministers were Farhad Daj Basend for the Ministry of Economy, Reza Rahmani for the Ministry of Industry, Minerals and Trade, and Mohammad Islami for the Ministry of Roads and Town Building. Mohammad Shariatmadari (despite his resignation from the Ministry of Trade and Industry) was elected to the Ministry of Cooperation, Labor and Social Welfare.⁽⁴⁰⁾

After the Ministers of Economy and Labor and Social Welfare faced a vote of no-confidence, their ministerial posts remained vacant for about two months. President Rouhani did not introduce two new ministers to the parliament. During this period, he entrusted the task of running the Ministry of Economy to Rahmatullah Karami.⁽⁴¹⁾ He tasked Anoushirwan Mohseni with running the Ministry of Labor and Social Welfare⁽⁴²⁾ until the selection of two new ministers and introducing them to parliament. Rouhani appeared to have expected or waited for the resignation of his two ministers so that he could undergo a comprehensive cabinet reshuffle involving a number of ministers to prevent his government from falling, as well as to appease the hardliners, ease pressure on his government and inject fresh blood into his government, which is expected to face severe pressure in the coming period. This is because of the US sanctions against vital Iranian economic sectors that he has been relying on for the remainder of his presidency. Much of the debate over the proposed ministers went ahead and most of the analysis suggested that the parliamentarians would refuse to give a vote of confidence to Mohammad Shariatmadari, who Rouhani insisted on keeping in the government for the Labor and Social Welfare Ministry, instead of Ali Rabi'i, who was dismissed by parliament in August 2018. But the parliament defied expectations and approved the four ministers in a session held on October

27th, 2018. The move represented a pause for Rouhani's government after a spate of questions that targeted Rouhani himself along with his two ministers in a short period of time. The questions were followed by a crisis which was triggered when the Minister of Trade and Industry and the Minister of Roads and Town Building both resigned. As Rouhani continued with his cabinet reshuffle, he was fully aware that the hardliners may hinder his reshuffling plans.

5. Zarif's remarks on money laundering brought to the surface the issue of questioning ministers

The Foreign Minister Mohammad Javad Zarif's surprising remarks, in which he stressed that there is rampant money laundering in Iran and he accused some parties he did not name of spending hundreds of billions to thwart anti-money laundering laws,⁽⁴³⁾ provoked a new firestorm against the government. These remarks created a favorable opportunity for the conservatives to resume their pressure on Rouhani and his government backed by the reformists.

The primary motivation for releasing these statements at that time was the government's resentment that the Guardian Council and the hardliners in the Iranian regime refused to sign the FATF Convention on Combating Money Laundering and the Financing of Terrorism. There were concerns that this rejection would bring about new internal and external pressures against the government.

There is no doubt that Zarif's statements reflected Rouhani's position as well, which was explicitly stated by Mahmoud Vaezi, head of the office of President Rouhani when he said that Zarif's remarks on money laundering were not just a personal position. He added that Zarif reflected the position of the entire government.⁽⁴⁴⁾

Following Zarif's remarks, the conservative movement seized the opportunity to pressure the government. This pressure began from the judiciary, whose President, Sadiq Larijani described Zarif's remarks as a "stab in the heart of the regime,"⁽⁴⁵⁾ and asked him to bring forth the documents and evidence in this regard.⁽⁴⁶⁾ These pressures developed into calls for Zarif to resign followed by calls for an impeachment motion against him in parliament.⁽⁴⁷⁾ In November 2018, a number of parliamentarians introduced a request to impeach Zarif, submitting 11 pieces of evidence including the remarks he made on money laundering, delays by the Foreign Ministry in appointing ambassadors to a number of countries with good relations with Iran such as China and India, Zarif neglecting the economic dimensions of Iranian diplomacy and appointing failed ambassadors, as well as Zarif using unreliable people in sensitive and important talks and not paying attention to developing relations with Asia, Africa and Latin America. They also accused him of failing the diplomats

arrested in Europe and not benefiting from the right of “reciprocity” to defend these diplomats. Zarif was also accused of not safeguarding Iranian interests in contracts signed with a number of countries.⁽⁴⁸⁾

The hardliners were keen to impeach the ministers of the Rouhani government in parliament over their weak performance for political gains at the expense of the moderates and reformists. They sought to impeach the Foreign Minister, the Minister of Science and Research Technology, the Minister of Agriculture and the Minister of Interior.

But new developments have occurred in this file that may change the course of the game in favor of Rouhani, rescuing him from the specter of interrogations and saving his government from collapsing. The first development was the Shiite Marjia’s involvement in the crisis, when the Shiite cleric Makarem Shirazi, strongly criticized the questioning of the ministers, stressing that the government should not be subject to pressure at this sensitive time.⁽⁴⁹⁾

The second and most important development was the announcement by a member of the presidential body of the Iranian parliament Ali Asghar Yousef Nejad that all the requests to impeach the ministers, which were on the agenda of the parliament, were withdrawn.⁽⁵⁰⁾ According to some reformist sources, the decision came after a letter from the Supreme Leader’s Office to the Parliament Speaker Ali Larijani asking him to stop impeachment proceedings of the ministers in Rouhani’s government.⁽⁵¹⁾

Second: Karroubi and Ahmadinejad’s unprecedented criticisms towards the Iranian regime

There is a big difference between Mahmoud Ahmadinejad and Mehdi Karroubi in terms of political affiliations. Following the disputed presidential elections in 2009, the dispute reached a climax after Karroubi accused the Supreme Leader Ali Khamenei and some state institutions of rigging those elections in favor of Ahmadinejad. But their letters to the Supreme Leader show that they hold similar positions on Khamenei and his policies.

But the difference between them is that Mehdi Karroubi, known as the elder of the reformists, has been defending his reformist ideas by his constant criticism of the hardliners and his calls for reforming the Iranian regime, which may reach a dead end as a result of the poor performance of its officials. Ahmadinejad is known for his hardline policies and has strong ties with senior leaders of the conservative movement and the Revolutionary Guards.

1. Ahmadinejad from conservatism into reformism

During 2018, Ahmadinejad's position against the Supreme Leader grew



to an unprecedented degree. No one expected his position to be as bold and brave. But others considered his criticism as an insult to the Supreme Leader given the tone, language, and rhetoric he used in the letters to him.

Ahmadinejad in his letter to the Supreme Leader on February 20, 2018 wrote the following demands:

1. Enforce fundamental reforms in the three branches of power and a number of other state institutions, including the office of the Supreme Leader.
2. Stop chasing those who voice opposition to corruption and release detainees held during protests.
3. The immediate dismissal of the head of the judiciary who is charged with corruption. He also called for establishing an independent judiciary to deal with citizens' complaints and to ensure the restoration of their rights.
4. Hold free parliamentary and presidential elections without the supervision of the Guardian Council or the intervention of military and security institutions.⁽⁵²⁾

Ahmadinejad primarily targeted the head of the judiciary since he views him as the immediate cause of public dissatisfaction, as a result of the absence of justice in the Iranian judiciary and his issuance of arrest

warrants against anyone who speaks out against the country's problems or against himself.

Ahmadinejad's call for early parliamentary and presidential elections, without interference, was an indirect accusation against Iran's top institutions, including the Supreme Leader Ali Khamenei, for rigging elections. It also raised doubts about the fairness of the 2009 election. The Iranian regime rigged it for Ahmadinejad. Perhaps deepening these doubts was the reaction of the Speaker of the Guardian Council, Abbas Khedkhdaei, to Ahmadinejad's accusation when he said, "Ahmadinejad was also seeking to engineer the 2009 elections."⁽⁵³⁾

Ahmadinejad's second letter to the Supreme Leader, on March 13, 2018, implicitly pointed to corruption in state institutions saying, "Financial institutions operating under Khamenei's supervision such as: 15 Khordad Foundation, the Foundation for the Oppressed, the Executive Committee of Khomeini's Orders and Decisions, the IRGC Cooperative, the Army Cooperative, the Basij Forces Cooperative, the Iranian Ministry of Defense Cooperative, and the Khomeini Charitable Committee, run businesses worth 700,000 billion toman - \$152 billion - at the free exchange rate for March 2018. The Iranian people know nothing of these activities nor how these funds are spent." He warned that simmering public discontent will emerge against the regime due to its performance and policies, wondering, "How can we remain silent when the people and youth are subjected to oppression and injustice by the judicial and security services over mere criticism and protests?"⁽⁵⁴⁾

In September 2018 Ahmadinejad sent another letter to Khamenei, but it was not as aggressive as his earlier ones. It had a complaint and a request. The complaint was against the prison administration, which imposed additional punitive measures on his former assistant Hamid Baghai, who is serving a 15-year jail sentence in a corruption case. The letter included Ahmadinejad's call on Khamenei to ask the judiciary to allow Baghai to visit his family and communicate with them because of his precarious health conditions. In the letter, Ahmadinejad reminded the Supreme Leader of the difficult days he spent in the Shah's prisons, and about public rights, especially of those who are in prison, regardless of the charges against them.⁽⁵⁵⁾

Ahmadinejad's calls for reform, and his direct and indirect criticism of the Supreme Leader Ali Khamenei, confused his reformist opponents because he adopted the same demands they call for. These criticisms sparked the anger of his conservative allies because it came days after President Rouhani's remarks on the need to hold a referendum on crucial issues to break the political deadlock in Iran and maintain the regime, the revolution, and the country. This also came amid Rouhani's criticism of the

strict control imposed by the Guardian Council entrusted with endorsing or disqualifying candidates for presidential and legislative elections in the country.⁽⁵⁶⁾

The conservatives' anger towards Ahmadinejad was reflected by the level of criticism and warnings he was subjected to. The most severe of which was the warning of the Commander of the Quds Force of the Revolutionary Guard. He criticized "the currents that claim to be following Khomeini's approach and his successor, the current leader Ali Khamenei, who are counted among the camp of the regime and the revolution" who are trying to play the role of the opposition "through criticizing the leader and institutions."⁽⁵⁷⁾

As for the judiciary, sharply criticized by Ahmadinejad, its Spokesman Gholamhossein Agei vowed decisive action against Ahmadinejad. As for the delay in calling Ahmadinejad to account despite the many charges against him, he said, "The judiciary may tolerate some people - in reference to Ahmadinejad - but be confident that the judiciary will take the necessary action against anyone who commits a crime."⁽⁵⁸⁾

2. Karroubi blames Khamenei for the situation and calls for his accounting

The former Iranian parliamentary speaker Mehdi Karroubi is one of the few Iranian officials who has harshly criticized the Supreme Leader Ali Khamenei through numerous secret and public letters. The relationship between Mehdi Karroubi, who ran in the presidential elections in 2009, and the Supreme Leader Ali Khamenei worsened after he accused the latter of rigging those elections in favor of Ahmadinejad. The dispute between them intensified after the imposition of house arrest on Karroubi, which is still in place.

Karroubi's first letter, in 2018, came after Khamenei's remarks at the end of December 2017. Khamenei said, "There are people who either enjoy today all the administrative powers of the country or used to yesterday. They are trying to play the role of the opposition. They don't have the right to issue statements and take positions against the country. They must take responsible positions and shoulder their



responsibilities.”⁽⁵⁹⁾

“Instead of criticizing others, you have to shoulder responsibility for your policies over three decades, because the principle of accountability is a comprehensive principle and no one is excluded from it [...] Everyone has to be held accountable for his contribution and his power,” Karroubi responded at the end of January 2018. Karroubi told Khamenei, “You are the only one of the comrades of the revolution who has been the supreme leader of the revolution as an absolute ruler for 29 years, so all the political, economic, social and cultural conditions of Iran are now a direct result of your strategic and operational policies. You have to shoulder responsibility for your policies over three decades.”⁽⁶⁰⁾

As for the protests that took place in dozens of Iranian cities at the end of December 2017 and continued until January 2018, Karroubi called for the release of all prisoners arrested during and after the protests. He addressed Khamenei, “Pay attention to the reasons for the protests and pay heed to the demands of the demonstrators instead of accusing them of being agents of the country’s enemy and implementing foreign agendas. The regime’s loyal supporters could turn into a barrel of gunpowder.”⁽⁶¹⁾

The letter also blamed Khamenei for giving the Revolutionary Guards the power to manipulate political life and to implement monopolistic economic policies. He also accused Khamenei of transforming the Council of Experts from an elected body that selects the Supreme Leader to a body affiliated with him that only manages his office and manipulates election results. The Council of Experts also allows the security services to intervene in the affairs of religious seminaries and clerics, as well as to seize the resources of Iran and place them in the hands of a number of revolutionary bodies.⁽⁶²⁾

In May 2018 Karroubi sent another message to the Central Committee of the National Trust Party, in which he criticized the house arrest imposed on him since 2011. He mentioned that revoking the house arrest is impossible under Khamenei. He expressed this by saying that the end of his house arrest is in “the hands of the Angel Azrael.” What he meant was that his house arrest will end by his death or the death of Khamenei.⁽⁶³⁾ He asked President Rouhani to hold a public trial and renewed his position on the 2009 elections being rigged. He said he would provide the necessary evidence to prove the reformists’ claims regarding the 2009 elections.⁽⁶⁴⁾

In his last letter to the Council of Experts in September 2018, Karroubi stepped up his criticism against Khamenei. He called on the Council of Experts to interrogate the Supreme Leader on the situation of the country at all levels and to exercise its regulatory role over the performance of the Supreme Leader instead of praising him.

He wondered whether the Council of Experts was familiar with

Khamenei's strategy, which had led to severe stagnation and deterioration in Iran. He accused Khamenei of handing over the country's resources to the IRGC and to the security agencies as well as enabling them to take control of economic sectors such as banking and oil. He called for impeaching Khamenei over military officers and Friday imams interfering in the country's affairs.⁽⁶⁵⁾

He firmly believes that Iran's problems are because of the policies of the Supreme Leader Ali Khamenei and they have improved the image of the Pahlavi regime and resulted in Iran going back to the pre-constitutional era (1906).⁽⁶⁶⁾

Karroubi also agreed with Ahmadinejad in his criticism of the judiciary when he described it as a means of repression, injustice, and deprivation of rights.

Karroubi's letter clearly accused Khamenei and the late Hashemi Rafsanjani of changing the constitution following the death of Khomeini in 1989 to enable Khamenei to rule for life. "Khamenei was chosen to be a temporary leader although he did not have the necessary credentials to take up this post. But his group, which includes a number of leaders, on top of them is Hashemi Rafsanjani, changed the Constitution."⁽⁶⁷⁾

This letter was met with a strong and angry reaction from a number of hardliners. But what was not expected was that the letter was overtly supported by the reformist movement. 25 reformists and political activists signed a letter entitled, "Political Activists Demanding Democracy's Defending the Historic Letter of Karroubi." They confirmed their full support of the demands written in Karroubi's letter, saying that the parties that call for excluding the Supreme Leader from accountability work to disrupt the constitution.⁽⁶⁸⁾

Third. Findings: All political currents agree on the need to address the country's growing economic crisis, given the US withdrawal from the nuclear agreement and the re-imposition of sanctions. The Ministers of Labor and Economy being dismissed as well as calling President Rouhani to account may not go beyond an internal conflict between contesting Iranian political parties. And we cannot consider at any rate that these parties will somehow put aside their differences due to the severe crisis hitting the country.

A. If Ahmadinejad continues to criticize the Supreme Leader Ali Khamenei and state institutions, the judiciary may try him or hold him under house arrest. He would eventually face the destiny of his reformist opponents, Mehdi Karroubi and Mir Hossein Mousavi, who were accused of stirring up unrest when they rejected the results of the 2009 presidential elections, which Ahmadinejad himself won.

B. Karroubi's remarks against Khamenei have had a significant impact on the question of the house arrest imposed on him, as well as the house arrest of Mir Hossein Mousavi and his wife Zahra Rahnword. According to some Iranian sources in August 2018, Khamenei rejected a decision issued by the Supreme National Security Council to lift the house arrest imposed on the leaders of the Green Movement.⁽⁶⁹⁾

C. If Karroubi and Ahmadinejad continue criticizing Khamenei, along with the public anger over poverty, repression and unemployment, the popularity of the Supreme Leader will be significantly affected. Consequently, the Iranian people will be braver in breaking the wall of fear and protesting against the regime.

Fourth. Future scenarios

A. In the future, the hardliners may seek to trim Rouhani's powers, and to blame Rouhani and his reformist supporters for the deteriorating situation in the country and they might hope to achieve some political gains at the expense of the reformists.

B. President Rouhani's crises may double in 2019 due to the US sanctions targeting vital economic sectors such as oil. The economic crisis emerged in the second half of 2018. The sharp drop in the national currency, rising prices, and increasing unemployment may increase protests, strikes and popular discontent against the government. This means that Rouhani will be facing a year full of challenges and crises.

C. The series of interrogations against the Rouhani government may have ended in 2018, but this does not necessarily mean that the conflict between the conservatives and reformists will end this year, given the fact that parliamentary elections will be held after one year (February 2020). This means that conflicts, affiliations, and polarization will resurface on the Iranian political arena as the election date approaches.

D. The judiciary's strange silence over Ahmadinejad's ongoing criticisms and objections is because it fears that Ahmadinejad has the ability to release secret security and political files, and turn into a blatant opponent and in the process earn public sympathy.

MILITARY AND SECURITY FILE

The Iranian arena saw many security and military developments throughout 2018. On the military level, several domestic military industries were launched. Additionally, several future projects and plans were drawn up to modernize the country's conventional military arsenal through the provision of tanks, destroyers, submarines and combat choppers.

On the security level, most Iranian cities, including those inhabited by non-Persian minorities, saw a series of protests and violent incidents including assassinations and bombings.

These incidents included Jaish al-Adl's kidnapping of 12 members of the IRGC and border guards as well as the attack on a military parade held by the IRGC in the city of Ahwaz, which left dozens killed and wounded.

Based on the projects, military ambitions and the multiple security incidents witnessed by Iran in 2018, we will discuss the following three issues through research and analysis. We will then outline general conclusions on the security and military developments as well as their future impact and consequences. Our analysis will include a discussion of the following subjects: 1. Iran plans to modernize its military arsenal as Its Bet on Nuclear Capabilities Fail; 2. Targeting the IRGC in Ahvaz, repercussions and consequences; 3. Jaish Al-Adl kidnaps 12 Iranian soldiers, forces Iran to the negotiating table.

First: Iran plans to modernize its military arsenal as its bet on nuclear capabilities fail

Despite the increase in Iranian military spending in recent years, Iran has been unable to import sophisticated weapons from the United States and European countries due to the international sanctions imposed on it because of its nuclear program. Even old weapons imported from Western countries, particularly from the United States, which still constitute the bulk of Iranian military equipment, have remained unused as access to spare parts is denied under the embargo.

After Iran's nuclear deal was signed with the six major powers in July 2015, the country put high hopes on modernizing its military arsenal, most of which are weapons from the era of the Shah, as well as other Russian, Chinese and locally-made weapons. But the US withdrawal from the pact followed by sanctions was a major setback for Iran's development of its military arsenal, forcing it to rely on local manufacturing which lacks modern techniques.

In 2018, Iran announced a series of plans and projects to supply its military arsenal with equipment, combat aircraft and conventional weapons such as tanks, destroyers, submarines and armored vehicles.

1. Combat helicopters

In March 2018, Iran announced the establishment of three specialized centers to provide ground forces with combat helicopters,⁽⁷⁰⁾ based on the importance of helicopters in reconnaissance operations, attacking land targets or air transport and supporting ground units.⁽⁷¹⁾ Iran's current helicopter needs are estimated at 400 helicopters of various categories.⁽⁷²⁾ One of the centers is designed to produce anti-aircraft Azarkhsah missiles. They are used to carry out low-altitude air operations, resistance to ground targets and fortifications. According to the Iranian Defense Ministry, the rocket weighs 70 kilograms and has a maximum speed of 550 meters per second.⁽⁷³⁾

2. Destroyers and submarines

In June 2018, the Commander of the Iranian Navy Rear Admiral Hossein Khanzadi announced that in the next three months three destroyers (Sahand, Damawand, Dana) and a submarine (Fateh) would be added to the Iranian Navy in both the Caspian Sea and the Arabian Gulf.⁽⁷⁴⁾ This comes within Iran's ambitious and well-developed plans to acquire a variety of anti-ship missiles, submarines, speedboats, rocket launchers and destroyers, in order to compensate for the significant shortfall in the acquisition of advanced naval vessels and the development of the Iranian Navy, one of the smallest military units in Iran.

At the beginning of December 2018, the Iranian Navy commissioned the destroyer "Sahand" on the occasion of the National Day of the Navy. The 6-year-old destroyer⁽⁷⁵⁾ has a helipad and is equipped with torpedo launchers, anti-aircraft guns, ships, surface-to-surface and surface-to-air missiles. It has the ability to escape radar.⁽⁷⁶⁾

According to the Iranian naval forces, this destroyer has other characteristics, such as being the third destroyer made by Iran on the model the "Moj" after the destroyers "Jamaran" and "Damawand." It is equipped with modern electronic and defense systems. It is capable of hiding from radar. Its length is estimated between at least 95 and 98 meters, and its width is estimated between 11.5 to 12 meters.⁽⁷⁷⁾

The other two destroyers ("Damawand" and "Dana") are due to join the navy during the remainder of the current Iranian year, which ends on March 20, 2019, said the commander of the Iranian Navy Admiral Hussein Khanzadi.⁽⁷⁸⁾

The destroyer "Damawand," which was manufactured at the Martyr Majidi base on the Caspian Sea, had joined the Iranian Navy in 2015, with a length of 100 meters. It has an airstrip and weighs 1,300 tons.⁽⁷⁹⁾ But it hit the port of Bandar Ansli on the Caspian Sea in January 2018, due to strong winds and severe storms, which destroyed it and led it to sink, killing



two of its crew members. Days after the incident, the Iranian navy began refurbishing and upgrading it.⁽⁸⁰⁾

Although there are photos that went viral proving the sinking of a large part of the destroyer, Iranian naval officials insisted that the damage to “Damawand” can be repaired. “The waves caused the ship to split in half. All the equipment and weapons on board have sunk,” Iranian media reported.⁽⁸¹⁾

This contradiction and deliberate concealment of the truth raised a number of questions about the reality of the Iranian military industry and its conformity with international standards. The official statement drew ridicule that a destroyer designed to withstand missile and artillery shelling sank due to waves.

The latest destroyer, which is expected to be commissioned by the Iranian Ministry of Defense’s Maritime Industries Organization over the next few months, is the destroyer “Dana,” a new generation of “Moj”⁽⁸²⁾ destroyers. According to Khanzadi, the last two destroyers are less developed than the destroyer “Sahand.”⁽⁸³⁾

The only submarine the Iranian Navy plans to commission in the next few months is the submarine “Fateh.” The Iranian Navy’s command says it is the first locally manufactured medium-sized⁽⁸⁴⁾ submarine, weighing 500 tons, with four torpedoes and capable of carrying eight naval mines.⁽⁸⁵⁾

The manufacturing of the submarine, which has passed the final testing stage, is overseen by the Marine Industries Organization of the Iranian Ministry of Defense in collaboration with a number of universities and research centers.⁽⁸⁶⁾

Asked whether the submarine would be equipped with cruise missiles, Admiral Khanzadi declined to answer the question and argued it was an undisclosed military secret. But he said the submarine would be commissioned soon and would be a surprise for both friends and foes.⁽⁸⁷⁾

3. Strengthening the Iranian army with locally made tanks



Iran has about 2,931 tanks,⁽⁸⁸⁾ most of which date back to the period of Shah Mohammad Reza Pahlavi. The most famous types of tanks are the M47, M48, M60, G15, T55, T62 and T72 tanks, as well as the Zulfikar 1 tanks, which were manufactured in 1991. Iran then upgraded the Zulfikar 1 to the Zulfikar 2 and the Zulfikar 3. This is in addition to the Karrar tank, which is similar to the T-90 SM tank, and its cannon, similar to that of the T-72 tank.⁽⁸⁹⁾

The last serious military deal Iran had with the outside world to strengthen its tanks was in the early 1990s, when it bought a number of T-72 tanks from Russia, one of the most modern weapons imported into Iran's conventional arsenal.⁽⁹⁰⁾ In recent years,

other tanks such as the T-54, M-60 and M-47 were named "Safir," "Samsam" and "Tiam."⁽⁹¹⁾

In July 2018, the Iranian Ministry of Defense announced that it had put on its agenda a project for the production and development of more than 700 tanks. The Ministry of Defense added that the major part of this project would be undertaken at the defense industry plant in Dorud in Lorestan Province, southwestern Iran. The factory was the main hub for the manufacturing and maintenance of tanks and armored vehicles. In the 1990s, it contributed to the assembling of T-72 tanks and in the past few years it was developed alongside the armored vehicles' factory in the Masjid Sulaiman area in the north of Ahvaz for the manufacturing and development of tanks and armored vehicles.⁽⁹²⁾

Second: Targeting the IRGC in Ahvaz, repercussions and consequences

In September 2018, Iran's Revolutionary Guards (IRGC) faced an unprecedented security breach in one of the deadliest attacks in the country in recent years. The scene of the attack was the Arab-dominated city of Ahvaz, which has always witnessed protests against the regime's policies during a military parade in what is known as the Holy Defense Week. The Revolutionary Guards and the regular army organize the parade annually to mark the anniversary of the Iran-Iraq war (September 1980-August 1988).

According to the official Iranian narrative, the attack on the military parade in Ahvaz was carried out by four gunmen who were hiding their weapons in a park adjacent to the site of the parade. According to official statements, the attackers were disguised in Revolutionary Guards and Basij forces military uniforms. The gunmen fired randomly from behind the podium at the parade, which included a number of government and military officials. They then fled the scene but the security forces tracked them down and succeeded in killing three of them and arrested the fourth gunman, who later died in hospital from his injuries. The gunmen killed 25 people, including 12 soldiers of the IRGC, and wounded 69 others.⁽⁹³⁾ In addition, the personal guard of the Commander of the Revolutionary Guards in Khuzestan was killed.⁽⁹⁴⁾

1. The awe of the Revolutionary Guards is at risk

This attack, which targeted a military parade of the IRGC that was sent to Syria and Iraq to fight "terrorist groups" to prevent them from reaching the Iranian border, constituted a major blow to the IRGC's image and reputation. Perhaps aggravating this blow was that the attack came on the day that Iran was celebrating its steadfastness against the regime of Saddam Hussein during the Iran-Iraq war.⁽⁹⁵⁾

For Iranian officials, the attack was a significant setback because the IRGC is the body entrusted with the protection of the revolution, its institutions and its high-ranking officials. The attack and its implications were even more severe as it occurred during a time of great domestic upheaval illustrated by the continuation of internal protests as a result of deteriorating economic conditions that have been aggravated by US sanctions.

This attack exposed major security loopholes and embarrassed Iran's security agencies that were supposed to have made watertight security arrangements prior to the annual parade. In addition, the attack brought to the surface Iran's fragile situation, compounded by minority unrest across the country because of Tehran's discriminatory policies and brutal actions.

2. Finger-pointing

Despite the ambiguity surrounding the attack and the multiple parties that claimed responsibility for the attack, Iran quickly accused the United States and its allies in the region.

Immediately after the attack, Iranian officials began finger-pointing even before the investigation had begun. Foreign Minister Mohammad Javad Zarif accused the militants of receiving training in the Gulf states that have cordial relations with the United States.⁽⁹⁶⁾ About a month and a half after the Ahwaz attack on December 6, 2018, Zarif made the same accusation following another attack on a police station in the city of Chabahar in the Sistan and Baluchistan province, killing two security guards and injuring 27 others. He said the attack was sponsored by foreign parties.⁽⁹⁷⁾ Supreme Leader Ali Khamenei followed suit when he said that the Gulf states backed by the United States were trying to create chaos in Iran.⁽⁹⁸⁾ President Hassan Rouhani criticized the United States and accused it of masterminding the incident. He added that the Gulf states provided the perpetrators of the attack with money and weapons. He pledged to avenge the attack and stated that Iran would take strong action against the attackers and their supporters.⁽⁹⁹⁾

3. Conflicting narratives on the identity of the perpetrators

According to Iran's media, the "Popular Democratic Front of Ahwaz" was among the first parties to claim responsibility for the attack on the military parade. However, it was later revealed that what was posted on its website after the attack was a call for solidarity. On the same day, the Front denied responsibility for the attack. The Front's Secretary General Salah al-Ahwazi accused the Quds Force of being behind the attack to protect the interests of the Iranian regime in the region and the world as well as to show that



Iran is a victim of terrorism. He called for the internal, regional and external crises to be addressed.⁽¹⁰⁰⁾

Iran pointed its finger of blame towards the Arab Struggle Movement for the Liberation of Ahvaz based on the statements by Habib Jaber, who said he was the spokesman of the movement. But the movement quickly denied Habib Jaber's remarks and denied that any of its officials were responsible for the incident. The movement said Jaber had been sacked as spokesman over three years ago.⁽¹⁰¹⁾

The second group to claim responsibility for the attack was ISIS. The group's mouthpiece, Amaq, said that the group's fighters carried out the attack which targeted the IRGC in Ahvaz.⁽¹⁰²⁾ To back up its claim, the group posted footage showing three men inside a vehicle. Two men in the vehicle spoke in Arabic about jihad. The third spoke about the group being on its way to target the IRGC.⁽¹⁰³⁾

However, the possibility of ISIS being behind the attack was rejected by the Iranians for a host of reasons, most notably that ISIS now hastens to claim responsibility for attacks in order to prove it still maintains a presence and that it is able to carry out attacks across different countries. Amaq News Agency spoke of President Rouhani's presence during the military parade in Ahvaz, which was baseless. But the agency posted a correction indicating that it had made a mistake in mentioning that President Rouhani had attended the parade.⁽¹⁰⁴⁾ A week after the attack, ISIS claimed responsibility again for the incident in Ahvaz, vowing more attacks on Iran.⁽¹⁰⁵⁾

A number of parliamentary members and some security institutions assessed that the attack had the fingerprint of ISIS. The representative of Ahwaz in the Iranian Parliament, Jawad Kazem Al-Baji, said in this regard that the documents and evidence indicated that ISIS carried out the attack, based on the flags of the group found in the residence of the attackers in addition to the video broadcast by Amaq which included rhetoric similar to that used by ISIS such as the call for jihad.⁽¹⁰⁶⁾

However, Tehran ruled out ISIS involvement in the attack on the military parade. Their insistence that the Gulf states along with the United States were behind the attack was intended to serve the Iranian project, which seeks to embroil regional countries in self-inflicted crises as a result of its domestic and foreign policy. If Tehran had accused ISIS of carrying out the attack, it would have weakened its case of blaming regional countries following any attack that targets its security and institutions in the future.⁽¹⁰⁷⁾

4. Retaliatory reactions

In the wake of the attack on the IRGC in Ahvaz, Iran's security forces and the IRGC launched a large-scale crackdown in the Ahvaz region, which involved the arrest of more than 500 people on multiple charges such as

involvement in the attack on the military parade and supporting activities deemed hostile to the Iranian regime as well as links to Ahwazi groups operating overseas. This crackdown would prepare the ground for strict security measures in Ahvaz, and Tehran would use the attack on the military parade to suppress the protests in Ahvaz that rage from time to time against its policies targeting Arabs there.⁽¹⁰⁸⁾

At the end of September 2018, the Revolutionary Guard targeted groups that it said were linked to the Ahvaz attack in the eastern Euphrates area of Syria with ballistic missiles- Zulfikar and Qiam- that have a range of between 700 km and 800 km. This targeting was in clear contradiction to the position of Iranian officials who insisted that the attack was carried out by Arab Ahwazi organizations.⁽¹⁰⁹⁾ The targeted area in Syria is known to include ISIS territories and has nothing to do with the armed Ahwazi movements. So why was this area targeted? It is likely that the area was hit so that Iran could cover up its internal security failings and to repair the damage done to the IRGC's image and reputation in the aftermath of the attack on the military parade.

At the end of October, Danish Foreign Minister Anders Samuelson revealed that he had summoned his country's ambassador to Tehran for consultations regarding the background of an Iranian plot to attack three Iranians residing in Denmark suspected of belonging to the Arab struggle for the Liberation of Ahvaz in response to the attack on the military parade in Ahvaz. He threatened that his country would urge the European Union to impose new sanctions against Iran because of suspected attempts by Iranian intelligence to launch an attack in Denmark.⁽¹¹⁰⁾ This means that reprisals carried out by Iranian intelligence have spilled into foreign countries and it may continue to target Ahwazi opposition figures and other leaders of non-Persian minorities in Europe, as happened to the Ahwazi leader Ahmed Mola, who was assassinated in November 2017 in The Hague, Netherlands.⁽¹¹¹⁾

The Iranian regime is sensitive to opposition groups being hosted abroad. In the aftermath of the military parade attack, the Iranian Foreign Ministry summoned the Dutch, Danish and British ambassadors in Tehran to protest against these countries hosting Iranian opposition figures.⁽¹¹²⁾ Internally, the Iranian regime removed 30 military officials and they were put on trial because of their failure to protect the military parade.⁽¹¹³⁾ The Interior and Intelligence Ministries were also accused of failing to do their job properly⁽¹¹⁴⁾ after investigations revealed that the attackers had stayed in an apartment 700 meters away from the location of the attack for five months.⁽¹¹⁵⁾

Third: Jaish Al-Adl kidnaps 12 Iranian soldiers, forcing Tehran to negotiate

Less than a month after the Ahvaz attack, which killed more than 25 people and injured about 60 others - mostly Revolutionary Guard soldiers and officers, the Revolutionary Guard was dealt a new blow in the Sistan

and Baluchistan province after Baluchistan's Jaish al-Adl attacked the Revolutionary Guard camp in the Mirjaveh border area. The group kidnapped 12 soldiers, including seven members of the ground forces of the Revolutionary Guard, while the other five belonged to the border guards.⁽¹¹⁶⁾

About a week after the incident, the group leaked pictures showing the kidnapped soldiers. They appeared handcuffed, standing next to the weapons confiscated from them including automatic weapons, rifles, rocket launchers, machine guns, grenades, and ammunition.⁽¹¹⁷⁾

Jaish al-Adl, the group which carried out the operation, is a paramilitary group operating in the southern region of the eastern border of Iran within the province of Sistan and Baluchistan. Since its formation in 2012, it has successfully carried out a number of operations in the border areas with Pakistan⁽¹¹⁸⁾ "because of the practices of the Iranian regime, and to protect the Baluchis from repression, oppression and injustice" in addition to raising the banner of monotheism and removing polytheism from all Baluchi lands in Baluchistan. The group also aims to hit and weaken Iran's military throughout Baluchistan and to disrupt its internal stability as well as seeking to defend the Sunnis and their rights of citizenship, dignity and human rights.⁽¹¹⁹⁾

Jaish al-Adl has become a real challenge to the Iranian regime, launching several attacks against Iran's security forces, police and Revolutionary Guards, most notably the assassination of 14 members of the Revolutionary Guards on 26 October 2013. One month after this incident, on 26 November 2013,⁽¹²⁰⁾ they downed an Iranian helicopter on the border with Pakistan.⁽¹²¹⁾ In December of the same year, Jaish al-Adl targeted a military base of the Revolutionary Guards in the city of Sarawan in Baluchistan in response to Tehran's execution of 16 Baluchi prisoners.⁽¹²²⁾ A Revolutionary Guard soldier was executed in March 2014.⁽¹²³⁾ In 2017, the group killed 10 personnel of the Revolutionary Guards in the Mirjaveh area.⁽¹²⁴⁾

Tehran resorts to requesting help from Pakistan and Baluchi tribal leaders to release the kidnapped soldiers. This new and dangerous security breach pushed the security and political apparatuses in Iran to study all possible solutions for the release of the kidnapped soldiers.

At the military level, the Commander of the Revolutionary Guards ground forces, Brigadier General Mohammad Pakpur, visited Pakistan to discuss with military officials plans and joint steps for the release of the kidnapped soldiers.⁽¹²⁵⁾

This visit was accompanied by a diplomatic move as the Foreign Minister Mohammad Javad Zarif visited Islamabad on October 31 to discuss ways to retrieve the kidnapped Iranian soldiers held by Jaish al-Adl.⁽¹²⁶⁾

In parallel with the diplomatic and security exchanges, the Iranian media began a fierce media war against Pakistan. It accused Islamabad

of providing safe haven to Sunni Baluch militants and accused Pakistan of failing to comply with the February 2014 agreement on sharing responsibility for facilitating the extradition of prisoners and combating drugs and militants active on the border between the two countries.

Pakistan, which has repeatedly declared its readiness to work with the Iranian side, has faced many difficulties, such as Iran's lack of information about the whereabouts of the kidnapped soldiers and the difficult terrain. But about a month after the abduction, Pakistan's efforts succeeded. Jaish al-Adl released the five⁽¹²⁷⁾ border guards and kept the other seven in order to use them as a bargaining chip with the Iranian government.

As a result of Iran's continued inability to recover the remaining kidnapped soldiers and threats by Jaish al-Adl to execute the seven soldiers, Tehran had to resort to the toughest option of engaging in negotiations with the group. The situation was similar to the 2014 negotiations between the two parties after the abduction of five border guards in February 2014.⁽¹²⁸⁾ To ensure the success of the negotiations, Iran turned to the Baluchi tribal elders to negotiate with Jaish al-Adl. This was exactly what Jaish al-Adl was hoping for in order to force Iran to release Sunni Baluchi detainees in Iranian prisons.⁽¹²⁹⁾

Iran called upon the elders of the Baluchi tribes in the Pakistani province of Baluchistan because of the close relationship between the leader of Jaish al-Adl and the elders of these tribes. He has family ties with some of them and has lived among them for years.⁽¹³⁰⁾

The negotiations, which the Commander of the Iranian border guards Brigadier General Qassim Rezaei described as "border diplomacy,"⁽¹³¹⁾ have not yet resulted in an agreement that satisfies the two parties. But the Chairman of Iran's National Security and Foreign Policy Commission Hashmatullah Falahat Pishe expressed optimism about the release of the seven kidnapped soldiers. He asserted that his country will use all possible tools to make the negotiations a success, in reference to the possibility of Tehran making some concessions to meet the demands of Jaish al-Adl to save the lives of its soldiers.⁽¹³²⁾

Fourth: Findings

By reviewing the military and security developments Iran had during the year 2018, we conclude the following findings:

1. The modernization of Iranian military arsenal, which is older than the 1979 revolution itself, has become (in the present and the future) an urgent need for the Iranian regime for two main reasons:

A. The significant difference in the quality of weapons possessed by Iran and those possessed by neighboring countries.

B. Iran relied on the nuclear agreement to end the sanctions imposed on it and thus enable it to import sophisticated weapons from the United

States and European countries. But the United States foreclosed this option after its withdrawal from the nuclear agreement and the re-imposition of sanctions on Iran. This situation threw Iran's calculations into a mess and left it with few options in hand. All that remains is to continue to produce and develop some weapons locally and to import others from Russia and China.

2. The Ahvaz attack raised fears among the Arabs in Ahvaz of the Iranian regime continuing its repressive policies towards them. What reinforced these fears was the insistence of the Iranian regime that Arab Ahwazi organizations were behind the military parade attack, despite ambiguity due to ISIS's announcement that it was responsible for the attack and the categorical denial of the Ahvaz organizations.

3. Given previous experiences similar to the Ahvaz incident, it is certain that the Arabs in this region will pay the price for this attack even if no Ahvaz group was behind it. The Iranian regime will use the attack to push the Revolutionary Guard and its security forces in the coming period to exploit the incident to oppress the Arabs in Ahvaz and other non-Persian minorities, particularly in the Sistan-Baluchistan and Kurdistan regions. It will also seek to restrain any future protests by these minorities against deteriorating internal conditions and discriminatory policies.

4. The easy targeting of the IRGC as in Ahvaz and the recurrent kidnappings of its personnel as occurred in Sistan-Baluchistan may encourage Iranians to be much braver and bolder in opposing the regime.

5. The finger-pointing by Iranian officials against countries such as the United States, Britain, Denmark, Israel, and some regional countries was aimed primarily at using the attack politically to continue to show Iran as a victim of terrorism. The European countries must play an influential role with regard to sanctions post-US withdrawal from the nuclear agreement. In addition, Iran will ignite nationalist sentiments and urge Iranians to support the Iranian government in the face of ongoing pressures.⁽¹³³⁾

6. What concerns the Iranian regime most is the development of operations targeting its forces, especially in the troubled border areas. This concern is justified by the recent success of armed groups in carrying out a series of attacks against the Revolutionary Guards and border guards, the latest of which was the attack on a military parade in Ahwaz and the kidnapping of 12 soldiers in the Sistan and Baluchistan province.

Fifth: Future scenarios

1. Iran's military spending is a key pillar in Iran's national, regional and international strategy. One of the permanent determinants of Iran's foreign policy is that the possession of the largest number of sophisticated weapons will be a factor of strength and boost Iran's position both at home and globally. Given this importance, Iran's continued production and

development of weapons in the coming period will constitute a natural extension of this strategy.

2. The Iranian regime's continued repression of non-Persian minorities and the suffering endured as a result of Iran's economic crisis, which is expected to intensify more than ever because of US sanctions, could lead to an increase in attacks targeting Iranian forces deployed in border areas. This may also lead to operations within Iranian cities similar to the last bloody attack in Ahvaz. But it is certain that the Iranian regime will use different moves to implement the following:

First: To polarize and mobilize the Iranian street against non-Persian minorities.

Second: To justify the systematic crackdown on non-Persian minorities.

Third: To continue the policy of accusing regional countries of providing support for the Arab, Baloch, and Kurds to ignite strife inside Iran.

Fourth: To intimidate the Iranian people in general to prevent the expansion of anti-regime protests.

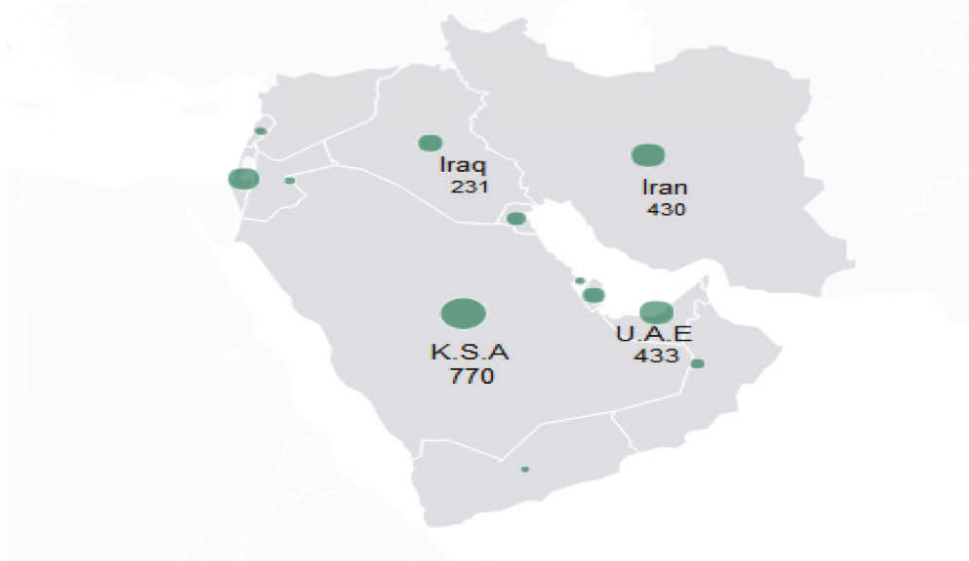
3. The Iranian regime's negotiations with Jaish al-Adl and any concession given to the group may encourage other armed groups in the coming period to attack the Iranian regime.

4. In order to tackle these loopholes, the Iranian regime may, in the coming period, deploy more of its forces to the border and intensify its security presence, as well as launch a series of retaliatory attacks against armed groups deployed in the eastern and western border strip. Iran has already begun to increase its military presence on the eastern border. It started transferring a number of F-5, F-14, Mirage, Shafaq and Saiqa aircraft, in addition to some military equipment, to Birgand Civil Airport in the province of Southern Khorasan.

ECONOMIC FILE

According to the International Monetary Fund (IMF), Iran's economy was ranked as the second largest economy in the Middle East in 2017 after Saudi Arabia's economy. However, in 2018 the IMF reported that Iran's economy fell to third place after Saudi Arabia and the United Arab Emirates (UAE). Iran's Gross Domestic Product (GDP) in 2018 was about \$430 billion. This is slightly less than the UAE's GDP for the same period but far behind the economy of Saudi Arabia, the largest economy in the Middle East which had a GDP of about \$770 billion during the same year.

Figure 1: The GDP of Middle East nations for 2018 (\$ billion)



Source: The International Monetary Fund

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The Iranian economy has points of strength and weakness. The points of strength include possessing large reserves of natural gas. Tehran is the world's second-largest country in terms of proven gas reserves and it has the world's fourth-largest proven oil reserves. It is among the largest oil exporters in the Organization of the Petroleum Exporting Countries (OPEC). It is characterized by some specialized industries such as iron, steel, petrochemicals, automobiles, carpets, edibles and agricultural exports including pistachios and saffron, as well as cheap manpower. Its economy suffers from structural weaknesses exacerbated by extensive financial corruption, state and military control over economic activity, a

weak private sector and the absence of a competitive market. Furthermore, the dependence of government revenues on hydrocarbon sales to a large extent makes it vulnerable to sudden fluctuations in the global oil market. The instability of its foreign policy and the high tensions Tehran has had with the outside world since the 1979 revolution have had a clear impact on a majority of Iran's macroeconomic indicators and its engines of economic growth such as foreign investment. The consequences of this have been that its various economic sectors have underperformed, resulting in a downturn in the socio-economic fortunes of the Iranian people.

The impact of political tensions on the Iranian economy in 2018 was utterly clear. After the US withdrawal from the nuclear deal in May and the imposition of two rounds of economic sanctions in August and November,^{*(134)} Iran's economy and society will see change going forward, including in the short-term. The year 2018 created major economic challenges for both the Iranian regime and society. (See figure 2).

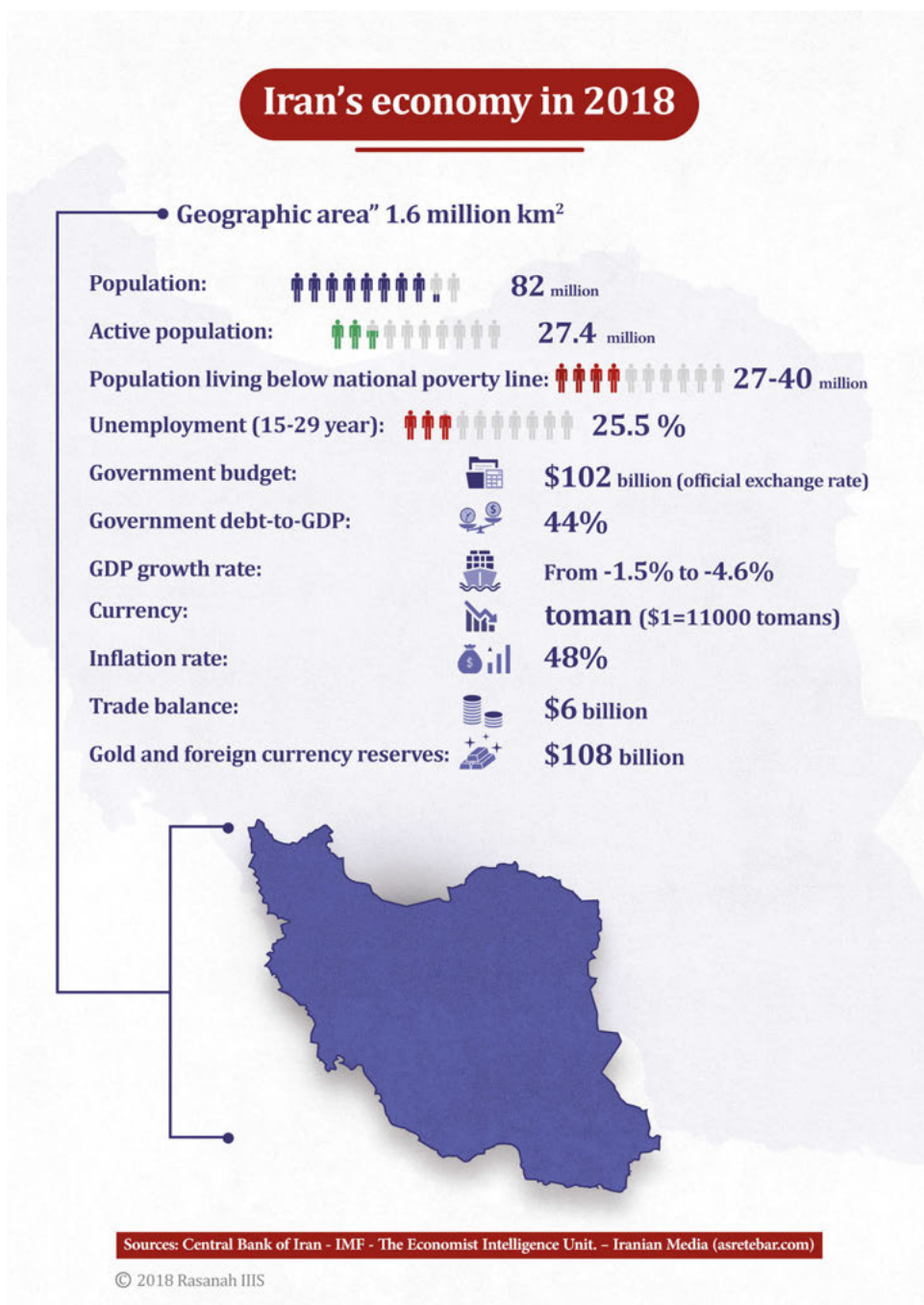
The economic aspect of the strategic report aims to break down the most important indicators of Iran's economic situation in 2018 in light of internal and external variables. This report analyses the impact of this on present day Iran. Additionally, in an attempt to forecast the future with the highest possible level of certainty, this report discusses the implications for the Iranian economy, society and people for 2019 and beyond.

In order to judge the economic performance of any country over a period of time - one year, for example - it is necessary to trace and break down a set of indicators that reveal the features of the country's macroeconomic performance.⁽¹³⁵⁾ We can then understand the present situation and forecast the future, such as its real GDP growth rate and the growth of its economic sectors such as services, industry and agriculture. We will also look at foreign investment, domestic demand, imports and exports, the evolution of financial and monetary variables such as the financial situation of the government, the budget deficit, the size of the public debt, the balance of payments, and the foreign exchange rate, as well as the impact of the state's financial and monetary policies on the rate of unemployment, inflation and poverty. We will then try to see how the living standard of ordinary Iranians has evolved on the ground by surveying the opinion of the Iranian people.

First: The real growth of the Iranian economy in 2018

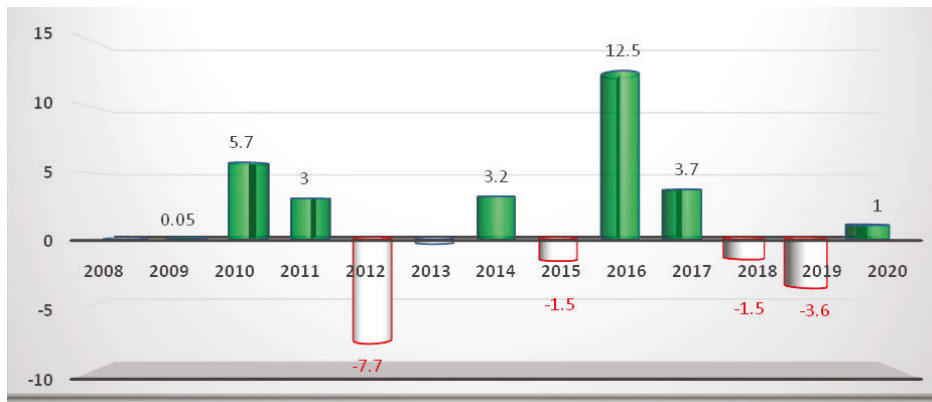
The GDP is one of the most important indicators for determining economic growth, stability or economic contraction. It is simply the total value of final goods and services produced in any country within a year.⁽¹³⁶⁾ With the natural growth of the population each year, there should be a corresponding increase in GDP growth to accommodate the increasing demand, and to utilize the expanding labor force. Otherwise, the economy will contract and this will have negative consequences on livelihoods and threaten the security and stability of the state.

Figure 2: Indicators of the Iranian economy in 2018



While Iran's annual population growth is about 1.4%⁽¹³⁷⁾, i.e., the population increase is more than one 1.15 million people annually^{*(138)}, the year 2018 witnessed a contraction in the **real GDP growth**^{(139)*} rate by 1.5% according to the IMF. However, the estimates of the Iranian Parliament indicated that by the end of the period from March 2018 to March 2019 the contraction in the real GDP will be by 2.5 to 5.5%.⁽¹⁴⁰⁾ There will be an additional demand for goods, services, and jobs corresponding with the increase in population but the state will not be able to meet this increase in demand due to the contraction of the economy. This will be reflected in rising prices, increasing poverty and growing unemployment levels as well as a possible increase in security, psychological and social problems.

Figure 3: The real growth rate of Iran's economy during 2008-2020 (%)



Data source: World Economic Outlook Database, IMF, October 2018. <https://goo.gl/3rBRsq>

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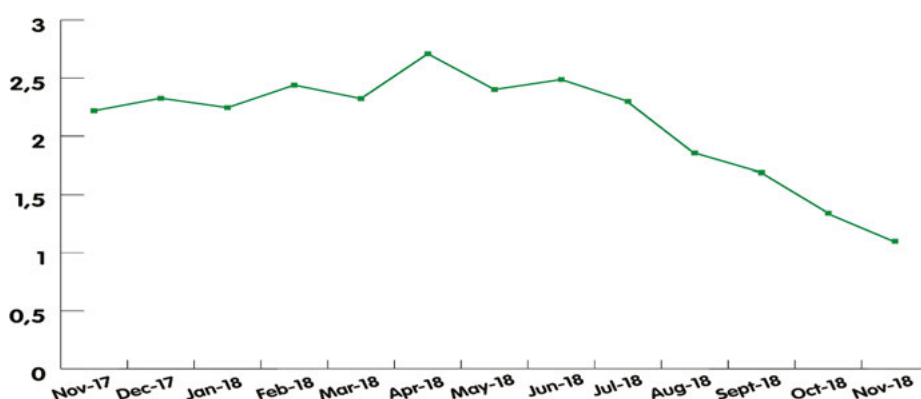
Many international economic institutions expect Iran's economic downturn to continue after 2018. The IMF, for example, expects the economic situation to worsen in 2019 as the growth rate will shrink over the course of the year before it slowly recovers in 2020 (see figure 3). If we look at how the Iranian economy's growth rate fared in 2016 (12.5%), we realize that there is one factor influencing both growth and contraction: the implementation of the nuclear agreement in 2016 and its near-breakdown in 2018, and its implications on oil exports, foreign investment and value added to Iran's productive sectors. We shall explain them as follows:

1. A palpable decline in oil exports

Following the withdrawal of the United States from the nuclear agreement on May 8 and the reimposition of sanctions on the Iranian regime directly on Iran's energy sector including the export of its crude oil and its refined petroleum products such as petrochemicals (constituting more than a third of Iran's non-oil exports), many international shipping and insurance companies investing in the Iranian oil sector halted operations and withdrew from the Iranian market before the first and second rounds of US sanctions took effect in August and November 2018. Total, France's largest energy company, announced its withdrawal from the development plan of the 11th phase of the South Pars gas project which holds the largest reserves of natural gas in the world. Companies such as Dutch-British Royal Dutch, Lukoil and India's Reliance also retreated from Iran in the face of US sanctions.

In addition to pushing major oil firms out of Iran, the sanctions placed restrictions on the insurance, shipping, and transportation of Iranian energy products. Most of the oil shipped since the imposition of sanctions has passed through Iran's National Iranian Tanker Company (NITC), including oil shipments to China.⁽¹⁴¹⁾ This directly affected the volume of Iranian oil exports which began to take a downward turn starting from June 2018 until the end of the year, as the following chart shows (figure 4).

Figure 4: Iran's crude oil exports in 2017-2018



Source: European Council on foreign relations. <https://www.ecfr.eu/>

When comparing Iranian crude oil exports between 2017 and 2018, Iran’s loss of crude exports reached about 1.3 million barrels per day, which means it lost almost 50% of its previous exports in 2017 even with the United States giving a temporary exemption to eight countries*⁽¹⁴²⁾ from the ban on Iranian oil exports for six months, given that these countries buy about 75% of Iranian oil exports.⁽¹⁴³⁾ Oil exports by the end of 2018 reached about 1.2 million barrels per day (bpd), compared to about 2.5 million bpd⁽¹⁴⁴⁾ the previous year, which brought in about \$40 billion for the Iranian government.

2. Capital flight

Foreign investments are one of the most important engines of economic growth in Iran, specifically those related to the energy sector. As soon as the US withdrawal from the nuclear agreement was announced and a timetable was set for activating economic sanctions on international companies operating in Iran, major foreign companies announced a halt in their investments and exited immediately from the Iranian market before the expiration of the 180-day deadline for leaving the Iranian market. They did not want to be subject to fines or have their more feasible business in the US market harmed. Most of them were companies operating in sectors pivotal to the Iranian economy such as gas, aviation, banking, insurance, shipping, and industry (see Table 1). In addition, some companies suspended mega-deal contracts signed with Iran worth billions of dollars such as Boeing, which signed a contract to supply 80 civil aircraft worth more than \$16 billion, or Total’s \$4.8 billion contract signed with Iran in 2017 to develop the South Pars gas field. It was replaced by the National Petroleum Company of China.⁽¹⁴⁵⁾

Table 1: Global firms that left the Iranian market following the US withdrawal from the nuclear deal

Global investments left the country in 2018	Economic activity
Boeing (US)	Aircraft
General Electric (US)	Multi-industry
Volkswagen (Germany)	Auto
Peugeot (France)	Auto
Total (France)	Energy
Maersk (the Netherlands)	Maritime transportation
MSC (Switzerland)	Maritime transportation

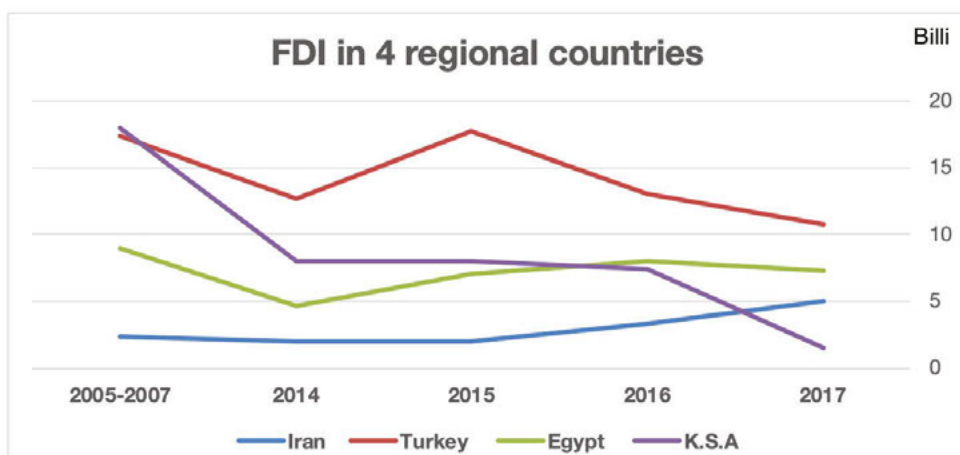
Global investments left the country in 2018	Economic activity
Torm (Denmark)	Containers' securing
Alliance (multinational)	Financial services and insurance
Eni of Italy	Energy
PGiNG of Poland	Energy
Oberbank (Austria)	Financial services
DZ Bank (Germany)	Financial services

Source: The Economic Unit, Rasanah IIIS

According to the Sixth Economic Development Plan (2017-2021), the Iranian government aimed to attract \$20 billion a year in the form of foreign direct investment (FDI)^[146] to revive and develop the Iranian economy. But over the course of 12 years, Iran attracted no more than \$4 billion a year, except in 2017, which saw exceptional investments of \$5 billion as observed by the United Nations Conference on Trade and Development (UNCTAD). FDI was mainly concentrated in the oil and gas, petrochemical, renewable energy and automotive sectors.

Compared to a number of countries in the region, Iran is at the bottom of the list with regard to attracting foreign investments over the past decade, as shown in the following graph.

Graph5: Foreign direct investments in four regional countries (2005-2017) (\$ billion)



Data source: UNCTAD. World Investment Report 2018. <https://goo.gl/odzzb9>

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3. A decline in value added by Iran’s main economic sectors and its engines of economic growth

The decline in the economic growth rate during the year was due to the contraction of the most important productive sectors such as oil, industry and services after achieving positive growth rates during 2017. In addition, all engines of economic growth such as oil and non-oil exports and European investments declined due to the US economic sanctions in 2018 (see table 2). Imports decreased as well due to a fall in foreign currency reserves. This was in addition to the negative repercussions of Iran’s local currency plummeting and the decline of both domestic and consumer demand, in both the public and private sectors because of high prices.

The combination of these factors led to a negative GDP in 2018. The economic downturn will continue in 2019 if the United States continues to take tough measures against Iran. This decline will negatively affect the stability of society and the state in the coming year.

Table 2: Economic sectors affected by US sanction

The following table shows estimates by the Economist Intelligence Unit (EIU) of Iranian GDP growth rates and the expected growth rates in the coming years. (See table 3).

Economic sectors affected by US sanctions	Energy	<ul style="list-style-type: none">- Decline in oil exports by more than half.- Suspending projects to develop oil and gas fields worth billions of dollars.- Disrupting petrochemical and renewable energy projects.
	Auto industry	<ul style="list-style-type: none">- The exit of major manufacturers such as Chrysler, Peugeot, and Volkswagen.- Rise in the unemployment rate since the automobile industry is one of the most absorptive industries for Iran's direct and indirect workforce. It absorbs nearly 20% of jobs in Iran- In 2017 Iran produced more than 1.5 million cars and was ranked 12th worldwide in car production.- Car prices have increased by 50-130%.
	Tourism and aviation services	<ul style="list-style-type: none">- About 50% of the aircraft fleet is worn out and needs to be modernized.- Out of the 200 aircraft whose contracts were signed with US and European companies, Iran has received only 11 aircraft.- Suspending flights, launched by Iranian airlines, between several world capitals and Iran.
	Financial and banking services	<ul style="list-style-type: none">- Banning international banking dealings with Iranian banks in US currency.- Increasing the cost of financial and commercial transactions, and a shortage in Iran's foreign exchange.

Table 3: The growth rate of key sectors in Iran's GDP, and its key engines of economic growth (2017-2020)

Growth rate	2017	2018	2019	2020
Industry	3.5	-4.7	-8.2	-2.6
Agriculture	2	0.3	-0.2	1.2
Services	2.6	-10	0.2	1.4
Exports of goods and services	10	-13.5	-15	-1.5
Imports of goods and services	15	-22	-20	-4.5
Fixed investment banks	9.7	-1	-3	-2
Domestic demand	5	0.3	-1.7	-0.4
Private consumption	5	-1	-2	-.05
Government consumption	4	4	-3	1
Gross Domestic Production	5.6	-4.6	-3.7	-.04

Source: The Economist Intelligence Unit, "Economic growth," Country Report, (January 2019): 7, (December 2017): 8.

*Estimates

**Predictions

4. Structural problems beyond the boundaries of US sanctions

It is quite clear that US sanctions significantly affected the growth of Iran's economic sector. However, there are structural problems affecting the Iranian economy even without the US sanctions. These problems include the failure of informal banks and financial institutions as well as the faltering of industrial and productive units in favor of state-

controlled and semi-official institutions and companies affiliated with the Revolutionary Guards and the clergy. These state-controlled and semi-official institutions are not subject to taxes and benefit from government subsidies for energy, particularly steel and petrochemicals, and receive huge subsidies estimated by the Iranian economist Ihsan Sultani as \$40 billion annually resulting in low job creation and marginal revenues.⁽¹⁴⁷⁾

The phenomenon of smuggling in Iran is also very damaging to the productive sectors of the economy and disrupts the performance of the “resistance economy,” a strategy which the Supreme Leader called for at the beginning of March 2018. This approach aims at increasing domestic production to reduce reliance on imports in an effort to strengthen the economy against the effects of sanctions. Mehdi Bazuki, an Iranian economist, describes it as a systematic and organized phenomenon whose size is more than \$12 billion.⁽¹⁴⁸⁾

The Iranian southern coast, stretching 2,500 km from the Arabian Gulf to the Oman Sea, witnesses the largest share of smuggled goods, according to the Iranian authorities in charge of combating smuggling.⁽¹⁴⁹⁾

5. Conclusions

A. As the oil sector is the engine of economic development in Iran and an important resource for the state treasury, development will be strongly affected as long as the US sanctions target Iran’s oil exports.

B. Reducing oil exports to zero is a primary aim of the US sanctions to pressure Iran and push it to the negotiating table again to accept the conclusion of a new international agreement that would limit Iran’s nuclear capability. The sanctions also aim to force Iran to change its regional behavior which is destabilizing the Middle East. But the US aim of reducing oil exports to zero seems to be unattainable for two reasons: The first is the US waivers to eight countries, which are likely to be extended substantially after the end of May 2019, especially for major buyers like China and India. This extension will most likely be granted in order to maintain current oil prices at an acceptable level for both the United States and the eight countries; and to protect the interests and economic priorities of US allies.

The second reason is that Iran is circumventing these sanctions through different schemes it has previously employed. These include hiding oil tankers from radar detection, trying to sell oil to local companies on the Tehran Energy Stock Exchange, and many other means. The Iranian government’s high confidence in the continuation of its oil exports was illustrated in the draft budget of 2019/2020 where at least 25% of its revenues are generated by selling 1.5 million bpd.

C. China will place pressure on the US to extend the existing waivers, aiming to generate a diverse source of imports from goods across the crisis-

prone Middle East. This will partially make up the losses of the Iranian oil sector both in terms of its continued export of crude oil and investment in the oil projects that Western companies abandoned.

D. The rate of foreign investment in 2019 will not be as strong as it was in 2016 and 2017 as long as the US economic sanctions continue. In the short term, Iran will be bound to attract Asian investments, especially from China, India and possibly Russia, despite Iran's confidence in European technology to a much greater extent. Therefore, most of the investment contracts signed with Iran after the activation of the nuclear agreement in 2016 and 2017 were European, especially from Germany, France, Denmark and Italy. The majority of European companies are tied to the US market and cannot abandon it for the Iranian market. For example, the United States is the second largest market for the German company Volkswagen and shares in France's energy giant Total are held by US citizens. Total canceled its deal to develop the largest gas field in Iran before being replaced by the National Petroleum Corporation of China. But a single country like China cannot in any way cover all the areas from which European and American companies have withdrawn, let alone differences in the final products' quality, technology and competitiveness.

E. Iran will try to create a climate to attract domestic and foreign investments in light of the US embargo, such as the development of the southern Iranian coast of Makran, exploiting the US-Indian rapprochement and the recent exemption of India from the US sanctions on investment in the southern port of Chabhar. This will enable India to access Asian markets through Iran.⁽¹⁵⁰⁾

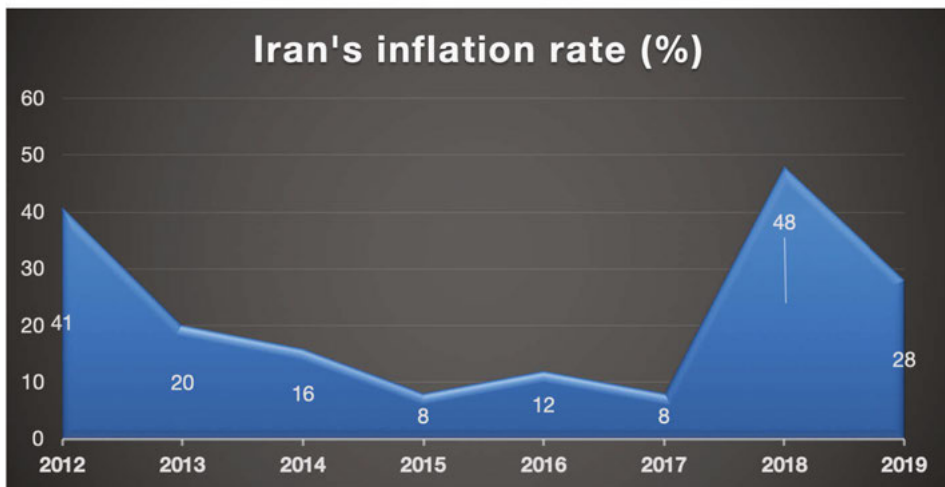
F. The consequences of foreign firms leaving the local Iranian market is costly. It will increase the economic and social pressures on the regime. This cost includes laying off a well-trained workforce, increasing unemployment, declining opportunities to transfer expertise, capital, and technology from outside Iran and a decline in the supply of goods and services, which will lead to a surge in costs, consequently triggering a rise in the cost of living.

G. In addition to the oil industry, the steel and automobile industries absorb a large percentage of Iran's workforce. They will be severely impacted next year by the US sanctions since the first phase of sanctions targeted steel exports leading to the withdrawal of European automobile firms from Iran such as Renault of France. Furthermore, the automobile industry is adversely affected by the difficulty in importing required parts from Europe in light of the uncertainty surrounding the Special Purpose Vehicle (SPV) with Europe. If the SPV is effected, it will be used to secure Iran's food and medical needs as well as transactions by small and medium-sized firms, away from the areas on which sanctions have been imposed by the US.

Second: A rise in inflation rates

The rate of rising prices, or what is defined as inflation, accelerated in 2018 compared to 2016 and 2017. Year-on-year inflation averaged 10% according to the Central Bank of Iran, while in 2018, specifically in the second half of the year, inflation began to embark on an upward trend. It continued to rise to almost 40% during the period 22 December 2018 - 20 January 2019 according to the Iranian Statistical Center compared to the same month of the previous year.⁽¹⁵¹⁾ The International Monetary Fund predicted that the inflation rate in Iran by the end of 2018 would reach about 48% compared to 2017, and inflation will be about 28% during 2019⁽¹⁵²⁾, as shown in the following graph.

Figure 6: Inflation rate 2012-2019



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*End of period consumer prices

1. Food and housing: The highest inflation rates

Although overall inflation posted high rates during 2018, some sub-groups of inflation exceeded the overall inflation rate, such as those related to food and housing. For example, food prices rose at a steep rate, with the cost of some food items increasing by more than 60% in December on a year-on-year basis. Housing prices in the capital Tehran increased by 90% in December last year on a year-on-year basis.⁽¹⁵³⁾ The poor are affected by increases in food prices more than increases in the prices of other living essentials such as housing and clothing. Pulses have risen by about 50%, eggs by 44% and dairy products by about 70% as shown in the following table. (See figure 6).

Table 4: Rates of annual increase in prices of edible products (2018)*

Red meat	49 %
Poultry	58%
Eggs	44%
Rice	24%
Dairy products	68 %
Fruits	58 %
Vegetables	31 %
Plant oils	44 %
Sugar	39 %
Tea	23 %
Bean	48 %
Chickpeas	14 %
Cowpea	48%

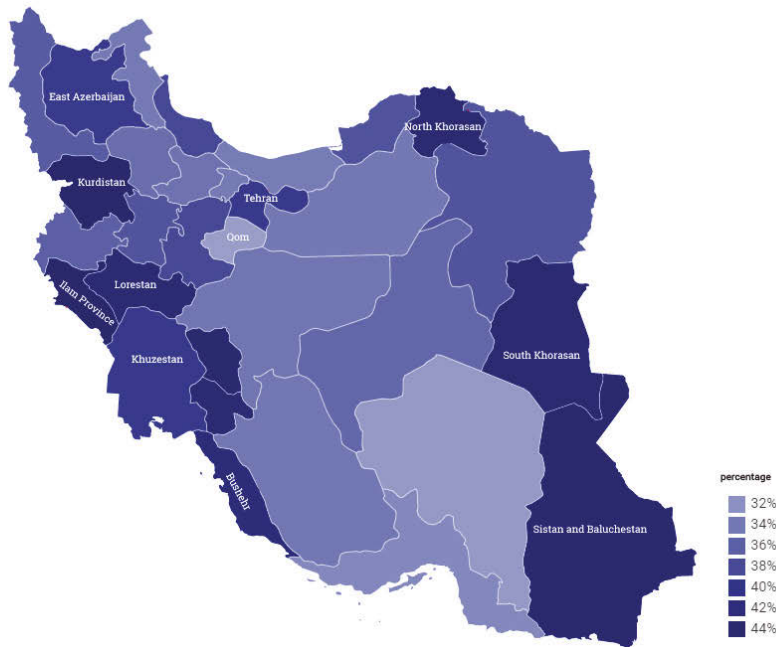
Data source: Central Bank of Iran <https://bit.ly/2SKO5p1>.

Eghtesad News <https://goo.gl/Av5tm7>.

* Third week of December 2018 compared to the same period last year.

2. The capital and border cities are the most affected by the soaring prices

The share of the Iranian provinces in general inflation rates varied. The capital of Tehran was among the provinces with the highest rates of price increases (39%). The border provinces, such as Elam located in the west of Iran, saw the highest inflation rate (44%) during the month of December 2018 on a year-on-year basis. It is home to the Arab ethnic group (see map 1). There were other provinces such as the Sistan-Baluchistan province in southeastern Iran, Kurdistan in the northwest and eastern Azerbaijan which witnessed high inflation rates. Qom saw the lowest inflation rate in the period (31%). The increase in inflation in Iran during the year was due to a set of key factors.

Map 1: Inflation in the Iranian provinces, November-December 2018 (%)

Source: Financial Tribune <https://goo.gl/KQz38S>

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The rise in inflation during the year was caused by a number of factors, such as increased liquidity, the devaluation of the local currency against foreign currencies and the decline in oil exports. The principal cause was the increase in the government's unregulated capital flow and the growth of money supply at much higher rates than GDP growth, which meant that there was a surplus of money in the market exceeding the number of goods and services in the market. Therefore, prices rose as a natural outcome.

Over the past four years, liquidity has grown at an average annual rate of around 24% ⁽¹⁵⁴⁾ while GDP grew by 12.5% in 2016. During the third quarter of 2018, liquidity increased by 45%, ⁽¹⁵⁵⁾ while the GDP, during the same quarter, was estimated to be at a rate below zero. The continuation of this situation will inevitably lead to further price hikes in the future.

3. A sharp decline in Iran's national currency

The year 2018 may have been the worst in decades for Iran's national currency. The beginning of the year witnessed demonstrations directly affecting foreign exchange rates. The demonstrations triggered a series

of declines in Iran's currency in the free market, which reached a peak in September 2018 after the implementation of the first phase of US sanctions. The toman dropped to around 19,000 against the dollar before settling at around 11,000 tomans by the end 2018 compared to less than 5,000 tomans during 2016 and 2017, i.e., the value of foreign exchange increased more than threefold in a few months.

Figure 7: The Dollar against the Toman 2016-2018



Source: bonbast.com

In 2018, the government undertook a series of measures to halt the local currency's decline against foreign currencies. However the steps taken by the government were largely ineffective. These measures began in April with the government reducing the official exchange rate from about 3,500 to 4,200 tomans against the dollar, which was close to the free market price at that time. Following this, the Central Bank Governor was replaced in July after a further decline of the local currency in the free market to about 12,000 tomans. The decision to replace the Central Bank Governor was prompted by anger in the business community as the Central Bank had stipulated that Iranian exporters had to transfer their foreign currency through the Central Bank's Forex Management Integrated System, locally known as the NIMA system which is linked to the free exchange rate. This prevented exchange rate transactions on the black market as this system required receipts to import state commodities. However, 2018 ended with a free official exchange rate that was much higher than the 2017 price, both on the official and parallel markets.

The US sanctions on Iran were the main cause of the devaluation of the local currency. It created panic in the Iranian exchange market with US hints of withdrawal from the nuclear agreement, leading to increased demand for the dollar because of capital flight from Iran and an increase in real estate purchases, especially in Turkey. The confirmation of the US withdrawal caused the government to have limited access to dollar reserves, most of which came from its export of crude oil and petroleum products which were eventually sanctioned by the US. By the end of the year, the dollar on the free market was around 11,000 tomans, compared to less than 5,000 at the beginning of the year.

4. Conclusions

A. The IMF expects inflation to continue rising in 2019 to around 28%. This is quite a logical scenario if there is increasing liquidity combined with declining oil exports and rising foreign exchange rates leading to further currency devaluation. If this situation continues unchanged, the rise in prices may exceed the IMF forecast, given the continuation of the policy of printing money as the GDP falls.

B. The continuation of US sanctions on Iranian oil exports is a factor that will threaten the stability of official and non-official exchange rates in the future. The government is likely to resort to a further devaluation of the official price due to the large difference between the current official price of 4,200 tomans against the dollar and the 11,000 tomans in the free market given the decline of oil exports and the decline in international oil prices. The government will allocate about \$14 billion (nearly half of its revenues from oil exports expected next year) at the official price for commodity importers to keep their prices low. The First Vice-President Ishaq Jahangiri proposed changing the subsidized commodity price from 4,200 to 8,000 tomans per dollar. The move is aimed to ease the subsidy burden endured by the government, which is suffering from low dollar reserves. This is a likely scenario for the future.

Third: The general budget for Iran in 2018

After a long debate with the government on some budget items,^{(156)*} the Iranian Parliament approved the budget of the fiscal year (2018-March 2019) in late February 2018. This came after the parliament forced the government to change its decision to increase energy prices and to reconsider the removal of millions of Iranians from cash subsidy lists.

1. The budget value

The budget was approved at a total value of 443 trillion tomans (about \$105 billion at the official exchange rate).⁽¹⁵⁷⁾ More than 70% of this budget

goes to cover expenses such as public sector salaries and government department expenses. The government set an official exchange rate of 3,500 toman to the dollar before cutting it to 4,200 toman to the dollar in April 2018.

This budget was expansionary in nominal terms, due to the increase in its value in toman. If the budget is estimated in the official dollar rate, it will be less than the budget of the previous year. It increased by about 20% when estimated in toman. The official dollar price fell by about 6%^{(158)*} due to the continuous devaluation of the local currency as we explained earlier.

The government has set the number of oil exports in the budget at 2.063⁽¹⁵⁹⁾ million bpd at a price estimated at \$55 per barrel. The government estimated oil revenues to be about \$53 billion (the budget's share is 54% and the rest is distributed between the Development Fund and the oil producing company). At the time, the actual average price was \$71.7 per barrel. According to estimates by the Economist Intelligence Unit, Iran managed to generate about \$71 billion in crude oil sales in 2018,⁽¹⁶⁰⁾ an increase of \$18 billion from the budget estimate. This means that additional revenues have not only come from rising prices but perhaps from an increase in smuggled oil exports.

2. Income and expenditure budget

Breaking down the actual revenues and expenditures announced during the first seven months of the last Iranian year 1397 (21 March 2018-20 October 2018) reveals a part of the financial situation of the Iranian government during the past year as well as for the future.

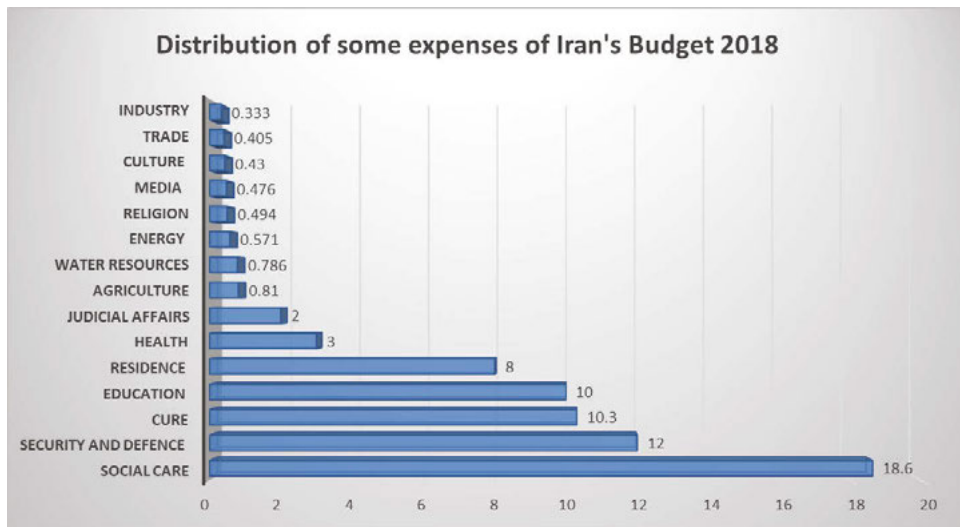
Government revenues come from two main sources: oil and tax collection.^{(161)*} This is in addition to other sources of relatively lower value such as the sale of government companies and the issuance of securities. Actual tax revenues collected by year's end are often lower than those targeted by the government at the beginning of the year, while oil revenues typically surpass government targets. This is due to several reasons including higher world oil prices or increased exports on the one hand, and tax evasion on the other.

During that period, the Iranian government targeted tax revenues of 84 trillion toman (\$20 billion at the official price and \$7.6 billion at the free market price). This was achieved as the government had already received about 60 trillion toman (\$14.2 billion at the official price and \$5.4 billion at the free market price) by the end of the seven months through October 22, 2018. During that period, the government targeted oil revenues of nearly 60 trillion toman (\$14 billion in the official price and \$5.4 billion at the free price). Oil revenues and petroleum products were 22% higher than the target of 73 trillion toman⁽¹⁶²⁾ (\$17.4 billion at the official rate, \$6.6 billion at the rate of the free market). In other words, the actual government

budgetary dependence on oil revenues was ultimately higher than its reliance on tax revenues, as opposed to what it planned at the beginning of the year to reduce dependence on oil while increasing reliance on tax revenues.

According to expenditures, more than 70% of the budget goes to pay current and operating expenses, which includes salaries, pensions, government department expenses and the payment of interest payments and debts to local banks. (See figure 8).

Figure 8: Budgetary spending allocations for the most important sectors



Data source: IRIB News Agency. (163)*

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The previous graph reveals something even more important than the actual figures allocated to each sector. The relative distribution of expenditure allocated to vital sectors reflects the government's priorities and the regime's concerns. The graph shows that the largest allocation was to welfare, given the protests that spread across the country at the beginning of the year over deteriorating living conditions and the removal of subsidies. In addition, the graph reveals that the defense and security sectors are at the top of the government's priorities, with a budget nearly equivalent to that allocated to the health and education sectors combined.

The budget share of Iran's highly labor intensive sectors as well as its productive and operating sectors, such as industry and agriculture, was very limited compared to less labor-intensive sectors like the defense and security sectors. It was also less than the share allocated to religion, culture and information combined. The budget share of religious institutions, for

example, was higher than that of other major sectors such as industry.

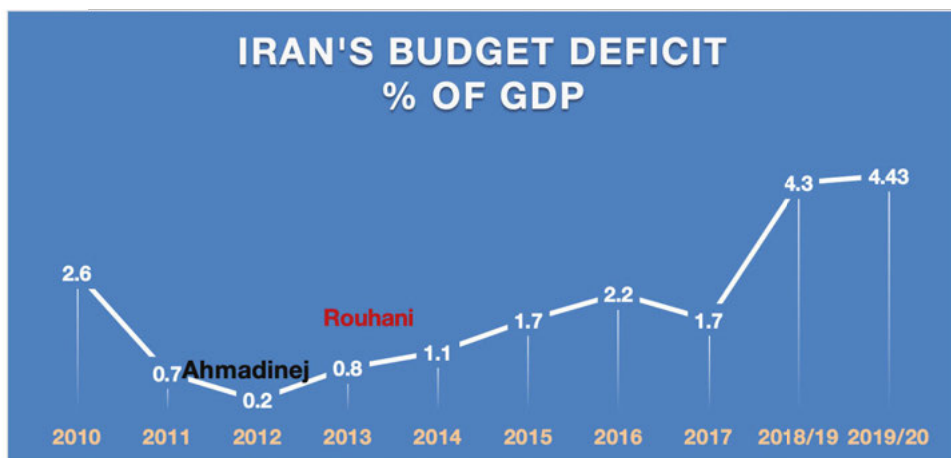
The budget was characterized by a number of items and procedures that are remarkable and have special implications. It was remarkable in that the Supreme Leader agreed to withdraw \$4 billion from the National Development Fund.^{(164)*} The largest share of the sum was allocated for weapons and defense purposes (62% or \$ 2.5 billion). The National Iranian Radio and Television received 4% while 34% (\$1.35 billion) was allocated to the reconstruction of disaster areas and to tackle health and environmental problems. These allocations clearly reflect the dominant security and ideological mindset of the country's top leadership.

3. The government's dilemma amid its budget deficit

During the seven months of 2018 between March and October the difference between revenue and expenditure increased to 74% more than that of 2017. The budget deficit was about 39 trillion tomans during the seven month period⁽¹⁶⁵⁾ (\$9.2 billion in the official rate and \$3.5 billion in the parallel rate).^{(166)*}

In 2018, Iran's budget deficit was 2.7% of GDP - the highest rate over the last 10 years. Since the Rouhani government came to power in August 2013, it has been on the rise. The deficit was only about \$3.5 billion⁽¹⁶⁷⁾ compared to \$9 billion during the seven month period of March-October 2018, accounting for more than 4% of GDP. (See figure 9).

Figure 9: Iran's budget deficit 2010-2019 / 20 (percentage of the GDP)



Source: World Economic Outlook Database, IMF, October 2018. <https://goo.gl/x8bdkx>

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As a result of the growing gap between revenues and expenditures, the government has to find sources other than the usual revenue streams

to finance the deficit, such as internal borrowing by selling treasury bonds with future interest payments or printing money without taking into account its inflationary effects. During the period mentioned, the government sold bonds worth about 50 trillion tomans (\$12 billion at the official exchange rate and about \$5 billion at the free market rate) to address the budget deficit. Thus, the government increased the issuance of bonds by 43% compared to the same period last year.

4. Conclusions

A. The danger in the continuous increase in the budget deficit lies in the negative effects on both the size of business and investments and the impact on low-income citizens. The budget deficit is usually covered in one or more of the following ways: increasing government service fees, customs duties or taxes as well as by withdrawals from the Iranian National Development Fund or borrowing from local or foreign banks through treasury bills, or in the worst case, printing money. In fact, the Iranian government has tried most of the previous methods before, especially printing money without discipline or without taking into account GDP growth rates, and in excess of 30% in some years. This was one of the direct causes of increased inflationary pressures on citizens.

B. The government will be forced, owing to the financial and economic situation, to reduce budgetary expenditures in general in the coming years, except for increasing public sector expenditure to quell public tensions resulting from deteriorating socio-economic conditions. On the other hand, the government will increase taxes and possibly some service and customs duties to compensate for a decline in oil revenues and to reduce its fiscal deficit.

C. The rate of tax evasion will increase as the economy contracts. Despite the sanctions, the Iranian regime will exert all possible efforts to maintain oil revenues, the country's economic lifeblood.

Fourth: Iran's trade balance

The Supreme Leader launches a new slogan at the beginning of every new Iranian year (March 21, 2018) which the government has to implement. Supporting Iranian goods or encouraging domestic production was the slogan by the Supreme Leader in 2018 and this was one of the most important aspects of the regime's resistance economy to counter the US sanctions. This entails boosting domestic production to reduce reliance on imports and increasing Iranian non-oil exports in an effort to build economic resilience against international sanctions. What happened at the end of the year? Have imports actually declined without impacting domestic prices? Has domestic production increased? Was there a surplus or deficit in the balance of payments?

1. Curbing imports

The volume of Iranian imports usually exceeds the size of the country's exports if we exclude oil exports. From the beginning of the Iranian year until the end of December, Iranian customs announced a decrease in the value of Iranian imports by 16% compared to the same period of 2017, while non-oil exports increased by 5% over the same period of 2017. Non-oil exports amounted to \$33.4 billion during the nine-month period.⁽¹⁶⁸⁾

Imports had already declined during the year, not because of increased domestic production, but because of the ban on the US dollar exchange in Iran, the shortage of foreign currency and record high prices in 2018 following the decline of oil exports, which increased the cost of imports and had a knock-on effect on the price of goods. Additionally, purchasing power was affected by the continual decline in Iran's national currency. Moreover, the government introduced some restrictive measures on imports, such as banning the import of more than 1,300 items in June,⁽¹⁶⁹⁾ including clothing, shoes, health products and machines, in an attempt to control the rise in foreign exchange rates, prompting bazaars to protest rising prices and stagnating sales.

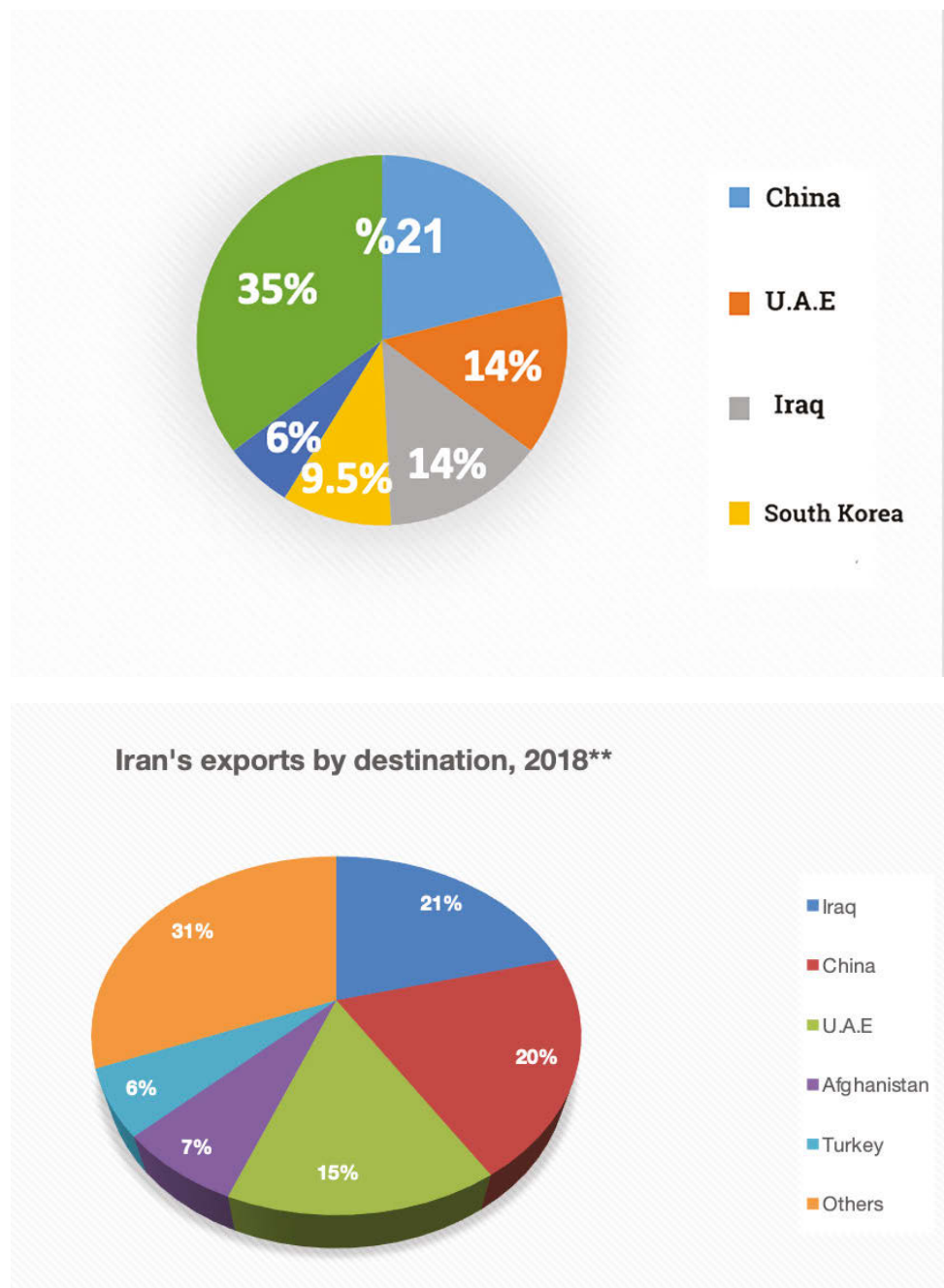
Local production did not increase during the year and did not stand at the previous rates, but shrunk by more than 5% as explained in the previous sections. In general, the current account balance will continue to post a surplus in the presence of oil exports and the reduction of compulsory imports. But this surplus will be less than the last two years. The IMF⁽¹⁷⁰⁾ estimated it at about \$6 billion in 2018 compared to about \$16 billion in 2016.

2. Change in the destinations of Iranian exports

The destination of Iranian exports dramatically changed during 2018. China had been the largest importer of Iranian non-oil exports but in 2018, Iraq took this place with \$7 billion (21% of total Iranian exports). In 2017, Iraq was in third place (see figure 10) but in 2018 its imports from Iran jumped to 49%. Iraqi imports from Iran are mainly gas, electricity, agricultural and food products, as well as spare parts. Iraq was granted a new waiver to continue importing natural gas and electricity from Iran.

China came in second behind Iraq accounting for 20% of total Iranian exports, followed by the UAE in third place and by Afghanistan and Turkey in fourth and fifth place, respectively. South Korea and India were not on the list of the top five importers from Iran this year after Afghanistan and Turkey took their places. Of course, US sanctions played a role because of the intertwining economic and security interests between the United States on the one hand and Korea and India on the other.

Figure 10: Iran's export destinations during 2017 and 2018

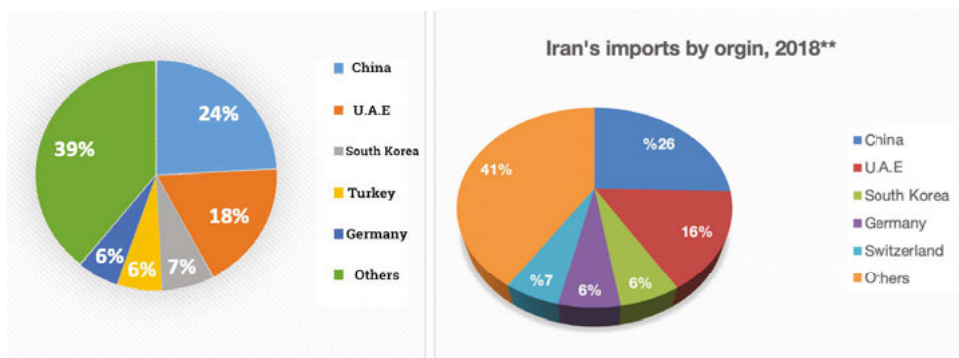


Source: Tasnim News - Financial Tribune- Iran Strategic Report, RASANAHA 2017.
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3. Change in sources of Iran's imports

As for exports, China accounted for 26% of Iran's total imports (see figure 11). They were worth more than \$8 billion during the mentioned period. Iran's imports from the UAE accounted for 15% with 6% coming from South Korea and Germany whereas Switzerland was ranked fifth with 5.5% of Iran's total imports. Turkey was not in the 2018 list as it was replaced by Germany. Iran's imports from the EU also dropped by 9.4%.⁽¹⁷¹⁾

Figure 11: Sources of Iranian imports during 2017 and 2018



Source: Tasnim News - Financial Tribune- Iran Strategic Report, RASANAHA 2017.

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* Within ten months (beginning of March 2017)

* Within nine months (beginning of March 2018)

The export of petrochemicals and condensates accounted for a large portion of Iran's non-oil exports during the last nine months of 2018, at 34% and 8%, respectively. All other commodities such as agricultural products, pistachios, saffron, spare parts, and carpets accounted for 57% of non-oil exports. Iran's imports during the period included corn, rice, soybeans, coal, auto spare parts, and industrial equipment.

4. Conclusions

A. The Iranian economy needs to encourage domestic production during the new Iranian year to activate a package of practical policies:

- fight the smuggling of cheap foreign goods that hinders local production and results in the state treasury losing billions in customs duties;
- solve the problems of thousands of insolvent factories and small projects, providing them with financial support;
- increase government spending on infrastructure as well as on education and health;
- and work to attract foreign investment and to align Iranian foreign policy with the international community.

B. The negative impact of US sanctions on domestic production cannot be ignored due to the difficulty of accessing intermediates, spare parts, and machinery, especially from the EU on which Iran relies after China in supplying it with industrial imports and spare parts necessary for production.

C. The current account surplus will continue through Iran's oil exports and by curbing its imports. However, it will be less than the previous two years.

D. China and perhaps India will accept Iranian imports during the US sanctions period. European imports will decline as European companies seek to protect their interests in lucrative US markets. On the other side, Iran will focus on activating its non-oil exports to neighboring countries, especially Iraq, Central Asia, Afghanistan and Turkmenistan. It will work to activate free trade zones with these countries, especially if the infrastructure of the Chabahar Agreement is completed including roads and railways connecting Iran to Afghanistan with Indian assistance.

Fifth: How has Iran's economic performance impacted the people?

The overall economic performance of a country impacts the daily economic situation of each and every citizen, and this was evident during the year in Iran. It is best illustrated by tracking the rates of inflation, poverty and disparities in the distribution of incomes as well as looking at the unemployment rate. Some of these indicators have been addressed previously but we will deal with them as follows:

1. Unemployment

The rise in unemployment was inevitable with the exit of several foreign companies after the US withdrawal from the nuclear agreement and the imposition of economic sanctions, which also affected domestic investment and led to the suspension or insolvency of thousands of factories and tens of thousands of workers being made redundant. The automobile industry, for example, is one of the country's largest industries with an extensive workforce. Its production declined by 31% during the nine months from March to December 2018, compared to the same period last year.⁽¹⁷²⁾ Thousands of workers have been laid off and others are still threatened with the possibility of being laid off.

The general unemployment rate rose to 12.8% of the total workforce in Iran during the year, or 3.5 million unemployed according to the latest estimates by the IMF, which in turn depends on the Central Bank of Iran's data. Here it should be noted that the Iranian government adopts a different criteria when it comes to the labor force in terms of age and definition.^{(173)*} This makes the calculated Iranian unemployment rate less than that of the internationally recognized definition.

Table 5: Unemployment rate from 2016 to 2019

	2016	2017	2018	2019
Percentage of unemployment among the workforce	12.4	11.8	12.8	14.3

Data source: World Economic Outlook Database, IMF, October 2018. <https://goo.gl/3t8kya>

Unemployment among university graduates was at a very high rate of 40%, according to the Iranian Statistics Center⁽¹⁷⁴⁾ and 25.5% among the 15 to 29 year-old age group. These indicators are dangerous and have forced the Iranian regime to act quickly to address the crisis before the youth protest and destroy whatever is left of the state's legitimacy.

The International Labor Organization (ILO) classifies a country as facing a "crisis" of unemployment if youth unemployment exceeds the country's overall unemployment rate.⁽¹⁷⁵⁾ This is the reality of unemployment in Iran, according to official statistics, whereas unofficial unemployment statistics suggest much higher rates, especially in the border provinces inhabited by ethnic minorities such as the Kurds, the Arabs of Ahwaz and others.

2. Abject poverty rates

There are no accurate statistics on the number of Iranians living below the poverty line because the Ministry of Welfare and Social Security in Iran has not published statistics to determine the number of poor since 2005. But according to recent estimates released by Iranian parliamentarians, the number could reach 40 million Iranians⁽¹⁷⁶⁾, about 50% of Iran's population of 82 million. An Iranian economist estimated the number of people under the abject poverty line at 33%⁽¹⁷⁷⁾ of the total population, or nearly 27 million people.

The steep increase in inflation in 2018 increased costs for consumers, particularly the consumer food basket. In other words, this increased the number of people who fell below the poverty line who could not afford the minimum living costs necessary to survive.

The absolute poverty line is defined as the minimum income needed to secure the cost of living, according to a recent study conducted by the Iranian Parliament Research Center in the summer of 2018 (September) to determine the absolute poverty line in the countryside and in the cities across different provinces of Iran. The monthly poverty line for a family of four is about 2.7 million tomans in the cities of Tehran Province (\$643 at the official exchange rate and \$245 at the free market rate). A growth rate of 22% compared to the summer of 2017 (see table 6). This is the

minimum income required for each household to survive in Tehran, Iran’s highest-paid province. The cost of living was lower in other provinces such as Ahvaz, Qazvin, West Kurdistan and Isfahan. The poverty line was estimated at about 1.5 million tomans (\$357 at the official rate and \$136 at the free market rate), a growth rate of 26% compared to the summer of 2017.

Table 6: The monthly poverty line for some Iranian districts (counted in thousands of tomans)

Period		Tehran province	Central and border provinces
Summer of 2018	Poverty line per capita	1010 (\$240)	551 (\$131)
	Poverty line per a family of four	2728 (\$643)	1489 (\$357)
Summer of 2016	Poverty line per capita	769	410
	Poverty line per a family of four	2076 (\$494)	1109 (\$264)

** This table covers the provinces of Isfahan, Western Azerbaijan, Kurdistan, Bushehr, Hormuzgan, Gilan, Hamdan, Zanjan, Qazvin, Mazandaran, Jalastan, Lurstan, Semnan, North Khorasan, Markazia, Sistan and Baluchistan, Tabriz and Ahvaz.*

Source: The Iranian Parliament Research Center

Any increase in the expenditure/cost of living of the lowest income groups has a severe impact on their livelihoods because they work in low-productivity and fixed-income jobs that are very difficult to change.

As can be seen from the previous table, the per capita poverty line in the cities of Tehran Province increased by about 31% in the summer of 2018 compared to the summer of 2016 or by about \$57. The rising poverty line means an increase in the suffering of those living below the poverty

line, and that new numbers are being added to the poverty list. Javad Isfahani, professor of Economics at Virginia Tech in the United States, argues that the Rouhani government does not pay enough attention to the poor and relies on the political support of the middle class more than the poor. This is reflected in the government's classification of mobile phones as core commodities which require loans to be granted to their importers at a subsidized exchange rate.⁽¹⁷⁸⁾ However, mobile phones are considered luxury goods for the lower classes.

In any case, as food makes up the largest share of the basic goods for the poor, it is expected that the poverty line will rise in the remaining period of 2018. This is because prices are rising due to a growing inflation rate. This period has yet to be examined by the Iranian Parliament. Therefore, more people will fall below the poverty line unless the state bails them out or increases their incomes in order to raise them above the absolute poverty line. It is difficult to achieve this due to the limited resources of the state given the current situation, and the rising cost of living pushing more people below the poverty line.

3. Surveying Iranian public opinion about the current economic situation (2015-2018)

A poll conducted by the University of Maryland through the Iran Poll Center in early 2018 revealed significant results ⁽¹⁷⁹⁾ regarding Iranian public opinion, particularly their level of satisfaction with Iran's economic situation and their outlook for the future. It also covered the internal and external factors most influential to their country's economy. The University of Maryland followed the development of Iranian public opinion on these factors over several years.

Table 7: University of Maryland's poll concerning Iranian public opinion on Iran's economic situation:

*What do you think of the economic situation of the country?
Do you think the Iranian economy is improving, or is it worsening?*

	May 2015	January 2016	February 2016	March 2016	June 2016	December 2016	May 2017	June 2017	January 2018
Very good	11.1 %	% 8.4	7.9%	% 5.3	3.8%	% 3.3	% 3.4	2.5%	2.5%
Somewhat good	43.2	40.9	41.1	40.3	35.7	31.7	29.8	33.1	27.6
Somewhat bad	22.5	24.2	25.2	26.3	29.4	30.3	28.4	29.5	28.2

	May 2015	January 2016	February 2016	March 2016	June 2016	December 2016	May 2017	June 2017	January 2018
Very bad	21.2	24.4	23.5	25.7	29.2	33.2	36.6	33.9	40.7
I don't know/no answer	2.0	2.1	2.3	2.5	2.0	1.5	1.9	1.1	0.9

Has the economic situation of your family improved, or worsened, over the past

	May 2015	August 2015	January 2016	March 2016	June 2016	December 2016	May 2017	June 2017	January 2018
Improving	49.3%	57.4%	% 47.4	% 52.4	42.2 %	% 41.5	40.2 %	39.1 %	% 31.3
Worsening	37.1	28.5	41	33.3	43.4	51.3	5.24	50.2	58.4
No change	9.7	8.7	6.1	8.3	9.2	3.5	4.1	7.7	6.2
I don't know/ no answer	4.0	5.4	5.4	6.0	5.2	3.7	3.3	3.0	4.1

four years?

	May 2017	January 2018
Improved	% 23.0	% 17.3
Worsened	40.8%	41.1%
No change	36.0%	% 41.3
I don't know	% 03.	% 0

Which of the following factors do you think has had the biggest impact on the Iranian economy?

May 2015	January 2018	May 2015
Economic sanctions and outside pressures	26.3%	32.1%
Mismanagement and corruption at home	64.3%	63.3%
I don't know	9.4%	% 4.6

Source: Maryland University, Tasnim News Agency.

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The percentage of Iranians who believe that Iran's economic situation is "very bad" increased from 21% in 2015 to 40% in 2018. The percentage of those who believe that their economy improved declined to 17% in 2018. In other words, they have not felt the effects of economic improvement at the individual level after two years of the nuclear agreement. Their outlook for the future worsened, with around 60% of the respondents in early 2018 admitting to this, compared with only 30% in the second half of 2015. About two-thirds of the respondents attributed the biggest negative impact on their economy to internal factors such as corruption and mismanagement.

Another poll was conducted by an entity inside Iran, the Commercial Chamber of Tehran. Using a sample of 600 average Iranians around 44-years-old with an interest in Iran's economy, about 80% of them believed that the Iranian economy is getting worse. They are not optimistic about Iran's future prospects. From the sample, 3% said the situation will not change. The poll also revealed that 76% of the respondents believed that the private sector had suffered and declined over the past three years and that its future will remain the same. Most of those involved in the poll represented Iran's commercial and industrial sectors.⁽¹⁸⁰⁾

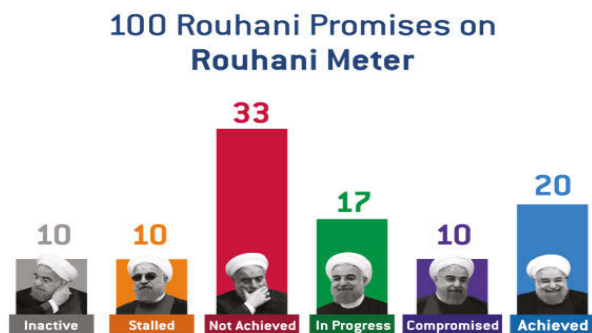
If we track the percentage of the fulfilled promises of President Hassan Rouhani's administration after the end of five years of his presidency, we may be able to explain some of the reasons that led to the results in the aforementioned polls. As shown in the following diagram (figure 12), the Rouhani administration has implemented only about 32% of the 34

electoral promises made by Rouhani for economic reform since he took office in 2013. Nearly 40% of those promises have not been achieved, while 15% are under implementation. According to the “Rouhani Meter Report,” an independent Canadian project supported by the University of Toronto to track the progress of President Rouhani’s electoral program on economic, domestic and foreign policy levels and social and cultural affairs, the Rouhani administration has failed to fulfill many promises. This has led to frustration and alienation among many of his supporters.⁽¹⁸¹⁾

Figure 12: The rate of fulfilled economic promises by President Rouhani since he took office in 2013



Figure 13: The rate of fulfilled promises by President Rouhani since he took office in 2013



4. Conclusions

A. These polls are of great significance as they highlight the failure of Iran's economic policy, in spite of an improvement in some economic indicators following the signing of the nuclear agreement in 2016 and 2017. We believe that if this poll is conducted again at the end of 2018, the results will vary greatly, given that the poll was taken four months before the US withdrawal from the nuclear deal and before the reimposition of economic sanctions.

B. The cost of living will continue to increase in the future if the local currency continues to decline. The country has not changed its erroneous monetary and fiscal policies by continuing to finance its budget deficit through printing money without discipline, redistributing its expenditure priorities and spending money on developing human and productive assets at home, trying to control inflation, and attempting to reach a settlement with other countries to lift US economic sanctions.

Sixth: The future of Iran's economy amidst current challenges

The future is built on the present. The future is going to be full of challenges unless Iran's behavior and policies change. Indeed, 2018 was full of crises at the macroeconomic and individual level in Iran, and its impact will continue to persist in the short-term based on these expectations:

1. According to the IMF's statistical forecast, the Iranian economy will need more than five years to get back to the size of its GDP posted in 2017. The World Bank's forecast is slightly different from the IMF's, which expects that the economy will shrink by 1.4% on a yearly average until 2021, as a result of a decline in exports and consumption. This is in addition to a decline in the industrial sector and its impact on the supply side.
2. The overall economic situation in the short-term will continue to be critical, at least until the end of 2019. Notwithstanding long-term international expectations which may be tempered by changes in external influences such as the removal of US sanctions and the conclusion of a new agreement with the United States, macroeconomic indicators will remain very serious in the short-term and at least through 2019. This includes the budget deficit, the decline in the balance of payments, the continued enforcement of oil and trade sanctions on Iran, the disruption of banking and tourism services, the devaluation of the local currency and foreign exchange rates and continual high rates of inflation and unemployment. This increases the cost of living, abject poverty levels and impacts the stability of Iranian society and its political system.
3. Assuming that the external and internal factors remain unchanged with a continuation of the same economic policies - the return to the size of the economy of 2017 (\$431 billion at current prices) will actually require



more than five years. This is not a random estimate but based on historical experience. Since the imposition of the international sanctions and the oil embargo on Iran in 2012, the GDP has not returned to the \$577 billion GDP posted in 2011.^{(182)*} This level would have been possible were it not for the US sanctions imposed on the Iranian economy in 2018. The lack of sanctions would have positively impacted the supply of goods, services, jobs and price controls in Iran.

4. Changes to the external and internal factors affecting the future of Iranian economic indicators, such as a political agreement with the United States and the lifting of economic sanctions, could be a possibility if the current US administration changes after the 2020 elections. Additionally, if the Iranian government focuses on internal economic reforms and re-distributing much-needed resources away from the military to other overlooked sectors, the situation may improve gradually in two years or less. Such an improvement would bring the return of positive economic growth rates instead of negative ones, an increase in the employment rate, the revival of investment activity and the resumption of international business dealings.

There is no doubt that antagonizing international actors is inimical to the interests of large companies as it leads to economic instability. This is particularly so if the economy is a rental economy, firmly based on an international commodity such as oil. Stable foreign relations are vital to ensure international oil sales. Moreover, Iran is heavily reliant on non-oil trade with the international community to meet its growing demand for basic consumer goods.

A grave weakness in the Iranian economy lies in its dependence on oil and its derivatives as a major driver of domestic development while straining its foreign policy with the United States and the major regional states. Oil is a global product subject to supply and demand and its price is highly unstable. It can impede long-term development plans. The Iranian regime lacks huge financial surpluses like some of the Gulf states that can be used in difficult times or to stabilize their currencies. The tension of Iran's foreign policy with the United States as well as with the major regional powers in politics and the global economy can only be considered sustainable if the Iranian economy is self-sufficient and does not need to deal with the outside world - a theoretical assumption that no longer exists in almost any economy in the world. Indeed, economic development in Iran needs and depends on the outside world to a very large extent, from the extracting, transporting, selling and marketing of its oil from the ground to the purchase of food, medicine, spare parts, machinery and equipment, as well as the use of foreign currencies and international banks and even buying fodder for birds and animals from abroad. All the facts stated above highlight Iran's economic reality: the Iranian economy will continue to fluctuate in the short-run, posing a serious challenge to the stability and security of the Iranian regime and its people.

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(133) سکاکی نیوز عربیة، هولندا تعتقل شخصا على خلفية اغتيال معارض إيراني، 9/11/2017، تاریخ الوصول 20/1/2019
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(149) صحيفة تجارت الإيرانية. "تبع قاجاق زیرگوي توليد" 22/10/1397 <https://bit.ly/2VM2aW8>

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(157) Egtesad Online. "Majlis Approves Budget". 24 Feb. 2018. <https://goo.gl/9BG2oT>

(158) The budget for the previous year was 371 trillion toman (\$112.4 billion), at an exchange rate of 3,300 toman

(159) وكالة أخبار الجمهورية الإسلامية (إيرنا). "درآمد نفت در سال 97 در چه محل هایی هزینه خواهد شد". 5/10/1396. <http://www.irna.ir/fa/News/82775613>

(160) The Economist Intelligence Unit. "Economic growth". Country report, January 2019, P:7-9

(161) تأتي الضرائب من أربعة أنواع رئيسية: المعاملات القانونية والدخل والثروة والضرائب غير المباشرة كضرائب الواردات والقيمة المضافة.

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Statistics: per capita from each sector * number of population

(164) صندوق ثروة سيادي يمول عن طريق أخذ جزء من عائدات النفط، والهدف من إنشائه في الأساس تمويل مشروعات التنمية المتعثرة داخل إيران. للمزيد يمكن الاطلاع على الرابط التالي على موقع بي بي سي بالفارسي: <http://www.bbc.com/persian/iran-features-42804281>

(165) Egtesad Online. "Iran Budget Deficit Widens 74% YOY". 18 Dec. 2018. <https://goo.gl/pniwUK>

(166) In this report we use the parallel rate 11,000 toman.

(167) Financial Tribune, Iran Budget Deficit Estimated at \$9.6b, 24 August 2017, <https://goo.gl/fQN7Kg>

(168) صحيفة مردمسالاری. "صادرات غیرنفتی از مرز 33 میلیارد دلار گذشت" 10/10/1397. <https://goo.gl/onRsh>

(169) The Guardian. "Iran bans 1,300 imports as economic protest shuts shops in Tehran" 25 Jun 2018. <https://goo.gl/Biv8DL>

(170) World Economic Outlook Database. IMF. October 2018. <https://goo.gl/LTx3xX>

(171) خلال فترة 11 شهراً من يناير إلى نوفمبر 2018، انظر: <https://goo.gl/1LX9Mx>

(172) Financial Tribune. "Iran 9-Month Auto Production Report (Dec 2018)". 5 Jan. 2019. <https://goo.gl/CcinrT>

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(174) Iran Human Rights Monitors (Iran HRM). "40% Of University Graduates In Iran Have No Jobs Amid Unemployment Crisis" 18. Jan. 2019. <https://goo.gl/MDUvSn>

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(176) عصر اعتبار. "40میلیون نفر در کشور زیر خط فقر هستند". 11 دی 1397. <https://bit.ly/2LKLLwA>

(177) الزاهد مسعود. ایران المصدرة للغاز والنفط.. 40% من شعبها تحت خط الفقر. العربية نت. 28 نوفمبر 2018. <https://goo.gl/GDk9DU>

(178) Isfahani, Djavad. "Food consumption of the poor in Iran". djavadsalehi.com. 2 Aug. 2018. <https://goo.gl/BNPD11>

(179) وكالة أنباء تسنيم. "نتائج نظرسنجی دانشگاه مریند| حمایت قاطع مردم ایران از سیاست‌های کلی نظام+جداول". 3 فبراير 2018. <https://goo.gl/ESf8gi>

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Arab Affairs

Since the inauguration of the Iranian revolution 40 years ago, the Iranian regime adopted an expansionist foreign policy towards the Arab region, threatening the peace by military and political interference in the Arab states and through its proxy militias in Syria, Yemen and countries suffering from political conflict such as Iraq and Lebanon. At the same time, Iranian policies towards the Arab region in 2018 were influenced by developments in Gulf-Iran relations, the Syrian and Yemeni crises, as well as the Iraqi political scene.

Through its activities, Iran is seeking to influence the region but is challenged by regional and international pressure which seeks to contain and modify the regime's behavior, for example, through US sanctions. These efforts were a response to Iran's destructive policy in the region, which led to instability. In the light of these developments, the second section will address four main subjects: Iran and the Gulf States, Iran and Iraq, Iran and the Yemeni crisis, and finally Iran and Syria.

GULF-IRAN RELATIONS

Gulf-Iran relations are centered around confronting Iran's expansionist project in the Middle East, with Tehran strengthening its hand with the Arab Spring revolutions, increasing its influence in Syria, Yemen, Bahrain and Lebanon. The Gulf states, through three regional fronts, are confronting Iran's expansionist project, as it aims to export its ideology as well as its political model to create instability across the region. As a result, this will lead to the Iranian model being adopted in Arab countries through the implementation of the theory of *Velayet e-Faqih*; and the model of Revolutionary Guards being replicated across military apparatuses.

Iran seeks to split the Gulf states' position towards it and to adopt a bilateral negotiation policy on outstanding issues with other parties outside of the Gulf Cooperation Council (GCC), which brings together all the Gulf states. Meanwhile, Saudi Arabia, the United Arab Emirates and the Kingdom of Bahrain strive to unite the Gulf states to curb Iran's interventionist role in the region, which was apparent in the final statement of the GCC Summit No. 39 held in Riyadh in December 2018.⁽¹⁾ In this file, we will discuss the most influential factors of the Gulf-Iran relations, trying to identify their current relationship and forecast the future scenarios.

First: influential factors in Gulf-Iran relations

1. The US withdrawal from the nuclear agreement and the re-imposition of sanctions against Iran

After the United States, the main ally of the Gulf states, withdrew from the nuclear agreement in May 2018 and imposed two rounds of sanctions against Iran in May and November 2018 respectively,⁽²⁾ Gulf-Iran relations took a new turn. This was mainly due to the Trump administration ending the period of rapprochement in US-Iran relations initiated by the former US President Barack Obama after concluding the nuclear agreement in 2015. Backed by the new US position, the Gulf states want to change Iran's behavior in the region and force it to stop supporting armed militias and terrorist groups. This is after Iran has made it clear that its international relations policy is based on a hostile approach towards its Middle East neighbors after it had signed the nuclear agreement. However, the prospect of Iran's re-integration with the international community after the lifting of sanctions was overly optimistic by the Obama administration.

Although the United States has issued a new 12 item policy to deal with Iran, including seven items to change Iran's behavior that pose a threat to regional security,⁽³⁾ it has not yet announced its position should Iran refuse

to change its behavior in the region. In fact, the Iranian government is able to withstand economic pressures, so there should be additional escalatory steps to change Iran's behaviour. With the US granting sanctions waivers to eight countries, it is difficult at present to evaluate the Iranian regime's ability to withstand economic sanctions until the waivers end in April 2019. The 12 items of US policy towards Iran are the following:

1. Iran must declare to the IAEA a full account of the prior military dimensions of its nuclear program.
2. Iran must stop uranium enrichment and never pursue plutonium reprocessing. This includes shutting down its heavy water reactor.
3. Iran must also provide the IAEA with unqualified access to all sites throughout the entire country.
4. Iran must end its ballistic missile program and halt further launching or development of nuclear-capable missile systems.
5. Iran must release all American citizens as well as citizens of its allies.
6. Iran must end support to terrorist groups including Hezbollah, Hamas and Islamic Jihad.
7. Iran must respect Iraq's sovereignty and permit the disarming of Shia militias.
8. Iran must end its support to the Houthis in Yemen.
9. Iran must withdraw all forces under Iranian command from Syria.
10. Iran must stop its support to the Taliban and to other terrorist group in Afghanistan.
11. The IRGC Quds Force must end its support to terrorist groups and its militant partners.
12. Iran must end its threatening behavior against its neighbors – many of whom are U.S. allies. This certainly includes its threats to destroy Israel, and its firing of missiles into Saudi Arabia.

Gulf-Iran relations are largely linked to Iran's position on the US conditions which have put Iran at a crossroads, as it needs to decide whether to submit to the US conditions by modifying the nuclear agreement to end its missile program which will positively impact Iran-Gulf relations, or to reject the US conditions which may deteriorate relations between the two parties. In fact, the new US position demands coordination between its regional allies, including the Gulf states to put more pressure on Iran to change its behavior. However, the US de-escalation measures, after the November 2018 sanctions, motivated Iran to test its own capabilities and the strength of its regional and international alliances to withstand and overcome the sanctions. The period November 2018 to January 2019 is not enough to measure Iran's capability to overcome the US sanctions due to the US sanctions waiver. In addition, Gulf efforts to tighten economic pressure on Iran has been insufficient so

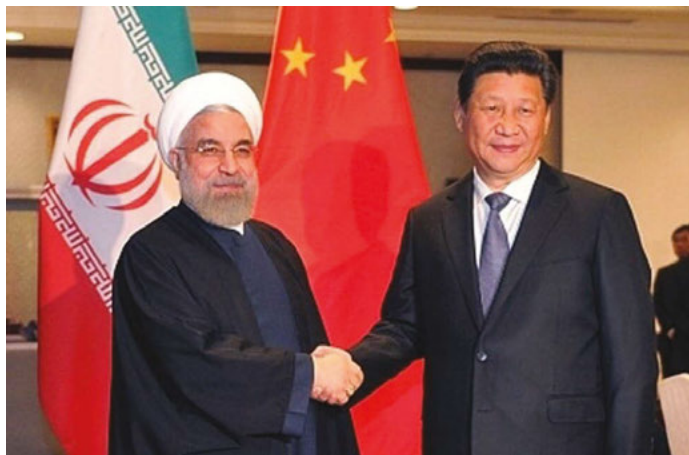
far. In the same context, the US Secretary of State Mike Pompeo and the Chairman of the Iran Action Group Brian Hook held a meeting with the Gulf states and Yemen to discuss ways of countering Iranian influence in the region on the sidelines of the United Nations General Assembly.⁽⁴⁾ Pompeo met with his Gulf, Egyptian and Jordanian counterparts, stating “all participants of the meeting” agreed on the need to confront the threats posed by Iran against the region and the United States.⁽⁵⁾

2. Iran-Russia-China cooperation

Iran’s rapprochement with Russia and China stems from its need to counter US political and economic pressures. Russia has been Iran’s political partner in addressing UN Security Council draft resolutions against it. Russia vetoed the UN Security Council draft resolution submitted by the UK to condemn Iran in February 2018.⁽⁶⁾ Russia also supported the Iranian military presence in Syria and protected Iranian forces from US and Israeli strikes by deploying the S-300 air defense system in Syria.⁽⁷⁾ In addition, Russia has facilitated the export of Iran’s crude oil through an oil-for-goods agreement. Under this agreement, Iran sells oil to Russia which is refined in Russia’s southern refineries. This oil is then sold by Russia to the international market.⁽⁸⁾

China, Iran’s main trading partner, boosted its trade with Iran to \$19.6 billion in the first half of 2018,⁽⁹⁾ replacing Iran’s European partners’ oil projects, especially when France’s Total was replaced by CNPC in the 11th of South Pars Field.⁽¹⁰⁾

Although China’s policy has shifted away from the political problems in the Middle East, its rejection of the US withdrawal from the nuclear agreement and its economic ties with Iran will reinforce Iran’s hostile policies towards the countries of the region and the international community. The strong economic relations between the Gulf states and China did not thwart China’s economic relations with Iran, perhaps because of the Gulf states refusing to hold direct talks with China in this regard. China’s position on its economic partnership with Tehran is based on the China-US trade war, as well as China’s One Belt One Road or the Silk Road Economic Belt, in which Iran is considered as a link between China and the Middle East and Europe,⁽¹¹⁾ and importantly Iran’s role in China-



India competition for influence in South Asia. These factors and the incentives Iran offers China to buy its oil would never stop Beijing from consolidating economic relations with Iran; therefore, China is the main supporter of Iran in confronting the US sanctions and in continuing its hostile policies towards the Gulf states in the region.

3. Turkey attempting to balance its relations between Iran and the Gulf states

Turkey has pursued a policy of balanced relations with both the Gulf states and Iran, although these relations became imbalanced in 2018. Turkey and Iran's rivalry for influence in both Iraq and Syria converged in 2018 with both countries undermining the Iraqi Kurdish referendum for autonomy and maintaining significant economic relations despite the historical political rivalries between the two countries. The Russian-Turkish rapprochement also led to a Turkish-Iranian rapprochement, in spite of an element of distrust existing between the two countries.

Although Turkey strengthened its relations with the Gulf states when the Turkish President Recep Tayyip Erdogan visited Saudi Arabia, Bahrain and Qatar in 2017,⁽¹²⁾ Saudi-Turkish relations diverged in 2018 as Turkey supported Qatar during the Gulf crisis and Ankara blamed Riyadh for the murder of the Saudi journalist Jamal Khashoggi in the Saudi consulate in Istanbul. Remarkably, trade between Turkey and Qatar increased in 2018 by 54% compared to 2017, to reach \$2 billion. Qatar also pledged \$15 billion direct investments in Turkey. It also agreed to a \$3 billion currency swap to stabilize the Turkish currency.⁽¹³⁾ However, the divergence between Saudi Arabia and Turkey has negatively reflected on Saudi-Turkish coordination in confronting the Iranian threat in the region, including its intervention in Syria. As a result, Turkey has lost the opportunity to attract Saudi investments to mitigate the economic crisis created by the US sanctions imposed on Ankara.⁽¹⁴⁾

4. The outstanding issues between Iran and the Gulf states

A. The Syrian crisis

The Syrian crisis in 2018 led to a deterioration in Gulf-Iran relations because of the Iranian intervention in Syria. After Assad's regime managed to restore most of the Syrian territories in 2018 and to eliminate opposition enclaves surrounding Damascus and in some major cities, Assad remaining in power has become an unarguable fact. The Gulf states dealt with this status quo when the UAE announced the reopening of its embassy in Damascus in December 2018.⁽¹⁵⁾ This could positively reflect on Gulf-Iran relations because it will de-escalate tensions between both sides, especially if the Syrian conflict ends with Syrian Arab identity being preserved and demographic changes being avoided. However,

we are back to square one as Iran plans to maintain a long-term military presence in Syria and boost its economic ties by winning the lion's share of reconstruction projects there. By this it aims to compensate itself for its military effort in supporting Assad and his regime. The Iranian influence in Syria will be reinforced if Tehran is successful in developing a corridor stretching from Tehran to the Mediterranean Sea. However, the Gulf states will pursue a policy of containing Assad's regime to curb Iranian ambitions in order to prevent Syria turning into another Iraq or relying on Israel in countering Iran's military presence, which will not be effective except in the southern Syrian region close to the Israeli border.

B. The Yemeni crisis

The Yemeni crisis is the source of escalating tension in Gulf-Iran relations. By the end of 2018, the Yemeni legitimate forces had controlled the majority of the Yemeni territory, but the Houthi militias still controlled the Yemeni capital Sana'a and fired Iranian ballistic missiles against Saudi cities.

The most prominent development in the Yemeni crisis in 2018 was the peace talks under the new UN envoy Martin Griffiths around the port and city of Hodeidah, which ended the hostile activity there. Despite the Houthis' stubborn posture for not initially participating in the peace talks and its violation of the ceasefire agreement, the latest agreement raises hopes that peace may be achieved, ending one of the critical crises responsible for escalating Gulf-Iran tensions.

The Houthis' submission to engage in peace talks, which had been turned down repeatedly by them, is related to the progress of the forces of the legitimate government on the battlefields, as well as because of a series of statements made by the United States to end the Yemeni crisis, and most importantly the economic pressure on Iran which may hinder its support to the Houthis.

The Hodeidah agreement has not been fully implemented. It requires further efforts similar to those that previously led the Houthis to sign the agreement: mounting pressure on Iran and avoiding partial solutions to reach a comprehensive peace agreement to the crisis, given the fact that Iran used the Houthis as a pressure tool against the international community by pushing the Houthis to attack maritime navigation in the Red Sea and the Bab al-Mandab Strait.

Obviously the development of Gulf-Iran relations is related to ending the Yemeni crisis and reaching a peace agreement without the manipulative role of Iran. As a gesture of goodwill, Iran should first end its support to the Houthis, then negotiate outstanding issues with the Gulf states.

Second: The interactions of Gulf-Iran relations

Iran seeks to limit Gulf efforts to eliminate its interventionist role in the region through its policy of weakening Gulf unity through: benefiting from Kuwaiti mediation efforts, whether in the Yemeni crisis or the Gulf-Iran relations crisis in general; relying on its historical relations with Oman to neutralize the role of Muscat in the GCC, and finally supporting Qatar to confront the claims of the Arab Quartet. At the same time, Iran continues to support terrorist groups to destabilize the national security of the Gulf states through providing the Houthis with ballistic missiles to fire against Saudi Arabia.

1. The Iranian support for terrorist cells in Saudi Arabia and Bahrain

In 2018, terrorist cells backed by Iran were detected in Bahrain and Saudi Arabia. In March 2018, Bahrain thwarted terrorist plots and arrested 116 terrorist actors backed by Iran. These terrorist cells were supported, funded and trained by Asa'ib Ahl al-Haq and the Lebanese Hezbollah. The cells were planning to assassinate security commanders and to attack oil facilities. Approximately 48 out of the 116 terrorists were trained in IRGC's camps in Iran, Iraq and Lebanon.⁽¹⁶⁾



In February 2018, Saudi Arabia arrested 43 spies trained in Iranian camps in Mashhad, northeast Iran, Iraq and Lebanon by the IRGC, Hezbollah and Iraqi Hezbollah members. The spies were divided into several cells, including a cell of 32 spies: 30 Saudis, an Iranian and an Afghani who were planning to carry out acts of sabotage against vital oil facilities in the country.⁽¹⁷⁾

The discovery of these subversive terrorist activities in Saudi Arabia and Bahrain shows that espionage, assassinations and bombings are still being used by Iran against the Gulf countries. Most notably, Kuwait detected the Abdali terror cell and also found evidence of Iranian involvement and support for terrorist cells planning to carry out acts of sabotage. In the same context, the Kuwaiti judiciary convicted members

of a terrorist group in July 2017 with spying for Iran and Hezbollah as well as planning to carry out bombings and possessing 20 tons of explosive materials.⁽¹⁸⁾ Iran not only planned, trained and funded this terrorist cell, but also accepted these terrorists who had been convicted under Kuwaiti law into the country.

2. Iran's support for the Houthis

Iran continuously supported the Houthi militia during 2018 through the provision of ballistic missiles and weapons to target cities in Saudi Arabia. Two military units of the Quds Force, Unit 400 and Unit 190, are in charge of supplying the Houthis with sophisticated weapons and parts of ballistic missiles.⁽¹⁹⁾ Thus, Iran violated the UN Security Council Resolution 2261, which established an arms embargo on the Houthis. The international community has condemned Iran for supplying ballistic missiles to the Houthis. However, Russia has used its veto to block action against Iran's destabilizing conduct.⁽²⁰⁾ Unusually, a senior Iranian Revolutionary Guards Corps officer admitted that Iran was involved in a Houthi missile attack on Saudi oil tankers in the Red Sea.⁽²¹⁾

The Houthi militia increasingly used drones for surveillance purposes, for increasing the precision of its artillery range and for targeting cities and civil airports in 2018. In April, the Arab Coalition said it intercepted two Iran-supplied drones in southern Saudi Arabia. The first drone was targeting a civil airport in Abha and the other was targeting Jazan. According to a report by the Conflict Armament Research organisation, the Houthis claim to have manufactured the Qasef-1 drones found in Yemen. The report noted that the drones appear to be a variant of the Ababil UAVs⁽²²⁾ produced by Iran, thus, are likely to have been manufactured there.⁽²³⁾

3. Iran's position on Kuwaiti mediation efforts

In addition to its mediating role to resolve the GCC crisis, Kuwait has attempted to be a broker between Saudi Arabia and Iran without deviating from the position of the Gulf States and the Arab League towards Iran. The Gulf Arab state is keeping Iran's diplomatic mission on its soil, although it asked the Iranian Embassy to reduce the number of its diplomats and to shut down its cultural mission and military bureau in 2017. This Kuwaiti move came following Iran's involvement with the Abdali terror cell. Kuwait has not appointed a new ambassador to Iran,⁽²⁴⁾ since recalling the previous one in response to the 2016 attack on the Saudi diplomatic mission in Iran.

Since Kuwait is also keeping a diplomatic mission in Sana'a, it was able to sponsor the Yemeni peace talks in 2016. The talks ended in failure due to the intransigence of the Houthis, as noted by the former United Nations Special Envoy for Yemen Ismail Ould Cheikh Ahmed in a report to the Security Council. His report highlighted the importance of Kuwait's role in finding a solution to the crisis in Yemen.⁽²⁵⁾

Following the Abdali cell case, Iran appointed Mohammad Irani, a diplomat close to Rouhani, as its new ambassador to Kuwait to succeed Ali Reza Enayati in 2018.⁽²⁶⁾ However, Rouhani's consecutive threats during the year to block the Strait of Hormuz raised concerns in the Kuwaiti Parliament. The Parliament asked the Kuwaiti government to clarify its position on these Iranian statements and to develop a plan to deal with these threats, as the Strait of Hormuz is the only passage for Kuwaiti oil exports.⁽²⁷⁾ On one hand, Rouhani said, "no country will export oil from the Gulf, if Iranian sales are blocked." The Iranian Supreme Leader, Ali Khamenei and his top Iranian Commander, Major General Qassem Soleimani supported Rouhani's remarks.⁽²⁸⁾ "I kiss your [Rouhani's] hand for expressing such wise and timely comments," said Soleimani. On the other hand, the Iranian ambassador to Kuwait said that Rouhani denied making those remarks. He then issued new remarks saying Rouhani's threats are empty,⁽²⁹⁾ according to Kuwaiti newspapers. The ambassador's remarks show indifference to bilateral relations between Iran and Kuwait. Iran may push the region towards an extended war at any time if it closes the Strait of Hormuz. There is no doubt that Iran is committed to justifying the repeated threats it has made to the Gulf States with which it maintains diplomatic relations.

4. Iran's support to Qatar against the demands of the Arab Quartet

Since the beginning of the GCC crisis in May 2017, Iran pursued a policy of supporting Qatar against the Arab Quartet. Iran considered the GCC crisis an opportunity to gain many successes. On the political level, Iran took advantage of the Qatari policy of supporting armed groups and political Islam. The policy helped Iran to implement its plans for fomenting chaos



in a number of Arab countries, and allowed it to weaken the unity of the Gulf States and strengthen the Iran-Turkey-Qatar axis. On the economic level, Iranian exports to Qatar grew in light of the GCC crisis, reaching \$250 million in 2018. Iran has exported various goods to Qatar worth about \$140 million in six months alone, according to statistics published by Iranian Customs. Qatar has announced that it plans to increase the trade exchange between the two countries to \$1 billion annually.⁽³⁰⁾ Iran also benefits from using modern Qatari technology for better production of natural gas as it lacks the necessary capital and technology for gas exploration and liquidation. Qatar also made it clear that it plans to invest in the development of the southern ports of Iran. The director of Qatar's Ports Management Company has already visited the Iranian city of Bushehr and launched a maritime line between Iran and Qatar.⁽³¹⁾

Nevertheless, Iran is aware of the fact that its relationship with Qatar cannot turn to a strategic partnership due to some obstacles such as the presence of US forces there and the prospect of the GCC crisis coming to an end at some point in the future. In addition, Iran-Qatar economic cooperation faces significant competition with Turkey. When comparing Qatar-Turkey trade volumes with that of Iran, we find that it is five times greater. Though Qatar, Turkey and Iran are treading on the same path, Qatar-Turkey cooperation is more extensive than that with Iran for two reasons: the high quality of Turkish products despite the long distance and difficulty of delivering goods to Qatar and the adoption of Sunni political Islam by the two countries.

5. Iran's position on Omani neutrality

Oman has always followed a path of positive neutrality with regard to Gulf-Iran relations. In addition, Oman has been playing a mediating role in the secret talks conducted by Iran with its rivals including its talks with Iraq prior to the ceasefire agreement, and the United States prior to the Joint Comprehensive Plan of Action, as well as with Egypt to discuss the release of Egyptian prisoners held by Iran during its war with Iraq. Oman has also played a mediating role for Iran in its talks with the UK to release British sailors detained in Iran in 2007 and with the US to release US hikers in 2011.⁽³²⁾ As Oman has turned a blind eye to the problems created by Iran in the region, Iran has resorted to Oman after the US re-imposition of economic sanctions. Reading Oman's records in holding covert talks to resolve Iran's disputes with other countries, it is likely that the Israeli Prime Minister Netanyahu's visit to Muscat in October had a link to Iran. Though the joint communiqué did not directly mention Iran, it did mention "ways to advance the Middle East peace process" and "a number of issues of mutual interest to achieve peace and stability in the Middle East."⁽³³⁾ Netanyahu's visit came amidst heightened tensions in the region: the continuous Israeli aerial

bombardment on Iranian sites in Syria, the lack of an agreement between Iran and Israel regarding the distance at which Iranian forces must be kept from the Israeli border, Netanyahu's announcement that a long-term Iranian military presence in Syria will not be tolerated⁽³⁴⁾, and President Trump's announcement that US troops would be withdrawn from Syria. These tensions might point to the need for both parties to reach an agreement about the Iranian military presence in Syria. Thus, Netanyahu's surprise visit to Oman might have been made to indirectly discuss this outstanding issue especially after Russia and Israel held several meetings which had not resulted in an agreement over the future of the Iranian presence in Syria.⁽³⁵⁾

■ Iran-Oman economic cooperation

Despite the small size of the Omani economy (with a GDP of \$80 billion in 2018⁽³⁶⁾), Iran strengthened its relations with Oman in 2018. Iran also plans to depend on Oman for transit trade routes to reduce its dependence on Dubai and to take advantage of the zero tariffs agreements signed between Oman and several countries including the United States and Singapore.

Iran has been using its economic cooperation with Oman as a means to mitigate the impact of the US sanctions. One example of such efforts is the Omani-Iranian Joint Committee which held its 17th round in June. The Joint Committee signed a Memorandum of Understanding (MoU) between the Omani Export Credit Guarantee Agency (Credit Oman) and the Iranian Export Guarantee,⁽³⁷⁾ aiming to avert US sanctions imposed on Iranian banks. The volume of trade between Oman and Iran increased to \$870 million in the period between April to October in 2018 from \$577 during the same period in 2017. This increase was achieved after the development of a maritime transport fleet between the two countries, the waiver of visa requirements by both countries and an increase of Iranian companies in Oman.⁽³⁸⁾ The two countries hope that the volume of trade between them reaches \$5 billion annually.⁽³⁹⁾

■ Iran-Oman direct investments

Iran has invested in Oman's automobile manufacturing industry. It has already signed an agreement with Oman's sovereign wealth fund to construct a \$200 million car production plant at Duqm for Iran's Khodro Industrial Group.⁽⁴⁰⁾ The long-term mutual investments between the two countries reflect the depth of their relations.

Third: Findings

1. The US withdrawal from the nuclear agreement in May 2018 and the re-imposition of sanctions on Iran reinforced the Gulf States' position against Iranian intervention in the region. Moreover, the meeting of the United States, Egypt and Jordan to coordinate the Gulf efforts to change Iranian

behavior urged the Gulf states (Oman, Kuwait, and Qatar), which opted to remain relatively neutral toward Iran, to have a more unified Gulf policy in confronting Iran. Accordingly, a unified Gulf policy must be developed to confront Iran, and to curb any attempt that would help Iran to overcome the economic sanctions, which are imposed to force Iran to comply with the UN Security Council resolutions: to stop Iran exporting weapons to the Houthis and end its missile tests. In addition, the Gulf states must call the international community to amend the nuclear agreement, which in its present form poses a future threat to the countries of the region and will result in Iran becoming a nuclear power.

2. The Iranian internal calls to improve Iran-Saudi relations have diminished and now Iran is focused on how to confront the United States and how best to coordinate with its partners: Russia, China and the European Union.

3. The regional changes amidst the Syrian crisis in 2018 have supported Iran's ability to maintain its gains on the ground and its hostile policies which are straining Gulf-Iran relations.

4. Iran has consolidated its political and economic relations with Qatar and Oman, while maintaining diplomatic relations with Kuwait after overcoming the Abdali terrorist cell crisis.

5. The Turkish-Gulf divergence has increased the rapprochement between Iran and Turkey and the possible emergence of an Iranian-Turkish-Qatari alliance in confronting the Gulf states, but Turkish-Iranian rivalry over some issues hinders the emergence of this alliance.

6. The Gulf states have not adequately used their economic power to make the major regional actors such as Russia, China, India and Turkey reduce their economic cooperation with Iran, even while offering some economic incentives.

Fourth: Future scenarios

Amid escalating confrontation between the US and Iran, as well as US efforts to galvanize international support to cancel the nuclear deal because of Iranian behavior in the region, Gulf-Iran relations became partially linked to the scenarios of US sanctions against Iran in the future.

First scenario:

Iran will increase its escalation with the United States if the latter succeeds in tightening the economic embargo against Iran while the Iranian government refuses to engage in talks with the United States. Therefore, Iran would rather choose an escalation policy to reduce growing public pressure on the Iranian government if the economy further deteriorates from its present state. A comprehensive or limited military confrontation will be one of the tools used to create a strong national front, as well as to end public anger, and to protect the Iranian regime at home. On the other

side, Iran's defeat in a military confrontation will pose greater threats against it. Accordingly, Gulf-Iran tensions may escalate into a war. This scenario seems unlikely to happen due to the military gap between the two sides in favor of the Gulf states and their allies. Iran is aware of the full range of options available to it before resorting to this extreme measure. However, if this critical point did arrive, the situation would gather an unstoppable momentum. However, Iran prefers to confront its opponents through its militias and terrorist cells and the use of asymmetrical warfare methods. Iran has realized, through its war with Iraq, that it is not capable of surviving conventional wars. Thus, it modifies the training methods of its forces on asymmetrical warfare methods, along with changing the Iranian army's combat doctrine to make it more suitable for guerilla war tactics.

Second scenario:

Rejecting any amendments in the nuclear agreement, maintaining a de-escalation policy, and using effective methods to circumvent sanctions will allow Iran to boost its ties with Qatar and Oman — exacerbating the Gulf crisis. However, if Iran failed to address its growing economic crisis, public anger will increase and pose threats to the regime. The current regime might be toppled by public unrest. Thus, the future of Gulf-Iran relations are linked to the nature of the new Iranian regime which undoubtedly will be dominated by military institutions. This will definitely not favour the Gulf countries as it will increase extremism, Iranian belligerence and its clashes with the international community will escalate.

If Iran can confront the US sanctions successfully and achieve some level of economic development to contain public discontent; coupled with US President Donald Trump not winning a second term; and Iran's cooperation with Russia and China consolidating its presence in Syria, its interventionist regional policy will escalate into destructive behavior. Gulf-Iran tensions will create new battlefields within and beyond the region.

Third scenario:

The success of US sanctions in imposing a complete embargo on Iran's oil exports and Iran's engagement in talks to reduce the pressure against it will undoubtedly force the Gulf states and Iran to sit at the negotiating table. In fact, developing US-Iranian understanding would lead to a Gulf-Iranian rapprochement. The flaws of the JCPOA will not be repeated such as focusing on the Iranian nuclear program without addressing regional issues and failing to engage the Gulf states in the agreement, although it would be the primary victim of Iranian nuclear activities due to its geographical proximity and regional rivalries between them.

By curbing its expansionist project in the region, sectarian violence,

the support of insurgent and terrorist groups, Iran will improve its relations with the Gulf which in return may benefit both sides politically and economically. However, changing Iran's position on the nuclear agreement would not be enough to improve Gulf-Iran relations unless the new agreement includes terms to change Iranian behavior in the region, coupled with changing the Iranian leadership's performance internally. Moreover, the official and media rhetoric in Iran expresses an excessively hostile approach against the Gulf countries, specifically against Saudi Arabia, Bahrain and the UAE.

Conclusion

Relations between the United States and the three other world powers - the European Union, China and Russia - can influence Gulf-Iran relations. Regional crises, however, are the main points of interaction between the Gulf states and Iran. The Gulf states seek to undermine Iran's expansionist project in the region and force Iran to change its behavior. On the other hand, Iran seeks to impose its policy through establishing bilateral negotiations with each Gulf state on an individual basis separately from the Gulf Cooperation Council. Iran may make some gains through this strategy, but it cannot effectively resolve the fundamental causes of these crises. If the Gulf states which maintain bilateral with Iran continue to do so, they will find themselves at complete variance with international consensus aimed at forcing Iran to change its destabilizing behavior.

IRAQ

The Iraqi political arena in 2018 was marked by parliamentary elections and political jostling to form the next Iraqi government. The elections were held under immense pressure from internal political forces and their regional and international allies so that favorable blocs would obtain the most seats to form a government and set its program under a parliamentary system in which authority is placed in the hands of the prime minister. Therefore, regional and international actors exerted all possible efforts to reinforce the political position of their allies. In the same context, Iran strived to maintain its gains and ambitions abroad by empowering its allies to dominate the Iraqi political equation. This file will address several issues of great importance including the environment surrounding the Iraqi elections, the distribution and power among partisan alliances in the elections, the formation of the new Iraqi government in light of Iranian interference, the stance of the new government on Iranian gains in Iraq supported by conclusions, and future scenarios of Iran's role in Iraq during the next year.

First: The environment of the parliamentary elections and the Iranian role to develop political gains:

Iraq's parliamentary elections in 2018 were held shortly after Iraq witnessed crises and developments including the Kurdish referendum calling for autonomy in September 2017;⁽⁴¹⁾ the former Iraqi Prime Minister Haider al-Abadi in December 2017 announcing the end of ISIS;⁽⁴²⁾ and the by the Iraqi parliament of The Popular Crowd law in November 2016,⁽⁴³⁾ allowing the Popular Mobilization Forces (PMF) to merge with the Iraqi Army to legitimize its internal and external movements, and to enable it to dominate the Iraqi military in terms of implementing Iran's sectarian agenda.

Regionally, the Iraqi elections were conducted under an unprecedented escalation between regional and international powers in Syria, especially after changing the rules of engagement in Syria between these powers due to a divergence in their premises, tools, objectives and even a contradiction in their interests in Syria. Additionally, the Houthis escalated their ballistic missile attacks in reaction to military pressure by the Arab Alliance to support the legitimate government in Yemen led by Saudi Arabia, which deeply undermined regional security.

The Iraqi elections coincided with the US administration's efforts to impose sanctions on Iran in order to change its behavior, to limit its regional influence, to stop its ballistic missile programs and to

undermine the nuclear agreement. Undoubtedly, the agendas of the Iraqi political parties were affected by these regional developments.

Therefore, the local, regional and international circumstances surrounding the Iraqi elections can help in finding an answer to the following question: Why did Iran intensify its efforts in favor of the Shiites ahead of the elections, when Tehran's allies in Iraq had systematically displaced the Sunnis in the Sunni provinces such as Anbar, Saladin, Diyala, and Mosul under the pretext of fighting ISIS? Well, the simple answer is that this would enable Iran to expand Shiite influence and to create a new demographic reality in favor of its allies such as the PMF and some of its forces for implementing its agenda in Iraq.

Iran's attempts to create a new demographic reality in favor of the Iraqi Shiites cannot be separated from its significant strategic motives, which perceives Iraq as central to its strategy because of Iraq's geostrategic location, its sectarian structure, and its vast oil fields. Iran achieved military gains by creating the PMF and economic wins through its strong trade relations with Iraq. However, the Iraqi elections facilitated Iran's political gains, with Iran supporting its allies to win the most parliamentary seats so they could select the prime minister, the highest executive position post-Saddam Hussein; if they have 165 plus seats out of the total of 328 seats, including eight seats for minorities (five seats for Christians and one seat for Sabaeans, Yazidis, and the Shabak people).⁽⁴⁴⁾

Second: the map of partisan alliances in the Iraqi elections

1. The Iraqi demographic texture

Learning and analyzing the political and partisan alliance map in the Iraqi parliamentary elections should be based on acknowledging the nature of the ethnic and sectarian structure of the Iraqi people, estimated around 40 million people according to the Central Intelligence Agency (July 2018).⁽⁴⁵⁾ Iraqis are divided into ethnic and sectarian components facilitating regional power interventions such as Iran, given Iraq's intrinsic importance to Iran's vital areas of influence.

Iraqi ethnicity is divided into two main nationalities, Arab and Kurdish. Map No. 1 shows that the first group forms 75-80% of the Iraqi population, while the other is 15-20% concentrated in the northern provinces of Iraq: Sulaymaniyah, Duhok, and Erbil. There are other small ethnic components forming 5% of the Iraqi population,⁽⁴⁶⁾ such as Turkmens concentrated in the separation area between the Arabs and the Kurds specifically in Kirkuk, Tal Afar, and Daquq. Also, the Shabak people, who live in the northern part of the Nineveh province to the east of Mosul.

(Map no. 1) Distribution of ethnic groups in Iraq



Source: <https://bit.ly/2Eh3Y1v>

The sectarian structure of Iraqis is divided into two main religions: Islam and Christianity. Islam constitutes the vast majority of 95-98% according to the Fact Book figures for 2015,⁽⁴⁷⁾ and it is divided into two main denominations: the first is Shiite Muslims, constituting about 64-69%⁽⁴⁸⁾ and concentrated in the southern provinces: Najaf, Karbala, Zay Qar, Basrah, Babil, Wasit, al-Qadisiyyah, Maysan and Muthanna. The second is Sunni Muslims constituting 29-34%⁽⁴⁹⁾ of the Iraqi population and concentrated in the northern and western governorates: Anbar, Sulaymaniyah, Nineveh, Diyala, Arbil, Saladin, Kirkuk, and Duhok. However, Baghdad has a mix of Sunni and Shiite Muslims. Christianity constitutes 1%, and other religions such as the Sabaeans and Yazidis make up the rest.

(Map no. 2) Distribution of ethnic and sectarian groups in Iraq



Source: <https://bit.ly/2Eh3Y1v>



According to the Independent Electoral Commission of Iraq, a total of 27 political alliances participated to contest the parliamentary elections on 12 May 2018, grouping 143 political parties, and 61 parties contested independently. This meant that 204 parties participated in the 2018 parliamentary elections. Table 1 shows the most Sunni and Shiite alliances as the following:

Table no. 1: The map of Sunni and Shia partisan alliances					
Shiite			Sunni		
The coalition	The party	The leaders	The coalition	The party	The leaders
The Victory Coalition	31	The former Prime Minister Haider Jawad Kadhim al-Abadi	The Iraqi Decision coalition	11	The former Vice President of the Republic Osama Abdul Aziz al-Nujaifi

Table no. 1: The map of Sunni and Shia partisan alliances					
Shiite			Sunni		
The Conquest Alliance	18	Hadi Al-Ameri, the head of the Badr Organization	The National coalition	17	The former Vice President Ayad Allawi, and the former speaker of the parliament Salim Abdullah al-Jabouri and al-Mutlaq. Although Allawi is a liberal Shiite, he has been grouping in Sunni alliances after the fall of Saddam Hussein's regime in .2003
The State of Law Coalition	8	Nouri Kamil al-Maliki			
The Forward Coalition	6	The general secretary of the party of the national integrity Hassan Al-Akouli, who is backed by al-Sadr			
The Wisdom	-	The former President of the Islamic Supreme Council of Iraq Ammar al-Hakim			
Coalitions 5	63		Coalitions 2	28	

Source: Unit of Regional and Strategic Studies, Rasanah IIIS.

Data source: <http://cutt.us/Vpkir> and <http://cutt.us/sGOKs>

A. The Shiite alliances: The Iraqi Shiites obtained the most numerous parliamentary bloc in the elections, and they constitute the majority of the Twelver Arab Shiites. The remaining Shiites – Persians, Turkmen, Turks, and Arabs – belong to Ali Sistani, one of the most senior clerics in Shia Islam. Iran seeks to reduce Sistani's influence by promoting the Qom Hawza in Iraq, which adheres to the doctrine of the Supreme Leadership. On the other hand, the Najaf Maraji led by Sistani in Iraq call for the separation of religion from the state and the establishment of a civil state.

Sistani has overwhelming support in Iraqi society, especially when thousands of Iraqis responded to his call to fight ISIS in Iraqi cities and provinces and to participate in the 2005 parliamentary elections. However, the 2018 parliamentary elections had a lower voter turnout when compared with the former one because Sistani's office warned all Shiite political parties not to use extracts from his speeches in their election campaign.

Khamenei, on the contrary, does not have popularity in Iraqi society, but he has the armed PMF, and has some Iraqi politicians loyal to him, such as Nouri al-Maliki and the leaders of the PMF.

Accordingly, the Shiite political forces were split into two: those who supported Sistani such as the Sadrist movement, led by Muqtada al-Sadr, the Islamic Supreme Council led by Ammar al-Hakim, and half of the Islamic Dawa Party led by Al-Abadi; and those who supported Khamenei such as the Badr Organization led by Hadi Al-Ameri, the PMF, and the other half of the Dawa Party led by Nouri al-Maliki, who has broad Iranian support.

B. The Sunni alliances: Sunnis ruled Iraq under the Baath Party for three and a half decades (1968-2003). After the fall of Saddam Hussein's regime as a result of the US invasion of Iraq in 2003, the Sunnis' rule was ended and the Shiites ascended to power in Iraq backed by Iran. Therefore, the Shiites have dominated the Iraqi political equation since 2003, while the Sunnis have faced a lot of conflicts affecting their representation in parliament, as follows:

- The Sunni voting bloc was dismantled as a result of their systematic displacement by the PMF under the pretext of fighting ISIS in Sunni cities and provinces. This was deliberately an Iranian policy to influence the results of the elections in favor of Shiite alliances.

- The Sunnis lost confidence in Sunni leaders; for example, the former governor of Nineveh province, Athil Al Nujaifi, was the governor of Nineveh when ISIS controlled Mosul in 2014. He was accused of treason for giving up Mosul to ISIS, based on a report by the Inquiry Commission that was commissioned by the Iraqi parliament to investigate the charges against him.

C-Kurdish alliances were no better than the Shiite and Sunni coalitions. The two major Kurdish parties, the Patriotic Union of Kurdistan headed by the acting leader Kosrat Rasul Ali, and the Kurdistan Democratic Party headed by Massoud Barzani, formed two different lists. However, the three main opposition parties of the Kurdistan government: The Alliance of Democracy, Justice, the Change Movement and the Islamic Group stood as one list to contest the elections in the disputed areas. This consequently affected the representation of the Kurds in parliament. As a matter of fact, Kurds suffer from low living conditions and a salary

Minister	Ministry	Background	Minister	Ministry	Background
Thamir Abbas Ghadhban	Oil	Forward-Shiite	Fuad Mohammed Hussein	Finance	Kurdish
Naeem Thjeel Yousir Al-Rubaie	Telecommunications	Conquest - Shiite	Bangen Rekani	Construction	Withdrew from the Victory Alliance - Shiite
Mohamed Ali Alhakim	Foreign Affairs	Forward-Shiite	Saleh Hussein	Agriculture	Sunni
Ahmed Riad Obeidi	Youth	Conquest - Shiite	Alaa Abdul-Sahib	Health	The State of Law-Shiite
Saleh al-Jubouri	Industry	Sunni	Louay Al-Khateeb	Electricity	Forward-Shiite
Ali Allaibi	Transportation	Conquest - Shiite	Mohammed Hashem	Commerce	Sunni
Bassam Al Rubaie	Labor and Social Affairs	Sunni	Jamal al-Adli	Water Resources	Wisdom-Shiite
.Nuri Sabah	Planning	Conquest - Shiite	Qusay al-Suhail	Higher Education and Scientific Research	Conquest - Shiite
Abdulame Al-Hamdani	Culture	Conquest - Shiite			

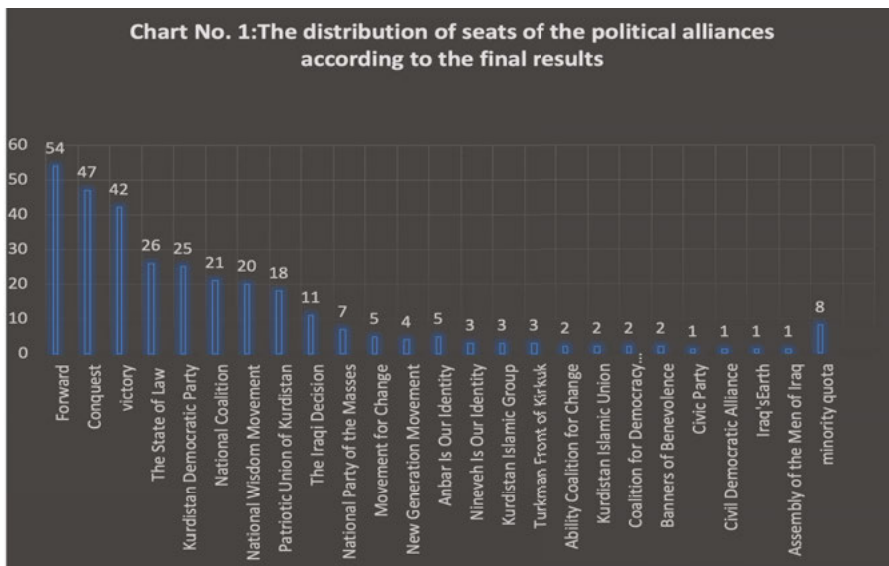
Source: Unit of Regional and Strategic Studies, Rasanah IIIS.
Data source(s): <https://bit.ly/2CJ8hlt>; <https://bit.ly/2U3VLEa>.

crisis resulting in the aftermath of the referendum demanding autonomy. As a result, Kurds no longer trust their leaders and their anger has grown because of these deteriorating socio-economic circumstances.

Overall, these coalitions revealed the dominance of the Shiite alliances over their Sunnis counterparts. Five Shiite alliances composed of a total of 63 parties versus two Sunni alliances composed of a total of 28 parties participated in the Iraqi elections. Significantly, the elections uncovered the deep divisions between the Shiite, Sunni and Kurdish alliances.

Third: the Shiite alliances after the results of the parliamentary elections

According to the Independent Electoral Commission of Iraq the results announced on 19 May 2018 showed that the cross-sectarian “Forward” Alliance came first with 54 seats out of a total of 328 seats; the “Conquest” Iranian-backed alliance came in second place with 47 seats; the “Alliance of Victory” came in third place with 42 seats; and the “State of Law” Iranian-backed alliance came in fourth place with 26 seats. But the Sunni coalitions ranked the lowest represented by the “National Alliance” with 21 seats; the alliance of the “National Wisdom Movement” with 20 seats; and the coalition of the “Iraqi Decision” with 15 seats (see Chart No. 1):



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Data source: <http://cutt.us/PDcuo>, <http://cutt.us/SDejk>, <http://cutt.us/K6x9g>

The success of the “Forward” Sadrist-backed alliance and the “Conquest” Iranian-backed coalition in the first two places respectively when compared to the other alliances occurred for many reasons including the “Forward alliance” itself being cross-sectarian; its program prioritized Iraqi public issues such as Iraq’s decisions in accordance with its civilization;⁽⁵⁰⁾ its demand to normalize Iraq’s relations with its neighboring countries;

and the rejection of regional and international interference in its decisions.

Many analysts believe that the “Conquest” coalition’s success was because of the PMF’s role in eliminating ISIS and its ability to manipulate the votes in the provinces that were restored from ISIS.⁽⁵¹⁾

Other analysts believe that the “Victory” alliance only obtained a few seats in parliament because of public discontent over merging the PMF into the national Iraqi army during Haider Al-Abadi’s reign,⁽⁵²⁾ and its program which does not address the critical problems of the Iraqi people. The crises of water, electricity, and unemployment have worsened in the southern provinces; the corruption rate has increased and the socio-economic conditions have deteriorated. In addition, Al-Abadi was criticized by parliament because of his failure to eliminate corruption.⁽⁵³⁾ However, the seats of the “State of Law” alliance decreased because Iraqis believe that the Sunni cities were occupied during al-Maliki’s reign. He was involved in forming armed militias, gave priority to the Najaf maraji, did not address corruption, and separated Iraq from the Arab world.⁽⁵⁴⁾ The Sunni alliances performed poorly because the PMF displaced a lot of Sunnis under the pretext of fighting ISIS, and they lost their identity cards when they left their homes during the battle, negatively affecting their participation in the elections⁽⁵⁵⁾ and their trust in their Sunni leaders.

Fourth: Forming the Iraqi government, internal challenges, and Iranian interventions

1. Dilemma of the largest bloc to form the government

According to the final results of the elections, none of the political alliances secured a parliamentary majority, 165 parliamentary seats out of a total of 328 seats, to form the Iraqi government, so the only way forward was to create the biggest parliamentary bloc from two alliances or more. This was Iran’s chance to pressure loyal and non-loyal Shiite alliances to create the largest bloc in order to maintain their gains in Iraq and to keep it as its permanent tool of influence in Iraq. In this context, the visit of the commander of the Quds Force of the IRGC Qassem Soleimani in May 2018 was to set intensive meetings with the leaders of the winning alliances in the elections to form the next Iraqi government.⁽⁵⁶⁾ Moreover, the efforts of the Iranian ambassador to Iraq, Iraj Masjedi, in this regard to form the largest parliamentary bloc in favor of Iran resulted in the creation of the two biggest parliamentary blocs, with each claiming to be bigger than the other:

A. The “Reform and Building” bloc: It seeks to normalize Iraq’s relations with its Arab neighbors in order to preserve its Arab identity and to reject the narrow sectarian quotas that have affected Iraq’s economy and national security since 2003. This bloc consists of several alliances:

Forward, Victory, the National, the Iraqi Decision, Banners of Benevolence, Nineveh is our Identity, Anbar is our Identity and the Turkmen Front. The representatives of this bloc announced that they had obtained 177 seats, exceeding the seats of the other parliamentary blocs.²⁶

B. The Building bloc: It strives to ensure that Iraq remains within the circle of Iranian influence. It consists of several alliances including the Conquest, the State of Law, the Victory Fali al-Fayyadh wing, the Movement of Will and the National Party of the Masses. In fact, the leaders of this bloc announced that they had obtained 145 seats in the new parliament,⁽⁵⁷⁾ while it is necessary to secure 165 seats to form the government. The Iraqi government was not formed until the beginning of October 2018 for several reasons: the hindering role of Iran in forming the government until it ensured its pro-Iranian alliances the biggest share in the political equation after it failed to form the biggest parliamentary bloc, the outbreak of protests in the Shiite southern provinces first in July 2018 and second in early September 2018 because of unemployment, water, and electricity problems, which comprehensively changed the Iraqi political map. A new political equation emerged when the political alliances especially the Forward alliance and the highest Shiite maraji in Iraq refused to nominate Al-Abadi for a second term as prime minister.

Before the end of the constitutional period specified for selecting the three presidencies of the state, parliament, and the government, Mohammed al-Halbousi, who is backed by the alliances loyal to Iran such as the Conquest and the State of Law, was appointed as Speaker of the Iraqi Council of Representatives on 15 September 2018. Barham Salih was elected as the president of Iraq and Adel Abdul-Mahdi al-Muntafiki as prime minister by the political forces. Adel Abdul-Mahdi's position was agreed by the Conquest Iranian-backed alliance, while the other parliamentary blocs did not oppose it.⁽⁵⁸⁾ However, the Iraqi parliament gave its vote of confidence to 14 ministers in the government of Abdul-Mahdi on 25 October 2018,⁽⁵⁹⁾ and three other ministers: Planning, Higher Education and Research Science, Culture on 18 December 2018,⁽⁶⁰⁾ while the vote was postponed for five ministries: Interior, Defense, Justice, Education Planning and Migration.

Since 25 October 2018 until the end of 2018, the formation of the Iraqi government was not completed, despite the consensus between Abdul-Mahdi and the political blocs on the selection of government portfolios as follows:⁽⁶¹⁾

A. The Shiite component was given 13 ministries and the presidency of the government out of a total of 22 ministries, the Forward: three ministries - Foreign Affairs, Oil and Electricity; the Conquest: six Ministries - Interior, Transport, Communications, Higher Education, Youth, Sports

and Culture; the State of Law: two ministries - Education and Health; the National Wisdom Movement: the Ministry of Water Resources and the ones who withdrew from the Victory coalition: two ministries - the Ministry of Construction, and Housing and Municipalities. Significantly, the Iranian-backed Shiite component dominated the important government portfolios giving Iran important political gains.

B. The Sunni component was given six ministries - Defense, Labor, Social Affairs, Agriculture, Industry, Trade and Planning.

C. The Kurdish component was given three ministries - Finance and Justice for the Kurdistan Democratic Party, and Migration and Displacement for the Patriotic Union of Kurdistan.

The delay in forming the government until the end of 2018 was because of disputes between the two biggest blocs: the Reform and Building bloc and the Iranian-backed Building bloc's push for certain candidates for the defense and interior ministry portfolios. The former refused to nominate the leader of the PMF Fali al-Fayyadh, who is loyal to Iran, as the Interior Minister, and Major General Faisal al-Jarba as Defense Minister, and it demanded independent technocrats as candidates. Prominently, al-Sadr felt that if the Building bloc could get Fali al-Fayyadh to occupy the Interior Minister post, it would enable Iran to monopolize this influential ministry for four years and to infiltrate Iraq's security services. However, the second bloc (the Building bloc) supported the candidates to both ministries, so that they did not appear weak in front of the Reform and Building bloc.

After announcing the newly formed government, Abdul-Mahdi feared Sadr's threat of calling on his allies to demonstrate in order to force a collapse in the government because the formation of the government violated the constitutional rule which stipulates that the "largest parliamentary bloc" elects the prime minister. Some ministers who had received a parliamentary vote of confidence were threatened to withdraw their names as a result of the disputes between the two major blocs.

While the formation of the entire Iraqi government had not been completely finalized, Iran welcomed the selection of Barham Salih.⁽⁶²⁾ The Foreign Ministry Spokesman Bahram Qasemi welcomed the nomination of Barham Salih as President of Iraq. During his visit to Najaf, Iranian Vice President Eshaq Jahangiri invited Barham Salih to visit Iran,⁽⁶³⁾ which he did in November 2018.

According to Iranian sources, the nomination of Salih was a victory against the United States in Iraq. This was echoed by the Republican Senator Marco Rubio in a tweet when he wrote, "it is wrong in claiming that the selection of new Iraqi prime minister and president leaves no clear winner between Iran and US. The clear winner is Iran and Qasim Soleimani

personally brokered this deal.”⁽⁶⁴⁾

On the other hand, Iran did not welcome the selection of Abdul-Mahdi as it did Salih’s appointment, despite the significant position of the Prime Minister. Iran’s response to Abdul Mahdi’s appointment came only in a brief statement by Fallah Beshah, the head of the National Security and Foreign Policy Committee of the Iranian parliament, “We hope that this selection will lead to the stability of the Iraqi regime and security and the continuation of friendly relations between Iran and Iraq.”⁽⁶⁵⁾

This half-hearted Iranian welcome may be due to the fact that Iran was expecting a candidate closer to it in the highest executive position in Iraq, because it relies heavily on Iraq to break the siege on its oil exports. After going through political tensions in Iraq, Iran tried to reap as much benefit as it could. Haider al-Abadi faced overwhelming objections from Iranian-backed coalitions with regard to his commitment to US sanctions against Iran to prioritize Iraqi interests. This was considered the main reason for Haider al-Abadi losing support for a second mandate as Prime Minister. In the last few days of his term, he issued a detailed recommendation for regulating the PMF including his view on cross-border factions and non-affiliated factions under the PMF, limitations on arms and money to Iranian-backed militias and the dismissal of Fali al-Fayyadh, who broke away from Haider al-Abadi’s bloc during the consultation process in order to create the largest parliamentary bloc.⁽⁶⁶⁾

Fifth: The position of the new Iraqi government towards Iranian gains in Iraq

Iran has played a prominent role before and during the formation of the new Iraqi government in order to achieve political gains, enabling its allies in Iraq represented by the PMF to control the new political equation on one hand and to maintain its gains on the other. The most prominent gains achieved by Iran in the post-Saddam Hussein era (2003-2018) are:

1. The Shiite-dominated political authority: Since the US invasion of Iraq in 2003, the Shiite-dominated political power redirected Iraqi foreign policy towards Iran at the expense of Arab and Gulf relations. In addition, Iranian-backed political alliances, especially the Conquest alliance, ranked second in the 2018 Iraqi parliamentary elections with 47 seats, and won the biggest share of ministerial portfolios in the new government.⁽⁶⁷⁾

2. The deployment of the PMF in Iraq:

Iran played a major role in forming the PMF with 150,000 Shiite fighters⁽⁶⁸⁾ and placing pressure on the Iraqi government to make the PMF a formal part of the Iraqi Army in November 2017. The militia is deployed throughout the Iraqi state in strategic oil-rich areas in the southern provinces and areas that were restored from ISIS in Sunni provinces.

Moreover, they controlled the 1,599 km border between the two countries,⁽⁶⁹⁾ paving the way for Iran to control vital geographical territories and to initiate war against Iraq if a potential conflict of interest between the two countries emerged.

The significance of the PMF to Iran can be seen when the Supreme Leader Ali Khamenei, during his meeting with the Iraqi President Barham Salih in Tehran on 17 November 2018, insisted on the need to maintain the PMF presence in Iraq.⁽⁷⁰⁾

3. Strong trade relations between the two countries: Iran ranked first in trade with Iraq during a nine-month period (March-December) in 2018, followed by China, the UAE, Afghanistan, and Turkey, respectively.⁽⁷¹⁾ While Turkey ranked first with 22% in its trade with Iraq, Iran with 13%, and China 12% in 2016, respectively.⁽⁷²⁾ However, the head of the Commerce Center of Tehran Yahya Ale Esher expected on 3 February 2018 that the trade volume would increase to \$20 billion in the coming years.⁽⁷³⁾ This is consistent with the Iranian President Hassan Rouhani's statement during his meeting with Barham Salih when he visited Iran in September 2018 that the bilateral trade volume will rise from \$12 billion to \$20 billion annually.⁽⁷⁴⁾

Regarding the Iraqi position on the PMF, the Iraqi Foreign Ministry posted a tweet on 3 November 2018, rejecting the US Embassy's request to disarm and demobilize the Shiite militias, considering it a violation of diplomatic norms as well as being disrespectful to the mutual state sovereignty, a well-established principle of international law.⁽⁷⁵⁾

The US sanctions have not stopped trade between Iraq and Iran. On 21 November 2018, Abdul-Mahdi announced, "Iraq is not a part of the US sanctions imposed against Iran," because they are "unilateral and non-UN sanctioned."⁽⁷⁶⁾ In October 2018, he said, "Iraq protects its national interest first and our country's position is similar to that of Europe, Russia, China, and Japan for preserving the national interests without harming others, nor does it want to be part of a conflict."⁽⁷⁷⁾ President Barham Salih had a conservative position toward the US sanctions imposed against Iran since Iran is a neighboring country and the consequences of sanctions would also affect Iraq.⁽⁷⁸⁾

Iraq refused to abide by US sanctions on Iran because Iraq depends mainly on importing a share of electricity and gas from Iran to support its power grid. Iraq needs 22,000 megawatts per day to meet its actual electricity needs, while it produces 11,000 megawatts per day, meaning that there is an electricity shortage of 11,000 megawatts per day; therefore, Iraq imports from Iran 1,000 megawatts per day to meet its electricity shortage.⁽⁷⁹⁾ Iraq was the second largest buyer of Iranian gas in 2017, importing about 14 million cubic meters per day to operate its power plants

under an agreement for exporting Iranian gas to Iraq, while Turkey is the first country to import Iranian gas amounting to 30 million cubic meters per day.⁽⁸⁰⁾ Therefore, the Iraqi government relies on Iran mainly to import natural gas, which generates up to 45% of Iraq's electricity.⁽⁸¹⁾ Iranian gas is a powerful pressure tool on the Iraqi government, which suffers electricity shortages.

Iran is the only available option before the US administration to make up for Iraq's electricity and gas shortage, so Iraq received an exemption from US sanctions on Iran for 45 days from 5 November to 20 December 2018. This was extended for another three months starting from 20 December 2018 to 20 March 2019. In this context, Hayan Abdulghani, Director General of the South Gas Company, said on 6 December 2018 that Iraq needs at least two years to boost the production of gas to stop importing Iranian gas.⁽⁸²⁾

During the visit of President Barham Salih to Iran in November 2018, Iran and Iraq agreed to establish free trade zones between the two countries. In addition, Iraj Masjedi announced that Iraq has 79 Iranian companies operating in its energy, construction, tourism, and infrastructure fields, estimated at \$10 billion and the Iraqi government is seeking to attract foreign investment for 1,200 projects worth about \$100 billion.⁽⁸³⁾ He also declared that his country plans to cancel visas between the two countries,⁽⁸⁴⁾ and there is also an agreement between Iran and Iraq to establish a permanent exhibition of Iranian goods in Baghdad, and Iranian technological, logistical and advisory support to Abdul-Mahdi's government.⁽⁸⁵⁾

Mizyar Yazdani, the assistant for technical affairs and infrastructure of Iran's national railway company, announced that there will be a 31 kilometer long railway linking Shalamchah to Basra, and Baghdad will pay back the cost of the project at a later date.⁽⁸⁶⁾ Observers point out that these Iranian moves are because Tehran wants to develop a corridor from Tehran through Baghdad and Damascus to the Mediterranean Sea.

Sixth: Findings

1. Iran has played a prominent role in creating a new reality in Iraq, which allows Iran's Shiite pro-alliances to control the electoral scene and the new political equation by a systematic policy of displacement against Sunni Muslims in Sunni provinces such as Anbar, Saladin, Diyala, and Mosul under the pretext of fighting ISIS
2. The Sunni coalitions contested the 2018 parliamentary elections without a grassroots public base. The Sunnis were displaced by Iranian-backed operations and they lost confidence in their Sunni leaders.
3. The Conquest Alliance, Iran's closest ally in Iraq, ranked second in the number of parliamentary seats, despite it participating for the first time

in the parliamentary elections. In addition, it won the biggest share of ministerial portfolios in the new government compared to the rest of the alliances such as the Forward Alliance which won the largest number of seats.

4. The blocs and political alliances violated the constitutional law of the biggest parliamentary bloc, which forms the new Iraqi government, by naming a consensus candidate. Consequently, the Reform and Building coalition missed the opportunity to form the new government - ahead of the Iranian-backed Building coalition - though they won the largest parliamentary bloc. That was due to Qasem Soleimani's and Masjedi's active role in the political alliances.

5. Iranian influence in Iraq is extending because pro-Iranian allies in Iraq have achieved political gains by obtaining electoral seats and ministerial portfolios in the new government, paving the way for Iran to play a bigger role in Iraq, preserving its trade and military gains and implementing the rest of its expansionist plans.

Seventh: Futuer Scenarios

Since the fall of the Iraqi regime in 2003, Iran's expansionist plans and strategies towards Iraq have never stopped. Below are two scenarios for Iran's role in Iraq:

1. Rolling back of the Iranian role: The Iranian role in Iraq brings many internal challenges: the economic crisis, and rising popular discontent over its presence in Iraq and elsewhere; externally: the Iraqi government was not formed until the end of 2018 because of disagreements between the political alliances, as well as internal crises such as water, unemployment, and electricity shortages in the southern provinces. In addition, the US placed further pressure on Iran to curb its influence in Iraq economically, politically and militarily. The Iraqis have become more aware of their history, civilization, Arab heritage, independence, and the importance of normalizing Iraq's relations with its neighboring Arab countries. This can be seen through the Iraqi public selecting the Forward Alliance, a cross-sectarian alliance, in the parliamentary elections and carrying out attacks against Iranian consulate offices and Shiite militias during protests in the Shiite southern provinces.

Iraqi-Gulf relations, especially Iraqi-Saudi relations, have grown at all levels politically, economically and culturally. Saudi Arabia realized it is necessary to participate in addressing the Iraqi electricity crisis since Iraq seeks Saudi Arabia's support after Tehran stopped supplying Baghdad with electricity in the summer of 2018. Thus, at the end of June 2018, Saudi Arabia offered the Baghdad government the construction of a power plant project in Saudi Arabia after one year of concluding the agreement producing about 3,000 megawatts⁽⁸⁷⁾ to meet Iraq's electricity needs.

However, it is expected that US pressure on the Iraqi government to stop importing Iranian gas will push the Iraqi government to accept offers from Saudi Arabia and the Gulf to provide it with electricity. Saudi Arabia also played a role in reconstructing the liberated areas from ISIS in Iraq. In the same context, Saudi Arabia allocated one billion dollars in February 2018 for the reconstruction of Iraq, and half a billion dollars to support Saudi exports to Iraq.⁽⁸⁸⁾

2. The rise of the Iranian role: This scenario is likely to happen, as the pro-Iranian alliances the State of Law and Conquest obtained the largest number of parliamentary seats and portfolios. This would lead the political arm of the PMF - the closest ally to Iran - to affect the political equation, because it will play a role in selecting ministers in the new government, undermining laws if they clash with Iran's agenda, or passing laws that take into account Iran's interests, and the ability to influence or support the Iraqi government's decisions for Iran's agenda.

Iraq depends on Iran for gas and 45 percent of its electricity. However, the Iraqi government asserted that Iraq still needs two years to produce gas to stop importing Iranian gas. Therefore, Iranian gas is more of a pressure tool Iran uses against the Iraqi government, which suffers electricity shortages. The Iraqi government correspondingly refuses to abide by the US sanctions on Iran and it boosts trade between Iran and Iraq. Iran accordingly ranked first among all other trading partners of Iraq in 2018.

Iraq is also a major priority in the Iranian strategy which considers it as a gateway for its oil exports to the world to circumvent the US sanctions. Observers expect that Iran will export oil to Iraq and Baghdad will re-export it to the world. On the other side, the Iraqi government is looking for new sources of income to address instability in the oil-rich southern provinces. Thus, Iraq is likely to accept importing Iranian oil and exporting it to the world under growing Iranian influence in Iraq. Prominently, exporting Iranian oil to Iraq becomes a strategic choice to circumvent the US sanctions given the geographical proximity between the port of Basra and Iranian oil producing fields that reduces financial and security costs and facilitates oil exports.

YEMEN

Iran's interference in the Yemeni crisis is one of the primary pillars of its regional strategy which aims to spread its governance model and political ideologies. Iran seeks to integrate Yemen within its regional strategy as well as to remove Yemen's Arab identity by supporting the Houthis at the expense of the legitimate government. Moreover, Iran is seeking to convert the Houthis away from their Zaidiyyah doctrine under which they have always lived in harmony with other Yemeni groups, to the doctrine of Velayat e-Faqi, i.e., the Twelver Shia.

After four years of crisis Yemen, 2018 witnessed several developments affecting the Yemeni conflict such as the deep power vacuum created by the assassination of Ali Abdullah Saleh, the former Yemeni President and the leader of the Popular Congress Party (GPC) who allied with the Houthis against the legitimate Yemeni government headed by Abdrabbuh Mansur Hadi. The Houthis assassinated Saleh in December 2017. The year 2018 saw the reimposition of sanctions against Iran including the export of its oil, and finally, a new UN envoy to Yemen, Martin Griffiths, who succeeded the former UN envoy Ismail Ould Cheikh.

Internal, international and regional developments greatly influenced the dynamics of the Yemeni crisis in 2018. Reviewing the impact of Saleh's absence from the Yemeni domestic front, the nature of Iranian support to the Houthis while it is under harsh sanctions affecting its economic standing, and the success of the new UN envoy Martin Griffiths in reaching a peace agreement can help us in forecasting the future of the Yemeni crisis.

First: Recent developments in Yemen

1. The removal of Ali Abdullah Saleh from the Yemeni political equation

The Houthis assassinated the former Yemeni President and the Chairman of the Popular Congress Party (GPC) Ali Abdullah Saleh on 4 December 2017. He was killed on his way out of Sana'a after he broke up his alliance with the Houthis. Saleh relied on tribal, political and partisan loyalties of the Yemeni Army leadership whose combat doctrine was basically centered around allegiance to Saleh's family. After Saleh was suspended as President of Yemen under the Gulf Initiative in 2012, he carried on with his political, party and tribal role and he was indeed able to retain the allegiance of several Yemeni Army brigades. According to the data of the military site Master Nation for 2013, the Yemeni Army ranked as the fifth strongest Arab army with approximately 60,000 fighters deployed in 59 military brigades, including armored brigades, infantry, artillery, mechanized and missiles infantry. Moreover, the Air Force

had approximately 3,000 recruits deployed in 10 air force and defense brigades, and six air bases. The naval force was estimated at 1,700 recruits deployed in three naval bases and two naval brigades.⁽⁸⁹⁾

Saleh and his son Ahmad refused the proposal of the President Abdrabbuh Mansur Hadi in 2012 to restructure the Yemeni Army. This move was one of the reasons prompting Saleh to ally with the Houthis. Saleh took control of the Yemeni armed forces when hostilities erupted between the Houthis and the legitimate government's forces. He controlled almost 70% of the Yemeni army's capacity, including its rocket brigades.⁽⁹⁰⁾

On the other hand, the Houthis began to develop their military skills from 2004 with 10,000 to 15,000 fighters. Significantly, there was also a qualitative development in the Houthis' weapons and training capabilities, especially after they took over the capital Sana'a in 2014. The Houthis were able to assume control of Sana'a because of Iranian support dating back to 2009 and military training provided by Hezbollah. Hours before Saleh's assassination, he admitted in a televised recording to the public that the Houthis were able to shift the loyalty of his forces with money after taking over the Yemeni public treasury whereas those who were not loyal to the Houthis were deprived of their military salaries. They attracted the Republican Guard units to their side and propagated their doctrinal thoughts by holding religious sessions targeting the Yemeni military commanders. Saleh said, "They came with Islam other than the Islam of Yemen and with an ideology different from that of Yemen. They announced that they want to establish a state of Faqih in Yemen." Saleh also accused the Houthis as responsible for "pushing Yemen to war against the Arab Alliance [the Saudi-led coalition]," and called on the Yemeni people to rebel against the Houthis.⁽⁹¹⁾

Regardless of Saleh's intention to end his alliance with the Houthis, in light of his assassination, it is important to assess the extent of the Houthis' combat capabilities. After Saleh was killed, there were many voices calling to retaliate against the Houthis. However, the Houthis rapidly dominated Sana'a and eliminated the leaders of the Popular Congress Party, who did not cooperate with them. The assassination of Saleh not only reinforced their combat capabilities, but also their position in the capital Sana'a and their areas of influence, and proved their ability to attract Saleh's supporters to their side. Politically, the Houthis took responsibility for the Yemeni peace talks. At the same time, they could not hide under the cover of political partners with whom they could share their political decisions.

2. Re-imposition of sanctions against Iran and the embargo on its oil exports

After the US withdrawal from the nuclear agreement in May 2018, economic sanctions were reimposed against Iran. Although the sanctions were imposed in two rounds in August and November, and Iranian oil exports were banned except for eight countries which were granted waivers for 180 days, they did not change the Iranian position against renegotiating neither the nuclear agreement nor its missile program, or even to stop its intervention in the affairs of the states of the region. The US sanctions explicitly lowered Iranian oil sales in November 2018 to between 1.2 to 1.5 million barrels from its previous 2.5 million barrels per day. Accordingly, the plunge in Iranian oil revenues will respectively reduce its military budget and its funds for financing armed militias abroad, including the Houthi militias.

The Iranian budget for 2019/2020 shows an increase of 16% in defense and security allocations compared to last year. The increase in the Iranian military budget was as follows: Ministry of Intelligence 31%, Revolutionary Guard Joint Command 21%, while the budget of the General Command of the Armed Forces (Command of the Regular Army) was cut by 75%, and the Iranian Ministry of Defense by 50%, which provides logistics and supplies in Iran.⁽⁹²⁾

These figures clearly reflect Iran's unchangeable attitude in respect of its foreign and military policies, which are underpinned by asymmetrical warfare tactics. These include supporting its armed militias and funding its proxies to intervene in other countries as well as to expand its influence abroad by taking advantage of the Revolutionary Guards, the Quds Forces and its intelligence services.

The Houthis have relied on Iran for armaments and training since the outbreak of the Yemeni crisis. Additionally, the Houthis developed their own fighting capabilities before the war. Regardless of Iran's denial of its role in the Yemeni crisis in the wake of international condemnation, Iran's support to the Houthis is unquestionable. Iran's support is further confirmed by the sophisticated weapons that the Houthis have used.

After imposing economic sanctions against Iran, the battlefronts unveiled Tehran's support for the Houthis, as the Houthis were found to be using Iranian ballistic missiles, drones, and other conventional weapons. The Houthis tried to find other financial resources to replace Iranian support, so they robbed Yemeni banks in September 2018. In this regard, the Yemeni Information Minister Muammar al-Iryani said the Houthis looted the Yemeni Central Bank, which led to the collapse of the rial. In addition, they set up black markets to trade hard currency and oil derivatives.⁽⁹³⁾ They also imposed double taxation on basic foods; hampered international relief efforts to the Yemenis and looted food aid,

most recently the World Food Program warehouses in Hammadi, in the western province of Hodeidah.

3. Changing the UN envoy for Yemen

Since the outbreak of the Yemeni crisis, the United Nations has strived to end it through reaching a peace agreement by appointing three envoys: Jamal Ben Omar, Ismail Ould Cheikh Ahmed and finally Martin Griffiths. In 2016, Kuwait under the auspices of the UN envoy Ismail Ould Cheikh Ahmed hosted the Yemeni peace talks but the Yemeni parties hit a dead end after three months of futile negotiations. In his last report to the United Nations on 28 February 2018, Ould Cheikh said, "In my opinion, all the Yemeni parties are responsible for not finding a solution in one way or another. We were very close to reaching an agreement in Kuwait. Since the beginning of the peace talks until the end, the Houthis refused to discuss any security arrangement. This has been a dilemma toward finding a negotiated solution. We had knocked every possible way toward finding a solution. In my opinion, there have been significant concessions made by Saudi Arabia which put pressure on the legitimate government. There are many countries and their leaders, including the Emir of Kuwait personally, who have put pressure on the Yemeni parties. We noticed that all the GCC countries were trying at that point to put more pressure on the Yemeni parties, but it was clear that the Houthis were not ready to make concessions and there could be no solution if the Houthis wanted to keep their weapons or to have an unauthorized military force."⁽⁹⁴⁾ However, the Houthis have repeatedly accused the UN envoy of being biased in favor of the Yemeni government. In early 2018, the Houthis refused to hold any talks under the UN auspices after the UN envoy Ismail Ould Sheikh Ahmed was changed. Ould Cheikh had been appointed in April 2015.⁽⁹⁵⁾ The United Nations later appointed Martin Griffiths to Yemen to succeed Ismail Ould Cheikh.⁽⁹⁶⁾

Second: The interactions of the Yemeni crisis

The Yemeni crisis has three levels of interactions:

- A.** the progress on the ground by the conflicting parties on the battlefronts, the main cities, and strategic sites;
- B.** the Houthis' reliance on Iranian armaments since Iran is the Houthis' major sponsor;
- C.** and finally the international efforts to find a political settlement for the Yemeni crisis.

We will review the impact of the recent developments on the Yemeni crisis in 2018 as follows:



1. The impact of Saleh's assassination After the Houthis assassinated Ali Abdullah Saleh, many questions arose such as: to what extent did Saleh abandoning the Houthis as an ally affect their fighting capabilities? Did the assassination of Saleh without a fight flaring up between his supporters and the Houthis mean that Saleh's forces were under the control of the Houthis? It was undoubtedly expected that Yemen would see a change in the power balance equation after the exclusion of Saleh from Yemeni politics and after his assassination because he had a strong military faction. Therefore, it was expected that a fight would erupt between the Houthis on one hand and elements of the Popular Congress Party, the tribes loyal to Saleh and the commanders and units of the Yemeni Army, which broke away from the legitimate army and joined Saleh. In fact, Saleh had announced before his assassination that the Houthis had withdrawn their forces from the battlefronts, including their armored units, and brought them to Sana'a to eliminate him and his assistants.⁽⁹⁷⁾ This led to a belief that the Houthis in Sana'a were not enough in number and capability to eliminate the supporters of Saleh. At the same time, if Saleh's statement was accurate enough to exclude him from the Yemeni political equation, it could be concluded that his assassination was prepared in advance. However, Saleh's movements were too late. In his famous recording before his assassination, he spoke of the Houthis' domination in Sana'a, their success of winning the loyalty of his supporters, and of how they had looted Yemen's financial resources. He also spoke of how the Houthis were propagating their religious programs that asserted their claim of ruling Yemen since they belong to *Ahl al-Bayt* [Prophet Mohammed's family] based on the idea of *Vilayat el-Faqih*. In return, Saleh considered

this as a recreation of the Mutawakkilite Kingdom and a coup against the 1962 revolution, which founded the Republic of Yemen and its principles.⁽⁹⁸⁾ Instantly, the Houthis managed to take control of Sana'a by arresting and killing the few remaining elements of Saleh's supporters, and those who tried to retaliate against the Houthis. On the other side, the battlefronts led by the legitimate Yemeni government were not affected immediately by Saleh's exclusion. However, the change was realized later by the legitimate forces in June 2018 when they restored the airport of Hodeida province on 21 June 2018 which had been under Houthi control since October 2014. In the same context, Brigadier Ali Al-Taniji, the Commander of the Saudi-led coalition in the western coast, launched a large-scale attack to regain Al-Hudaydah from the Houthis, and its strategic port, which had been used for humanitarian relief but was turned into a weapons smuggling port by the Houthis, jeopardizing the safety of navigation in the Red Sea.⁽⁹⁹⁾

The pro-legitimate government forces in the Al-Hudaydah battle were the Giants Brigades belonging to the south of Yemen, the brigades of Tahmia and Brigadier Tariq Saleh, the nephew of the former president. The success of the pro-legitimate government forces was due to good coordination, rapid mobilization of the Yemeni ground forces and the Saudi-led coalition's support rather than due to the Houthis' vulnerabilities because their alliance with Abdullah Saleh and his supporters had ended. The importance of restoring Al-Hudaydah and its port meant that Iranian support was cut off to the Houthis and ended the Houthis' control of the port, which had been turned into a launching pad for terrorist attacks on the west coast and used to threaten maritime traffic and global trading across the Red Sea.⁽¹⁰⁰⁾

Although the legitimate Yemeni forces made great progress on the ground, the Houthi militias continued to fire ballistic missiles into the territory of Saudi Arabia in 2018; for example, seven Iranian-made Qaim rockets were fired by the Houthis at Saudi territory in March 2018. At a press conference in Riyadh, the Arab coalition presented new evidence of Iranian involvement in weapons smuggling to the Houthis.⁽¹⁰¹⁾ A missile interception caused casualties in some residential areas, with the debris killing an Egyptian resident and wounding two other Egyptians as well as causing material damage.⁽¹⁰²⁾ In April 2018, the Houthi militia intensified their rocket attacks against some Saudi cities, with more than 15 ballistic missiles intercepted by the Saudi Royal Air Defense Forces. The total number of ballistic missiles launched by the Houthis at the Kingdom stood at 183 missiles up to the end of August 2018.⁽¹⁰³⁾

2. Iranian support for the Houthis under US sanctions

In addition to Iran's involvement in smuggling weapons to the Houthis, 2018 witnessed a qualitative development in Iranian support as well as

Iran inciting the Houthis to not only attack the legitimate forces and the Arab alliance but also to launch attacks against the world community. The Houthi militias attacked two Saudi oil carriers in the Red Sea, according to the announcement of the coalition forces on 25 July. Consequently, Saudi Arabia suspended its oil exports through Bab al-Mandab to avoid any expected attacks against its oil carriers, as happened to one of the Saudi carriers while passing Al Hudaydah port, which was controlled by the Houthis. Later Saudi Arabia resumed oil exports through Bab al-Mandab after the coalition forces undertook military measures to secure the navigation at the southern entrance of the Red Sea.⁽¹⁰⁴⁾

On 6 August 2018, Nasser Shabani, a member of the Islamic Revolutionary Guard Corps and the head of the Center for Military and Security Studies at Imam Hussain University, announced explicitly in a lecture in Mashhad, northeast Iran, that the Republic of Iran had asked the Houthis to attack two Saudi carriers and they did so. Later, the Fars News Agency removed the story after only a few hours.⁽¹⁰⁵⁾

The Houthis' hostile acts in the Red Sea motivated the legitimate forces and the Arab coalition to restore the west coast and Al Hodeidah port to legitimate government control. In 2018, the international community stood firmly against Iran's involvement in supporting the Houthis with weapons, most prominently the British draft resolution in the Security Council, which was vetoed by Russia on 26 of February 2018. In the same context, the British representative to the United Nations stressed that Iran was violating international resolutions by providing the Houthis with weapons, especially missiles and drones by saying, "The United Kingdom is deeply concerned that Iran has failed to take the necessary procedures to prevent the direct or indirect supply, sale and transfer of short-range missiles and drones. Therefore, Iran is in non-compliance with paragraph 14 of resolution 2216."⁽¹⁰⁶⁾

The British draft resolution would have foiled Iran's claim of not transferring arms to the Houthis because it outlawed the indirect sale of weapons via other sources. The draft stated clearly that Iran did not take the necessary procedures to prevent the transfer of rockets and drones to the Houthis. As a matter of fact, all Houthi arms deals were not from Iran, meaning that Iran is not their only supplier. At the Bahrain Security Conference held in Manama, Bahrain on 27 October 2018, the then US Defense Secretary James Mattis stated that now is the time to stop the war in Yemen and the United States stood against Iran, which supports the Houthi militia with weapons, in a violation of international laws.⁽¹⁰⁷⁾

Mattis stressed the need for pushing UN efforts forward again with the new UN envoy Martin Griffiths and US officials made numerous statements calling for the war in Yemen to be ended quickly.

Third: UN efforts to end the crisis

The United Nations envoy to Yemen Martin Griffiths sought to hold talks twice between the warring sides in 2018. Hodeidah and its port were the priority at the UN talks. In September, Griffiths called all the Yemeni parties for talks in Geneva but he failed to hold a meeting between representatives of the Houthis and the legitimate government. However, the representatives of the legitimate government attended, while the Houthis stressed three demands for participating in the Geneva talks: traveling on an Omani plane, the evacuation of wounded soldiers to Muscat and guarantees that the Houthi delegation attending the talks in Geneva would be allowed to return to Sana'a after the talks ended.⁽¹⁰⁸⁾ The Houthis did not attend and blamed the United Nations for their not attending the Geneva talks as the Houthi demands had not been met.⁽¹⁰⁹⁾ On the other hand, the delegation of the legitimate government announced that it would leave Geneva unless the Houthis' delegation showed up within 24 hours.⁽¹¹⁰⁾ Thus, the first round of talks called by Griffiths failed.

After the failure of the Geneva talks, the US Secretary of State Mike Pompeo and the then US Defense Secretary James Mattis at the US Institute of Peace in Washington on October 31, 2018 called on all sides of the Yemeni crisis to a ceasefire in the next 30 days. "The time is now for the cessation of hostilities, including missiles and drone strikes from the Houthi-controlled areas into Saudi Arabia and the UAE," Pompeo said.⁽¹¹¹⁾ The British Prime Minister Theresa May in a speech to the Members of Parliament on 31 October 2018 backed Washington's call for a ceasefire in Yemen.⁽¹¹²⁾

The serious tone of both statements motivated Martin Griffiths to call for the second round of talks in Stockholm. The Yemeni government welcomed all efforts contributing to achieving peace: "The statements of several countries in the last few days, which called for finding a political solution in accordance with the three agreed terms, are consistent with the desire of the political leadership headed by President Abed Rabbo Mansour Hadi and his government to find peace and end the suffering of the Yemeni people as a result of the coup carried out by the Iran-backed Houthis."⁽¹¹³⁾ On the other hand, the Houthis considered the US call for peace as a hollow gesture since it is responsible for the ongoing war and the deterioration of the humanitarian situation in Yemen.⁽¹¹⁴⁾

The new developments at the battlefronts and the imposition of the second round of US sanctions on Iran forced the Houthis to sit at the negotiating table in Sweden, unlike the Geneva talks.

On December 13, the outcomes of the Geneva talks, which started on December 6, were as follows: Both parties came to an agreement on the city

of Hodeidah and the ports of Hodeidah, Salif, and Ras Issa providing for:

1. An immediate ceasefire in the city of Hodeidah, the ports of Hodeidah, Salif, and Ras Issa comes into effect upon the signing of the agreement;
2. A mutual redeployment of forces shall be carried out from the city of Hodeidah and the ports of Hodeidah, Salif and Ras Issa to the agreed upon locations outside the city and the ports;
3. The parties shall be committed not to bring any military reinforcements to the city, the ports of Hodeidah, Salif and Ras Issa, and the governorate;
4. The parties shall be committed to removing any military manifestations from the city;
5. A joint and agreed upon Redeployment Coordination Committee chaired by the United Nations;
6. The Chairman of the Redeployment Coordination Committee will report on a weekly basis to the Security Council through the Secretary-General on the compliance of the parties to the terms of the agreement;
7. The Redeployment Coordination Committee shall supervise the re-deployment and monitoring operations and it shall also oversee the demining operations in the ports of Hodeidah, Salif and Ras Issa;
8. The parties shall be committed to facilitate and support the work of the United Nations in Hodeidah,;
9. The parties shall facilitate the freedom of movement of civilians and goods from and to the city of Hodeidah and the ports of Hodeidah, Salif and Ras Issa;
10. Revenues of the ports of Hodeidah, Salif and Ras Issa shall be channeled to the Central Bank of Yemen through its branch in Hodeidah as a contribution to salary payments to civil servants in Hodeidah and throughout Yemen;

■ This Agreement shall not be considered a precedent to be referred to in any subsequent

■ consultations or negotiations.

11. The Stockholm talks also led to a concluding statement of understanding on Taiz. A joint committee was agreed to be formed by the two parties to include both UN and civil society organizations and the names of the representatives from both parties should be provided to the Office of the UN Envoy within two weeks following the Sweden talks⁽¹¹⁵⁾.

The “Sweden Agreement” represented the first successful peace talks since the beginning of the crisis, despite the Houthis’ repeated violation of the ceasefire, up to the time of the writing of this report. The success factors of the Sweden Agreement can be seen as the following:

1. The legitimate forces advanced at the battlefronts, especially towards the Houthis’ strategic territories, affecting their access to arms and financial support;

2. The United Nations launched a peacemaking initiative, based on finding specific partial objectives, leading to negotiations on a comprehensive political settlement for the crisis;

The international community, especially the United States, called on the parties to negotiate with a time limit for reaching a ceasefire agreement;

3. The severe economic sanctions forced Iran to push the Houthis to attend peace talks.

Fourth: The future of the Yemeni crisis

Based on the latest developments in the Yemeni crisis in 2018 and on the outcomes of the Hodeidah Agreement and the Taiz understanding, it is clear that the course of the United Nations peacemaking and its special envoy Martin Griffiths depends on ending hostile acts in the conflict zones and forming monitoring committees for the agreed upon territories with the withdrawal of the warring forces and the deployment of international observers. As result, the ceasefire agreement establishes de-escalation zones to reduce the humanitarian crisis and to restore stability. Usually a ceasefire agreement is achievable between the parties of a crisis with the presence of international pressure and by creating an equal balance of power between the parties to the conflict. However, by not reaching a comprehensive solid political settlement, the final terms of the Hodeidah Agreement made the whole agreement shaky particularly if a clash erupts between the parties at any strategic fronts. In fact, the agreement was truly violated in Taiz and Aden. If the Houthi forces carry out a large scale attack or the coalition forces respond and target Sana'a with a ground attack, then it is expected that the Hodeidah agreement will collapse. The Yemeni crisis, despite the unprecedented success of the peace process in 2018, is at a crossroads. There are several possible scenarios that could bring the Yemeni crisis to a conclusion:

The first scenario: the success of negotiation efforts to create safe areas

Although the partial peace process can provide security and stability for the areas included in the agreement, the Houthis still pose a serious threat to the territorial integrity of Yemen. Each party exerts its influence over its territories and reduces fighting at the battlefronts, according to the peace agreements. Moreover, the legitimate forces are only concentrated in southern Yemen and some northern provinces of Yemen. Additionally, some voices were calling for the secession of southern Yemen. In the same context, a report by UN experts concluded that the secession of the south had become a "real possibility" due to the weak influence of the legitimate government.

The UN experts report based its conclusion on four factors, most importantly: "The inability of Yemeni President Abdrabbuh Mansur

Hadi to assert his dominance from outside the country on the restored lands.” The other factors were: “the emergence of a Southern Transitional Council, which calls for the independence of the south,” and “the presence of the Houthis in Sana’a and the majority of the northern regions.”⁽¹¹⁶⁾ In addition, some decisions by Abdrabbuh Mansur Hadi moved southern activists to demand autonomy when he appointed Abdulaziz Al Muflehi as Aden governor instead of the former Aden governor Aidarus al-Zoubaidi, and when he sacked the state minister Hani Ben Brik which led to demonstrations in the south.⁽¹¹⁷⁾

This scenario is unlikely to take place because the Saudi-led coalition and the regional countries have stressed on maintaining the territorial integrity of Yemen. If it happens, Iran’s serious expansionist projects will continue and war may break out since the crisis is rooted in the Houthis’ desire to monopolize power and to implement Iran’s regional expansionist project.

The second scenario: the collapse of the agreement and the re-eruption of fighting in Hodeidah

A series of violations of the ceasefire agreement have been committed by the Houthis up to the time of the writing of this report. The agreement almost collapsed. The Houthis, however, would not escalate the conflict since Iran, the compass of the Houthis’ acts, is under pressure. So, it would never escalate its conflict with the international community. On another hand, Iran can still use the Houthis if the embargo on its oil exports is tightened further, whether by firing ballistic missiles, targeting oil tankers in the Red Sea or restoring the port of Hodeidah. Thus, international and regional balances play an important role in the interactions of the Yemeni crisis. With this in mind, placing further economic pressure on Iran would resolve the crises of the Middle East, but not too much pressure that would push Iran towards war, bringing more destruction to the region. Perhaps Iran’s interim sanctions and the exemptions granted to eight countries if they intend to import its oil have played a role in calming the Yemeni and Syrian crises and de-escalating Iran’s ambitions to incite more crises. In fact, this policy may take longer to change Iran’s behavior, but it guarantees to curb Iran’s direct confrontational activities.

The third Scenario: A comprehensive solution in Yemen

There were many factors that contributed to the Hodeidah Agreement, such as the progress of the legitimate government and the Saudi-led coalition on the battlefield and in strategic important territories, in addition to international pressure on Iran and diplomatic efforts by the United Nations and international mediators. This agreement may lead to a comprehensive peace agreement in Yemen. This scenario is what the Yemeni legitimate government is looking for

and is welcomed by the international community. This scenario is possible if the legitimate government is strongly committed to a comprehensive political settlement and stands firmly against the attempts by the Houthis to stall negotiations and their desire to only have partial negotiations.

Conclusion

The implications of the recent developments in the Yemeni crisis in 2018 underscore the importance of military cooperation to limit the Houthis' influence, to achieve more progress on the battlefield and to guarantee the end of Iranian support for the Houthis. At the same time, peace initiatives are needed to reach a comprehensive and final agreement to the crisis. This peace agreement cannot be limited to the delivery of humanitarian aid only; nor can it be a partial agreement, which only includes certain areas without forcing the Houthis to accept a comprehensive settlement to ensure permanent stability in Yemen. The ongoing international efforts to put more pressure on Iran's economy may affect its support for the Houthis. In the second half of 2018, Iran was probably able to maintain its support to the Houthis, but with the ban on Iranian oil exports, it will not be able to continue with its destabilizing behavior in the region through its financing of Houthi militias.

SYRIA

During 2018, international and regional competition for influence and control escalated in Syria. This competition was driven by different strategic goals and interests as well as to have a say in the new political equation in Syria. However, military, economic and political capabilities of international and regional actors will determine the extent of their strategic gains.

Iran is one of the most influential actors in the Syrian crisis and has sought to spread its influence across Syria to implement its expansionist and demographic projects. According to the Iranian regional strategy, Syria is very crucial to complete the Iranian land corridor from Tehran to the Mediterranean that will be used as a safe route for smuggling weapons to Lebanese Hezbollah and for entrenching its military presence at the northern border of Israel. This corridor is Iran's strategic bargaining chip with international and regional powers.



However, there are several important questions to discuss to evaluate the Iranian role in Syria in terms of its struggle for influence during 2018:

1. Did Iranian influence increase or decrease in Syria during 2018?
2. What are the key tools that Iran used to expand its influence in Syria?
3. What are the factors affecting the Iranian role in Syria?
4. What is the future of Iranian militias in Syria according to the new realities and the new factors affecting the Iranian role in Syria?

In order to answer these questions, we have to study tools of Iran's soft power, factors of Iran's influence, Iran's future presence in Syria, and scenarios of Iran's role in Syria in the upcoming year.

First: Iran's tools to expand its influence in Syria

1. Hard power

A. Financial and military support for its militias

In Syria, Iran is believed to command at least 10,000 fighters,⁽¹¹⁸⁾ while the Israeli Defense Forces estimate is 20,000 including 2,000 Iranian soldiers and military consultants, and 7,500 Hezbollah elements.⁽¹¹⁹⁾ In terms of the

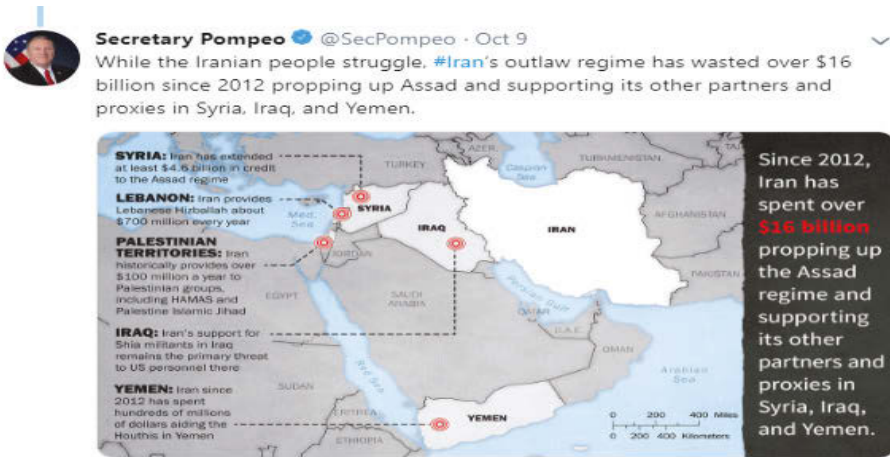
death toll, more than 1,000 Iranians, including senior members of the elite Revolutionary Guards, have been killed.⁽¹²⁰⁾

In August 28, 2018, Senior Policy Advisor to the Secretary of State and Special Representative for Iran, the head of the Iran Action Group Brian Hook estimated that Iran has spent at least \$16 billion on supporting its proxies in Syria, Iraq, and Yemen,⁽¹²¹⁾ as well as extended at least \$4.6 billion in lines of credit to Syria. On October 9, 2018, the U.S Department of State released a report which mentioned that Iran expended over \$16 billion since 2012 to prop up Assad and to support its other partners and proxies in Syria, Iraq, and Yemen.⁽¹²²⁾

In June 2018, the former UN Special Envoy on Syria, Staffan de Mistura, estimated Iranian expenditure to stand at \$6 billion annually, while Nadim Shehadi of Tufts University – Massachusetts believes the actual figure to be double the estimate given by de Mistura.⁽¹²³⁾ (See map 1)

These figures are of course merely estimates. Iran follows a policy of secrecy and its decision-makers realize that declassifying Iran's actual foreign expenditure on its proxies could stir up further popular discontent at home.

Map 1: Iran's financial support to its militias in Iraq, Syria and Yemen



Source: <http://cutt.us/tEeNG>

B. Iran's military presence in all battles

Iran has backed Assad's forces with IRGC military fighters and non-state actors (fighters that Iran brought from unstable states like Pakistan and Afghanistan to back Assad's forces to resist opposing Syrian factions). These fighters were involved in all of the 2018 battles in Syria to eliminate the opposition and to extend the scale of Iran's influence in the country.

In February 2018, Iran played a major role in carrying out military

operations in Eastern Ghouta to secure the geo-strategic outskirts of Damascus and to expel the opposition forces from there. This was confirmed through the statement of the Chief of Staff for the Armed Forces of the Islamic Republic of Iran Mohammad Bagheri when he said that Iran and Syrian forces will continue military attacks on Eastern Ghouta.⁽¹²⁴⁾

Ignoring the ceasefire agreement of 2016, the agreed de-escalation zones in 2017,⁽¹²⁵⁾ the UN Security Council Resolution No. 2401 in 2018,⁽¹²⁶⁾ as well as the Astana and Sochi peace talks, Russia and Iran backed Assad's forces and expelled the opposition from Eastern Ghouta by missiles and displacement tactics which affected 400,000 residents.

On 7 April 2018, after its war on Eastern Ghouta, the Iranian backed-Syrian regime targeted Duma city with chemical weapons,⁽¹²⁷⁾ and Rif Daraa in June 2018, though it was included in the de-escalation zones, which resulted in the displacement of more than 270,000 residents.⁽¹²⁸⁾

According to *DEBKAF*file, Iran and Hezbollah played a major role in escalating the battles in Daraa, where Qasem Soleimani ordered the strengthening of Iranian forces in southern Syria, specifically in Izra, Kiswah, and Khan Arnabah towns. Moreover, the IRGC and Hezbollah fighters announced full mobilization and movement towards Daraa. Furthermore, Soleimani sent three brigades of the Quds Forces into Quneitra.⁽¹²⁹⁾

In July 2018, the Syrian military preparations for invading Daraa and Quneitra revealed the participation of Iranian militias such as Zaynabioun, Fatimiyoun, Lebanese Hezbollah and the Iraqi Zulfaqr brigades. Meanwhile, photos were posted on social media of Iranian militias celebrating their victory over the opposition forces in northern Daraa as the latter accepted the Jordanian suggestion to handover their heavy-arms to the Syrian regime and evacuate Daraa with safe passage.⁽¹³⁰⁾

The Israeli political commentator Eyal Zisser believes that Israel fell into a trap when Assad's regime retook control over southern Syria. Assad could not have achieved this without Iranian support, knowing that the Syrian soldiers compose just 20% of the overall fighting forces in Syria, while Iranian-affiliated fighters compose 80%.⁽¹³¹⁾ This ensures Iranian penetration near the Israeli borders, especially after the Israeli Defense Forces declared in July 2018 that Iranian and Hezbollah fighters penetrated the Bariqa refugee camp near the Golan Heights as civilians, where 15,000 Syrian refugees live.⁽¹³²⁾

2. Soft power

Although Iran has relied mainly on hard power to expand its influence in Syria, it has when required resorted to soft power. The Supreme Leader's Advisor on International Affairs and Chairman of the Trustees Commission in the Islamic Azadi University,⁽¹³³⁾ Ali Velayati, confirmed

in early 2018 that Bashar Assad had approved opening branches of the university in all of Syria's governorates. He also confirmed the approval for the Islamic Supreme Council of Iraq Chairman, Humam Hamoudi, to open branches of the same university in Karbala, Najaf, Baghdad, Basra, and Erbil.⁽¹³⁴⁾

It is worth mentioning that Iran is the first and foremost beneficiary of destroying universities and educational centers during battles in states wherein it is extending its influence, especially Syria. This situation offers Iran a golden opportunity to establish its universities and educational and cultural centers, smoothing the path for its demographic plan and strengthening its influence.

3. Political tools

Along with soft and hard power to extend its influence in Syria, Iran has participated in all of the meetings for a political settlement in Syria during 2018, including the three rounds of talks held in Astana in May, July and November 2018, and the Sochi talks in April and September 2018.⁽¹³⁵⁾

On September 7, 2018, Tehran hosted a Trilateral Summit, which gathered Putin, Erdogan, and Rouhani, where the latter sought to ignore the ceasefire and the final communiqué did not mention the ceasefire. They agreed to protect Syria's independence and territorial integrity, ensure cooperation to eliminate ISIS, start a constitution drafting committee and provide aid to Syrian refugees.⁽¹³⁶⁾

On September 2, 2018, Iranian Foreign Minister Mohammed Javad Zarif visited Damascus coming from Ankara and negotiated with Assad reconstruction projects that Iran will implement in Syria, wherein Tehran aspires to compensate for its human and financial expenditures during the Syrian war. According to the Iranian writer, Mustafa Ghanizadeh, the main motivation behind the visit of Khamenei's Advisor on International Affairs Ali Velayati to Moscow on July 12, 2018, was to show Iranian concerns towards any trilateral deal between Russia, Israel, and the United States to expel Iranian militias from Syria.^{(137)*}

Second: Regional and international factors impacting Iranian influence in Syria

In addition to Iran, there are other regional and international actors that have their own goals and interests in Syria. They consider Syria a vital element in their agendas and strategies in terms of location, position, influence, deployment, and resources in order to impact the regional and international equation. They are all influential on the future role of Iran in Syria, given their contradictory starting points, goals, tools and interests in Syria:

1. The Israeli military escalation against Iran

Israel attempted to be the biggest obstacle against Iranian schemes in

Syria during 2018, due to its concern for Iran exceeding its 'red lines,' and to prevent Tehran from exploiting the Syrian conflict to transport weapons to Hezbollah in order to support its military arsenal and to change the regional game. Israel has also tried to halt the process of establishing offensive Iranian infrastructure near ceasefire lines in southwestern Syria and to ensure the safety of Israeli towns regardless of who is behind the attack and whatever their motivation might be.⁽¹³⁸⁾

The U.S. Central Intelligence Agency (CIA) revealed the suspicious flights from Iran to Syria could have been loaded with weapons for the Assad regime or Iranian forces there. The CIA expressed fear that these weapons could pose a threat to Israeli national security,⁽¹³⁹⁾ as well as concerns over Iranian expansion in the 'Israeli national security zones' in south-western Syria at the west of Damascus-As-Suwayda road, 50-70 km away from the disengagement line in the Golan Heights.⁽¹⁴⁰⁾ Moreover, Iran seeks to build military bases and a complete army in Syria that would be comparable to Israel's military force and pose a threat to Tel Aviv at the same time.⁽¹⁴¹⁾

On July 18, 2018, Israeli military sources revealed that the IRGC moved military convoys of its fighters and weapons across Iraqi-Syrian borders through Bokamal. This city is the main headquarters for Iranian-affiliated Shiite militias. The sources also monitored Iranian military units along the Syrian-Israeli borders: Brigade 33 of Iranian fighters and IRGC commanders, and the Falcons of Quneitra that consists of special task Hezbollah elements.⁽¹⁴²⁾

In February 2018, during the Munich Security Conference, Netanyahu warned Tehran and its proxies against engaging in armed hostilities in Syria waving a piece of steel from an Iranian drone that was shot down by Israeli Air Defense, adding, "Israel will not allow Iran's regime to put a noose of terror around our neck. And we will act, if necessary, not just against Iran's proxies that are attacking us, but against Iran itself."⁽¹⁴³⁾

Furthermore, the former Israeli Defense Minister, Avigdor Lieberman, mentioned that Israel won't let Iran "entrench its existence in Syria at any cost,"⁽¹⁴⁴⁾ while the Energy Minister, Yuval Steinitz, clarified, "It's unacceptable that Assad sits quietly in his palace and rebuilds his regime while allowing Syria to be turned into a base for attacks on Israel," adding, "What happened in Lebanon and enforcing Hezbollah is an example, and if we do not prevent Iran from upholding its existence in Syria, another Hezbollah will emerge there."⁽¹⁴⁵⁾

Thus, Israel sought to reduce Iranian influence in Syria by expelling militias through two means:

The first means is military: successive military strikes on the headquarters of militias, (see table 1).

Table 1: Israeli military operations against Iranian headquarters in Syria

#	Date	Targeted areas
1	10/02/2018	12 Iranian and Syrian targets in Rif Dimashq and Rif Homs.
2	10/04/2018	T-4 airbase in Rif Homs resulted in 14 dead, including 7 elements of the Iranian Army.
3	30/04/2018	Iranian sites and targets in Hama and Aleppo resulted in 26 dead affiliated to Assad, including 4 Syrians and the rest were Hezbollah and Iranian fighters.
4	08/05/2018	Iranian and Syrian sites in Al-Kiswah Rif Dimashq resulted in 15 dead fighters, including eight fighters from the IRGC and other militias.
5	10/05/2018	The most significant Israeli attack against Iranian sites in Syria since the beginning of the crisis by striking 70 Iranian military targets: an Iranian camp in northern Damascus, the Quds Force's headquarters for logistic leadership, intelligence sites, military compounds, weapon depots in Damascus International Airport, in addition to reconnaissance sites, military sites and combat equipment in the disengagement zone, from where missiles were launched towards Israel on May 9, 2018.
6	08/07/2018	T-4 airbase for a second time during 2018 as it included IRGC commanders.
7	22/07/2018	Air strikes on a scientific research center in Masyaf near Hama.
8	23/08/2018	Air strikes on an Iraqi Hezbollah military convoy near Bokamal.
9	30/11/2018	Sites in Rif Dimashq and other sites in the south of Syria, where Iran established military bases for its affiliated forces and others for storing its weapons.

The second means is political: through intensified visits to Moscow as it is the key player in the Syrian crisis and the closest ally for Iran in Syria. Therefore, Moscow was critical for Israeli decision makers in 2018 to put more pressure on Iran to adhere to Israel's red lines and to expel militias from Syria. On July 12, 2018, during a visit to Moscow, Netanyahu rejected a Russian offer to get Iranian militias approximately 80 km away from the east of the Syrian-Israeli borders and he demanded Moscow expel them from Syria completely. Also, he announced his acceptance of Assad to secure southern Syria on the condition of expelling Iranian forces from the region.⁽¹⁴⁶⁾

At the end of 2018, Netanyahu-Putin talks reached a dead end, as Russia needs Iranian existence in Syria to stabilize Assad's regime and to protect Russian bases and interests there. The Russian military presence in Syria is costly in terms of money and lives, thus Moscow depends on Iranian militias to maintain its areas of influence.⁽¹⁴⁷⁾

The Iranian writer Mohammed Reza Husseini linked the Iranian rejection of demands to expel its militias with Tehran's belief that a weakening of Iran's front-line in Syria, Iraq, and Lebanon will give Israel the opportunity to target Iran's internal security; and the weakness of Iran's allies around Israel will bring it adjacent to Iranian borders.⁽¹⁴⁸⁾

2. The Turkish stampede in the north of Syria

Through its military involvement in Syria, Ankara seeks to prevent the establishment of a Kurdish state in northern Syria and to halt the Kurds in the north from establishing geographic links along the Syrian-Turkish borders on both sides of the Euphrates River by controlling Jarabulus, Afrin, and Manbi. Also, Ankara seeks to curb the refugee wave — taking into account Syrian refugees are nearly 3.6 million.⁽¹⁴⁹⁾

In August 2016, Turkey started its military intervention in the north of Syria, through Operation Euphrates Shield in Jarabulus, eastern Euphrates. Turkey then started Operation Olive Branch in Afrin, northern Syria on January 20, 2018 against the Kurdish People's Protection Units (YPG).⁽¹⁵⁰⁾

The Turkish authorities consider the US-backed YPG as an extension to the Kurdistan Workers' Party (PKK), which Ankara and Washington have designated as a terrorist organization; Ankara has also designated the Kurdish Democratic Union Party (PYD) as a terrorist organization.⁽¹⁵¹⁾

Ankara announced its military control of Afrin in March 2018 after 58 days of military operations there.⁽¹⁵²⁾ Erdogan announced on June 18, 2018, the entrance of Turkish forces into Manbij 30 km away to the west of the Euphrates River within the US-Turkish agreement (Manbij roadmap), which was signed between the Turkish Foreign Minister Mevlüt Çavuşoğlu and the US Secretary of State Mike Pompeo in Washington on June 4, 2018.

Under this agreement, Kurdish militants should leave Manbij within 30 days, and US and Turkish forces should start joint supervision for 45 days.⁽¹⁵³⁾

3. US escalation against Iran

Curbing Iran’s regional influence has been one of the top priorities of the US strategy towards Iran since President Trump came to power almost two years ago. The United States put further pressure on Iran to withdraw its armed militias from Arab countries, specifically from Syria, and to stop them from expanding across territories that fall within Israeli national security zones.

A. Military attacks on Iranian headquarters

The United States targeted Iranian militia sites three times during 2018, individually, in coordination with Britain and France, as well as with the US-led coalition in Syria (See table 2).

The US strikes against Iranian headquarters in Syria		
#	Date	Targets
1	07/02/2018	The bombing of Syrian and Iranian targets in Deir Ez-Zor, in response to the military operations launched by the Iraqi Nujaba Movement, Hezbollah and Fatimiyoun Brigade, against the sites of the U.S.-backed Syrian Democratic Forces
2	13/04/2018	The United States, British and French air strikes on three Syrian and Iranian targets: a scientific research center near Damascus, a chemical weapons storage facility in western Homs, a chemical weapons storage facility and a command post near Homs, in response to the Assad regime’s chemical strikes on Duma
3	18/06/2018	Syrian media accused the US-led coalition of targeting an Iranian military barrack, including members of the Popular Mobilization Forces (PMF) and Hezbollah in Harri village, south-east of Bokamal, killing 52 fighters, including 22 of the PMF

Source: Unit of Regional and International Studies, Rasanah IIIS, last updated on January 22, 2019.

US policy towards Iran in Syria

Despite curbing Iran's influence in Syria becoming a major priority for the United States during 2018, the Trump administration still remained confused with regard to two issues:

(1) position against Iranian militias

Despite the Iranian incursion into Syria being a pivotal issue of the Putin-Trump agenda at the Helsinki Summit on July 16, 2018, the Israeli press saw that the summit was not in Israel's favor for not stipulating the expulsion of militias and failing to halt the Russian breach of security arrangements with Israel. On June 28, 2018, Russian and Syrian forces carried out 342 air strikes against Syrian opposition sites close to Israel. The Russian Air Force carried out 299 raids (87%) while the Syrian Air Force carried out 43 raids (13%).⁽¹⁵⁴⁾

(2) US withdrawal from Syria

By the end of December 2018, Trump unexpectedly announced the US military withdrawal from Syria (2,000 soldiers). He justified this decision on the basis that ISIS had been eliminated, which sparked controversy within his administration, resulting in the resignation of both Defense Secretary James Mattis,⁽¹⁵⁵⁾ and the counter-ISIS campaign leader, Brett McGurk.⁽¹⁵⁶⁾ They both considered US forces in Syria as a guarantor to ensure that the country is not turned into an Iranian base.⁽¹⁵⁷⁾ In their opinion, US withdrawal will leave a vacuum in Syria which Iran will exploit to expand its influence, lay its plans, open a full window to supply weapons to Hezbollah and facilitate the implementation of the Iranian corridor project.

(3) The Russian-Iranian alliance of necessity

The observers of the Russian-Iranian alliance in Syria classified it as an alliance of necessity, a temporary alliance linked to the nature of common threats, interests, and benefits. Once the common interests and threats are absent, there will inevitably be cracks and disagreements which were overlooked by the two parties at the beginning of the alliance, and the stronger party will prevail in the end.

Syria approaches a new stage, in which Russian-Iranian common threats and interests will come to an end after they gathered the Syrian opposition forces to expel them all in one go and they eradicated most of the terrorist enclaves in Syria. Moreover, despite the Russian need for Iranian forces in Syria, cracks will occur due to the divergence of Russian-Iranian interests and perspectives in Syria. Russia has strategic and political perspectives to protect its influence on the Mediterranean coast, the Tartus naval base; and Iran has a doctrinal perspective for extending Shiite influence by

creating corridors connecting the areas controlled by Hezbollah and Syria to strengthen Iranian control and Tehran's link to the Mediterranean Sea.

The Russian project also aims to preserve the Assad regime and impose a political settlement by forming a decentralized system that takes into account the status quo and the balance of power on the ground. This settlement does not appeal to Iran as it does not want a strong central authority in Syria that can abandon Iran under any pressure.⁽¹⁵⁸⁾ Moscow, on the other hand, will not allow Iran to exploit its role in Syria as a bridge to carry out its agenda. At the same time, Iran rejects a Russian presence in Syria that curbs its influence, taking into consideration the historic state of mistrust between the two countries.

Also, Russia and Iran have different perspectives on Israel. Iran sees Israel as a hostile entity that should be destroyed through supporting its proxies in the region, while Moscow considers Israel a stable state, and 100,000 Israeli citizens are living in Russia. One-third of Israeli society is composed of Russian immigrants. Further, the estimated economic relations between the two countries in 2016 amounted to almost \$2 billion.⁽¹⁵⁹⁾

Russian-Iranian differences in Syria revolve around the division of strategic areas, and how best to divide Syria's resources and its reconstruction contracts.

There are a number of indicators of the frosty Russian-Iranian alliance in 2018:

A. according to the Russian-Israeli agreement in May 2018, only Syrian forces are allowed to operate on the southern border of Syria, the Russian Foreign Minister Sergey Lavrov said.⁽¹⁶⁰⁾

B. confessions by Iranian officials that Russia intends to abandon Iran in Syria. In a statement to the Iranian Parliament, on June 6, 2018, Behrouz Bonyadi said Russia and Syria are giving up on Iran.⁽¹⁶¹⁾

C. the so-called Russian-Iranian-Israeli deal in August 2018, which stipulated keeping Iranian militias 85 km away from the Golan Heights, and for Assad's forces to retake control of territories held by Iranian militias, while halting Israeli strikes in Syria.⁽¹⁶²⁾

D. although some analysts believe that Russia's delivery of the S-300 system to Syria in October 2018,⁽¹⁶³⁾ an air defense missile system capable of monitoring and targeting ballistic missiles and enemy aircraft across a 250 km range, as well as striking 10 targets simultaneously,⁽¹⁶⁴⁾ will be in Iran's favor, other experts believe that Iran may benefit from the system in the short and medium term. However, in the long term, it may be converted into an asset by the Assad regime and a means to distance itself from Tehran, which is contrary to the Iranian strategy in Syria that feeds on the permanent subordination of the Assad regime to Iran.

(4) The political route to settle the Syrian crisis

Although Iran prefers to settle the Syria crisis through military engagement, the political process plays a part in its overall strategy in Syria. In 2018, eight meetings were held in Astana, Sochi, Istanbul, Tehran, and Geneva hosted by Russia, Turkey, and Iran (see table 3). They aimed to proceed with the ceasefire in the de-escalation zones, release prisoners, establish a guarantee for the return of refugees, agree on the reconstruction of Syria, and form a constitutional committee.

Table 3: Meetings and rounds of the political route to settle the Syrian crisis		
Number of Meetings	City	Meeting and rounds
1	Astana Kazakhstan	Astana 9, May 14-15, 2018
4	Sochi Russia	<ul style="list-style-type: none"> ■ 2 rounds: Astana 10, July 30-31, 2018 and Astana 11, November 28-29, 2018. ■ Trilateral Summit: Rouhani, Putin and Erdogan, April 4, 2018. ■ Russia-Turkey Summit on September 17, 2018
1	Istanbul Turkey	Quadrilateral Summit on Syria in Istanbul: Putin, Macron, Erdogan and Angela Merkel, October 26-27, 2018
1	Tehran Iran	Trilateral Summit: Rouhani, Putin and Erdogan on September 7, 2018
1	Geneva Switzerland	Geneva Meetings 2018

Source: Unit of Regional and International Studies, Rasanah IIIS, last updated on January 22, 2019.

None of these meetings reached any settlement for the five files by the end of 2018. Russia and Iran violated the December 29, 2016 ceasefire in Syria and the May 4, 2017 de-escalation agreement when they

launched air raids on eastern Ghouta, Daraa, Quneitra, Duma and Idlib before the September 2018 agreement. The Turkish military operation in Afrin also represented a breach of the de-escalation agreements. As for the constitutional committee of 150 members (50 selected by the Assad regime, 50 by the opposition, and 50 independents by the UN Syria envoy to Syria Staffan de Mistura) this file was postponed to February 2019 because Assad, Russia, and Iran refused de Mistura's list because it contained some independents that the Syrian regime feared might demand a constitutional condition that could lead to Assad's departure. Furthermore, Russia and Iran feared that the United States had put pressure on de Mistura in selecting the majority of members on the independent list.

The countries sponsoring, hosting or participating in the talks did not make any progress regarding the files of refugees, detainees, and reconstruction because of differences between the parties regionally and internationally, as some countries sought to gain the lion's share in the process of reconstruction such as Iran. Moreover, the United States linked its contribution to the reconstruction process to expelling Iranian militias from Syria.

Third: Indications of Iran's strategy for its long-term presence in Syria

Once Iran had realized the shift in the Syrian conflict equation in favor of Iranian-backed Bashar Assad (financially and military), it has been working since early 2018 to implement the so-called Iranian strategy for its long-term presence in Syria through several procedures:

1. Rivalry for the biggest share in the reconstruction process

Iranian participation in the reconstruction process will achieve economic gains for the country in light of the international embargo after the new US sanctions to compensate for its economic losses. In addition, it will make political gains through its bold presence in the new Syrian equation by making use of its allies and proxies in an effective way to implement its expansionist plans in the new Syria.

"In addition to its steady and growing income from the reconstruction of Syria, Iran's control over infrastructure will serve its larger scheme, the project of linking Tehran to the Mediterranean," said American expert Matthew Brodsky to *Haaretz*. "The Iranians will not get out of Syria in the upcoming years as they plan to reap a lot of money," said the Iranian affairs expert at Rand Institute Ariane Tabatabai to *Haaretz*.

Iran sought to gain the lion's share in Syria's reconstruction process by sending economic and infrastructure officials to conclude agreements with the Assad regime. Iran sent its Deputy Minister of Roads and Urban Development, Amir Amini, to Damascus on August 13, 2018, to discuss

extending a project to build a railway connecting Iran and Syria, with Iraqi participation.

During a visit to Damascus in May 2018, the Minister of Roads and Urban Development, Abbas Akhoundi, followed-up the implementation of the signed MoU between Syria and Iran. Discussions also included the signing of agreements relating to industry, telecommunications, mini-economic projects and infrastructure in Syria.

In addition, Syria and Iran signed the executive program for the power plant in Latakia with 540 megawatts capacity on February 10, 2018, and an agreement to implement a 70 km gas pipeline to supply power to the project. The two sides also agreed on the rehabilitation of the thermal power station in Aleppo.

In addition to the intensive Iranian participation in the 4th International Trade Exhibition for Rebuilding Syria held on October 2-6, 2018, the Director General of Trade Promotion Organization (TPO) of Iran's Arabic-African Affairs Office, Farzad Piltan, said that the organization seeks to possess the largest share in the rehabilitation of Syrian infrastructure.

The Director of the Export Department of the company Wagon Pars, Mohammad Mirzaei, said that the company had held talks with the Syrian regime for exporting metro carriages and trains.

This reflects the pragmatism in the Iranian policy in general and towards Syria in particular. Iran is keen to ensure a long-term role in the new Syria, to compensate for its economic expenditure during the war and to ease the pressure on its crippled economy. The top Military Aide to the Iranian Supreme Leader Major General Yahya Rahim Safavi said on February 20, 2018, "Iran must recover the costs it paid in Syria," pointing out that the Syrians were ready to compensate for these expenses by providing oil, gas, and phosphate to Iran.

In turn, the head of the National Security and Foreign Policy Committee Heshmat Falahatpisheh justified Iran's pragmatism by saying that all countries are pursuing their interests, so "Iran should pursue its interests."

Qassem Soleimani quoted the Supreme Leader's saying in August 2017, "When you look at the countries we have relations with, we simply look at our interests."

These statements are key pieces of evidence against the Iranian arguments that its involvement in Syria is for countering terrorism, defeating ISIS, saving the oppressed people, and providing consultations. For example, the Secretary of the Guardian Council, Ahmad Jannati, argued that "without the presence of IRGC in Syria, ISIS would reach the Iranian borders."

"Iran is in Syria legitimately and based on the invitation of the Syrian government to fight terrorism," asserted Bahram Ghasemi, the Foreign Ministry spokesman.

2. The demographic change, a strategic option for Iran

Iran has adopted the so-called Free Shiite Army in Syria to accelerate the implementation of its demographic change plans through a displacement policy in many Syrian cities and governorates, which witnessed fierce battles by pushing the Assad regime to sign evacuation agreements or by intensive military bombardments against Sunni majority cities forcing the residents to flee. Shiites or foreign fighters from unstable countries who were imported to fight alongside Assad in Syria were resettled in these areas through granting them citizenship in order to change the demographic structure of Syrian society in favor of the Shiite component to support Iranian plans in the future.

Iran has increased the pace of demographic change through its displacement scheme after the fall of Aleppo in early 2017. It succeeded in evacuating the Syrian opposition from Al-Waer neighborhood in Homs in March 2017 after the successful evacuation of Barada Valley in January 2017. Then its militias went to Aleppo, the biggest and most important Syrian city controlled by the opposition, after that they went to the outskirts of Damascus. For example, more than 3,000 people were displaced from Al-Zabadani and Madaya in April 2017.

The Jerusalem Post, in November 2018, reported that the Assad regime granted citizenship to Hezbollah and IRGC fighters. A Syrian refugee and writer, Mohammad Rozjar said that 200,000 Sunnis left their homes, while the Assad regime gave their houses to Shiite fighters. Assad issued a law that allows for the confiscation of property of those who are viewed as dissidents to the regime. In addition, there were rumors of Iraqis living in the evacuated Sunni areas, *The Jerusalem Post* added.

Some observers noted that this law will result in foreign fighters staying in Syria and ease the regional and international pressure on Iran to remove Iranian militias from Syria through hiding their military identities. This serves the Iranian plan and changes the demographic structure of Syria in favor of Shiites, posing a question about the future of the Sunni component and Syrian refugees. Three years ago, Assad said, "The fatherland is not for those who live in it or hold its nationality, but for those who defend and protect it."

Assad's remarks clearly indicated the naturalization process of foreign fighters used for Iran's demographic change policy.

However, it appears that a short-term demographic change policy in Syria is not easy and almost impossible to achieve given the internal, regional and international challenges, as well as the more complicated demographic texture of Syria compared to that of Bahrain and Iraq. The majority of the Syrian population is Sunni and many international actors have interests and influence in Syria. However, Iran in the medium and

long term may make a demographic change unless its influence is curbed in Syria.

3. Signing security agreements as a strategic option to control sovereign institutions

Iran is aware that the military, security, and intelligence institutions are the most influential ones in the political systems in the Middle East, especially in crisis countries such as Syria. This enables Iran to play a bigger role in the new Syria and provide an opportunity to merge its militias with the restructuring process for a long term presence in the new Syria. Therefore, Iran exerted further efforts to restructure the defense and military organizations in the new Syria. This is why the Iranian Defense Minister Amir Hatami visited Syria on August 26, 2018 and met with Syrian President Bashar Assad and Defense Minister Ali Abdullah Ayyoub.

During the visit, the two countries concluded “Agreements on Defense and Military Cooperation.” Hatami revealed what he described as the most important terms of the agreement: “reconstructing the Syrian armed forces and the Syrian military industries to enable these forces to re-operate.”

The Iranian military attaché in Damascus, Abolghasem Alinejad, revealed two other terms of the agreement: “the continuation of Iranian advisors in Syria, the clearing of minefields and the removal of weapons in various Syrian areas.”

Fourth: Findings

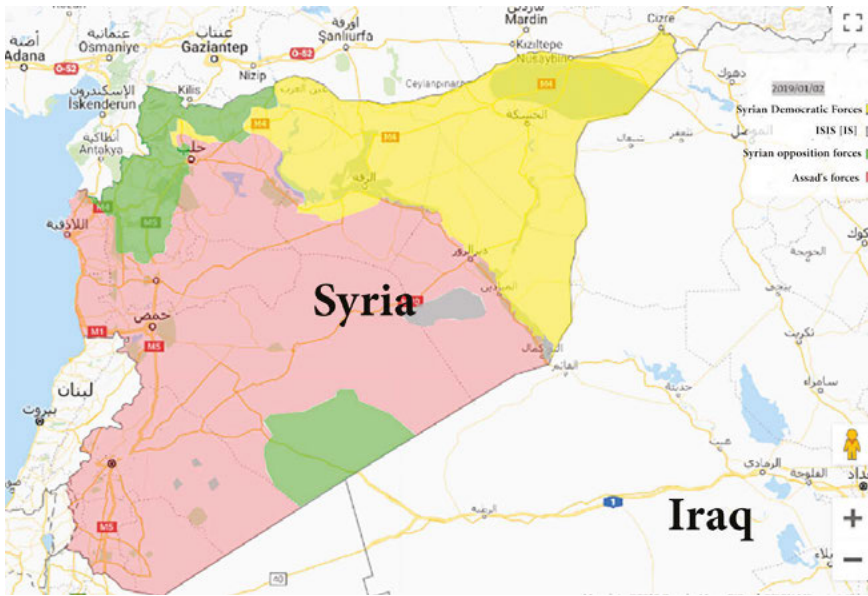
1. Iran’s expansionist tools: Iran primarily relied on military power to expand its influence in Syria in 2018 along with soft power to change Syria’s demographic texture.

2. The volume of Iranian influence: When comparing the volume of Iranian influence in 2017 and 2018, it becomes clear that the curve of influence increased. In March 2018, the Assad regime controlled 47% of Syria and 90% in September 2018, Putin said.⁽¹⁶⁵⁾ According to the distribution map of control and influence published in *Beladi* on January 2, 2018, the Assad regime controlled the areas shaded in the near-red color.⁽¹⁶⁶⁾

In early 2018, Iran’s areas of influence were geared towards the so-called *Beneficial Syria* (Damascus, Rif Dimashq, Homs, Latakia, and Tartus), but by Assad’s control of Daraa, Quneitra, Eastern Ghouta, and Duma, only Idlib and small parts of the Golan Heights remained outside his control by the end of 2018.

3. The political route: this route has failed in the five files in 2018: ceasefire, detainees, refugees, reconstruction of Syria, and formation of a constitutional committee. Iran resorted to using armed force to displace citizens in the Sunni governorates. The actors in Syria could not agree to

Map 1: Spheres of influences in Syria, February 2019



Source: <https://bit.ly/2NWF2A1>

any political settlement in Syria. They have been competing to expand influence in Syria to gain the largest share in the new political equation in light of their different perspectives, tools, objectives, and interests. They also have not agreed on the future of Iranian militias, which Washington and Tel Aviv insist to expel from Syria, while Russia still cannot give up on Iran.

4. Obstacles to the Iranian role: At home, the Iranian government faced a harsh economic crisis, simmering public discontent over Iran's regional interventions, and difficulties in covering its budgetary expenses. Externally, Iran faced an Israeli military escalation, harsh US economic sanctions, Russian/Turkish ambitions in Syria, and deteriorating relations with the GCC states.

Fifth: Future trends of the Iranian role in Syria

1. The decline of Iranian influence by expelling Iranian militias

This scenario is likely to happen if the United States and its regional allies encircle Iran politically, militarily and economically, forcing Iran to withdraw its militias from Syria. This scenario is more likely if one takes into consideration Iran's deteriorating economic conditions, the plummeting of its national currency as a result of economic sanctions, and public opposition to its expansionist activities in Arab countries.

2. The constancy of Iranian influence

Iran would protect its spheres of influence and keep its militias within these areas. Taking into consideration that Israel has set red lines to limit Iran's expansionist activities in southern Syria. The aim behind the S-300 system is to strengthen the Assad regime and halt Iranian expansionism, according to some experts. However, this scenario is not likely to happen in light of the Iranian expansionist ideology and by studying Iran's non-static role in Iraq, Lebanon, and Yemen.

3. The increase in Iranian influence

Iran would continue protecting its spheres of influence and the presence of its militias in 2019. This scenario is most likely in light of the political and military status quo in Syria: the Syrian Army has become much weaker due to the increasing death toll, the absence of Russian ground forces in Syria as an alternative to Iranian forces, and the US military withdrawal from Syria.

There are facts making this scenario the most likely to occur:

- Russia and Syria still adhere to the Iranian card to protect their interests and spheres of influence in Syria, strengthen the Assad regime, and deter opponents from starting a new civil war.
- The war in Syria has cost Iran in terms of money and military casualties. Iran is now working to reap maximum economic benefit from the reconstruction of Syria;
- Iran is keen to exploit the new military situation in Syria after deploying the S-300 missile system;
- Iran expanded its spheres of influence and deployed its proxy militias across the territories taken over from ISIS and opposition forces;
- Iran seeks to impose control over Syria's oil and phosphates;
- It aims to enforce demographic change;
- And it has signed security agreements with the Syrian government to get a foothold in Syrian sovereign institutions.

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International Affairs

Since the US withdrawal from the nuclear agreement, the Iranian file has become one of the most crucial issues among the international powers. However, the European partners of the agreement with Russia and China rejected the US decision and maintained the agreement because it is legitimate and legal and its technical framework provides appropriate mechanisms to address Iran's nuclear issue. Undoubtedly, US economic and political influence on the international scene created a new situation regarding the relationship of some major countries with Iran. However, the US strategy affected Iran's relations with these countries both directly and indirectly, particularly in the economic sphere. International investments and financial transactions were heavily impacted with the withdrawal of several international companies from the Iranian market. Similarly, Turkey was also affected by this policy. The report attempts to track the most important developments in the relations between Iran and the partner countries of the nuclear agreement as well as Turkey, one of the countries that has special relations with Iran.

US-IRAN RELATION

US Strategy on Iran After Its Withdrawal From The Nuclear Deal: Dimensions and scenarios

Tensions in US-Iran relations witnessed an unprecedented escalation in 2018, notably, the US withdrawal from the nuclear deal and the resumption of all nuclear-related sanctions on Tehran. In 2018, the US strategy on Iran became clear. The United States intensified pressure on the Iranian government to force it to negotiate a new agreement and to resolve all outstanding issues between the two countries. However, the Iranian government rejected the US terms and conditions for negotiations and adopted a strategy to resist pressure and to circumvent the sanctions. This part of the report sheds light on the US strategy on Iran, Tehran's counteractions to US measures, and the interactions between both sides in 2018.

First: The US strategy on Iran

1. Withdrawal from the nuclear deal and adopting a new strategy

At the beginning of 2018, US President Donald Trump adopted a new strategy on Iran. He signed a waiver on 12 January to suspend sanctions for 120 more days to give his European allies a final chance to fix the flaws of the Iran nuclear deal but he announced that this would be the last time he would provide such an opportunity.⁽¹⁾ During the first 90 days, Trump tried to remove all obstacles and challenges to follow through on his vow to withdraw from the Iran nuclear deal. In order to unify the position of his administration on Iran, Trump fired his Secretary of State, Rex Tillerson, on March 13, 2018, who, according to Trump, differed with him on Iran, naming CIA director Mike Pompeo as his replacement. On March 22, 2018, Trump also discharged the National Security Advisor Henry McMaster, who frequently opposed Trump's foreign policy tendencies, and replaced him with the neoconservative John Bolton, who believes in the use of force against Iran and North Korea.⁽²⁾

Trump failed to convince the other nuclear deal signatories of the need for the US withdrawal from the international pact, but announced the US withdrawal from the agreement on May 8, 2018 and ordered the US Secretaries of State and Treasury to immediately prepare for the re-imposition of all US sanctions on Iran lifted under the nuclear deal within 180 days. Accordingly, the US strategy on Iran became clear. Washington aimed to negotiate a new treaty to change the regime's behavior rather than

regime change in Iran,⁽³⁾ including amending the nuclear deal, dismantling Iran's ballistic missile program, and curbing its regional role and influence. In order to achieve these goals, the United States restored the strategy of extreme pressures on Iran, including:

- undermining the nuclear deal to renegotiate a new treaty;
- isolating Iran internationally;
- confronting Iran's regional project and its threats to some US allies;
- imposing the toughest economic sanctions ever;
- and impacting Iran's internal conditions to exert more pressures on the Iranian government.

2. Restoration of sanctions

The US Departments of State and Treasury reactivated two sets of sanctions on Iran.

The first round of sanctions took effect on August 6, 2018, and included:

- sanctions on the purchase or acquisition of US dollar banknotes by the government of Iran;
- Iran's trade in gold or precious metals;
- direct or indirect sale, supply, or transfer to or from Iran of graphite, raw, or semi-finished metals such as aluminum, steel, coal, and software for integrating industrial processes;
- purchase or sale of Iranian rials, the maintenance of significant funds or accounts outside Iran denominated in Iranian rials;
- the purchase, or facilitation of the issuance of Iranian sovereign debt;
- Iran's automotive sector;
- import of Iranian-origin carpets and foodstuffs such as pistachios;
- the export and re-export of commercial airplanes and their parts.

The second round of US sanctions came into effect on November 4, 2018, and targeted:

- Iran's port operators, its shipping and shipbuilding sectors, including the Iranian Islamic Shipping lines, the South Shipping Line and other affiliates; petroleum-related transactions on the National Iranian Oil Company (NIOC);



- the National Iranian Tanker Company (NITC), including the purchase of petroleum, or petrochemical products;
- transactions by foreign financial institutions with the Central Bank of Iran and other Iranian financial institutions.

The US Treasury Office of Foreign Assets Control (OFAC) added the Atomic Energy Organization of Iran to the sanctions list in addition to 23 of its subsidiary companies and affiliated individuals as the organization has operational and regulatory oversight over Iran’s nuclear program and is responsible for its research and development. OFAC also sanctioned Iran’s National Airlines Company as it is owned by the government in addition to 67 aircraft operated by Iran Air and hundreds of individuals and entities, including a number of major sectors and 92 facilities owned by the Ghadeer Investment Company as it belongs to the Executive Committee of Imam Khomeini’s Command.⁽⁴⁾

Table1: The most significant US sanctions and pressures on Iran in 2018

Date	Sanctions and pressures
January 5, 2018	Sanctions on five Iranian companies- subsidiaries of the Shaheed Bakiri Group- for participating in the development of the Iranian ballistic missile program.
January 9, 2018	The House of Representatives concluded to support the freedom of the Iranian people and condemned the repression of protests and restrictions placed on communication technology.
January 17, 2018	Sanctions on 15 Iranian individuals and entities, including the Chief of the Judiciary Sadiq Larijani, the Chairman of the Green Wave Communications Company (the Iranian and IRGC Defense and Naval Industries Group) Murtaza Razawi, and the Warden of the Raja'i Shahr Gholam prison Reza Dhia'i and others.
March 12, 2018	Extension of the national state of emergency against Iran for one year (non-nuclear-related sanctions).
March 15, 2018	An American court indicted an Iranian-American citizen called Reza Olangian for buying weapons for Iran.

Date	Sanctions and pressures
March 21, 2018	Arrested an Iranian citizen called Ali Sadr Hashemi Nejad for participating in a conspiracy to circumvent US sanctions on Iran.
March 23, 2018	Sanctions on ten Iranian individuals linked with the Iranian Mabna institution for charges of conducting a campaign to steal information for the Iranian government.
May 8, 2018	President Trump withdrew from the Iran nuclear deal between the P5+1 group and Iran and gave orders to re-impose all nuclear-related sanctions within 180 days
May 25, 2018	Sanctions on Iranian airline companies and their affiliates.
May 25, 2018	Sanctions on Hanista Software Group and “Ansar Hezbollah” inside Iran.
May 30, 2018	Sanctions on Evin prison in Tehran.
June 6, 2018	Boeing Group canceled two big deals with Iranian airline companies in compliance with the US withdrawal from the nuclear deal.
July 2018	Canceling the permission given to Airbus and ATR Companies to provide aviation services for Iranian airline companies.
July 2018	The United States commenced a TV channel in Farsi around the clock to speak to the Iranian people directly, exert pressure on the Iranian government, and to improve the image of the United States inside Iran.
August 8, 2018	The first set of US sanctions on Iran came into effect.
August 16, 2018	The US Secretary of State Mike Pompeo announced forming the Iran Action Group to impose the toughest sanctions ever to change the Iranian regime’s behavior.

Date	Sanctions and pressures
October 11, 2018	The US Treasury Financial Crimes Enforcement Network warned of Iranian fraudulent practices, fake companies, and documents as well as Iranian currency-exchange companies that seem legal, and governmental officials who work on illegal revenues to use in subversive activities.
October 16, 2018	Sanctions on a wide network of financial companies and institutions for providing funds for the Basij forces. This network is known as the “Biniad Ta’awon Basij” in Farsi, meaning “Basij Cooperative Institution” located in Iran.
October 23, 2018	The US Department of Treasury sanctioned two Iranians and six Afghans for belonging to the IRGC Al-Quds forces.
November 4, 2018	The second round of US sanctions on Iran came into effect.

3. Sanctions on Iran’s energy sector

These sanctions have had the greatest impact on Iran’s economy as oil and its products account for 70% of Iran’s total exports. With the 50% devaluation of Iran’s currency since the US withdrawal from the nuclear deal and the flaring up of protests in Iran, the Iranian government has come under unprecedented pressure.⁽⁵⁾

Despite its strict position regarding Iran’s oil exports, the United States was aware that sanctions would not bear fruit immediately. Hence, the US Secretary of Treasury announced that bringing down Iran’s oil exports to zero was difficult to achieve and that the United States could drive these exports down only by 20% at that stage due to pressures and the positions of countries importing oil from Iran as well as concerns regarding potential hikes in oil prices that would inevitably impact the United States itself. Accordingly, the United States granted six month waivers to eight countries - China, Japan, India, South Korea, Taiwan, Turkey, Italy, and Greece - to continue buying Iranian oil until finding alternative supplies.⁽⁶⁾

4. Achieving international compliance on US sanctions against Iran

The United States continued exerting pressure on all of Iran’s trade partners. For his part, President Trump warned countries and companies that violated the US sanctions on Iran that they would be included in the

sanctions and would be banned from doing business with the United States⁽⁷⁾ as well as banned from the US financial system.

Many foreign companies concerned about their vital interests with the United States withdrew from the Iranian market for fear of US sanctions. In order to thwart efforts to circumvent sanctions on Iran, US Secretary of State Mike Pompeo asserted that the United States would not allow the European Union (EU) or any other party to undermine these sanctions. Pompeo's statement came in response to the EU's plan to establish a special alternative financial mechanism to get around US sanctions on Iran's oil exports.⁽⁸⁾

The Iran Action Group, headed by the US Special Envoy for Iran Brian Hook, was created to develop an international consensus on changing Iran's behavior. This Group is strongly committed to changing Iran's behavior and to convince other countries to comply with the US sanctions against Iran. In addition, this Group threatened to sanction any entities cooperating with Tehran saying, "We are ready to impose secondary sanctions on other governments that continue this sort of trade with Iran."⁽⁹⁾

5. Coordination with US regional allies to confront Iran's influence

The United States intensified coordination with its regional allies to exert more pressure on Iran. On the sidelines of the UN General Assembly meeting, US Secretary of State Mike Pompeo, US National Security Advisor John Bolton, and US Special Representative for Iran Brian Hook held an international meeting with a number of countries including the GCC countries and Yemen to discuss Iranian practices. The US officials emphasised confronting Iran and its proxy militias as well as its destabilizing practices in the region.⁽¹⁰⁾ The US Secretary of State also held another meeting in New York involving representatives of the GCC countries, Jordan, and Egypt to discuss forming a security alliance to face the Iranian threat. Some observers called this alliance the "Arab NATO"⁽¹¹⁾ or the "Middle East Strategic Alliance" with the participation of five Gulf States, Egypt, and Jordan. For the time being, all parties are discussing the role and appropriate nature of the alliance. However, despite the many challenges, this alliance reflects a critical part of the US strategy to confront Iran's regional influence.

6. Impacting the Iranian regime's legitimacy at home

As an important part of its strategy, the United States tried to shape Iranian public opinion towards its position against their own government.⁽¹²⁾ The US withdrawal from the nuclear deal and the re-imposition of sanctions exacerbated the already harsh economic conditions in Iran. The national currency collapsed before a slight appreciation recently and the black market for trading US dollars has flourished in the country.

Iran witnessed public demonstrations at the beginning of 2018 until the end of July and early August as well as months of other factional protests and strikes, reflecting public anger. The US sanctions and its threats to companies and countries investing in the Iranian oil sector lowered Iran’s oil production and decreased government revenues. This reduced the government’s ability to deal with the local currency devaluation as well as undermined its ability to fulfill its obligations. This triggered protests in the country including one of the most important groups (the Bazaar merchants) that have traditionally supported the Iranian government.⁽¹³⁾

The United States exerted pressure on the Iranian government by supporting Iranian opposition outside the country. It also commenced a TV channel in Farsi that broadcasted around the clock to address the Iranian people directly, exerting more pressure on the Iranian government, and improving the image of the United States inside Iran.⁽¹⁴⁾ The United States supported the popular protests in Iran. After meeting the Russian President Vlademir Putin on July 16, President Trump said, “ the United States support the protests in Iran. The Iranian regime does not want to make the Iranian people know that support them.”⁽¹⁵⁾ According to Iranians, several accounts on Twitter belonging to the US Department of State or Israel disseminated propaganda against Tehran.⁽¹⁶⁾

7. Regional deterrence

The US moves in Syria, Iraq, and Lebanon, as well as its military deployment in the region, are of great importance to deter Iranian plans of establishing a land corridor from Tehran to the Mediterranean.⁽¹⁷⁾

Table2: Targeting Iran’s influence in neighboring countries in 2018

Date	Event	Country
February 7, 2018	The United States launched a strike on Iranian, Syrian, and Russian forces.	Syria
March 9, 2018	Negotiating the establishment of a permanent military base at Khankeen near the Iraqi-Iranian joint borders with the Iraqi Prime Minister Haider Al Abadi.	Iraq
March 2018	The United States undermined the Astana peace talks and revived the Geneva negotiations to prevent Iran and its Russian ally from achieving political gains after their military victories on the ground.	Syria

April 13, 2018	In partnership with Britain and France, the United States targeted a number of Syrian military sites after holding the Syrian regime responsible for using chemical weapons against civilians in the city of Duma on April 7, 2018.	Syria
May 15, 2018	Imposition of sanctions on four individuals linked with the IRGC and Lebanese Hezbollah including the Iranian Central Bank Governor Wali Allah Saif. Sanctions also included the Iraqi Al-Bilad Islamic bank.	Iraq and Lebanon
May 16, 2018	Imposition of sanctions on some leaders in the Lebanese Hezbollah.	Lebanon
June 18	Launching strikes on Iranian forces in Bukamal, southeast Syria.	Syria
November 13, 2018	Targeting five Hezbollah elements, four of whom lead intelligence and financial activities in Iraq in favor of the Iranian government.	Lebanon
November 20, 2018	Imposition of sanctions on nine entities in an international network through which, in cooperation with Russian companies, Iran supplies the Syrian government with millions of barrels of oil. On its part, the Syrian government facilitated transferring hundreds of millions of US dollars to the IRGC, Al-Quds forces, Hamas, and Hezbollah.	Syria and Lebanon

Second: Iran's Resistance Strategy and Confronting US Pressure

A. Iran's bet on preserving the nuclear deal in the formula "P4 + 1"

Currently, Iran is betting on saving the nuclear deal with the other signatories of the agreement other than the United States based on the international opposition to the US withdrawal from the international pact. This is bolstered by the position of the United Nations and its Secretary General, given that the IAEA issued 13 official reports from the date of signing the agreement through November 2018 stating that Iran was committed to its obligations and that its nuclear activities were

conducted for civilian purposes.⁽¹⁸⁾ Indeed, Iran seems to be committed to the agreement until sorting out the possibility of keeping its gains.

The Iranian government relies on cooperation with countries that rejected the re-imposition of sanctions on Tehran, especially China, Russia, and the EU. The Europeans declared their commitment to the nuclear deal and establishing a special financial mechanism to continue doing business with Iran away from the US dollar and other non-European countries would join this mechanism in its second stage. In addition, some buyers of Iran's oil stated that they were waiting for the commencement of such a mechanism to make payments for buying Iran's oil.⁽¹⁹⁾ However, this mechanism has not been launched yet and no country has expressed willingness to host it, perhaps for fear of US sanctions.

As for China and Russia, they maintained strong relations with Iran during the pre-nuclear deal sanctions and significantly assisted Iran at that stage. Economic cooperation between the two countries and Iran grew after the nuclear deal, especially with China as it had facilitated business with Iran through private banks during the period of the pre-nuclear sanctions and it vowed to take the same steps at this stage. On its side, Iran proposed bilateral financial mechanisms with China, Russia, and India to overcome the US financial sanctions.⁽²⁰⁾

B. Threatening the resumption of uranium enrichment

Iran threatened to resume the enrichment of uranium in case of a collapse in the nuclear deal. The Iranian President Hassan Rouhani said that Iran could resume uranium enrichment while Iran's Foreign Minister Mohammad Javad Zarif stated that "there was a possibility to resume uranium enrichment in case Europe does not fulfill its promises post US withdrawal from the nuclear deal."⁽²¹⁾

C. Increasing cooperation with neighboring countries

Tehran is betting on undermining US efforts to reduce its oil exports as Washington aims to escalate Iran's domestic problems by imposing harsh sanctions to increase pressure on the regime. Tehran works with its neighboring countries to mitigate the effect of the sanctions, especially with Iraq, Turkey, Afghanistan, the Caspian littoral states, and some GCC countries.⁽²²⁾

D. Playing the regional security card and interrupting regional oil exports

Iran is playing the regional stability card and is trying to influence the global oil market by threatening to interrupt the export of oil from the region in case its oil exports are stopped because of US sanctions.⁽²³⁾ Qasem Soleimani's threat to jeopardize the security of the Red Sea was after one day of the Houthi attack on a Saudi crude carrier in the Bab el-Mandeb Strait, near the Yemeni coast.⁽²⁴⁾

E. Fortification of the internal front

As US pressure grows, Iran is betting on its internal front and on some economic measures to evade the impact of sanctions on its economy. Some of these measures included attempts to address the devaluation of its local currency as well as to set up cooperative arrangements with other countries away from the US dollar. In addition, it has sought ways to circumvent the US sanctions on its oil sales and initiated plans to move towards a “Resistance Economy.”⁽²⁵⁾

2. Factors of the indirect strategy

The Iranian regime relies on its ability to circumvent the US sanctions by adopting tactics it has used before. The following table illustrates these tactics:

A. Getting around oil sanctions

1. Smuggling	The Tanker Trackers Group said that Iran was trying to smuggle oil away from international monitoring through a variety of methods such as shutting off oil tanker tracking systems to avoid satellite detection, ⁽²⁶⁾ delivering oil to other tankers in the middle of the way, and concealing the identity of Iran’s oil tankers by changing their names and raising flags of other countries. In addition, Iran stores oil in other countries and at sea. ⁽²⁷⁾
2. Reviving the role of private sector intermediaries	Iran has revived the role of middlemen who buy Iran’s oil inside Iran and then resell it in the international markets as Iranian private sector businessmen having no relations with the Iranian government. In the same context, the Iranian government reformed the “Stock Exchange” established in 2012 for the same purpose. ⁽²⁸⁾
3. Provide incentives to buyers	In order to circumvent the US sanctions on its oil exports, Tehran has given discounts on its crude oil prices, free shipping in certain cases, provided protection on oil shipments as major international insurance companies have been banned from dealing with Iran, and offered the use of its tankers instead of those of major multinational shipping companies. ⁽²⁹⁾

B. Alternative financial system to face US sanctions

<p>1. The Chinese proposal: a Chinese payment network</p>	<p>China has established its own financial network to allow Chinese companies to make their payments to Iran in the Chinese currency the Yuan and to avoid using the Brussels-based SWIFT transaction system that is subject to US control and monitoring. China has already made payments for Iranian and Russian goods in the Yuan through Kunlun Bank which is controlled by China's National Petroleum Corporation. Iran believes that other countries including the European countries can benefit from the Chinese financial network.⁽³⁰⁾</p>
<p>2. The Russian proposal: an integrated regional payment network</p>	<p>Russia has established an integrated regional payment network while the EU is facing a real challenge in establishing a similar system it announced earlier to overcome the US sanctions as no country has expressed willingness to host such a mechanism.⁽³¹⁾</p>
<p>3. The European proposal: a European Clearinghouse (SPV)</p>	<p>Some European countries promised Iran to establish a clearinghouse (Special Purpose Vehicle 'SPV') to exchange information designated to allow the European companies trading with Iran to circumvent the US sanctions. However, this proposal is still pending as no European country is willing to host such a mechanism for fear of US sanctions.⁽³²⁾</p>
<p>4. Small companies</p>	<p>Companies having no ties with the United States are still cooperating with Tehran. There are about 3,000 small, medium, and large companies that are still doing business with Iran and need a financial transaction channel to make their payments to Iran and they would get around the sanctions in case of establishing such a mechanism.</p>

5. Illegal trade and money laundering	<p>Illegal trade and money laundering are two of the most important means to circumvent the US sanctions related to financial transactions and foreign currencies.⁽³³⁾ Iranians also use money laundering through Iran's real-estate market to clean illegal funds. This process is linked to the corruption of the ruling and religious elite, ministries, and government-controlled businesses.⁽³⁴⁾</p>
6. Banks and exchangers in neighboring countries	<p>Banks and exchangers in some regional countries are other tools to get around the US financial sanctions. Tehran has used Afghan banks to pay for its imports in the US dollar. In return, it pays 5-7% commission to middlemen and the Afghan bordering provinces businessmen who pay in US dollars for trading with Iran. This has resulted in a shortage in US dollars in Afghanistan amounting to about 2-3 million USD a day.⁽³⁵⁾ In May 2018, the US Department of Treasury took action to stop the activities of the IRGC Al-Quds Forces network that used UAE exchangers to provide regional groups with US dollars.⁽³⁶⁾</p>
7. Brokers and informal currency traders	<p>Informal currency traders link the Iranian economy with the rest of the world and maintain the flow of funds from and into the country despite foreign governments and Tehran reducing their dealings. Iranian savers also transfer their wealth outside the country as another source of business.⁽³⁷⁾</p>
8. Private financing	<p>In order to circumvent financial constraints, Iran has used private finance, which is a financial swap based on trust and avoiding formal banking channels. This mechanism is one of the means of evading sanctions by establishing alternative methods or creating real efficient alternative institutions. The Chinese businessman Sheng Kuan Li used this mechanism in 2010 when he decided to invest 200 million USD in an Iranian steel factory without giving attention to the US sanctions.⁽³⁸⁾ This mechanism is of great importance for companies and entities having limited ties to the US financial system.</p>

9. Other alternative methods	Such as establishing a portfolio for foreign exchange reserves and exchange of goods and services in the Iranian national currency. Iran has also allowed Bitcoin mining while the Iranian Central Bank is working on creating special policies for foreign trade. ⁽³⁹⁾
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C. Channels of non-financial dealings subject to sanctions

1. Front companies	Iran has used front companies at home and abroad as a cover for its activities that fall under the sanctions. These companies buy goods legally and then smuggle them via land or water routes to Iran. In November 2017, the accounts of Iran's companies in China, Dubai, and Malaysia were frozen after discovering that petrochemical companies had forged the bills of cargo loading to hide the Iranian origin of goods to secure trade financing. In the same context, an Iranian official in the petrochemical sector stated to the press, "We still have to transfer our funds through channels we used during the sanctions." ⁽⁴⁰⁾ Iran has also used similar methods to import the necessary materials for its nuclear program. In June 2018, a United Nations report revealed many shipments of dual-use items that had not been approved by the procurement channel authorized by the United Nations. ⁽⁴¹⁾
2. Re-export channels	These channels are of great importance for buying nuclear and military technologies through networks of fake companies. Iranian national shipping companies have played a role in such activities, either by creating new front companies or manipulating their shipping fleets to evade international control. Earlier, Iran used to establish complicated trade channels at which companies from different countries performed only partial tasks without knowing the identity of the entire chain of middlemen and customers. ⁽⁴²⁾
3. Barter trade	Iran does not hide its willingness to use barter trade as a mechanism to face sanctions and exchange oil for goods as Tehran used during the period 2012-2016. ⁽⁴³⁾ Iran and several Asian countries are considering using this mechanism between them such as oil for goods. ⁽⁴⁴⁾

D. Using international networks and agents to cover the activities of the IRGC and its external role

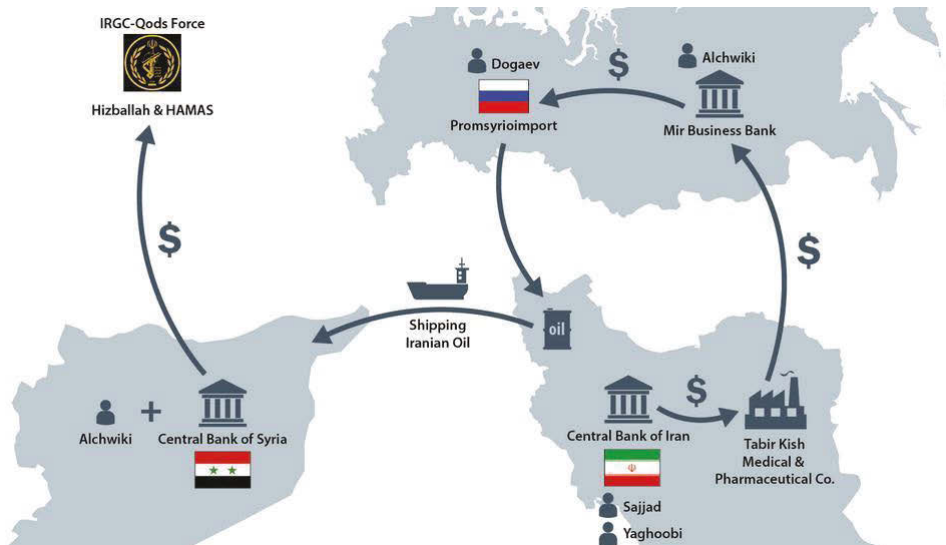
The IRGC mainly relies on its agents, companies, and institutions as cover for its activities such as Khatam Al-Anbiya, Iran's largest construction company. It also uses its retirement funds and credit unions to facilitate supporting Iran's proxy militias in the region.⁽⁴⁵⁾

In this context, Hezbollah, Iran's regional and international arm provides important services to get around the US sanctions on Tehran. **The Alchwiki** network, classified by the US Department of Treasury on November 18, 2018, as an important network to study to determine how such networks operate to enable Iran to circumvent the sanctions including countries, national companies, private companies, brokers, Iranian and non-Iranian shipping companies, local banks in Iran especially the central bank, banks and currency exchanges in other countries, Iran's proxy militias in the region, and other multi-activity companies and managers.⁽⁴⁶⁾ Indeed, this network enables Iran to achieve three main goals:

1. Overcome sanctions on its oil exports.
2. Overcome sanctions on its financial transactions with other countries.
3. Support its proxy militias and resistance movements in the region.

According to the US Department of Treasury, the following figure explains how the **Alchwiki** network works using old and new tactics to circumvent US sanctions on Iran.⁽⁴⁷⁾

This figure explains the Alchwiki network⁽⁴⁸⁾



Third: Findings

It might be too early to assess the US strategy on Iran as it is still in the implementation phase. However, during this short period of time since the US withdrawal from the nuclear deal, we can conclude the following:

1. The US President Donald Trump has succeeded in undermining the agreement and depriving Iran of its gains despite Tehran and the other nuclear deal signatories still complying with the international pact.
2. The Trump administration has also succeeded in resuming all nuclear-related sanctions on Iran including sanctions on its energy sector and its financial transactions.
3. These sanctions have significantly deteriorated Iran's socio-economic conditions resulting in internal instability and widespread protests, leading to the Iranian government's legitimacy being disturbed.
4. The US strategy is still aiming to build regional alliances to curb Iran's regional threats and influence such as the Arab NATO and the Red Sea littoral states alliance. The United States has not so far achieved international consensus on the re-imposition of sanctions on Iran. However, it has exerted constant pressure on international actors to reach its goal, resulting in it granting six-month sanction waivers to eight countries to continue importing Iranian oil. These waivers will be negotiated between the United States and the eight countries in May 2019 to reach an agreement between both sides and to reinstitute oil sanctions on Iran.
5. Despite the gains the US strategy achieved, it has some points of weakness. In fact, the United States has not taken decisive actions against Iran's regional influence side by side with the economic sanctions it has imposed, giving Iran an opportunity to preserve its pressuring cards on the one hand and undermine the US goal of curbing its regional influence on the other.

The United States still lacks the support of its most important allies particularly the EU which is trying to establish an alternative financial transaction system to continue doing business with Iran. The Russians and Chinese have not made up their minds concerning the continuity of cooperation with Iran and are still indecisive about establishing alternative channels by which Tehran can circumvent US sanctions.

Fourth: There are three scenarios concerning the future of the US strategy on Iran:

1. Success and changing Iran's behavior

This scenario depends on the United States adopting measures to address the shortcomings of its strategy on Iran such as taking strong political and military action simultaneously with its economic sanctions to undermine Iran's regional influence as well as achieving international consensus on the nuclear deal program, and ensuring international compliance with its

sanctions to the maximum possible extent, especially its sanctions on Iran's oil exports and its financial transactions. The United States has the ability and tools to exert the maximum pressure on Iran and on the countries that are still cooperating with this country, which is evident by the big political and economic impact on Iran since the US withdrawal from the nuclear deal and the global compliance with the US sanctions except by the eight countries granted waivers by the United States. This has given the United States greater ability to impose further restrictions on Iran's oil exports in the future. The United States has also succeeded in tightening Iran's international financial transactions. As a result, Tehran finds it difficult to collect its oil export revenues from the eight countries granted waivers by the US as these payments are in local currencies and remain in the banks of the oil-importing countries. On the other hand, the pragmatism of the Iranian government might prompt it to make a deal with the United States for fear of suffering significant regional losses or its legitimacy being undermined at home.

2. The failure of the US strategy

This scenario will result from the Trump administration's inability to meet its obligations on Iran due to the difficulties Trump is facing in the United States and as the Iranian issue is still a point of dispute between the Republicans and Democrats and even among the Republican elite themselves. In addition, Trump is looking to the upcoming elections in 2020. These elections will assess Trump's performance and his vows on Iran, but in case Iran responds to the US demands, it might be difficult for it to adopt a policy of escalation such as engaging in a direct conflict with Tehran. So far, the United States has been moving carefully and focusing on economic pressures to achieve its goals, leading to the Iranian public distrusting US intentions.

In addition, there is an international rejection of Trump's strategy on Iran. The EU and the United States agree on Iran's threat and its destabilizing behavior, but Trump's withdrawal from the nuclear deal has dispelled areas of understanding between both sides. As a result, the European countries have rejected the US position and announced compliance with the nuclear deal, giving Iran an opportunity to lessen US pressures. On the other hand, the Russian and Chinese positions against the US withdrawal from the nuclear deal have undermined the US strategy on Iran. Both countries still have strong trade and economic relations with Tehran and view Iran as a bargaining chip in the international arena, posing serious challenges for the Trump administration.

On the regional level, the United States is still making new arrangements concerning the re-evaluation of its military deployment in the Middle East and the withdrawal of its troops from Syria. The United States has

also adopted a new regional security project represented by the so-called Arab NATO that seems to place the burden of facing the Iranian threat and achieving regional security and stability on the Gulf States and some other regional countries under the US umbrella. However, this project has not yet materialized due to some challenges at a time when Iran is enhancing its regional influence and preparing to fill the gap left by the US military withdrawal from Syria.

Iran has a long history and experience in dealing with sanctions and pressures and relies on the support of some international powers such as China. It also has open borders with a number of countries through which sanctions can be circumvented. On the other hand, sanctions on Iran's oil exports might have negative consequences on the stability of global oil markets that could exert pressure on the US administration and undermine its strategy on Iran. In the case of adopting the option of resistance, Iran might carry out its threats and interrupt oil exports from the region, play the regional and international security and stability card through its proxy militias, and resume the development of its ballistic missiles that can reach Europe.

3. Inadequacies in the US strategy on Iran

This scenario is likely to result from a lack of implementation of all of the United State's strategy components on Iran. The United States focuses on sanctions and economic pressures to achieve three goals: amend the nuclear deal, modify Iran's regional behavior, and end the threat of Iran's ballistic missiles. As a result, the US strategy seems to be in need of further pressuring tools besides sanctions to achieve its goals. In addition, it lacks alternatives in case of the failure of one option and the ineffectiveness of sanctions on the Iranian government. In addition, the US strategy lacks a specific timeline to achieve its goals, knowing that Iran is betting on the US upcoming elections in 2020. Based on these assumptions, the Iranian government will be able to gain time and escape pressures in anticipation of a new US administration as no clear and decisive message has been conveyed to the Iranian government about its current behavior.

The Iranian public opinion is aware that the US pressures aim to modify the Iranian government's behavior and that regime change is still off the table at least in the near and medium term. In addition, some regional countries have become skeptical concerning US goals stemming from its current sanctions campaign on Iran, especially after the withdrawal of US troops from Syria and Afghanistan. Indeed, this reality encourages Iran to stand up to the sanctions with strength and gives it the capacity to be confrontational despite its vulnerability on the domestic front. Therefore, the US strategy on Iran might remain ineffective as it lacks decisiveness and coordination, as well as its components lacking integrity.

This situation favours the Iranian government as it will use gaps in the sanctions and cooperation with some international and regional parties as well as retaining its pressuring cards due to its growing regional influence. Moreover, in the case of Trump's impeachment or him losing the US elections in 2020, the US strategy on Iran might totally change.

Conclusion

The US strategy on Iran will likely achieve its goals during the next phase through applying constant pressure on the Iranian government. However, some observers believe the US strategy has succeeded or is on the way to success given that the strategy has been designed to weaken Iran to a certain extent but not to completely modify its behavior in a wider view that includes new regional arrangements, a balance of power, and redistributing roles. In this case, new alliances and conflicts will arise while other historical conflicts will subside to secure US interests in the region by manipulating regional balances while giving priority to face the rise of China and Russia. Accordingly, the US strategy on Iran is intended to preserve the Iranian regime as a balancing power and a tool to transform regional conflicts to be Sunni-Shiite rather than Arab-Israeli. Hence, the United States can restructure all regional interactions and draw new lines of future conflicts to benefit from the continuity of these volatilities in the region.

EUROPE-IRAN RELATIONS

Europe-Iran relations went through significant changes during 2018. Iran relied on the nuclear deal to boost its relations with the Europeans on the political, economic and diplomatic levels. The US withdrawal from the nuclear deal reshaped Europe-Iran relations; preserving the nuclear deal has become a significant pillar in bilateral relations between Europe and Iran. The Iranians want guarantees from the Europeans, especially from the European troika countries, to preserve the nuclear deal. The Europeans met the Iranian demands. However, Iran's relationship with Europe has been impacted by the US re-imposition of sanctions, the unprecedented economic crisis facing the country and the fact that European guarantees are yet to come into force. This will no doubt affect Iran's relationship with Europe in the future as well.

Here we will discuss the most significant changes, the European efforts to safeguard the nuclear deal, the importance of the Iranian market to the European Union (EU), the EU efforts to address US pressure on Iran, findings, and the future of Europe-Iran relations.

First: The EU position towards the US withdrawal from the JCPOA

The Europeans played an integral role in concluding the Joint Comprehensive Plan of Action (JCPOA) 5+1. This agreement is of great strategic significance, especially for the Europeans, who believe it is instrumental in addressing the proliferation of nuclear weapons all over the world, and to protect European national security from threats emerging from the instability in the Middle East. Moreover, the agreement provided European firms a foothold in the Iranian market, given the fact that Europe is one of the most important strategic partners for Iran. The nuclear deal also boosted the integration of the Iranian economy into the world market and mitigated the aggressive behavior of the Iranian regime.

To confirm the legitimacy of the JCPOA, the European partners relied on the International Atomic Energy Agency's (IAE) statement which confirmed the Iranian commitment to the agreement's terms⁽⁴⁹⁾ and that it was curbing Iran's nuclear ambitions by monitoring its nuclear program. In a congressional hearing, the CIA director said in January 2019 that Iran right now is not taking serious steps to manufacture a nuclear bomb,⁽⁵⁰⁾ which the Europeans also relied on to prove that the nuclear deal achieved its main purpose. After the US withdrawal from the JCPOA in May 2018, the Europeans were keen to preserve the nuclear deal and to maintain stable cooperation and mutual understanding, given the fact

that the nuclear deal was a landmark agreement with a specific purpose to address Iran's nuclear program. Iran came very close to commencing its nuclear agenda but the JCPOA and the US managed to prevent it from launching its nuclear program.

Therefore, the EU and the European troika committed to cooperate with Iran to protect their national interests and to take the measures needed to safeguard European firms operating in Iran. The European partners in the JCPOA urged Iran to stay in the nuclear deal in return for guarantees and pursuing business with Iran. The Iranians accepted the European initiative and laid down their conditions which were: safeguarding Iranian oil sales from US sanctions, continuing to purchase Iran's crude oil, and for the Europeans to refute US demands of negotiating Iran's ballistic missile program and its regional activities. Khamenei threatened that Iran would pull out of the agreement on the Non-Proliferation of Nuclear Weapons if the Europeans did not meet the Iranian conditions.⁽⁵¹⁾

After a ministerial meeting, the EU, the European troika and Iran agreed upon a number of solutions to enhance their economic ties, most notably these solutions were: continuing to purchase Iranian gas and oil, facilitating financial transactions with Iran, and issuing export credit, as well as setting up a special purpose vehicle in the fields of banking, insurance and trade.⁽⁵²⁾ These solutions, Iran believes, will safeguard it from the US sanctions, and are fair enough to make it stay in the nuclear deal. It goes without saying that ongoing US-Europe disagreement over the nuclear deal is a significant political win for Iran, ensuring it will not be internationally isolated anymore.

Second: The importance of the Iranian market to European countries

European manufacturing companies realize the importance of the Iranian market, as most of the EU's exports to Iran are manufactured goods, machinery, vehicles and other technologies that increase profits and provide jobs for a large number of European laborers. Despite these economic benefits, are these exports really important to the European economy?

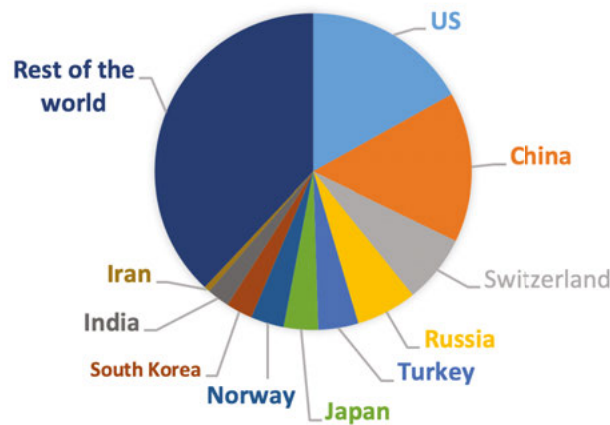
If we look to the EU-Iran volume of trade during the year of 2017 (i.e. before the US withdrawal from the JCPOA), we find transactions worth 21 billion euros, over half of which are European exports to Iran. However, when comparing this figure to the EU's trade with the world, we find that the EU-Iran volume of trade makes up just 0.6% and is ranked 33rd among EU trading partners. In fact, the United States and China are Europe's main trading partners as their volumes of trade with the EU are larger (17% and 15% respectively) as shown in the following table and figures, according to the European Commission.

Figure 1: The EU’s trade with its top 10 partners in the world

Source Eurostat Comext - Statistical regime 4

Total trade		
Partner	Value Mio €	% Extra-EU
World	3,737,688	100.0
1 USA	632,021	16.9
2 China	573,023	15.3
3 Switzerland	261,220	7.0
4 Russia	231,280	6.2
5 Turkey	154,251	4.1
6 Japan	129,373	3.5
7 Norway	128,135	3.4
8 South Korea	99,822	2.7
9 India	85,907	2.3
10 Canada	69,182	1.9
33 Iran	20,965	0.6

Eu’s trade with the world in 2017



Source: European Commission
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For the EU, it seems that the prime motive to maintain the JCPOA is not the importance of Iranian oil or the Iranian market to the European economy, but rather the EU's desire to achieve other political and security aims; standing against US policies that undermine the EU's political and economic status, reducing the dominance of the US dollar in global trade, maintaining its national security and the security of some of its allies in the region.⁽⁵³⁾

Iran is the main beneficiary in the continuation of financial and trade links with the EU. This has been confirmed by Mogherini who said that trade between Iran and the EU is a “fundamental aspect of the Iranian right to have an economic advantage in exchange for what they have done so far, which is being compliant with all their nuclear-related commitments.” The following table shows the significance of the EU among Iran's trading partners as it is ranked the third top partner after China and the United Arab Emirates, constituting 16% of Iran's total trade.⁽⁵⁴⁾

Figure 2: Iran's trade with its top 10 partners in the world

Iran, Trade with World 2017											
Imports			Exports			Total trade					
Partner	Value Mio €	% World	Partner	Value Mio €	% World	Partner	Value Mio €	% World	Partner	Value Mio €	% World
World	65,836	100.0	World	56,200	100.0	World	122,036	100.0	World	122,036	100.0
1 United Arab Emi...	19,609	29.8	1 China	15,470	27.5	1 China	23,801	19.5	1 China	23,801	19.5
2 EU 28	10,378	15.8	2 EU 28	9,563	17.0	2 United Arab Emi...	20,471	16.8	2 United Arab Emi...	20,471	16.8
3 China	8,331	12.7	3 India	8,466	15.1	3 EU 28	19,941	16.3	3 EU 28	19,941	16.3
4 Turkey	2,880	4.4	4 South Korea	6,384	11.4	4 India	9,854	8.1	4 India	9,854	8.1
5 South Korea	2,651	4.0	5 Turkey	6,257	11.1	5 Turkey	9,137	7.5	5 Turkey	9,137	7.5
6 Switzerland	2,106	3.2	6 Japan	2,975	5.3	6 South Korea	9,035	7.4	6 South Korea	9,035	7.4
7 Russia	1,666	2.5	7 Afghanistan	1,119	2.0	7 Japan	3,601	3.0	7 Japan	3,601	3.0
8 India	1,388	2.1	8 United Arab Emi...	863	1.5	8 Switzerland	2,145	1.8	8 Switzerland	2,145	1.8
9 Brazil	748	1.1	9 Singapore	629	1.1	9 Russia	1,994	1.6	9 Russia	1,994	1.6
10 Singapore	739	1.1	10 Taiwan	594	1.1	10 Singapore	1,368	1.1	10 Singapore	1,368	1.1
2 EU 28	10,378	15.8	2 EU 28	9,563	17.0	3 EU 28	19,941	16.3			

Source IMF

This does not mean that the Iranian market lacks great business opportunities for European companies, but these opportunities are narrowed because of the US administration's policies. After the JCPOA went into effect, Total, Peugeot, Renault, Siemens and many other companies rushed to join the Iranian market, concluding agreements worth millions of dollars in 2016. Subsequently, they rushed to pull out of the Iranian market after the US withdrawal from the nuclear deal.

Second: European efforts to address the implications of US pressure on Iran

1. The proposal to establish a Special Purpose Vehicle (SPV) to facilitate trade with Iran

After the US withdrawal from the JCPOA in May 2018, the US imposed two rounds of sanctions in August and November 2018. The rounds targeted

vital Iranian exports such as cars, metal trading, carpets, crude oil and its by-products. In addition, several Iranian industries have been affected by US sanctions such as financial and banking, land and maritime shipping.

Amid tough US economic sanctions on Iran and European efforts to keep Iran in the JCPOA, Mogherini announced in September 2018 that a mechanism called a “special purpose vehicle” (SPV), could be established. This mechanism will allow for trade with Iran in accordance with EU law by using other major currencies (non-U.S.) to end the reliance on SWIFT if possible and bypass US sanctions.⁽⁵⁵⁾ The SPV will only be useful for small and probably medium-sized European enterprises (SMEs) and not major international firms. “I think the SPV is a potentially imaginative way to solve one problem – how to move money around with banks refusing to do so out of fear for US sanctions – but it doesn’t solve the others, mainly how to get companies that can also be sanctioned for business with Iran to be prepared to take that risk. U.S. sanctions do not just target financial moves, which the SPV would address to some degree, but also goods and their movements. The SPV simply doesn’t address that need and, consequently, it is likely going to be insufficient to funnel major investment or business to and from Iran,” said Professor Richard Nephew, a Senior Research Scholar at Columbia University’s Center on Global Energy.⁽⁵⁶⁾

The United States can deny companies or banks dealing with Iran access to its financial markets, which any global institution needs. The US financial markets are the central nervous system of the globalized economy, thus major European companies and banks believe the US markets are more attractive than Iranian markets. Total, Peugeot, Siemens, Maersk, and European Airbus have already complied with the US sanctions against Iran in the wake of the US withdrawal from the nuclear deal.⁽⁵⁷⁾ Had the proposed European mechanism been implemented, some effects of the US sanctions on Iran would be alleviated especially if the United States succeeded in cutting off Iranian access to SWIFT. In light of that, it is likely that only small and medium-sized enterprises will stay in Iran’s markets after the withdrawal of large companies with advanced technologies and surplus capital. This will have negative effects on Iran’s means of production, employment rates, domestic production and the availability of goods. It is expected that China will support the EU in operating the SPV aiming to maximize the interests of Chinese businesses in Iran in the upcoming period. Certainly, such anti-sanctions measures would mitigate some, but not all, of the negative effects on the Iranian economy.

2. Reactivation of the 1996 EU blocking regulation

The EU countries discussed the implementation of the so-called Blocking Regulation, that was issued in 1996 by Europe to circumvent the US

sanctions against Cuba at the time, but it was approved and never came into force. Europe seeks to use it as a weapon to protect itself and its companies from the US sanctions.⁽⁵⁸⁾ The High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, emphasized the importance of its implementation in August 2018, when the first round of US sanctions came into force. The Blocking Regulation protects European companies and courts from sanctions regimes implemented by third countries and from executing any foreign court decisions in the EU. Mogherini has also supported all European investments in Iran, SMEs in particular, by proposing a package of economic measures to try to compensate for the negative impact of U.S. sanctions and to guarantee Iranian oil revenue.⁽⁵⁹⁾

Third: Iran's response to European policies

The controversial issue of whether to maintain the nuclear agreement or not under European guarantees splits Iran's position internally into two currents. The first refuses to maintain the agreement since the United States withdrew from it and this current has a more radical inclination toward the West, ranking the United States and Europe as equally hostile to Iran. Its supporters question the ability of the European troika and the European Union (EU) to fulfill their commitments with Iran to keep the nuclear agreement alive after the US withdrawal. This current has used government setbacks resulting from the nuclear agreement to settle its political scores internally. Significantly, the Supreme Leader warned President Hassan Rouhani from relying heavily on European support.⁽⁶⁰⁾

On the other side, the second current prefers to stick to the nuclear agreement with European help because it believes the Europeans helped Iran to maintain its political, legal, diplomatic and economic gains from the agreement. This current thinks that the agreement split the Western position towards Iran, gave the Iranian government an opportunity to face US pressure, and it questioned the legitimacy of US policy under President Trump towards Iran. Therefore, this current believes that these political gains are much more significant than the unclaimed economic gains so far from the agreement.⁽⁶¹⁾

The regime's tactical decision is to stick to any available option that will preserve some of the agreement's gains, even if they are nominal such as political and diplomatic gains that can be used to maneuver and acquire more time, especially after Trump's new position towards the Iranian file and its political and economic implications for Iran internally; consequently, resulting in more popular discontent and with the regime losing its legitimacy. Iran has threatened the European countries with its withdrawal from the nuclear deal to pressure the Europeans to implement the seven conditions set by the Supreme Leader Ali Khamenei.⁽⁶²⁾ However,

the Europeans did not take the Supreme Leader's conditions seriously, since the European response was very limited with regard to these conditions, most notably the response of the spokeswoman of the French Ministry of Foreign Affairs Agnes Von Der Muhll when she said, "We have taken into account the statements of Khamenei [...] We should not have Europe's desire to preserve the nuclear agreement overlook our concerns about Iran, especially the missile program and Iran's direct and indirect military presence in the Middle East."⁽⁶³⁾

However, the Iranians have not shown any intention to renegotiate with their European partners on the development of Iran's ballistic missile program, nor Iran's regional interventions. The negotiations around these files are kept away from the European plan to save the nuclear deal, similar to the bilateral negotiations with France on Iran's missile program.

The delay in the Europeans implementing their guarantee has concerned Iran's decision-makers, especially those who support the nuclear deal. In fact, Iranians have felt that the Europeans failed to commit to their agreement with the Rouhani government. For instance, the financial exchange channel was supposed to be activated before the second round of US sanctions on November 4, 2018. As a result, there were voices calling to withdraw from the nuclear program and to resume uranium enrichment at higher rates.

The Iranians feel that there is US-European coordination to tighten pressure on Iran and the nuclear agreement is no longer an option. In addition, other parties have benefited from it while the agreement has become a burden on Iran. Europe still aims to maintain the nuclear agreement to gain Iranian concessions on its regional role and its ballistic missile program. Therefore, the Iranians believe that Europe and the United States are on the same page when it comes to undermining Iran.⁽⁶⁴⁾

Fourth: Conclusions

1. The Europeans and Iranians have faced many challenges in order to keep the nuclear deal as well as mutual economic and trade relations. Significantly, the harsh US economic sanctions have affected the European banks and companies that deal with Iran. This justifies the withdrawal of European companies from the Iranian market because Europe is powerless when compared to the economic and financial dominance of the United States at the international level through the SWIFT system. This has become a challenge for both the Iranian and European parties.
2. To maintain European-Iranian understanding and to reassure Iran, the EU officially reactivated the Prevention Act of 1990 and announced a plan to launch the Special Purpose Vehicle (SPV).
3. Despite the European position on the nuclear agreement, both Europe

and the United States share the same concerns about the development of Iran's ballistic missile program, Iranian influence in the region, and its support to terrorist groups, as well as the threat posed by Iran to regional security and stability and its poor human rights file.

4. The recent developments unveil a new approach of the European troika, who are partners in the nuclear agreement. The European troika resorted to maintain the nuclear agreement as an important mechanism to curb Iran's nuclear program and to keep the door open to negotiate with Iran on some files that threaten European security. These include terrorist acts on European soil, ballistic missile tests and Iran's regional interventions, which threaten stability in the region.

5. Undoubtedly, the balance of the power surrounding the Iranian file is complex, influencing the options of the European parties towards dealing with Iran. On one hand, it balances between its need to maintain the agreement and to confront Iran's undesirable behavior. However, Iran adheres to its position in detaching the agreement from its behavior because it believes it has the right to have a ballistic missile program and to reinforce its regional presence. On the other hand, to maintain the agreement, the Europeans offered an incentive to the Iranians, but at the same time, they do not want to harm Euro-American relations, due to the fact that the United States is seriously intent on thwarting the European rescue plan for the nuclear agreement. Therefore, the European parties need to unify their positions regarding the Iranian file within the EU itself.

Fifth: Future of European-Iranian relations

The future of the nuclear deal hinges on how far the Europeans will fulfill their commitments to Iran. This will impact the trajectory of Iranian-European relations and the survival of the nuclear deal. In this context, we forecast the following scenarios:

1. Maintaining relations at the current level 'no severed ties nor European guarantees'

According to this scenario, the Europeans will not succeed in offering the guarantees that would enable the Iranian regime to withstand the US sanctions although the Iranians will not end their relations with the Europeans nor will they pull out of the nuclear deal. This scenario is enhanced by the following:

A. The European oscillation between their desire to stay in the deal and their inability to settle outstanding issues such as Iran's ballistic missile program and its regional interferences.

B. European disagreements on enforcing their guarantees including the financial exchange mechanism, which was enacted without a consensus. It

was agreed upon reluctantly by some parties in a way that did not measure up to Iranian expectations. In the end, it was shackled by harsh terms and thorny issues.

C. The Europeans are under US pressure because Europe's approach in dealing with Iran poses a threat to the United States, as the SPV may be a potential alternative to SWIFT, affecting the economic and political stature of the United States internationally. It may also be used by other countries outside Europe as an alternative mechanism to maintain their cooperation with Iran.

D. The limited ceiling of Iran's ambitions regarding the plan agreed upon with the Europeans makes this scenario more likely to happen. Iran believes that the European position is important for salvaging the nuclear agreement, even if the agreed safeguards are not activated. The political gains from the continuation of the agreement are of great political and diplomatic importance to Iran because they prevent European-American coordination in their positions towards Iran, which would increase pressure on it.

E. Closing the channel of understanding with the Europeans is a voluntary sacrifice by the Iranians. There is no alternative to this but a nuclear escalation or acquiescence to US demands. Both options are costly and their consequences cannot be measured.

F. The Iranians do not want to agree to the European terms, in particular the four regulations on the FATF agreement, as this will result in legal, international and UN-backed inspections on Iran. Iran's leaders have rejected to pass these regulations as they are engaged in money laundering and illegal activities such as backing militias in neighboring countries, smuggling of oil and circumventing sanctions.

G. Maintaining the channels of dialogue between the two sides opens the door for future change that could lead to an alternative scenario such as enforcing European guarantees or changing the US position. This is because time is an important factor in light of the disagreements and contradictions related to the Iranian file on the international arena.

H. Europe, for Iran, is still an important political and diplomatic outlet. It may have an important role in influencing European attitudes towards the United States after the 2020 presidential race. The European parties may play a role similar to the one they played during the JCPOA negotiations where Europe had a landmark role in rendering the negotiations successful. But this requires flexibility from both the United States and Iran and actual preparations to restart negotiations.

I. It is clear, in light of Iranian threats, which do not go beyond statements, that as long as the Europeans adhere to the nuclear deal, though formally, Iran will have no choice but to wait as long as it can endure the consequences

of sanctions and as long as the regime is not significantly harmed. Iran may breach some parts of the agreement to exert more pressure.

2. Enforcing the European guarantees and their positive impact on relations with Iran

This scenario indicates that the European parties, or specifically the European troika countries, will be serious in activating the plan to salvage the agreed nuclear agreement with Iran. This plan has been approved by the European and Iranian parties after the US withdrawal from the nuclear agreement. It has become linked to Europe's credibility and honoring of its commitments. This will enhance Europe's relationship with Iran at all levels. This scenario is reinforced by the following:

A. The strategic importance of the nuclear agreement and its role in maintaining stability in one of the areas threatening the security of Europe. This is in addition to the importance of maintaining Iran's commitment to the terms of the agreement, sticking to it and not blocking some of its provisions or restarting its non-peaceful nuclear program.

B. The European desire to create channels to facilitate trade and economic relations with Iran, and the desire to help European companies seeking to invest in Iran.

C. This scenario on the Iranian side enhances the possibility of Iran responding to the European demands related to its ballistic missile program and its activities destabilizing the region and Europe.

3. Failure to enforce the guarantees and a decline in relations with Europe

According to this scenario, there is a contradiction between European statements and commitments, which will deepen the gap and erode mutual trust. It will also lead to a tense trajectory in relations, which could end up with the two sides being far apart. This scenario is likely to happen because of the following reasons:

A. The absence of European consensus on a single course to deal with the Iranian issue, in light of European reservations towards a number of files such as ballistic missiles, terrorism and regional interventions. There is no doubt that the European desire to negotiate these files will not satisfy Iran and will make the European position closer to that of the United States.

B. It is likely that Europe will not be at odds with the United States. Europe's relationship with Iran in comparison to its relationship with the United States, if measured, indicates the two are unmatched. This is even recognized by the Iranians, so Europe will probably not challenge the US policy toward Iran in practice. The United States is an important strategic ally indispensable to Europe.

C. The procrastination in enforcing the European guarantees and the desire to get privileges without offering real incentives may prompt Iran

to adopt a tougher position, given the fact that the Europeans moved from the phase of engagement and understanding with Iran within the plan to salvage the nuclear deal to linking the plan to stay in the nuclear deal to several files related to the behavior of the Iranian regime.

D. The European pressure may be rejected by Iran because it is no different from the American demands. This will lead to the collapse of the regime's project and the halt of its rhetoric. This will pose a threat to its legitimacy and survival. The Iranian Ambassador to the United Kingdom Hamid Baiedinejad said Iran will not accept the principle of a financial channel in case there are any conditions.

E. On the Iranian side, its practices may prompt the Europeans to exert more pressure on the regime. The missile tests conducted by the regime is a case in point. They pay no heed to European concerns and fears, boosting Iran's regional clout, without a desire to offer more concessions.

F. In the context of US policy, this scenario is enhanced by the fact that the United States is exerting massive pressures on the Europeans to prevent them from assisting the Iranian regime. In addition, it adopts a policy aimed to create a gap among European parties regarding the nuclear file and it threatens parties that violate the US policy of sanctions.

Conclusion

The European approach on the nuclear deal does not differ from its previous experience through the nuclear crisis. It tends to prolong the situation and avoid escalation as well as to keep lines open for liaison with Iran. The Europeans are also keen to show that they are independent of the US position, appear as a neutral party in the crisis, and to maintain credibility as a partner in the global agreement approved by the UNSC Resolution 2231 for 2015. They also maintain the situation by using the policy of stick and carrot through showing they are keen to preserve the deal while continuing pressure on Iran to change its behavior, which makes the first scenario the most likely.

RUSSIA-IRAN RELATIONS

International and regional developments in 2018 prompted further rapprochement and cooperation between Russia and Iran. The US withdrawal from the nuclear deal in May 2018 boosted bilateral relations between Russia and Iran due to the Russian commitment to the agreement and its rejection of the US withdrawal from the international pact. Russia's rejection of the US withdrawal from the nuclear deal aligned with the European Union (EU) position and this could possibly in the future prompt rapprochement between Russia and the EU after tense relations between the two because of a number of issues such as the Ukrainian crisis and the EU accusing Russia of spying on some of its member countries. The Syrian government retook control over larger territories while some Arab countries began approaching the Syrian government, giving a degree of legitimacy to Bashar Al Assad. This cooled international criticism and opened the door for a long-term Iranian and Russian presence in Syria, which requires greater Russian-Iranian understanding for their future cooperation in this country. Russia and Iran are also negotiating the future of Afghanistan in light of Iran's connection with the Taliban and Tehran's willingness to involve the Taliban in the next Afghan government. In this we discuss the following topics: **The development of Russia-Iran relations,**

First: The development of Russia-Iran relations

There are several indicators pointing to Iran's posturing to improve relations with Russia in 2018. This was represented by the number of agreements signed and the extensive coordination between the two countries. Iran started to strengthen relations with Russia in 2017 but boosted these relations in 2018 after the US President Donald Trump announced the US withdrawal from the nuclear deal. President Trump withdrew from the deal as he believed it would allow Iran to resume its nuclear activities after the end of the 15-year duration period of the agreement, and allow it to continue to develop its ballistic missile program as this was not covered by the deal. After the US withdrawal resulting from Iran's refusal to renegotiate its terms, the window for rapprochement with the West for Tehran has been closed, making Russia an attractive ally for Iran to lessen its isolation and economic sanctions. As a result, Iran has intensified talks with Russia to improve political, economic, and military cooperation in the face of the United States' moves against it aimed at curbing its regional influence.

Russia-Iran relations in 2018 were centered on political, economic and military issues. They agreed to enhance cooperation to face the US withdrawal from the nuclear deal, increase security and military

coordination on regional issues and their military presence in Syria. They signed the historical Caspian Sea agreement and agreed to enhance economic cooperation to face the US economic sanctions on Iran's financial and trading sectors.

Tehran aims to benefit from its relations with Moscow to get around the US sanctions, given the tense relations between Russia and the United States, as well as Moscow having cold relations with the EU. The Russia-Iran military presence in Syria has strengthened relations between the two countries through military and intelligence coordination. In addition, Tehran has tried to encourage Russian companies to invest in Iran's energy sector to compensate for the withdrawal of European companies from the Iranian market. In this regard, the Senior Advisor and Special Envoy of the Supreme Leader Ayatollah Ali Khamenei, Ali Akbar Velayati, announced, after his meeting with President Vladimir Putin in Moscow on July 13, 2018, that Russia intended to invest approximately \$50 billion in the Iranian oil and gas sectors. However, the Russians did not confirm Velayati's statement.⁽⁶⁵⁾ On the other hand, Iran benefits from Russia's political support to gain support in international organizations. In February 2018, Russia vetoed the British-drafted UN resolution that condemned Iran's non-compliance with the international sanctions imposed on Yemen.⁽⁶⁶⁾

As for Russia, Iran is an important gateway for it to enhance its political influence and presence in the Middle East. The US sanctions on Iran prompted European companies to leave the Iranian market, opening the door for Russian companies to invest in the Iranian oil, gas, technology, transportation, and food sectors. As a result of Russian support to Iran in the face of the US withdrawal from the nuclear deal, and Washington's imposition of sanctions on Tehran, Moscow achieved several gains such as signing the historic Caspian Sea agreement in 2018.

Second: The impact of the US withdrawal from the nuclear deal on Russia-Iran cooperation

After the US withdrawal from the Iran nuclear deal signed in 2015 between Iran and the P5+1 group - the United States, Russia, China, France, Britain, and Germany - Moscow strongly condemned the US withdrawal from the international pact and the reimposition of economic sanctions on Tehran. Moscow announced its support of Iran in the face of the US measures, knowing that all nuclear deal signatories had confirmed Iran's compliance with its obligations in this regard. Accordingly, the Russian Foreign Ministry stated that the Kremlin would take all necessary measures to protect its economic cooperation with Tehran in compliance with the terms of the agreement and vowed to work with all nuclear deal signatories to find an appropriate solution to continue business with Tehran.⁽⁶⁷⁾

In response, during his visit to Russia in July 2018, Ali Akbar Velayati



praised Russia's position on the nuclear deal and called on Moscow to increase political and economic cooperation with Iran. Velayati said that President Putin had told him about Russia's intention to invest \$50 billion in Iran's oil, a statement denied by the Russian Minister of Oil who said that Russia planned to barter crude oil for goods with Iran. Earlier in May 2017, Russia and Iran signed a barter agreement to exchange Russian goods for Iran's oil for 45 billion dollars annually. However, the agreement has remained a dead letter, given the fact that trade exchange between

the two countries did not exceed two billion dollars in 2016. Furthermore, Russian global companies cannot risk business with Iran for fear of US sanctions, which is evident by the withdrawal of the Russian company Rosneft from the Iranian market.⁽⁶⁸⁾

Based on the aforementioned, Russia has little to offer to Tehran. It cannot provide much, financially and economically, other than modest equipment, weapons, and technologies at least at the current stage. Burdened with US and European sanctions, Moscow will not risk putting its economy under further pressure, meaning that Russia's economic assistance to Iran would be limited to indirectly circumventing sanctions. This was apparent through the network of six Russian and Iranian individuals along with three entities that were sanctioned by the US Treasury on November 20, 2018. One of these entities was the Russian company Promsyrioimport, a subsidiary of Russia's Ministry of Energy. The US Treasury released a statement saying that the US Department of Treasury had imposed sanctions on the members of this network as they were involved in transporting millions of barrels of Iranian oil to the Syrian government as well as transferring funds to the Iranian Revolutionary Guards Corp (IRGC)-affiliated Al-Quds force. In addition, they were involved in transferring funds to the Palestinian Hamas and Lebanese Hezbollah movements.⁽⁶⁹⁾

The Iran nuclear issue is one of the most important pillars of Russia-Iran relations. Iran is aware that Russian support will not resolve the economic crisis caused by the US sanctions. However, it relies on Moscow to lessen the impact of the sanctions along with China, the EU, and some neighboring countries. Iran counts on Russia to veto any resolutions against it in the UN

Security Council and views Moscow as a vital political and military ally to preserve the nuclear deal and to fulfill its strategic objectives in the Syrian crisis. Accordingly, Tehran sought to enhance cooperation with Russia in 2018 to develop plans and scenarios to deal with the US sanctions and ways to circumvent them. On the other hand, the Russians believe that the nuclear deal is a political and economic opportunity for it to approach the European countries that have opposed the US position on the nuclear deal and to increase its exports of technology, weapons, and heavy equipment to Iran.

Third: Russia-Iran cooperation in Syria

The Russian and Iranian goals in Syria are different. There are also US-Israeli attempts to change the Russian position on Iran's presence in Syria when Israeli Prime Minister Benjamin Netanyahu and Russian President Vladimir Putin met on July 11, 2018 in Moscow⁽⁷⁰⁾ followed by a meeting between President Putin and President Trump on July 16, 2018 in Helsinki. These meetings focused on the Iranian and Hezbollah presence in Syria and the nuclear deal.⁽⁷¹⁾ Israel and the United States asked Moscow to exert pressure on Tehran to withdraw its troops and proxy militias from Syria, but Russia never changed its supportive position to Iran. The United States failed to provide offers that would make Russia change its position on Iran such as lifting sanctions. In addition, Russia was unwilling to drive Iran out of Syria at least at the current stage as the Iranian forces help Russia on the ground to enable the Syrian forces to retake the territories under control of the Syrian opposition. This means that Russia favors further rapprochement with Iran concerning the Syrian crisis.

Russia-Iran coordination was reflected on the ground in Syria to counter Israeli airstrikes targeting Iranian forces in this country. Israel launched several airstrikes on Iranian positions in Syria targeting Hezbollah and Iranian military leaders, killing more than 50 fighters. In addition, Israel targeted arsenal, military airports, and IRGC and Hezbollah sites. The Israelis mistakenly shooting down a Russian aircraft carrying 15 soldiers after trying to bomb Syrian air defense units that were trying to target an Israeli aircraft drove Russia to upgrade Syria's air defense systems.⁽⁷²⁾ In addition, Russia expressed its fury against the Israeli strikes on Syria and warned that its air force would respond to the Israeli attacks on Syria. As the Israeli airstrikes on Syria continued, Russia reacted by providing its forces in Syria with the S-300 missile system to support the Syrian forces and to prevent Israeli attacks. However, Israeli attacks continued on Iranian and Hezbollah sites in Syria less frequently, but more accurately, while Russia watched in silence.⁽⁷³⁾

On the other hand, the Astana peace talks that started in 2017 between the guarantors of the Astana process - Russia, Iran, and Turkey - continued

to increase coordination between all parties to resolve the Syrian crisis. The three countries held three meetings in 2018. However, these talks failed to achieve any progress on a settlement in Syria. The 11th session of the talks ended on November 29, 2018, and failed to conclude any progress on critical issues such as the terms of the de-escalation zones in Idlib and the proposed Constitutional Committee to draft a new Syrian constitution. At the end of the meeting, the UN Special Envoy to Syria Staffan de Mistura regretted the failure of Iran, Russia, and Turkey to make progress in setting up a constitutional committee. “This was the last occasion of an Astana meeting in 2018 and has, sadly for the Syrian people, been a missed opportunity to accelerate the establishment of a credible, balanced and inclusive, Syrian-owned, Syrian-led, UN-facilitated Constitutional Committee,” de Mistura said.⁽⁷⁴⁾

Based on the above, there is military cooperation between Russia and Iran in Syria. However, there are also political disagreements between Russia and Iran with regard to Syria. Russia seeks to achieve a political settlement in Syria and help the Syrian government restore control over all Syrian territories. Thus, Russia and the Syrian government would be in a position to give up Iranian military assistance on the ground. Here, Moscow would achieve a political victory by resolving the Syrian crisis — which disturbs Iran. Accordingly, delays in the political process in Syria have helped Iranian forces and its proxies stay longer in Syria and paved the way for Tehran to consolidate its presence by signing security, military, and economic agreements with the Syrian government. The Caspian Sea agreement signed in 2018 also helped to delay Iran’s withdrawal from Syria in return for future economic benefits for Russia.

Fourth: The Caspian Sea agreement

After more than 20 years of negotiations between the Caspian littoral states - Iran, Russia, Kazakhstan, Azerbaijan, and Turkmenistan - on sharing the Caspian Sea wealth, the five countries signed a historic treaty on August 12, 2018, on the legal status of the Caspian Sea in light of Iran’s crisis situation.⁽⁷⁵⁾ The dispute between the Caspian littoral states was concentrated on classifying whether the Caspian was a sea or lake. This would determine the legal standing of the Caspian and the basis under which it would be shared between these countries, given the vast wealth and large area of the Caspian – the largest enclosed sea in the world. The Caspian Sea wealth is estimated at forty-eight billion barrels of oil and nine trillion cubic meters of natural gas.⁽⁷⁶⁾ The treaty that was signed stated that commercial navigation and military presence was limited to the Caspian littoral states. Furthermore, the agreement prevented any of these states to give permission to any foreign country to use its lands to carry out military operations against another Caspian littoral state. It also specified that these



states would benefit from the wealth in their agreed upon areas only and in case of any disputes over an oil field or anything else, they would all share it or leave it.⁽⁷⁷⁾ Indeed, this agreement had a positive impact on Russia-Iran relations on all political, military, and economic levels, hindering intervention of any foreign country in this vital area.

Iran unexpectedly signed the agreement despite its claim of 20% of the Caspian Sea since the collapse of the Soviet Union. Thus, signing this agreement put the Iranian government in a historical crisis as it violated the Iranian constitution by bypassing the parliament in the ratification of the agreement and it concealed its terms that raised many questions from Iranians. The Iranian people did not buy the justifications for signing the agreement by the Iranian President Hassan Rouhani when he talked about the security benefits of the agreement and frustrating the US plans to deploy its forces in the Caspian Sea and establish military bases there. In fact, the United States has never announced any intention to establish military bases in any of the Caspian states, given the fact that the US naval forces have no way to reach the largest enclosed sea in the world.⁽⁷⁸⁾ There was a feeling among Iranians that their government had sold part of Iran's share to Russia and this provoked many of them to gather in front of the Iranian Parliament and protest against the agreement while others expressed their dissatisfaction on Twitter through the hashtag, “#CaspianSeaSellOut.”⁽⁷⁹⁾ The reason behind the popular discontent was that the Iranian government had signed the agreement without resolving the dispute over its share with Azerbaijan and Turkmenistan while Russia gained 17% of the Caspian Sea. Earlier, Iran claimed 20% of the Caspian as a legitimate right, but by signing the agreement, this share is expected not to exceed 11% of the total

territorial area and wealth of the sea.⁽⁸⁰⁾

According to the agreement, Russia achieved more gains than Iran. Today, Moscow can invest in the Caspian Sea while Tehran is still negotiating its share with the southern Caspian littoral states, hindering Iranian investments in this area. This means that the US moves in 2018 against Iran's destabilizing regional behavior prompted Iran to give up its historical claim to the Caspian Sea, in exchange for Russian support in the face of growing US pressures. The US government asked Tehran to readjust its regional behavior, withdraw its forces and proxy militias from regional countries especially from Syria, and stop its missile program, which made Tehran feel the threat and the US ability to change Moscow's stance on Iran. Therefore, the Iranian government made concessions to Russia in exchange for Russia's rejection of the US measures, so it would appear strong in front of the Iranian people. However, the Iranian people seemed to be aware of their government's policies and expressed their dissatisfaction with the agreement, the terms of which are still undeclared until today. Due to the importance of the agreement and the economic benefits Russia has gained, Moscow will be content to sign security agreements with Tehran to keep the Iranian forces and proxy militias in Syria and involve Iran in the Syrian political process.

Fifth: the future of Russian-Iranian relations

According to recent developments in the relationship between the two countries in 2018, future scenarios can be outlined as follows:

Scenario 1: Growing Russian-Iranian cooperation

It is likely that there will be more improvement in Russian-Iranian relations, according to certain indicators:

1. Russia stands against US attempts to undermine the nuclear agreement and its commitment to the international resolutions of the agreement.
2. The United States imposes similar sanctions on Russia but the latter tries to weaken the US position towards Iran due to the rivalry between the two countries at the international level.
3. There is a strategic interest between Iran and Russia in Syria and close cooperation at the military, security and political levels.
4. Russia seeks to establish cooperation with Iran in the energy field and to benefit from Iran as an international producer.
5. There is close cooperation between Iran and Russia in the nuclear field.
6. The European and Chinese position concurs with Russia regarding the Iranian file and on the priority of maintaining the nuclear agreement.

2. The decline of Russian-Iranian cooperation

This scenario predicts the decline in the relations between the two countries and its consequences on both parties, according to the following

indicators:

1. Russian companies are concerned about investing in the Iranian market because of the US sanctions.
2. Russian support to Iran to confront US sanctions is limited to statements without taking any serious steps towards meaningfully developing their relations at the economic level.
3. A dispute arises between the two parties in the Syrian arena, especially after the Syrian regime regains control of its territories and eliminates ISIS.
4. Iran may resort to escalation, such as going back to uranium enrichment, since the Europeans are still hesitant to help Iran, or if the United States concludes an agreement which harms Russia –Iran relations.

3. Maintaining Their Current Relationship

This scenario predicts the US sanctions will constrain the development of economic relations between Russia and Iran and the prospect of cooperation between the two parties in different areas such as in Syria or in East and Central Asia, according to key indicators :

1. Both parties have mutual interests since there is a need for a multipolar international system.
2. There is a common policy regarding the energy file.
3. Russia and Iran are cooperating with regard to the Syrian file, in order to enable the Syrian regime to regain control of Idlib.
4. Iran is still committed to the nuclear agreement in accordance with the P4 + 1 formula.

This scenario is likely to take place in the coming period.

CHINA-IRAN RELATIONS

In 2018, China questioned the resumption of US sanctions against Iran after the Trump administration announced its decision to withdraw from the Iran nuclear deal in May. China's foreign ministry formally objected to the imposition of sanctions and declared that Beijing would continue to trade with Iran.⁽⁸¹⁾ But the sanctions halted China's energy investments in Iran and slowed down its other financial transactions. Beijing retains a series of economic cooperation agreements with Tehran, and basic trade between the two countries continues.

First : Relations Between China and Iran: an Overview

Beijing upheld the sanctions regime to avoid punitive US measures against its companies. But it rejected efforts by Washington to dictate China's economic policies with Iran.⁽⁸²⁾

The variance in China's approach to sanctions has led to mixed policies on Iran. China has remained a top trade partner for Iran. Many Chinese businesses are based in Iran, and Chinese goods flood Iranian markets. China and Iran retained close military contacts in 2018. Their navy, ground and air force officers exchanged military experience, expanded their defense training, and made joint efforts to increase their capacity to combat terrorism.⁽⁸³⁾ But Beijing has stopped giving Iran big loans and investments. The measure has reversed Iran's integration into China's Belt and Road Initiative (BRI). Before the resumption of sanctions, Iran was viewed as a pivotal partner in BRI. To that end, China had agreed to allocate \$35 billion in financing and loans to Iran's economy of which Tehran had secured a \$10 billion loan and deals worth \$15 billion for infrastructure and production projects in 2017.⁽⁸⁴⁾ Beijing also bypassed Tehran to invest in the China-Pakistan Economic Corridor (CPEC) and oil re-export terminals in the southern Arabian Gulf.⁽⁸⁵⁾

The volume of projected trade between China and Iran was set to increase to \$50 billion in 2018, approximately a fifth more than the previous year. But sanctions prevented Iran from fixing a trade imbalance of \$7 billion with Beijing.⁽⁸⁶⁾ Beijing refused to open up Chinese markets to Iranian imports, and sanctions barred Tehran from making demands on Beijing to engage in fair trade.⁽⁸⁷⁾ Corruption in Iran that encouraged lucrative licensing agreements with Chinese firms hampered Tehran's ability to fix its trade imbalance.⁽⁸⁸⁾ In the process, Beijing imposed tight trade regulations on the Iranian car-manufacturing sector by signing an agreement to export Chinese Damai cars in exchange for starting a local assembly line in Iran that would include 80% Chinese-made parts. Iran's insistence that it could produce the parts at lower costs was ignored.⁽⁸⁹⁾ Chinese companies also

held on to long-term export agreements they had with Iran in the fields of transportation, electronics, mobile, and home technology devices, but refused to allow Iranian manufacturers into China.⁽⁹⁰⁾ China's heavy-handed approach to trade extended to Iran's petrochemical industry. Though Iran tried to offset its inability to remain China's main oil supplier by exporting petrochemical products to the country, China imposed financial and banking restrictions on Iran's non-oil trade that included its petrochemical products.⁽⁹¹⁾ Tehran tried once more to convince Beijing that it could offer it other low-cost non-oil products including nanotechnologies, medicinal herbs, spices, saffron, rugs, handicrafts, leather, and clothing items.⁽⁹²⁾ But the volume of Iran's exports of these products to China remained relatively small. Some 65% of what Tehran labeled as non-oil exports to countries such as China included liquefied gas products and petrochemicals. The remaining 35% of Iran's non-oil exports were minerals rather than locally manufactured products.⁽⁹³⁾

Second: Lack of Monetary Transparency in Iran Impacts its Trade with China

Tehran promised to pass new import and export regulations to support small to medium-sized Iranian producers aiming to enter Chinese markets in 2018. But Beijing increased restrictions on Iranian monetary transactions and blamed Iran's non-transparent banking as a reason. The Bank of Kunlun Co, the main Chinese transaction channel with Iran, was set to end payments to Iran by late 2018.⁽⁹⁴⁾

A subsequent parliamentary report in Iran concluded that the country was poorly integrated with international financial markets and it could not retain its strong economic partnerships with China in the face of sanctions.⁽⁹⁵⁾ The report prompted Tehran to join the Financial Action Task Force (FATF), an inter-governmental body that sets standards for international banking. Iran's decision to regulate and combat money laundering to meet FATF regulations was directly influenced by the joint collaboration between China and Russia to fight money laundering by Iran. Moscow and Beijing not only banned activities with major Iranian banks operating in their respective territories but also barred other financial or insurance networks belonging to Iran from operating as well.⁽⁹⁶⁾

Iran believed that by joining the FATF, it could sustain trade with China. But a parliamentary approval to allow Iran to join the Convention Against the Funding of Terrorism (CFT) did little to facilitate trade with China despite the heavy cost to Iran in reorganizing its bureaucracy to comply with CFT provisions. In fact, many small to medium-sized private enterprises in Iran refused to be scrutinized by heavily regulated international norms under CFT and stopped engaging with similar enterprises in China, dashing Tehran's hope to use these enterprises as an engine for growth during the

sanctions.⁽⁹⁷⁾ Iran subsequently failed to increase joint private investments with its Chinese counterparts or to encourage people to people diplomacy to circumvent the sanctions. Some 80,000 Chinese annually visited Iran, and hundreds of thousands more Iranians traveled to China. Tehran had hoped to use the potential here to strengthen economic bonds between China and Iran.⁽⁹⁸⁾

China continued to require that Iran meets international monetary standards observed by private Chinese firms if it wanted more trade and ignored Tehran's request to encourage these firms to work with Iran despite its inability to meet those standards. China and Iran have meanwhile engaged in talks with Russia and Turkey to facilitate the System for Transfer of Financial Messages (SPFS), a financial channel developed by Moscow to serve as an alternative to SWIFT. It is unclear if the talks will lead to measures that will replace the US dollar in international financial transactions, but they offer Iran hope that it might circumvent US Treasury sanctions that are slow to target exchanges in currencies other than the dollar or in virtual currencies. Since 2013, Iran has exchanged some \$3.8 billion worth in Bitcoin denominations, though not a considerable figure, it does point to Iran's ability to use new financial channels for trade.⁽⁹⁹⁾ Though Iran's Central Bank officially bans private financial institutions to engage in decentralized virtual currencies, hacking of cryptocurrencies could potentially enable Iran to engage in international monetary transactions.⁽¹⁰⁰⁾

Third: Oil and Gas Cooperation Slows Down

Since the Iran nuclear deal, China joined only two international consortiums with Western companies to develop the Azadeghan and Yadavaran fields in South Pars. In addition, the National Iranian Oil Company (NIOC) and Pasargard Energy concluded a \$2.8 billion deal to develop the Sepehr and Jufair fields (previously a joint Iran-India-China venture back in 2010), marking the third Iran Petroleum Contract (IPC) signed after the nuclear deal. The IPC was concluded after political disagreements between the Supreme Leader and Rouhani's government. The Supreme Leader Ali Khamenei conditioned that international investors must team up with local partners selected by the government.⁽¹⁰¹⁾ The oil deal is a 20-year contract that allows production in these fields of some 110,000 bpd or 512 million barrels in 20 years, requiring \$2.427 billion in direct and \$413 million in indirect investments.⁽¹⁰²⁾

China stepped in to offer nearly \$3 billion for oil development in the Yadavaran field, taking over Royal Dutch Shell shares. The British-Dutch company left talks with Iran in March 2018. Beijing also agreed to partner with Total to develop Phase 11 of the South Pars project. When Total announced that it did not believe it could acquire a sanctions waiver from the US to operate in Iran, the China National Petroleum Corp (CNPC) agreed



to retain its operations in the field, and buy \$1 billion of Total shares.⁽¹⁰³⁾ Iran was disappointed by the development as it had taken 17 months to build consensus to hand the oil contract to Total and CNPC.⁽¹⁰⁴⁾ Though China remained in Iran's South Pars after Total withdrew, it slowed progress in the field.⁽¹⁰⁵⁾ Iran's Oil Minister, Bijan Namdar Zanganeh, insisted that CNPC had signed an agreement to develop Phase 11, and it had no right to pull out of the project. But in late 2018, Beijing said it would suspend the South Pars project to minimize trade tensions with the United States. Nearly a decade earlier, when China first agreed to develop South Pars, it had also failed to deliver a project it had signed four years in advance to develop the North and South Azadeghan fields.⁽¹⁰⁶⁾

Tehran is now concerned that the European Union's (EU) Special Purpose Vehicle (SPV) to provide alternative financial channels to allow countries like China to maintain investments in Iran may not be sufficient in helping to circumvent sanctions on its oil industry. The EU itself has been a reluctant partner in developing these channels with Tehran, as most major European banks, companies and governments fear US sanctions. As a result, Iran will be unable to sell oil to its main customers beyond the limits set by the exemptions that the US Treasury has offered to individual countries. Iran is currently avoiding disclosing clear figures of its oil exports, and insists that it will continue to export oil to key customers.⁽¹⁰⁷⁾ As the main oil customer, China's reluctance to invest in Iran's energy markets is disheartening. Tehran believes that oil exports to China are large enough, that if sustained, could generate the revenues required to beat the sanctions.⁽¹⁰⁸⁾ But since 2010, when Iran's oil industry was first

sanctioned under the Obama administration, countries such as China that imported Iranian oil dropped their imports by 6% every six months. This could remain a trend moving into the future. Though China has vowed to continue to buy oil from Iran after the US renewed sanctions on the Iranian oil industry in November 2018, its imports dropped by 45% of its 655,000 bpd during January-September 2018, despite receiving a US waiver to buy oil from Iran. By May 2018, nearly 67% of Iran's crude oil exports had gone to China.⁽¹⁰⁹⁾

Iran has two options to increase gas exports: a) improve the capacity of the National Iranian Gas Company; or, b) privatize gas exports. Iran is currently unable at all times to retain regional partnerships to export its gas. Even with its best partners, it faces hurdles. **For example, Iran exports \$8-10 billion worth of gas to Iraq.** But Iraq previously barred Iran's access to its banking systems. As Iran refuses to disclose how it receives the money for its gas exports to Iraq, it jeopardizes its ability to make sustainable gas deals with other neighbors.⁽¹¹⁰⁾ As a result, countries like China prefer to secure gas routes through Afghanistan and sideline Iran in gas projects such as the Turkmenistan-Afghanistan-Pakistan-India Gas Pipeline (TAPI), though Tehran hopes to eventually join the project.

Fourth: Prospects for Iran's Membership in the Shanghai Cooperation Organization (SCO)

China's ability to sustain its economic growth, despite the challenges it faces in foreign trade with the Trump administration, has increased its resolve to build up state membership in the Chinese-sponsored Shanghai Cooperation Organization (SCO). Since the SCO does not require political harmony among its members and observer states but seeks to build economic integration within Asia, it makes it an attractive organization for Iran. The economic association between Brazil, Russia, India, China, and South Africa (BRICS) has increased the attraction for SCO markets in Iran. All five countries are among Iran's main trading partners.

Tehran insists that during the sanctions, the SCO should adopt a non-political approach to the question of regional integration to allow the organization's member states to trade with Iran.⁽¹¹¹⁾ The approach could ensure Iran's integration into the Chinese Silk Road project and create new joint economic opportunities with China in Central Asia. But neither China nor Russia would allow Iran to compete for the Central Asian markets under the banner of the SCO. Since May 2018, Iran has tried to elevate its observer status in the SCO to full membership. In the process, it has disregarded Russia's political and economic justifications for delaying its full membership in the organization. The SCO discourages the membership of states that are sanctioned under international law. Russia has also encouraged Israel's observer status with the SCO. This implies that

Russia may not fully back Iran's membership in the SCO, given the political hostilities between Iran and Israel, despite repeated confirmations by the Russian President Vladimir Putin that he wants to see Iran become a full member of the organization.⁽¹¹²⁾

Iran continues to view the SCO as a vehicle to rescue its economy which is struggling under sanctions. As the scope of the SCO grows, and Iran's political allies such as Syria seek observer status in the organization, Tehran's influence in the SCO could increase through joint Iranian-Syrian economic networks that can engage with the organization. Sanctions might ultimately delay Iran's ability to become a permanent member of the SCO. But to resolve this challenge, Tehran acceded to the South East Asia Union Treaty of Amity and Cooperation (TAC) at the 51st annual Foreign Ministerial Summit of the Association of Southeast Asian Nations (ASEAN) held in Singapore in August 2018. The process of integrating into the Southeast Asian economies, however, depends on the willingness of individual states in Asia to trade with Iran. Iran's ability to tap into the Asian markets will further be restricted if companies and investors refuse to challenge the sanctions against Iran. Asian governments may have limited control over the decisions made by private companies on whether to engage in trade with Iran. Iran's interventionist regional policies and its desire to provoke major powers such as the US could also hamper Tehran's ability to trade with countries in Asia, including China.⁽¹¹³⁾

Fifth: Prospects of Sino-Iranian Ties

There are three possible scenarios that could influence the prospects of the Chinese-Iranian partnership:

1. Progress in Sino-Iranian relations

A driver of the Sino-Iranian relations is the ability of the two sides to maintain trade and military cooperation despite challenges and to willingly work on their mutual partnerships with other influential regional states such as Russia. As a result, there is a reason to believe that trade between China and Iran could improve despite the sanctions. China has viewed Iran as an important trade partner. The rapid growth of the Chinese-Iranian partnership, in fact, came about in the 1990s, when Iran's regional tensions with Iraq and the Arab neighbors in the Arab Gulf subsided. China turned into a major importer of Iranian oil and an investor in the development of infrastructure in Iran. Since then, the pattern of Sino-Iranian trade has shown a steady ten-fold increase from \$5.5 billion in 2003 to the projected figure of \$55 billion in 2018.

Beijing has vowed that the SPV will help significantly improve trade relations with Tehran.⁽¹¹⁴⁾ Even without the SPV, it is possible that trade will continue. Under the tight international sanctions regime that was imposed on Iran during the presidency of Mahmoud Ahmadinejad, China, in fact,

remained one of Iran's major export destinations. Those sanctions failed to decrease the value of Iran's exports, considering that its key export was oil that countries like China needed.⁽¹¹⁵⁾

The Chinese military insists that it will maintain friendly relations with its Iranian counterparts as a means to improve political relations.⁽¹¹⁶⁾ China's willingness to watch Iran's nuclear program grow since the 1990s, its supply of arms to Iran during the Iran-Iraq War in the 1980s, its sale of advanced anti-ship and anti-aircraft weapons to Iran, and its assistance to Iran's ballistic missile program are indicators of Beijing's desire to maintain amicable security relations with Iran.⁽¹¹⁷⁾ China also recognizes that it needs a level of military engagement with Iran to access Iranian ports and work with Iran to keep the Strait of Hormuz safe for international navigation. The strait is a critical waterway for China's access to the area's rich hydrocarbon resources as well as for the China-Pakistan energy corridor. Finally, China and Iran could view their joint military cooperation as a modest counterbalance to the US security role in the Arabian Gulf region.⁽¹¹⁸⁾

2. Decline in Sino-Iranian relations

There is a reason to believe that a tight international sanctions regime could lead to the decline of Sino-Iranian relations. Though in the past sanctions have not prevented the Sino-Iranian partnership from growing, they have dampened it. Iran has at least once faced negative growth in imports as a result of sanctions in the past few years. While sanctions on minor commodities may fail to impact the value of Iranian imports and exports in any major way, strong sanctions on Iran's major industries can lead to significant fluctuations in the value of its imports and exports.⁽¹¹⁹⁾

There is a concern in Iran that the country's over-reliance on China may build an illusion of a real alliance with Beijing. Though China and Iran have signed on to a comprehensive strategic partnership to help their relations mature into an alliance, China has signed similar partnerships with 180 other countries around the world. In 2016, a promise during President Xi Jinping's visit to Iran to raise bilateral trade to \$600 billion never materialized. Iran's ability to secure major loans from China now depends on financial mechanisms such as the SPV that are not yet fully in place.

Political relations between China and Iran may fluctuate based on larger security concerns that the two countries might have about the US or the Middle East region. As a result, Iran's military partnership with China will remain a dependent variable of Beijing's larger military strategies and interests in the Arabian Gulf region and beyond. China continues to follow Russia on issues related to regional security in the Middle East and avoids independently engaging with Iran. Instead, Beijing prefers to work with Russia, the US and other world powers in the UN Security Council over sensitive files that relate to Iran's nuclear program and international

sanctions regime, and remains a partner in the P4+1 nuclear talks between Iran, China, Russia, Germany, France and the UK after the US left the nuclear deal in May 2018.

3. Breakdown of Sino-Iranian relations

Ties with China could break down if Iran were to become unstable as a result of political, security and economic tensions. Beijing may have the ability to stand up to any potential US military threat against Iran, but it is unwilling to do so on Iran's behalf unless it is in China's own best interest. Though Iran is an important country for China, it is not powerful enough to influence China's larger and more important relationships with Iran's neighboring Arab countries, Russia and the US. This can lead to major restrictions in Iran's ability to trade with countries like China, worsen its unemployment crisis, and create foreign currency shortages in trading with the outside world. As a result, Iran has to adopt policies to lessen the impact of sanctions and improve its international standing if it hopes to retain a positive trade balance with China. In the foreseeable future, Iran's relations with China will remain a variable of China-US relations. China attempts to alter the nature of its ties with the US to gain preponderant political and economic power. This may help Beijing define its relationship with Tehran on terms that are not dictated as much by Washington, but current tensions in Sino-US ties show that consolidating a partnership with Iran in the event the country faces a real debacle may not be an easy task for China.

Conclusion

China is not a major democracy, which makes it easy to work with a closed country like Iran. China offers Iran assurances that relations between the two countries will continue during the sanctions. China and Iran offer one another financial opportunities in difficult and in promising times. China's insistence on avoiding fragmented regional markets in the Arabian Gulf region means that it will invest in Iran as long as it can. The Chinese cooperation with Iran, backed by national capital and political will on both sides, means that Beijing can influence Tehran in difficult political times. As China aims to build long-term stable relations in the Arabian Gulf region, it will seek mutually complementary energy policies with the Gulf States as well as with Iran. In this process, to avoid sanctions, China may consider alternative paths to trading with Iran through smaller firms and special banking channels. Though it is difficult to predict the prospect of relations between China and Iran fully, the three scenarios in this report offer alternative ways of thinking about the future of these relations.

TURKEY-IRAN RELATIONS

In 2018, Turkey and Iran focused on keeping their strategic relations as neighbors, despite frequent political and security disagreements between them. Their cooperation worked although they failed to build a broad strategic partnership. But the need to balance their relations in conflict zones in the Middle East, and address contentious issues with the United States, ensured that Ankara and Tehran remained reliable neighbors.

First: Overview of Strategic and Economic Relations Between Turkey and Iran

Turkey and Iran continued to balance their interests in the Near East, despite their competition for influence in the region. Turkey sought solutions to specific challenges in its relations with Iran. It attempted to retain trade relations with Tehran, despite renewed US sanctions against Iran that were re-imposed in 2018. Turkish President Recep Tayyeb Erdogan condemned the US-led sanctions regime against Iran.

But Ankara and Tehran disagreed on a host of other issues. Turkey opposed Iran's decision to keep military advisors in Syria. Iran feared that Turkey's assertive policy of direct military intervention in Syria could sideline Iranian interests. The Syrian crisis revealed a host of diverging threat perceptions in Iran and Turkey. The Syrian government is Iran's ally and helps Iran expand its influence in the Levant region. Ankara firmly backed what it called moderate forces fighting Syrian President Bashar al-Assad. The proxy battles in Syria that ensued between different actors as a result of disagreements between Turkey and Iran were gradually resolved through tripartite peace talks they held with Russia under the aegis of the Sochi/Astana peace process for Syria.

Turkey has said it will watch how the European Union (EU) offer of building a Special Purpose Vehicle (SPV) to provide financial channels for trade with Iran could work, and it has expressed interest in exploring trade in local currencies with Iran to reach a \$30 billion annual trade target between the two states.⁽¹²⁰⁾ Turkey relies on Iran to meet its energy needs. It is only 26% energy independent and believes that Iran is key to meeting its energy needs for the foreseeable future. Though Turkey diversified its oil supplies and its oil refiner, Tüpraş, decreased crude oil purchases from Iran following the resumption of US sanctions, Ankara has sought sanctions waivers by the US Treasury to import gas from Iran. Turkey needs Iranian gas, and it is contractually obligated to pay Iran for its gas exports to date and in the future.

The second wave of sanctions on Iran's energy industry led by the Trump administration in November 2018 was politically significant from Turkey's

standpoint. Turkey is concerned about potential regional restrictions on its trade and energy options caused by these sanctions, especially as tensions with Saudi Arabia mounted over the murder of Saudi journalist Jamal Khashoggi in Istanbul. Under a strict sanctions regime, Turkey cannot trade as much as it can with Iran. The Trump administration has taken steps to curtail trade with Iran through re-export terminals in the region and bar Iran from exchanging goods with its neighbors including Turkey. Ankara will comply with any international sanctions regimes against Iran, but it has viewed such sanctions as unjust both to Iranian and Turkish interests.

The enforcement of the sanctions regime against Iran under the Obama administration from 2009 onward led the US government to offer Turkey exemptions to buy natural gas from Iran. Since the resumption of sanctions against Iran in 2018, Turkey has expected a similar understanding with the Trump administration. Under the Obama administration, Turkey was able to barter goods with Iran and offer transactions in gold, exchanged into foreign currencies in third countries, to allow trade with Tehran despite sanctions. But Turkey may not be able to use this precedent moving forward to trade with Iran. Iran's gold and precious metals have already been sanctioned, and the Trump administration is keen to block any attempts to transfer money to Iran unless for humanitarian purposes.

Second: Security Relations Between Turkey and Iran

The Middle East's shifting geopolitical realities meant that Turkey and Iran had to work together to keep joint borders secure. Turkey's membership in the North Atlantic Treaty Organization (NATO) has barred Iran from working closely with it on military and security issues. But Iran and Turkey continue to exchange views on a host of security issues through the High Council for Iran-Turkey Strategic Cooperation, a body established for this purpose and which last met in December 2018.⁽¹²¹⁾

Turkey supports the Iran nuclear deal that was concluded in 2015. It maintains that the deal helps prevent Iran, a threshold nuclear state, from developing nuclear weapons capability. But Tehran's offensive capabilities including its ballistic missile program and operation of proxies across the region concern decision makers in Turkey, and prevent strong military cooperation between Ankara and Tehran.

Turkey's military strategy focused on forward defense in Iraq and Syria in 2018. Iran considered Turkey a status-quo power despite this strategy but believed that Ankara aimed to contain Iranian influence in Iraq and Syria. Though Iran and Turkey supported the territorial integrity of Iraq and Syria, they often struggled to find mutually supportive or harmonious interests in those countries. For example, Turkey supported the Iraqi Kurdistan Region's President, Masoud Barzani, despite his calls for a Kurdish referendum for independence in Iraq, which Tehran rejected. Iran views the presence of

Turkish forces in Syria as a long-term threat to President Bashar al-Assad's future and an impediment to Iran's advance toward the Mediterranean through Syria. Ankara is angered by the brutality of the Syrian war and its humanitarian cost and doubts that Assad should hold on to power. Ankara remains concerned that Iranian-backed Shia fighters in Syria could divide the region into pro and anti-Iran countries. Other concerns involve Iran's ability to influence the future constitutional order in Syria, as well as the fate of the Syrian opposition.

To address these issues, Turkish and Iranian military commanders met in Ankara in August 2017. The meeting focused on discussions to resolve differences on regional issues, and to build border security and combat terrorism. An agreement was reached to hold future high-level military talks.⁽¹²²⁾ But Turkey regards the Iranian military system as too entrenched to look beyond the constraints that impede a strategic partnership. As a result, Ankara and Tehran compartmentalized their security concerns to address only a host of immediate issues in 2018. Shared concerns involved Syria and the Kurds. In April, Presidents Hassan Rouhani and President Erdogan met to discuss bilateral and international issues, but no details were available about what they may have agreed on.⁽¹²³⁾

Earlier in January 2018, Turkey's military advanced into Syria's Kurdish populated territories. In April, Turkey, Russia, and Iran met in Istanbul for the Astana peace talks. The Turkish Foreign Ministry announced that a major component of the peace conditions would involve an agreement with Washington to take back the arms it supplied to the Syrian Kurds that Turkey designates as terrorists. Iran viewed the Turkish offensive in Syria, dubbed Operation Olive Branch, as an impediment to peace in Syria though it willingly negotiated with Ankara on the issue. Along the way, Tehran stressed the need to abide by UNSC resolution 2254 that calls for a ceasefire and a political settlement in Syria, and UNSC resolution 2401 calling for humanitarian aid delivery to Syria. It also stressed the need for Turkey to support the Sochi National Syrian Congress that gathered 1,600 Syrian figures earlier in January to call for a new constitution followed by free elections in Syria. During his visit to Turkey, Rouhani insisted that there were no military solutions to be had in Syria.⁽¹²⁴⁾

Third: Turkish-Iranian Rivalry and Cooperation Affects the Outcome of the Syrian Conflict

In November 2017, leaders of Russia, Iran, and Turkey met in Sochi to plan a Syrian National Congress. The Sochi Summit and several ensuing rounds of the Astana Process offered a chance to end costly military operations and de-escalate regional tensions in Syria. Iran kept its forces in Syria and worked on keeping Bashar al-Assad in power.⁽¹²⁵⁾ The ensuing marathon to conclude a Syrian peace deal led Ankara to suggest that indirect talks with

the Assad government were a possibility, especially if Syria's markets could re-open to Turkish investors.⁽¹²⁶⁾

In early February 2018, Turkey sought French assistance to build a "Syrian peace map." The idea was premature as it rested on Turkish ground victories in Syria which were slow. In fact, Turkish forces had to retreat from Afrin after Kurdish forces in the northern and western Aleppo region in Syria retook the town.⁽¹²⁷⁾ This did not stop Turkey from trying to take over the western Euphrates region in Syria to return some 3.5 million Syrian refugees. Turkey also advanced into Minbij where some 2,000 US forces remained and said it foiled the US plans to divide Kurdistan from Syria. To complicate matters, Iran condemned the Turkish advances, and Iranian proxies clashed with Turkish forces around Idlib.⁽¹²⁸⁾ By mid-February, Syrian forces had advanced into the Kurdish zones and repelled Turkey's military operation as Kurdish forces let the Syrian army into regions east of Aleppo. Iran played a critical role mediating between the Syrian Kurds and army in the process. Putting the light on Turkey's military ambitions in Syria allowed Iran to quietly build up its presence across Syria in areas that Russian and Turkish forces controlled.⁽¹²⁹⁾

Israel subsequently carried out at least 12 attacks against Iranian and Hezbollah targets in Syria. In an effort to de-escalate the rising tensions, Iran rejected that its drones had entered Israeli airspace to provoke the attacks. Tehran also recognized that Turkey and Russia had working relationships with Israel. That meant that Iran could not depend on either to halt the Israeli air strikes. Turkey and Russia stressed the need to avoid an accidental war between Iran and Israel. Iranian-backed forces subsequently withdrew from Israeli borders with Syria, through an agreement that Israel reached with Russia.⁽¹³⁰⁾

To expedite the departure of US forces in Syria, Ankara and Tehran increased efforts to conclude the Astana talks. Moscow also rejected a strong US role in Syria. As Turkey and Russia took on an active role finalizing peace talks, Iran hoped that the talks would eventually lead its Arab neighbors to accept a role for Iran in Syria. The Astana talks indeed improved the prospects for regional dialogue over Syria. Though dozens of opposition factions initially rejected the Astana Process, they were urged by the UN to return to the process to help facilitate parallel UN-led Geneva/Vienna peace talks on Syria. Behind the scenes, Iran worked with Turkey and Russia to influence the Syrian opposition, including those backed by the US and its Arab allies. The stauncher anti-Assad opposition was marginalized. The remaining opposition agreed to comply with UN resolution 2254 calling for a power transition in Syria through talks between the Syrian government and the opposition.⁽¹³¹⁾

In April, during the Astana talks in Istanbul, Turkey and Russia

reaffirmed their commitment to monitor de-escalations zones in Syria, and expand cooperation to deter terrorist groups on the ground that violated the latest ceasefire agreement over Ghouta. Iran and Russia insisted on helping the Syrian government clear areas around Ghouta of opposition rebel groups, which led to the breakdown of the ceasefire. But bilateral Turkish-Russian negotiations that Iran supported may have helped end funding to the radical elements of the opposition Free Syrian Army.⁽¹³²⁾ Iran feared exclusion from the larger political calculations over Syria that took place between Turkey and Russia, but it complied with demands to reign in Iranian proxy forces in Syria.

In September, Iran, Turkey, and Russia met in Tehran to halt Syrian army assaults on armed opposition groups in Idlib. Iran insisted on clearing Idlib from the armed opposition, fearing that Turkey might use those groups to advance to Aleppo, a critical strategic lifeline for the Syrian government. Turkey vowed to disarm the radical armed groups by mid-October 2018. Russia's announcement of demilitarized zones in Syria to separate the opposition from Syrian government strongholds, and allow for the passage of armed groups monitored by Turkish and Russian forces on the ground alarmed Iran. Iran accepted the deal, however, to prevent the collapse of the Astana Process. It also worked closely with Russia to secure Idlib and prevent potential opposition advancements into Aleppo.

Fourth: Prospects of Turkish-Iranian Ties

Three possible scenarios could influence prospects for the Turkish-Iranian partnership:

1. Turkey and Iran build a stronger strategic partnership

The cooperation between Turkey and Iran in Syria points to new realities. As the number of conflicts in the Middle East increases, Turkey and Iran will have more reason to work together to resolve them. In Syria, they began recognizing the importance of having closer security and intelligence contacts to address both the Syrian conflict and the Kurdish problem. Turkey's subsequent successful operations against Daesh strongholds in Syria meant that it could also address the Kurdish threat from Syria with Iran's help. Both Iran and Turkey faced demands for autonomy by the Kurds, and Syria's Kurdish problem exacerbated those demands. Therefore Ankara relied on Tehran not to provoke the opposition Kurdish group in Turkey, the Kurdistan Workers Party (PKK), in order to pressure Turkey into making concessions in Syria. Tehran likewise relied on Ankara to help control the opposition Kurdish group in Iran, the Kurdistan Free Life Party (PEJAK).

2. Turkey and Iran fail to build a stronger strategic partnership

Turkey and Iran often agree to disagree to maintain their strategic partnership, but in certain cases, these disagreements could dampen their ties. In Syria, Ankara and Tehran disagreed on how to manage the Kurdish-led People's Protection Units (YPG). Though the group collaborated with the US to fight the Islamic State, Iran chose not to see the YPG as a problem. Assad offered the YPG promise of autonomy in return for fighting the Islamic State. But Turkey viewed the group as a military wing of the PKK and initiated operations inside Syria against it. This caused a major rift in Turkish-Iranian ties, and Ankara and Tehran charged each other of provoking PEJAK and the PKK respectively in the process. Turkey began working with Iran on the ground in Syria again only after the YPG received weapons from the US, though Washington had said that it would not send arms to the group.⁽¹³³⁾

3. Declining relations between Turkey and Iran

Tensions in Turkish-US relations could impact Ankara's diplomatic ties with Tehran. Turkey has charged the US with making plans with Syrian Kurds and have demanded that US forces leave Manbij.⁽¹³⁴⁾ Though President Hassan Rouhani has also publicly called for the departure of US forces from Syria, Tehran has also warned that Turkish actions in northern Syria would ignite a civil war.⁽¹³⁵⁾

There is no clear indication that Turkey would defend President Assad's hold on power if the US decided against it. In April the Turkish deputy Prime Minister Bekir Bozdag stressed that Turkey's policy was to not support any one government in Syria.⁽¹³⁶⁾

These positions are clear statements of intent that Turkey does not feel bound to protect Iranian interests in Syria. More importantly, Turkey's security interests with the US would easily foreshadow the Turkish-Iranian partnership. Iran suspects that the US could support the idea of sending an Arab-led army to Syria by way of urging US Arab allies to contribute more to the cost of war there if need be in the future. In this process, it believes that Turkey might lend tentative support to the idea.⁽¹³⁷⁾

Conclusion

Ankara and Tehran will remain committed to resolving critical security issues that concern both of them in the region and along their shared borders. Diplomatic negotiations between them will continue over the fate of Syria and the Kurds. They will both need each other to counterbalance US measures to contain them regionally. If sanctions on Iran are tightened, it will deal a blow to Turkish-Iranian strategic relations. Though Turkey wants to see a reduced Iranian interventionist role in the region, it needs Iran politically and economically. Iran would likely clean up its losses as best it can by remaining engaged with Turkey at all costs in order to derail

potential US threats and bar its neighbors from building a wedge in ties between Ankara and Tehran. But Turkey could ultimately re-shift its position to align with the US and its Arab allies against Iran.

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Conclusions

In 2018, Iran witnessed several developments and challenges both locally and internationally. These included public protests over high prices which then turned into calls for the fall of the regime as well as for the removal of the theory of Supreme Leadership.

Internal affairs: Although the Iranian regime was able to put out the flame of public protests, it has so far failed to address the main reason for the crisis, leading to more protests at different levels; most notably protests led by the truck drivers and sugar cane factory workers in Ahvaz. In the same context, workers, students, teachers, traders and political movements protested against the restrictions imposed by the regime in the public sphere. Internal instability erupted with hostile actions against minorities in the Kurdish, Ahvaz and Baloch areas on the southeastern border where armed separatist groups attacked the Iranian army and the IRGC, causing massive losses.

The multi-dimensional internal crisis simmered while criticism from within the regime increased, warning of the danger of continuing the same ongoing policies. The criticism was led by Hassan Khomeini and a reformist political current backed by Faezeh Hashemi Bahramani, who warned that the regime might be toppled. The death of Mahmoud Hashemi Shahroudi, the expected successor of Khamenei, has made the future of Iran more ambiguous.

Regionally, Iran's relations with its neighbors have become increasingly strained. Iran has faced pressure across different parts of the region; for instance, the Saudi-led coalition to support the legitimate government in Yemen achieved several military successes, maintaining Iran's presence in the country, the Red Sea and the Bab al-Mandab Strait. The efforts of Arab countries in Iraq also curbed Iran's influence. In fact, the competition between Arab states and Iran created real challenges to the future of Iran's influence in Syria and Iranian diplomacy suffered a major setback when Morocco severed ties with Tehran. Additionally, Iran has strained relations with Algeria, Mauritania and other African countries. These are just a few examples of the long list of countries that have cut or reduced diplomatic ties with Tehran.

The United States has significantly undermined the nuclear deal. At the end of the last year, the United States reimposed sanctions that had previously been in place and added new sanctions. As a result of the Trump administration's policy towards Iran, most foreign investors withdrew from the Iranian market. Most countries have ended their activities in Iran because of US sanctions, which negatively impacted the Iranian economy,

in spite of the European position to maintain the nuclear agreement. However, the relationship between Iran and the European countries is troubled. Germany, France and Britain plan to impose new European sanctions against Iran because of its ballistic missiles program. An Iranian diplomat's involvement in targeting a gathering of the Iranian opposition in Paris, accusations of espionage and the violation of diplomatic norms resulted in the expulsion of the Iranian ambassador from Germany and some Iranian diplomats from Albania. All of this strained the relationship between Iran and the European countries.

On the other hand, the regime achieved some successes. Some small and non-US companies continued to operate in Iran. The US waivers granted to eight countries to import Iranian oil for six months gave Iran the opportunity to avoid a sharp drop in its oil exports. The International Court of Justice (ICJ) was in opposition to the US sanctions on Iran, but these successes appear temporary or symbolic.

By 2019, it is likely that the regime will be under increased pressure, especially after the new budget of 2019/2020 shrunk by 50% when taking into account the exchange rate. Its terms include austerity measures in the service sectors, while the share of parallel institutions has increased compared to the previous year. Under these circumstances, prices have risen in some areas by 44%; general inflation by 39%; and citizens living below the poverty line, according to official sources, by 50%.

Unemployment among university graduates will undoubtedly increase public discontent against the Iranian government. However, the opposition, nationalist forces, human rights activists and women's movements will exploit public discontent resulting from the economic crisis to pursue their demands, putting further pressure on the government.

On the other hand, the regime is increasingly dominated by the IRGC. This is due to Rouhani's failure, a decline in his popularity, the nuclear agreement being undermined, the re-imposition of sanctions on Iran, and the absence of influential religious and political leaders after the death of Shahroudi the most important religious figure associated with the revolution. The IRGC will play an active role in the internal and external crisis confronting the regime. In fact, the regime will be more dependent on the IRGC to control the security situation at home, and to overcome the US sanctions, especially on its oil and financial sectors. The IRGC's role will not only dominate the reformers, but also the hardliners. If the ailing Khamenei dies, the IRGC may quickly fill the political vacuum and seize power through a soft military coup to fill Khamenei's position, who is covertly leading the IRGC.

Under the radical policy of the IRGC, especially with an increase in its budget and the possible escalation of a regional crisis, the Iranian regime

relies on the IRGC's influence in the region as a pressure tool to face internal and external challenges by depending on its proxy militias to spread chaos and to keep combat outside of Iran's border.

Iran's regional project is losing credibility domestically with the public brandishing of slogans such as "No Syria or Lebanon," "My sacrifice only for Iran," and "Leave Syria and take care of our affairs." Iran's regional agenda is also likely to lose its legitimacy regionally because of international and Arab efforts to restore stability in the region. With the ISIS threat having decreased considerably, Iraq, Syria, and Yemen are about to regain control over their territories. Saudi Arabia and its allies are seeking to build a wide and extensive regional security network which will include the major Arab vital areas. On the other side, internal pressures could push the Iranian regime to make regional concessions to end its crises.

Internationally, Trump's strategy of extreme pressure will face a critical test in 2019, despite Iran's gains from the US withdrawal from Syria or even Afghanistan. However, Trump links changing Iran's behavior to his political future, and to what extent Iran will be able to challenge his strategies will be fundamental to his fate. Although his withdrawal from the region represents his policy of reducing US military deployment abroad, the military option still remains a possibility if deemed necessary. The US presence is still influential in Iraq and the region as a whole. As a matter of fact, the number of US troops close to the Iranian border has increased significantly.

In June, Trump's administration will announce its decision regarding whether to extend the waivers the US granted to eight countries to continue importing Iranian oil or not. This decision will impact all internal and external crises facing the Iranian regime. It is clear that Iran's regime is ineffective in the face of its escalating domestic crises, which it is managing but not addressing. The regime is relying on getting through to 2020 as it hopes there will be a new US administration which will have a different policy towards Iran as the United States is the main reason for these ongoing crises. However, Khomeini's grandson thinks that the source of the crises is at home not abroad. His viewpoint is shared by the people of Iran as illustrated by the popular slogan, "Our enemy is here, not the United States."





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