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Hegemonic Aspirations and Middle East Discord: The Case of Iran

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A Gramscian concept at birth, hegemony entered the IR field through efforts to contest the Classical Realist definition of power. Authors of a neoliberal persuasion such as Robert Keohane and Joseph Nye conceived of hegemony as a mixture of hard and soft power. Post-WWII United States (US) hegemony served as a textbook case for such a conception. Use of the concept of hegemony about rising regional powers is relative but refers to their potential capacity to influence the regional or international system by exploiting regional power vacuums (instabilities and crises), by combining the material and non-material powers of the state and reaching out to develop extra-regional alliances. The regional discord resulting from the breakup of the Taliban and Saddam Hussein regimes, along with the Arab Spring and the ensuing sectarian-ethnic civil wars in various states have created opportunities for resourceful revisionist states such as Iran to seek greater influence and to extend their strategic depth at the expense of smaller, yet rich, status quo oil exporting Arab monarchies.

Iranian influence has been growing rapidly in the Middle East ever since two anti-Iranian regimes in Afghanistan and Iraq fell in 2001 and 2003. Increasing US military presence in the neighborhood pushed Iran to shift its (formal) policy of non-alignment to gain full membership of the Shanghai Cooperation Organization (SCO), and to grow closer to both Russia and China (Dizboni, Haji-Yousefi, and Mcpherson 2010). This has allowed Iran to gain new economic opportunities, trading partners, and powerful partners in the international arena. Nevertheless, the Multilateral Security Council sanctions against Iran due to its nuclear program, in addition to previous US sanctions

in place since 1979, have devastated the Iranian economy, causing problems such as hyperinflation, depreciation of the Iranian currency, and massive unemployment. After analyzing the Iranian situation, it is important to determine whether Iran can be classified as both a rising and a regional power; either a rising or a regional power; or neither a rising or a regional power.

Although there is no definite, standardized definition for the phrase, "rising power," it is most commonly described as a state that is drastically improving its economic capabilities. For example, according to a report that was drafted by Goldman Sachs, a rising power is one that has "the potential to reshape the global economic and political landscape of the twenty-first century" (Hart and Jones 2011). While most analysts claim that members of the BRICS nations – Brazil, Russia, India, China, and South Africa – are the primary candidates to be classified as a "rising power," some state that Iran may also be included in that group. After all, unlike before, a multi-polar world is present today, where the post-Cold War unipolar order is being increasingly contested by a multipolar economic order. According to Wolhfort, whose work focuses primarily on realist theories, "a multipolar world can be the result of the emergence of regional [powers] that can build coalitions to counter the superpower" (Wolhfort 1991). Since developing countries do not necessarily have the ability to challenge the international system, for instance by not having enough influence in the IMF or the UN Security Council, they seek to gain alliances with more powerful states and transform themselves into "power poles of a future multipolar system" (Flems 2007). This is exactly what Iran has done. Iran's continuous attempts to look East, towards both China and Russia, along with its economic policy of *neither East nor West* may be interpreted as their attempts to challenge the current international system. Iran has attempted to alter its foreign policy of neutrality "to pursue benefits from extensive security-economic cooperation between itself and Shanghai Cooperation Organization (SCO) nation states" (Dizboni, Haji-Yousefi, Mcpherson 2010).

Rising Power

Before analyzing whether Iran qualifies as a rising power, it is important to understand what the phrase "rising power" truly means. Interestingly there are four major features of any rising power, and they include a growing economy, an international recognition of a particular state's growing power, the increasing ability of a state to project soft power on other states, and the capability to challenge the status quo. Other features that may also be attributed to rising powers are a strong military with substantial political power resources, a certain amount of internal cohesion to maintain stability, and an

increasingly influential role in international organizations (Tank 2013). Furthermore, a rising power may have the potential to create new regional groups, or significantly influence any existing one, such as the SCO. It normally seeks to create a more multipolar world, one where the post-Second World War order is continuously challenged. A rising power usually seeks positive relations with other powers, to bolster its economy, security, and influence in the international arena. Last but not least, it is usually distinct from middle powers, such as Canada, because unlike such middle powers, they did not fully integrate into the post-1945 world order, which led to a heavy conditioning of “their strategic interests and conceptions of national purpose” (Hurrell 2006).

Regional Power

Although regional powers share some common attributes with rising powers, the two are still distinct. Regional powers, also referred to as regional leaders or local powers, are states that have a significant influence only in their respective geographical location. Consequently, Samuel Huntington once defined regional powers as countries that are “pre-eminent in [particular] areas of the world, without being able to extend their interest as globally as the United States” (Huntington 1999). As indicated by another researcher, there are three main general features of all regional powers, and they include: (1) being part of a particular geographical area of a delineated region; (2) having the capacity to counter any aggressive actions from neighboring unfriendly states; and (3) maintaining a strong influence across the entire region (Osterud 2007). In addition, they are distinguishable from rising powers and middle powers (such as Canada) also due to them having a claim to leadership, the presence of power resources, the employment of foreign policy instruments, and the acceptance of leadership (Flems 2007).

Iran: Rising but Fragile

Iran meets many of the requirements of a rising, regional power. It is a member of a delineated region, one where it can counter any aggressive behavior from neighboring unfriendly states. For example, even though there is a fierce competition with Saudi Arabia to become the regional hegemon, Iran still manages to remain influential and can negate any aggression from its Arab neighbors. Nevertheless, although Iran possesses a greater number of land forces and a vibrant defense industry where it manufactures many of its own weapons, its military is still less technologically advanced or equipped than some of its neighbors', such as Turkey, Israel, and Saudi Arabia. This is not surprising, considering that Turkey is a NATO member, and both Saudi Arabia and Israel receive some of the world's most advanced weaponry from

the United States of America. Despite having a less technologically advanced military, Iran has still proved its ability to develop missile technology and to threaten, intimidate, and carry out low-intensity attacks – directly or through the use of proxy groups – against both major and regional powers. Therefore, Iran is highly influential in Middle Eastern politics, and is the center of gravity of the Shia Crescent, which also comprises Syria, Iraq, Lebanon, Yemen, and Bahrain. Iran tends to view itself as the guardian of Shia Islam, and openly supports other state and non-state actors that serve its interests in a strategic manner.

Iran's quest for regional hegemony is simple and clear. Unlike some of its neighbors, it possesses internal stability, which consists of relative vertical (national political community) and horizontal (leadership) homogeneity combined with hybrid features of vibrant electoral and political Islam (Buzan 2016). It also has enormous economic potential, due to the gradual relaxation of international sanctions and its vast quantities of natural resources. Iran maintains a strategic stretch to Iraq, Syria, Yemen, Lebanon, and Bahrain, based on common Shia networks and common interests. In addition, in order to receive international support, it has strongly aligned itself with Russia and China, both of whom are permanent members of the United Nations Security Council. For instance, this cooperation with the two great powers can be seen in Syria, where Russian airstrikes are supporting Iranian, Syrian, and Hezbollah forces, and also in the joint military maneuvers with China. There has been a peaceful solution to Iran's right to peaceful enrichment, despite strong opposition from some regional states, such as Israel and Saudi Arabia, and the Republicans in the United States. Due to Iranian diplomacy with the outside world, there has been a prospect for normalization, both in terms of Iran's economy and US–EU–Iranian relations. As a result, Iran had the ability to snatch mitigated victory from the jaws of defeat.

Although there are promising signs for Iran following a diplomatic solution to the nuclear negotiations, some analysts still suggest that Iran has a failed foreign policy and that it deals from a position of weakness (Juneau 2014). According to Juneau, although Iran possesses a large educated population, a central geographic location with strategic interests, and enormous amounts of natural resources, Iran's power is still weak due to poor military capabilities, mismanagement of the economy, and corruption. As a result, Iran's influence in the Middle East is diminishing rapidly (Juneau 2014).

Juneau argues that the Iranian Armed Forces have outdated weapons that do not pose any threat in the 21st century. Due to the low reliability and inefficiency of Iranian weaponry, Iran primarily has unconventional capabilities, where it is able to use proxy groups across the Middle Eastern region

to interfere and disrupt the internal affairs of neighboring states. Although these assets do allow Iran to deter potential threats, they usually do not result in any form of confrontation. As a result, these major problems may not get solved in the near future, due to the combination of economic constraints, years of underinvestment, and incompetence of the Iranian regime (Juneau 2017).

Iran's Economic Capabilities

Iran possesses a lot of natural resources. However, its crude oil exports have been under severe international sanctions due to its nuclear program. (With the current removal, however fragile, of these nuclear sanctions, the economy shows relative rising growth in GDP) Once these sanctions are removed, the Iranian economy is expected to rise rapidly. This will, in turn, result in a higher GDP in the future. This trend towards a stronger, more diversified economy is reflected in the 2015 IMF report on the Iran, it states:

[...] the JCPOA is expected to provide relief from sanctions in four broad areas: (1) export and transportation of hydrocarbon and hydrocarbon-related products; (2) banking and other financial services and transactions, including restored access to the international payment system (SWIFT); (3) access to foreign financial assets; and (4) the sale, supply of parts, and transfer of goods and services to the automotive and air transportation sectors, and associated foreign investment. The sanctions relief will bring three key benefits for Iran. First and foremost, it will be a positive *external demand shock*, both for oil and non-oil exports. In addition, the decline in the cost of external trade and financial transactions will act as a positive *terms-of-trade shock* (lowering the price of imports and raising the price of exports). Finally, restored access to foreign assets and higher oil exports should also result in a positive *wealth effect* (IMF 2016).

In addition to the report by the IMF, the Intelligence Unit from the Economist also provides useful information about the Iranian economy. It states that “with the prospect of sanctions being lifted from 2016, notably on oil exports and the banking sector, the economy will witness a more rapid recovery even with low oil prices” (EIU Digital Solutions 2018). See *Annex A* for a forecast summary for Iran's economy from 2015–2020. Furthermore, it is predicted that Iran will have the fastest growth in the Middle East and North African Region from 2016–2020, due to the combination of Iran's hydrocarbons wealth, demographics and economic diversity, and the removal of international

sanctions. See *Annex B* for Iran's economic growth in both the private and the public sector. Iran also boasts a sizable population compared to its neighboring states, which in turn results in a higher amount of domestic consumption. With a large pool of labor, and an educated population, Iran is poised to grow economically every year, as seen in *Annex C*. The decrease in inflation since the start of President Rouhani's tenure, combined with a more sustainable trade balance and a diversification of trade partners, allow room for more optimism in the Iranian economy (See *Annex D*). A comparison with neighboring Arab countries, especially with the members of the GCC, provides an accurate representation of Iran's comparative economic indicators, and this can be found in *Annex E* (EIU Digital Solutions 2018).

Iran's Regional Ties and Networks

Iran's involvement in the Lebanon hostage crisis, unwavering support to Hezbollah, a declaratory anti-Israel policy, and the ongoing nuclear program provide the context for assessing the neoclassical realism theory for explaining Iranian foreign policy.

The Lebanon hostage crisis lasted from the early 1980s to 1992. The hostages were mostly foreign citizens from Europe and America. They were abducted by an organization called Islamic Jihad that was closely affiliated with Hezbollah (Ranstorp 1997). The Iranian regime strongly supports Hezbollah in Lebanon. Before the establishment of Hezbollah, allies of Ayatollah Khomeini trained with Shia paramilitary organizations in Lebanon and Syria in the early 1970s (Ma'oz 2004). After the Iranian Revolution of 1979, Hezbollah was formed in 1982 (Levitt 2013). Thus, the new Iranian government successfully established unprecedented levels of cooperation with Lebanese Shia militias.

Ironically, Israel secretly supplied weapons to Iran's theocratic regime during the Iraq–Iran war (Parsi 2007). Iran was badly in need of weaponry, and the Israeli government covertly supplied US-made weapons (Walsh 2018). Besides anti-Israel rhetoric, Iranian activity against Israel was limited primarily to strategic military targets until the early 1990s (Bayman 2007). Starting from 1992, Iran softened its policy of exporting the Shia revolution in favor of standing up against Western governments and Israel (Bayman 2007).

Iran's nuclear development program was long suspected during the 1990s (Tayekh 2005). However, when details of an enrichment facility at Natanz and a heavy water facility at Arak were disclosed by an Iranian dissident group in 2002, calls were made for an immediate halt to the Iranian nuclear program (CFR 2018). The subsequent negotiations addressed the widespread

concerns over Iran's obligations as a signatory to the Non-Proliferation Treaty (NPT) (Ansari 2007).

Neoclassical realism provides a credible explanation for Iranian foreign policy from 1979 to the present day. This variant of Realist theory argues that the international system "provides incentives for states to emulate the successful political, military, and technological practices of the system's leading states or to counter such practices through innovation" (Taliaferro 2006). In addition, neoclassical realism also explains the "foreign policies of states in specific contexts taking into consideration the internal differences of the states under scrutiny, which can be due to material factors (e.g. military or economic power) or to non-material issues (such as norms or perceptions)" (Costalli 2009).

The balance of threat is an important concept while analyzing the Iranian foreign policy. When a state feels threatened by another nation's superior power, it seeks to balance the threats by allying itself with other states or militia groups. Although a state has a greater potential to threaten others by having a "greater share of total resources (population, industrial/military capabilities, technological prowess) ... the level of threat that a state imposes is not just based solely on the distribution of that power (i.e. foreign influence and political penetration)" (Watson 2001). Other factors, including "geographic proximity, offensive power, and aggressive intentions affect" the level of threat a particular state poses (Watson 2001).

Neoclassical realism explains the Iranian participation in the Lebanon Hostage Crisis by addressing Iran's asymmetric approach to balance regional threats. These threats are primarily from Israel and America. By using Western hostages as a proxy, Iran strategically defeated the Multinational Force in Lebanon (or MNF), which was strongly supported by the US (Pollack 2005). The abduction of Western citizens using a subservient militia group in Lebanon also allowed Iran to maintain a credible deniability of its involvement. Furthermore, the Iranian influence on Hezbollah was also instrumental in brokering arms-for-hostages deals with the US and gaining concessions from France and Germany (Grubb 2010). With an ongoing war in Iraq during the 1980s, the Iranian regime desperately needed new weapons (Parsi 2007). Once it was exposed that Iran was indirectly responsible for the abduction of hostages, the Iranian government continued to seek further deals involving arms-for-hostages swaps (Limbert 2009). This quest for desperately needed weapons is best explained by neoclassical realism.

Iran's quest to become the undisputed regional power can also be seen in its attempt to support Bashar al-Assad, the current ruler of Syria. Iran has made

many strategic allies to support its military operations, even though Arab and Western countries have continued to support different groups that are opposed to the present Syrian government. The Syrian civil war started during the spring of 2011 when many Syrians protested against the government of Syrian President Bashar al-Assad. Following these protests turned into armed rebellion, the Syrian government initiated a crackdown that eventually transformed into a large-scale civil war between many different actors, primarily the armed rebels and the pro-government forces (BBC 2018).

Although the Syrian civil war may seem to be a domestic issue, it actually involves many different actors. Supporters of Bashar al-Assad's regime include Hezbollah and Iran. Furthermore, in the United Nations Security Council, Russia and China have continuously supported Syria. The Russians have a military installation in the naval port of Tartus, Syria. It is in a very strategic location since it is their only Mediterranean port that has the capability of ship maintenance and repair work. Furthermore, by maintaining a port at Tartus, the Russian Navy saves time. This is because, without the naval facility in Tartus, Russian warships would have been forced to travel back to the Black Sea via the Turkish Straits for any maintenance and repair work. Similarly, the Chinese government also supports the Syrian government due to its policy of non-intervention in the affairs of other states. In addition, Russia and China, both authoritarian states themselves, are "concerned about the way repressive regimes have been falling in the Arab Spring" (Grammaticas 2018). Fighting against the Syrian government are various rebel groups.

The rebel groups who are fighting against the Syrian government are supported by major Middle Eastern states including Qatar, Turkey, and Saudi Arabia. Furthermore, the Senate of the United States has recently passed a bill that supports the arming and finance of various Syrian rebel groups (Roberts 2018). Nevertheless, it is difficult to manage the different rebel groups.

The rebel groups against Bashar al-Assad are not united. They come from various backgrounds. While some are moderate, the most powerful ones are Islamic extremists. For example, one of the most prominent rebel groups is the al-Nusra Front, and they are an offshoot of al-Qaeda. Furthermore, another rebel group, ISIS (also known as the Islamic State and ISIL), are so violent that they have been disowned by al-Qaeda. Due to a lack of organization and inadequate capabilities, the moderate rebel groups have little power and influence. In contrast, fundamentalist groups, such as the al-Nusra Front, are well funded and they possess a wide array of advanced

military hardware – including weapons that have been stolen from other groups (Friedman and Siemaszko 2018).

Although arming and financing the moderate Syrian rebel groups may seem like an appealing strategy, in theory, it is quite unrealistic and impractical. The fundamentalist rebel groups have seized advanced weaponry from other groups. Due to their generous funding, many fighters from more moderate groups have switched their allegiance and joined the extremists. Therefore, there is a very high probability that any funding or weapons from Western states would eventually reach the wrong recipients and indirectly support violent extremist groups (Allott 2014).

Advanced weaponry from the United States has already reached the Islamic State (IS). When IS fighters ransacked the Iraqi city of Mosul, the Iraqi Army quickly surrendered, left their American weapons, and fled south towards Baghdad. These sophisticated weapons were soon confiscated by fundamentalist rebels. A similar event may take place in Syria if Western states arm and fund any rebel group (Crowley *et al.* 2014). The end result will undoubtedly be costly, since the entire Middle Eastern region is experiencing hostilities between people from different religious and cultural backgrounds.

The conflict in Syria is also a battle between Sunni and Shia Islam. Bashar al-Assad and his family belong to the Alawite sect of Shiism. Similarly, Hezbollah and Iran are comprised mainly of Shia soldiers as well. In contrast, the rebels and their Gulf state supporters are primarily Sunnis. The al-Nusra Front, the Islamic State, and the Saudis, in particular, are adherents of the very strict Hanbali interpretation of Islam. Therefore, with deep sectarian divisions, the Syrian civil war has attracted fighters from all corners of the Muslim world. The conflict between Sunnis and Shias is over 14 centuries old, and it is unlikely to end anytime soon. With so many actors playing a critical role, introducing more weapons into this already destructive conflict will simply worsen the situation (Ruys 2014).

Neoclassical realism explains the unwavering Iranian support to Hezbollah and the Syrian government by highlighting Iran's quest for exporting its theological revolution and to extend its strategic and security depth. Exporting the revolution of 1979 to other countries in the region would allow Iran to counter the influence of Israel, the United States, and other Sunni-dominated Arab regimes. In turn, Iran would rise, and this would inevitably cause a "Shia revival" (Nasr 2007). Furthermore, a " cursory analysis of demographic trends illustrates that long-term alliance with Israel is less likely to ensure Iran's security than multiple alliances with Arab states" (Grubb 2010). Therefore, Iran strategically redefined the basis for regional alliances "regarding religion

(as opposed to ethnicity)" and advertised the importance of an Islamic alliance against Israeli and Western forces (Grubb 2010).

According to neoclassical realism, the Iranian quest for a nuclear program derives from Iranian national security concerns. Before 2003, the threats from Iraq provoked the Iranians to embark upon a nuclear program. Memories of Saddam Hussain's use of chemical weapons during the Iraq–Iran war were still fresh, and many Iranians believed that a nuclear program would act as a strategic deterrent against potential enemies (Grubb 2010). Furthermore, the Iranian government does not trust Western states, particularly the United States of America. This is because prior to the Iranian Revolution of 1979, the US strongly supported the Shah who was vehemently pro-Western and threatened the interests of the Iranian clergy (Niklos 1983). In addition, CIA agents also deposed the democratically elected PM of Iran, Mohammed Mosaddegh, in 1953, and subsequently re-established the dictatorship of the Shah (Daneshvar 1996). These actions by the US have forced the Iranian government to desperately ensure its survival by any means.

With few allies in the international stage, Iran must look out for itself and assume the worst. Thus, it routinely helps the Shia militia group Hezbollah and seeks material power and capabilities to survive in an uncertain and anarchic world. Due to the ongoing Saudi–Iranian rivalry for regional hegemony and an anti-Israel stance, Iran experiences a security dilemma. The uncertainty of the Middle East provides an incentive for Iran to acquire sophisticated military capabilities and to increase its power. Thus, over the years, Iran has gradually spent more money on its national defense. Although a particular state may seek military capabilities for only defensive purposes, other states may interpret it as a threat and in turn, enhance their own militaries. This dynamic has triggered an arms race in the Middle East.

The main actors in the inter-state level of analysis are Israel, United States of America, and Saudi Arabia. The main objective of these three states is to act as the regional hegemon, and this subsequently threatens Iran's quest for regional hegemony and poses a security threat to Iran. Furthermore, international sanctions by Western nations, particularly the US, have crippled the Iranian economy by hampering Iran's GDP growth, raising inflation, and decreasing oil production levels. The Iranian government, therefore, seeks to negotiate with the international community to ensure the prosperity of Iran.

Neoclassical realism provides a credible explanation on why Iran behaves the way it does. Iran faces increasing threats from other states, particularly Israel, the United States of America, and Saudi Arabia. The inter-state level conflicts have forced the Iranian regime to ensure its survival by any means. Thus,

although Iran faces many economic challenges, it still invests substantial resources to strengthen its military. The Iranian involvement in the Lebanon Hostage Crisis, support to Hezbollah, anti-Israel policy, and the ongoing nuclear program provide the context for assessing the neoclassical realism theory for explaining Iranian foreign policy.

Iran's Aspirations, Extra-regional Alliances and the Shanghai Cooperation Organization

Although the Iranian government initially had a foreign policy of non-alignment towards Western and Eastern powers since the Iranian Revolution of 1979, it eventually changed its foreign policy after thirty years for two primary reasons. Firstly, although healthy relations with both China and Russia had already existed, the failure of moderate President Khatami (1997–2005) in rapprochement with the US, highlighted by George W. Bush's infamous speech on the Axis of Evil, accelerated the rise of neoconservatives in Iran. Furthermore, perhaps more significantly, stronger ties with Russia and China allowed Iran to achieve its security needs through the SCO. Thus, by having healthy relations with neighboring SCO states, Iran believes that its SCO partners would never take a neutral stand and would instead support Iran at all costs in the international arena should its security and stability come under serious threat (Brummer 2007).

By having a foreign policy that maintains close ties with both Russia and China, there may be enormous political and economic opportunities for Iran. Since a diplomatic solution to the Iranian Nuclear Program has been achieved against all the odds, full membership into the SCO, as opposed to being an observer state, may also dramatically alter the world's energy balance of power. For example, the amount of natural gas in the SCO zone would be almost 50% of the world's total reserves, and the amount of oil would increase to roughly 20% (Brummer 2007). At the same time, different sources of renewable energy, such as solar power, are becoming increasingly popular. As a result, the power of O.P.E.C. would undoubtedly decline, since it would be more difficult for them to set prices, production targets, and the overall stability of the global energy market. With close military and economic ties with both Russia and China, Iran seeks to gain permanent SCO membership and greater bargaining power while negotiating with the EU and the US (Vakil 2006). Fortunately for Iran, both Russia and China have indicated that they support Iran's full inclusion into the SCO, following the removal of international sanctions. Keen to highlight itself as a rising regional power, the Iranian regime explicitly states the importance of the SCO. They believe that joining the organization is an act of defiance emphasized when the US sought to join the SCO as an observer state in 2005 but was unilaterally rejected.

Iran, therefore, believes that the SCO is a mechanism against American hegemony (Ehteshami 2009).

Iran is able to meet two strategic objectives via the SCO. Firstly, by joining the SCO, it will stop its international isolation and better manage its tense relations with the West. Since both India and Pakistan will become full members of the SCO from 2016 on, Iran also seeks to follow them and become a full member as soon as possible (PTI 2015). Thus, Iran will be in a prime position to bargain with the organization's two main members, Russia and China, for support in the international arena and security against any threat. Furthermore, joining the SCO will result in greater support for Iran's Nuclear Program, since both Russia and China are not only partners in technology, but also in the realm of international relations, where they are able to use their veto power in the UN Security Council to protect Iranian interests. Due to a diplomatic solution to Iran's Nuclear Program, Iran now has no obstacles to upgrading from an observer state to a full member of the SCO, which in turn will increase Iran's power both regionally and globally.

Conclusion

A "rising power" is one that is rising economically, and its power is recognized by other states. They also project soft power and could change the status quo. A "regional power" is one that is located in a geographically defined region, is able to counter any coalition of surrounding states, and plays an influential role in regional affairs. An Iranian nuclear agreement is an economic game changer, providing global investors access to one of the most promising markets in the developing world. Iran's economy, which is already improving rapidly, will continue to grow once sanctions are eased. Iran plays a major role in regional issues and will continue to do so in order to protect or uphold the safety and security of the Shia Crescent. It is increasingly becoming the regional hegemon. Iran's military capabilities act as an effective deterrent against enemy forces, and will likely increase once the sanctions are fully removed. Iran, therefore, is, in fact, a rising regional power today.

Annexes

Annex A

Forecast Summary of the Iranian Economy from 2015–2020 (Solutions, EIU Digital 2018)

(% unless otherwise indicated)

	2015 ^a	2016 ^b	2017 ^b	2018 ^b	2019 ^b	2020 ^b
Real GDP growth	1.4	6.1	6.0	5.3	5.2	5.5
Crude oil production ('000 b/d)	2,862	3,349	3,416	3,477	3,547	3,671
Oil exports (US\$ m)	44,705	63,153	74,915	82,686	85,015	89,367
Consumer price inflation (av)	14.7	14.0	13.6	12.7	11.5	11.9
Consumer price inflation (end-period)	14.0	13.4	13.1	12.0	11.2	12.0
1-year deposit rate	16.0	16.0	14.5	13.0	13.0	14.0
Official net budget balance (% of GDP)	-3.1	-2.3	-2.5	-2.9	-3.3	-3.4
Exports of goods fob (US\$ bn)	79.1	101.0	115.8	126.8	132.0	140.6
Imports of goods fob (US\$ bn)	70.6	83.3	96.7	109.3	119.2	131.1
Current-account balance (US\$ bn)	1.6	10.2	9.0	5.6	0.7	-2.1
Current-account balance (% of GDP)	0.4	2.2	1.7	0.9	0.1	-0.3
External debt (end-period; US\$ bn)	6.8	7.9	9.3	10.6	11.8	13.1
Exchange rate IR:US\$ (av)	28,977	31,005	32,866	34,673	37,794	40,855
Exchange rate IR:US\$ (end-period)	31,491	32,839	35,330	37,764	40,885	43,946
Exchange rate IR:¥100 (av)	23,733	24,928	26,720	28,421	31,495	34,607
Exchange rate IR:€ (end-period)	33,695	35,795	40,806	44,750	49,470	54,054

Annex B

Iran's Economic Growth (Solutions, EIU Digital 2018)

%	2015 ^a	2016 ^b	2017 ^b	2018 ^b	2019 ^b	2020 ^b
GDP	1.4	6.1	6.0	5.3	5.2	5.5
Private consumption	1.0	4.0	6.0	6.1	5.8	6.3
Government consumption	-1.8	3.0	5.5	5.2	5.0	5.4
Gross fixed investment	2.0	8.0	10.5	7.5	7.0	6.7
Exports of goods & services	8.0	18.0	8.0	6.1	5.5	6.0
Imports of goods & services	6.0	14.5	13.0	10.0	8.0	8.6
Domestic demand	0.6	4.6	6.6	5.9	5.6	5.9
Agriculture	0.5	2.0	2.0	1.0	1.5	1.2
Industry	2.0	7.6	5.8	5.1	4.2	4.6
Services	-0.8	1.3	6.6	5.9	6.2	6.5

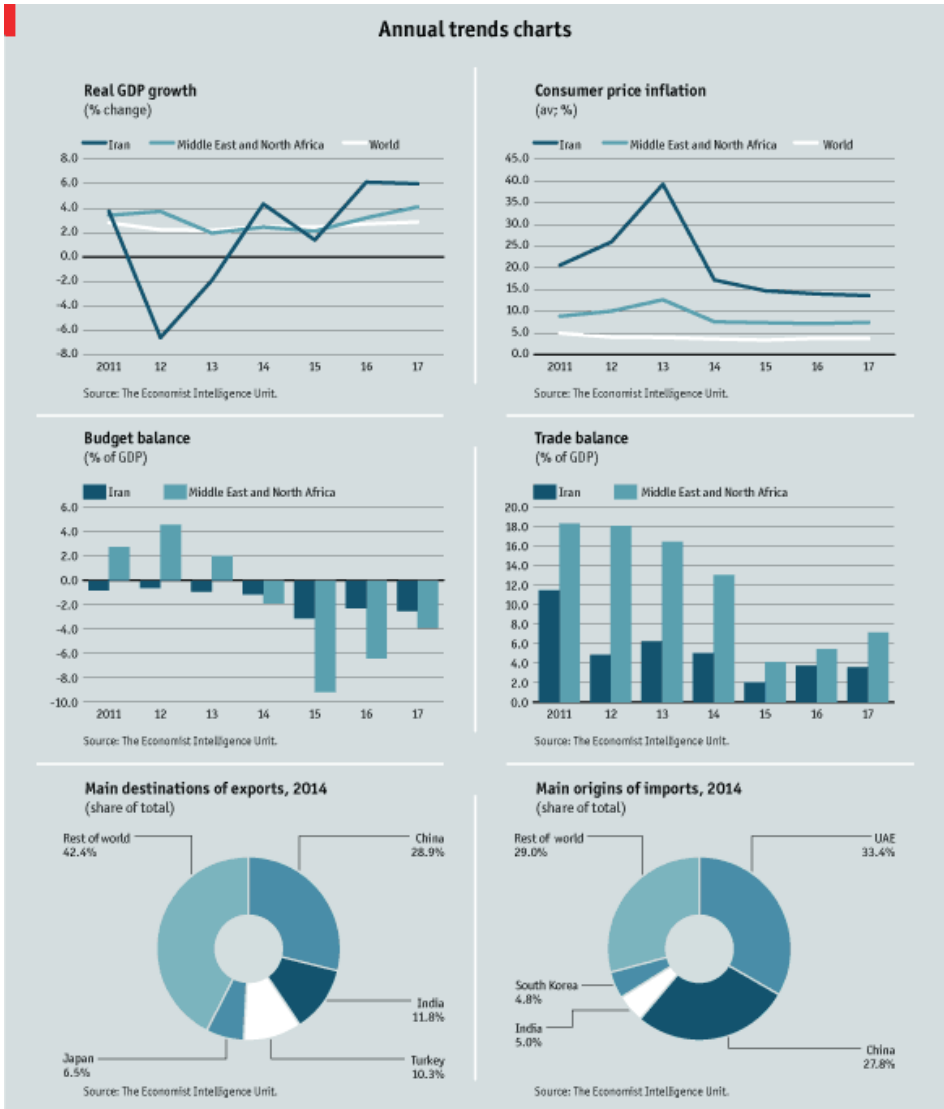
Annex C

Annual Data and Forecast of Iran (Solutions, EIU Digital 2018)

	<u>2011^a</u>	<u>2012^a</u>	<u>2013^a</u>	<u>2014^a</u>	<u>2015^b</u>	<u>2016^c</u>	<u>2017^c</u>
GDP							
Nominal GDP (US\$ m)	592,038	587,209	511,621	425,326	416,188	470,422	534,668
Nominal GDP (IR tm)	6,285	7,150	9,421	11,034	12,060	14,586	17,572
Real GDP growth (%)	3.7	-6.6	-1.9	4.3	1.4	6.1	6.0
Expenditure on GDP (% real change)							
Private consumption	4.2	-1.7	-1.0	3.1	1.0	4.0	6.0
Government consumption	-3.4	-7.2	1.6	2.7	-1.8	3.0	5.5
Gross fixed investment	3.5	-23.8	-6.9	3.5	2.0	8.0	10.5
Exports of goods & services	-0.3	-20.5	0.0	12.0	8.0	18.0	8.0
Imports of goods & services	-9.4	-23.1	-18.7	-5.7	6.0	14.5	13.0
Origin of GDP (% real change)							
Agriculture	-0.1	3.7	4.7	3.8	0.5	2.0	2.0
Industry	2.6	-18.3	-4.7	4.9	2.0	7.6	5.8
Services	5.8	1.1	-1.5	2.4	-0.8	1.3	6.6
Population and income							
Population (m)	75.2	76.2	77.2 ^b	78.1 ^b	79.1	80.0	80.9
GDP per head (US\$ at PPP)	17,949	17,275	16,710 ^b	16,786 ^b	17,114	18,332	19,638
Recorded unemployment (av; %)	12.3	12.2	10.4	10.3 ^b	10.5	10.2	10.0
Fiscal indicators (% of GDP)							
Public-sector revenue	17.7	13.9	14.1	14.6	13.5	14.1	13.8
Public-sector expenditure	18.6	14.6	15.0	15.8	16.6	16.4	16.3
Public-sector balance	-0.8	-0.6	-0.9	-1.2	-3.1	-2.3	-2.5
Net public debt	12.9 ^b	11.0 ^b	10.4 ^b	10.7 ^b	13.1	13.4	13.9
Prices and financial indicators							
Exchange rate IR:US\$ (av)	10,616	12,176	18,414	25,942	28,977	31,005	32,866
Exchange rate IR:US\$ (end-period)	11,165	12,260	24,774	27,138	31,491	32,839	35,330
Consumer prices (av; %)	20.6	26.0	39.3	17.2 ^b	14.7	14.0	13.6
Stock of money M1 (% change)	19.5 ^b	26.7 ^b	10.5 ^b	7.1 ^b	11.0	14.5	14.0
Stock of money M2 (% change)	20.3 ^b	32.0 ^b	28.1 ^b	34.8 ^b	17.7	26.0	25.3
Lending interest rate (av; %)	11.0	11.0	11.0	14.0	14.0	13.5	13.0
Current account (US\$ m)							
Trade balance	67,779	28,559	31,969	21,392	8,471	17,645	19,098
Goods: exports fob	145,806	97,271	93,124	86,471	79,105	100,993	115,782
Goods: imports fob	-78,027	-68,712	-61,155	-65,079	-70,634	-83,348	-96,684
Services balance	-9,771	-7,306	-7,137	-6,985	-7,766	-9,510	-11,777
Income balance	93	1,661	1,066	943	381	1,594	1,231
Current transfers balance	406	510	541	511	526	505	485
Current-account balance	58,507	23,423	26,440	15,861	1,613	10,233	9,037
External debt (US\$ m)							
Debt stock	15,499	7,406	7,646	6,956 ^b	6,780	7,884	9,284
Debt service paid	1,649	601	405	934 ^b	833	778	852
Principal repayments	1,389	446	358	683 ^b	620	574	615
Interest	260	155	48	251 ^b	213	204	237
International reserves (US\$ m)							
Total international reserves	92,450 ^b	104,650 ^b	107,950 ^b	108,950 ^b	93,950	113,950	116,450

Annex D

Annual Trends Charts of the Iranian Economy (Solutions, EIU Digital 2018)



Annex E

Comparative Economic Indicators of Iran (Solutions, EIU Digital 2018)

