

IRAN



POLITICAL RISK REPORT / APRIL 2023

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EXECUTIVE SUMMARY

The purpose of this political risk report is to analyze whether Iran is a suitable destination for investors. By examining the internal and external factors that influence the economic, political, social, and energy infrastructure aspects of the country, the effects on the stability of Iran can be determined.

In regard to the economic outlook, Iran will experience a GDP growth rate of 2.05% in 2023 and 2024, generating a stable economic expansion thanks to government spending, increased foreign direct investment, diversification of economic sectors and the ties with new Asian partners. Foreign direct investment is essential to the development and expansion of the country's industries, making it a key aspect in Iran's foreign policies and external action. Even though foreign investors were dissuaded after the 2018 sanctions imposed by the US, in 2022 the total number of foreign investments increased. The Republic will experience a decrease in inflation from 40% in 2023 to 30% in 2024 demonstrating Iran's efforts to reinforce its monetary policies in order to pacify exchange rate markets. This shows Iran's resilience towards external pressures and attempts to weaken its economy.

In relation to the political and social outlook, it is essential to outline the intricateness of the mixture of religion and politics within the regime. As a result of Iran's main policy objective of being an anti-West regime, it looks for opportunities and partners within its region and with geopolitical significance that can expand its regional dominance. The potential Supreme Leader successor, President Raisi, has inflamed the social protests with his radical internal policies discriminating against women and minorities. However, these protests are expected to subside in the following two years. Despite the rise of activism by ethnic minority groups it is not likely for national cohesion to be affected in the medium term.

Lastly in the energy prospects, Iran has continued to be a key player in the oil and gas export industry. The Iranian government forecasts that the oil production will arrive to 4 million barrels per day at the end of the year; it is a difficult goal, but production will increase consistently. In the natural gas industry, it is predicted that there will be an increase in the exploitation of Iran's natural gas reserves with the development of many projects in the region. This is possible due to Iran's ability to weather the sanctions and the sizable investments of key partners like China and Russia.

SWOT Analysis

<p style="text-align: center;"><u>STRENGTHS</u></p> <ul style="list-style-type: none">● Iran's key geographic location is beneficial for international trade.● It has the second biggest gas reserve and third largest oil reserve in the world.● The ongoing development of the nuclear power program provides deterrence power to Iran.	<p style="text-align: center;"><u>WEAKNESSES</u></p> <ul style="list-style-type: none">● International sanctions discourage foreign investment.● Dependency on the oil and gas sectors doesn't promote diversification in the country's economy.● Ethnic and religious minorities cause tensions within the country.
<p style="text-align: center;"><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none">● Develop infrastructure by establishing economic and political partnerships with neighboring countries, as it is currently doing with Saudi Arabia.● War between Russia and Ukraine can potentially open economic opportunities in Iran.● US withdrawal from the Middle East reinforces Iran's position in the region.● Diversification of the economy in the technological sector.	<p style="text-align: center;"><u>THREATS</u></p> <ul style="list-style-type: none">● Due to Iran's complete dependence on oil and gas, the country could face an economic crisis if prices in the market fall.● Alliance between US and Israel.● Protests can increase political and social instability.● External conflicts in the region impact Iran's stability by affecting its ethnic minorities.

ECONOMIC OUTLOOK

- The GDP is expected to maintain a growth rate of 2.05% in 2023 and 2024, which shows Iran's resilience to Western economic sanctions and its ability to diversify its economy while seeking stronger ties with Asian partners.
- The inflation rate is expected to constantly decrease from 40% in 2023 to 30% in 2024 due to the increase in government spending and the reinforcement of the monetary policy to pacify the exchange rate markets.
- Although Foreign Direct Investment decreased after the sanctions imposed by the US, since 2022 the total foreign investment has increased and will continue to do so. Russia has become Iran's biggest investor signing an agreement of \$40 billion in the gas industry, China is the second.
- The immersion of Iran in the digital era has boosted diversification in its economy by increasing its technological sector and maximizing its resources in FinTech, online banking and the development of drones.

Macroeconomic Picture

Iran has a strong resilient economy due to its effort to overcome the constant sanctions it faces. While the country's economic growth was impacted after the US reimposed sanctions in 2018, in two years the economy managed to start expanding again and is projected to keep this path in the short term. Inflation is forecasted to decrease after it peaked in 2021; the unemployment rate is expected to remain constant. Furthermore, Iran is expected to remain with a positive current account balance as the country exports more than it imports. Its main export revenues are from oil. Finally, the public debt is expected to increase as the Iranian government has borrowed heavily to increase its government spending post-sanctions and Covid-19 Pandemic.

Figure 1. Iran's Macroeconomic Forecast

	Real GDP growth (annual % change)	Inflation rate, average consumer prices (annual % change)	Unemployment rate (%)	Government Budget Deficit (as % of the GDP)	Current Account Balance (as % of the GDP)	Public Debt in relation to GDP
2021	4.72%	40.13%	9.18%	-3.90%	0.7%	42.4%
2022	3.02%	39.99%	9.38%	-4.2%	1.6%	34.17%
2023	2.05%	40%	9.65%	-6%	1.5%	31.9%
2024	2.05%	30%	9.9%	-6.45%	0.8%	32.16%
2027	2.05%	25%	10%	-7.33%	0.3%	35.98%

Data Source: International Monetary Fund World Economic Outlook¹

GDP

The gross domestic product of Iran in 2022 was \$1,973.74 billion,² and the country's GDP forecast, in terms of current prices, only continues to increase. In 2018 and 2019, Iran faced a fall in its GDP of -1.84% and -3.07% respectively, due to the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and the following imposition of new economic and financial sanctions.³ Nonetheless, Iran has faced continuous economic growth since 2020 and is projected to maintain a modest economic growth of 2.05% in 2023 and 2024, even if sanctions remain. This demonstrates Iran's capacity to recover from economic sanctions due to its diversification of trading partners beyond the West. Additionally, the GDP growth in 2020 of 3.33% can be attributed to the recovery in oil prices after the Covid-19 Pandemic initial shock and the stability of the service sector. Its projected GDP growth is lower than in previous years because of high inflation and the new export competition arising from the Russia-Ukraine war, that has led to Russian oil being discounted, increasing its access to the Chinese market.

¹IMF. "World Economic Outlook (October 2022)." IMF, 2022. <https://www.imf.org/external/datamapper/datasets/WEO>.

²O'Neill, Aaron. "Iran: Gross Domestic Product (GDP) from 2017 to 2027." Statista, December 22, 2022. <https://www-statista-com.ezproxy.unav.es/statistics/294233/iran-gross-domestic-product-gdp/>.

³O'Neill, Aaron. "Iran: Real Gross Domestic Product (GDP) Growth from 2017 to 2027." Statista, February 8, 2023. <https://www.statista.com/statistics/294301/iran-gross-domestic-product-gdp-growth/>.

Inflation Rate (average consumer prices)

In 2017, Iran's inflation rate was 9.64%. However, it rose drastically in 2018 to 30.22% due to the failure of JCPOA and the consequent sanctions by the US on oil exports.⁴ The effects of the Covid-19 Pandemic plus US pressures led to a sharp depreciation in the market exchange of the Iranian Rial.⁵ This continued to generate instability in the following years, and in 2021, it reached a peak of 40.13%.⁶ International sanctions contribute to inflation by depreciating exchange rates, reducing investment, and through import shortages and supply constraints. Furthermore, the high inflation rates have caused instability and a decrease in the welfare of the Iranian people and have been a contributing factor to the rise in protests, as the loss of purchasing value of the Iranian Rial has led to an increase in the inequality of the country.

On a more positive outlook of the country, the inflation rate is expected to decline from 40% in 2023 to 30% in 2024 with continuous reduction until reaching 25% in 2027,⁷ due to the expected positive oil prices in those years.⁸ Other reasons why the inflation rate is projected to decrease is due to the reduction in budget deficits and tightening of the country's monetary policy through measures such as: eliminating the distortive energy price, foreign exchange and interest controls, and reduction of inequality by using targeted transfers to the lower income households.⁹

Unemployment Rate

Iran is expected to have an unemployment rate of 9.6% in terms of total labor force in 2023 and is forecasted to increase to 9.9% in 2024.¹⁰ The country is characterized for having a high unemployment rate that has remained between 9% and 12%.¹¹ Due to more people entering the

⁴O'Neill, Aaron. "Iran: Inflation Rate from 1987 to 2027." Statista, November 18, 2022. <https://www-statista-com.ezproxy.unav.es/statistics/294320/iran-inflation-rate/>.

⁵Ture, Elif, and Ali Reza Khazaei. Rep. *Determinants of Inflation in Iran and Policies to Curb It*. International Monetary Fund, 2022/181.

⁶O'Neill, Aaron. "Iran: Inflation Rate from 1987 to 2027." Statista, November 18, 2022. <https://www-statista-com.ezproxy.unav.es/statistics/294320/iran-inflation-rate/>.

⁷Ibid.

⁸Ture, Elif, and Ali Reza Khazaei. Rep. *Determinants of Inflation in Iran and Policies to Curb It*. International Monetary Fund, 2022/181.

⁹Ture, Elif, and Ali Reza Khazaei. Rep. *Determinants of Inflation in Iran and Policies to Curb It*. International Monetary Fund, 2022/181.

¹⁰IMF. Rep. *World Economic Outlook Database: October 2022*. IMF, 2022. <https://www.imf.org/en/Countries/IRN>

¹¹Ibid.

workforce and the inequality of labor rights, high unemployment rates are prevalent among young people and women in Iran, resulting in low participation of women in the workforce at only 14% of the total female population¹², which is a significant problem in the country. Additionally, due to the country's dependence on oil revenues, the instability of the economy reduces the possibility of generating jobs. Furthermore, the majority of jobs offered are related to the main industry: oil. This dependence on oil revenues reduces the stability of the economy and employment.

Government Budget Deficit

The government budget deficit in Iran in 2021 was calculated at -3.90% of the GDP.¹³ In 2021 the average for budget deficit worldwide was -4.37% which sets Iran at a lower deficit than the average state. The highest budget deficit Iran has experienced happened in 2020 when it reached -9.50% of the GDP compared to a low deficit of -0.9% in 2013.¹⁴ This reflects the changes in revenue that the state experiences and can guide investors on debt related topics. The estimate for Iran's budget deficit in relation to the GDP experienced a small increase in 2022 amounting to -4.2%.¹⁵ In 2023 the budget balance is expected to reach -6% and continue increasing to -6.45% in 2024.¹⁶ This indicates that Iran's economy will experience a moderate expansion in the upcoming years due to the increase in government spending.

Public Debt

The public debt in relation to the GDP is expected to contract in the short term. In 2021 it was 42.4% and it decreased to 34.17% in 2022. In 2023, it is expected to continue falling to 31.9%. However, from 2024 until 2027 the public debt in relation to GDP is expected to start increasing again, until it reaches 35.98%.¹⁷

¹²“Labor Force Participation Rate, Female (% of Female Population Ages 15+) - Iran, Islamic Rep.” The World Bank , December 6, 2022. <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS?locations=IR>.

¹³“Iran Government Budget2022 Data - 2023 Forecast - 1990-2021 Historical - Chart.” Iran Government Budget - 2022 Data - 2023 Forecast - 1990-2021 Historical - Chart, 2022. <https://tradingeconomics.com/iran/government-budget>.

¹⁴Ibid.

¹⁵O'Neill, Aaron. “Iran - Budget Balance in Relation to GDP 2027.” Statista, December 2, 2022. <https://www.statista.com/statistics/294580/iran-budget-balance-in-relation-to-gross-domestic-product/>.

¹⁶O'Neill, Aaron. “Iran - Budget Balance in Relation to GDP 2027.” Statista, December 2, 2022. <https://www.statista.com/statistics/294580/iran-budget-balance-in-relation-to-gross-domestic-product/>.

¹⁷O'Neill, Aaron. “Iran - National Debt in Relation to GDP 2027.” Statista, December 2, 2022. <https://www.statista.com/statistics/294544/iran-national-debt-in-relation-to-gross-domestic-product/>.

In the last five years, the Iranian government debt has increased enormously as a consequence of the US sanctions imposed on the Republic. These two factors had a direct impact on oil export revenues and the Iranian government was forced to rely on heavy borrowing from the central bank and is now also facing high inflation rates.¹⁸ Even though export revenues, especially from the oil sector, have increased in the past year, the government still faces a future of high government debt due to mature debts that have to be paid.

Current Account Balance

The current account deficit was at \$-707 million in 2020, given that the pandemic reduced the inflow of payments and transfers from workers abroad.¹⁹ Furthermore, during the pandemic the oil prices plummeted, reducing the export revenues that Iran usually receives and that keep the current account positive. The following year, as the oil prices recovered, the current account balance experienced a surplus and reached \$11.145 billion which was 0.7% of the GDP. It continued to increase in 2022, almost three times the value of 2021, reaching \$32.031 billion, also seen as 1.62% of the GDP.²⁰

Economic Sanctions and Trade

Import and Export Partners

Iran's most important exports are oil and natural gas which account for 82% of the export revenues in the state's economy.²¹ In 2020, the total exports of Iran reached \$10.8 billion, which placed it at number 86 of world exporters. From 2015 to 2020, Iran's exports decreased from \$70.8 billion to \$10.8 billion, which was caused by many factors, most importantly US sanctions and changes in trade partners.²² In 2020, Iran's exports were mainly derived from ethylene polymers (20.2%), crude petroleum (11%) and nuts (8.5%). These exports were

¹⁸Khatinoglu, Dalga. "IMF Says Iranian Government Debt Has Soared Since 2018." Iran International. Iran International, April 29, 2022. <https://www.iranintl.com/en/202204295606>.

¹⁹IMF. Rep. *World Economic Outlook Database: October 2022*. IMF, 2022. <https://www.imf.org/en/Countries/IRN>

²⁰Ibid.

²¹"Iran Exports ." Trading Economics. Accessed February 28, 2023. <https://tradingeconomics.com/iran/exports>.

²²"Iran (IRN) Exports, Imports, and Trade Partners." OEC. Accessed February 28, 2023.

<https://oec.world/en/profile/country/irn?yearSelector1=exportGrowthYear26&yearlyTradeFlowSelector=flow0>.

destined to various partners, the biggest being China (54.4%), Turkey (10.8%) and Pakistan (3.27%).²³

Iran's economy saw a positive shift in 2021 with an increase in net oil export revenues. This shift was mainly a result of the rising global oil prices as well as the increasing mobility that was returning after the pandemic.²⁴ In 2021, Iran's exports averaged more than 0.6 million barrels per day due to the preliminary agreements signed with China.²⁵ By the end of 2022, the export revenues started to decrease due to the high prices affecting the demand from China. It's unlikely to impact Iran's economy in the long term since shortly after the Russia-Ukraine war started, states that depended on Russian oil exports are seeking alternatives, one of them being Iran.

Currently, Iran's biggest trading partners of natural gas are Turkey and Iraq. This sector experienced a big spike from 2020 to 2021, increasing from 11,520 million cubic meters to 18,425.471 million cubic meters.²⁶ In 2021, the preliminary agreement that was signed with Russia and China also included the plan to finance and develop the natural gas sector of Iran which is set to reach a growth rate of more than 3.4% in the next five years.²⁷

Ties between Iran and the Eurasian Economic Union have strengthened after the preferential trade agreement that was signed in 2019 with an expiration date in 2022. This trade agreement increased the trade volume by more than 84%.²⁸ Since then, negotiations for a free trade agreement have started. If they reach an agreement, Iran's trade potential will increase enormously.

²³Ibid.

²⁴“Country Analysis Executive Summary : Iran.” US Energy Information Administration, November 17, 2022. https://www.eia.gov/international/content/analysis/countries_long/Iran/pdf/iran_exe.pdf.

²⁵Ibid.

²⁶CEIC. “Iran Natural Gas: Exports.” Iran Natural Gas: Exports, 1960 – 2023 | CEIC Data. Accessed February 28, 2023. <https://www.ceicdata.com/en/indicator/iran/natural-gas-exports>.

²⁷Wood, Laura. “Iran Oil and Gas Market to Grow by 3.4% Annually through 2027.” Business Wire, July 26, 2022. <https://www.businesswire.com/news/home/20220726005967/en/Iran-Oil-and-Gas-Market-to-Grow-by-3.4-Annually-Through-2027---ResearchAndMarkets.com>.

²⁸Kaleji, Vali. “Iran and Eurasian Economic Union Negotiations: Upgrading EAEU-Iran Preferential Trade Agreement into a Free Trade Agreement.” RIAC, January 24, 2022. <https://russiancouncil.ru/en/analytics-and-comments/columns/middle-east-policy/iran-and-eurasian-economic-union-negotiations-upgrading-eaeu-iran-preferential-trade-agreement-into-/>.

Regarding imports, Iran's top importing partners are China (33.6%), UAE (17.9%), India (8.86%), Turkey (8.46%) and Germany (6.66%).²⁹ In 2020, the total import revenue amounted to \$25.3 billion mainly derived from broadcasting equipment, corn, rice and motor vehicles. According to the IMF, the volume of imports grew by 7.1% in 2021. The exports from China to Iran have been increasing annually by around 14.7% in the last decades.³⁰ In 2022, Iran's imports from China increased due to the demand of motor vehicle parts in the Iranian industries. It is beneficial for both states to maintain a fruitful economic cooperation amongst each other given that they both rely on each other for trade.

Likewise, Iran's imports from UAE have been constantly increasing in the last two decades at a rate of more than 9%, the main import being broadcasting equipment.³¹ Due to sanctions imposed on the Republic, the UAE has become an intermediary that buys foreign products and resells them to Iran. This relationship is beneficial to Iran because of the UAE's economic development and maritime proximity between both countries that facilitates the trade exchanges. Iran receives most technology from the UAE which will allow for it to continue developing its technological sector and thus expand other essential sectors of the Republic.

Even though Iran's exports to India have decreased through the years, the imports have started increasing at a rate of 11% mostly through the import of rice, raw sugar and tea.³² It is very beneficial for Iran to keep building its trade relations with India as it is a major player in Asia. The bilateral trade relations between Turkey and Iran have also seen an increase in recent years. Iran receives imports of excavation machinery, processed tobacco and cellulose fibers paper from Turkey.³³

Germany was Iran's top EU business partner due to its production of industrial infrastructure. Both states had close economic ties until the relation was harmed after the US withdrawal from the JCPOA, which caused a steep decline of 45% in the trade relations between Germany and

²⁹“Iran (IRN) Exports, Imports, and Trade Partners.” OEC. Accessed February 28, 2023.
<https://oec.world/en/profile/country/irn?yearSelector1=exportGrowthYear26&yearlyTradeFlowSelector=flow0>.

³⁰Ibid.

³¹Ibid.

³²“Iran (IRN) Exports, Imports, and Trade Partners.” OEC. Accessed February 28, 2023.
<https://oec.world/en/profile/country/irn?yearSelector1=exportGrowthYear26&yearlyTradeFlowSelector=flow0>.

³³Ibid.

Iran.³⁴ After this crisis, Iran started to plan ways in which it could once again build its relationship with Germany.

As we can see through the trading partners of Iran, the Republic has moved away from Western states that could impose sanctions or be a threat to its stability. Which is why most of its trading partners are all in Middle East and Asia.³⁵ In order to build a stable economy that can have the potential to continue expanding, Iran must promote more relations with states that are not allied to the West. This also further reinforces the whole anti-West perspective that Iran has tried to build within its regime.

Foreign Direct Investment (short term)

Since the US withdrawal from the JCPOA, Iran's foreign direct investment has been decreasing. The FDI inflow decreased from \$2.05 billion in 2015 to \$1.4 billion in 2021.³⁶ Additionally, the country's level of FDI decreased from \$1.5 billion in 2019 to \$1.3 billion in 2020³⁷ due to political and economic instability caused by Covid-19 Pandemic. From 2020 to 2021, the country experienced an increase of 6% in FDI.³⁸ In 2022, despite the sanctions, foreign investments in Iran tripled, helped by the end of the global pandemic emergency.

With recent multilateral agreements, the forecast in the short term for FDI inflows is expected to increase even more. Since the Russia-Ukraine war, economic and investment ties between Moscow and Tehran have increased, resulting in the former becoming the biggest investor in Iran, overcoming China's position. At the end of 2022, both countries signed an agreement of \$40 billion of Russian investment in Iranian gas projects.³⁹ As long as the West continues to isolate Iran, Russia will continue to take advantage of the situation by investing in the country's

³⁴Dudley, Dominic. "Germany Halts Trade Guarantees for Iran as Bilateral Relations Sour." *Forbes*. Forbes Magazine, December 26, 2022. <https://www.forbes.com/sites/dominicdudley/2022/12/23/germany-halts-trade-guarantees-for-iran-as-bilateral-relations-sour/?sh=76e0269456b5>.

³⁵Zweiri, Mahjoob, and Nael Abusharar. "Iran 's Trade with Neighbors: Sanctions' Impact and the Alternatives." *Middle East Policy* 29, no. 4 (December 9, 2022): 60–70. <https://doi.org/10.1111/mepo.12663>.

³⁶Unctad. "General Profile: Iran (Islamic Republic of)." UNCTADstat, October 20, 2022. <https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/364/index.html>.

³⁷Market Line. Rep. *PEST Country Analysis Report: Iran*. Market Line, 2022. <https://advantage-marketline-com.ezproxy.unav.es/Analysis?reporttype=5908&location=100112>.

³⁸Devonshire-Ellis, Chris. "China's 2023 Trade and Investment with Iran: Development Trends." *Silk Road Briefing*, February 12, 2023. <https://www.silkroadbriefing.com/news/2023/02/08/chinas-2023-trade-and-investment-with-iran-development-trends/>.

³⁹Smagin, Nikita. "Could a Russia-Iran Gas Partnership Bear Fruit?" *Carnegie Politika*, November 28, 2022. <https://carnegieendowment.org/politika/88497>.

gas sector, not only to gain more influence in the region, but also to create new routes for its own export.⁴⁰

Turkey, UAE, Afghanistan, and China are the next biggest investors in Iran, although the latter was expected to invest much more than it did in 2022.⁴¹ Iran's main priority continues to be attracting Russia and China's investment in order to balance Western sanctions and pressures. While China hasn't invested as much as expected it has agreed to invest \$400 billion in Iran over 25 years in exchange for a steady supply of oil to fuel its growing economy under a sweeping economic and security agreement, strengthening the ties between both countries.⁴² Furthermore, the reestablishment of diplomatic relations with Saudi Arabia will bring much needed stability to the region and to Iran, providing security to foreign investors and increasing FDI opportunities.

Sanctions

Causes

Iran has faced sanctions since the storming of the US embassy in 1979 and the subsequent hostage crisis it ensued.⁴³ Since then, the US has continued to add more economic, financial and targeted sanctions to Iran for various reasons including Iran's nuclear program, human rights abuses and corruption. Some of the US sanctions are focused explicitly on hindering Iran's oil exports and crippling the economy.

Additionally, in the past the UN has also imposed sanctions on Iran due to its uranium enrichment program. These sanctions included freezes of assets of individuals and companies involved with nuclear activities and sanctions to nuclear related materials and technology.⁴⁴ They were meant to deter Iran's nuclear program and force it to comply with the Non-

⁴⁰Ibid.

⁴¹Devonshire-Ellis, Chris. "China's 2023 Trade and Investment with Iran: Development Trends." Silk Road Briefing, February 12, 2023. <https://www.silkroadbriefing.com/news/2023/02/08/chinas-2023-trade-and-investment-with-iran-development-trends/>.

⁴²Fassihi, Farnaz, and Steven Lee Myers. "China, with \$400 Billion Iran Deal, Could Deepen Influence in Mideast." The New York Times. The New York Times, March 27, 2021. <https://www.nytimes.com/2021/03/27/world/middleeast/china-iran-deal.html>.

⁴³"Iran Sanctions - United States Department of State." U.S. Department of State. U.S. Department of State, February 9, 2023. <https://www.state.gov/iran-sanctions/>.

⁴⁴Al Jazeera. "Timeline: Sanctions on Iran." Business and Economy | Al Jazeera. Al Jazeera, October 17, 2012. <https://www.aljazeera.com/economy/2012/10/17/timeline-sanctions-on-iran>.

Proliferation Treaty (NPT) of which Iran is a signatory and ratified in 1970. The JCPOA provided for the comprehensive lifting of UN, EU and US nuclear-related sanctions.⁴⁵ Since the US withdrew from the JCPOA in 2018, the country reimposed the sanctions it had lifted and gave Iran new sets of sanctions as well.

Furthermore, Iran also faces sanctions from the EU in order to force it to comply with its international obligations.⁴⁶ The EU lifted all the nuclear-related sanctions on Iran with the signing of the JCPOA. However, it still has restrictive measures on Iran due to serious human rights violations as well as measures in response to the use of Iranian drones in Russian aggressions to Ukraine. Currently, all of the sanctions imposed against Iran come from Western countries and are in place to make Iran comply with the Western ideals.

Effects

As Iran has faced sanctions for more than 40 years, it has developed a resistance economy in which it replaced imports with domestic goods in order to prevent dependence on other countries. Iran's anti-Western perspective has been strengthened due to the sanctions, prompting it to seek trading partners in Asia instead. The US sanctions after its withdrawal from the JCPOA had damaging effects on Iran as its economy faced negative economic growth in 2018 and 2019. However, the economy improved in 2020, showing that the withdrawal from the JCPOA didn't have long lasting effects on the Iranian economic growth. Due to these US sanctions, inflation skyrocketed to 40.13% in 2021 as the currency devalued in the exchange markets.⁴⁷ Even though inflation is one of long-lasting effects caused by US sanctions, it is projected to decrease to 25% in the following years.⁴⁸ Furthermore, another lasting impact of the US sanctions was the decrease in foreign direct investment. Iran suffered a constant reduction of its foreign direct investment since the US withdrawal of the JCPOA, which is now starting to recover with the strengthening of ties with its Asian partners. Hence, even though the US sanctions were meant to weaken the Iranian economy, they had a short-term impact as

⁴⁵“Joint Comprehensive Plan of Action.” European Union External Action, July 14, 2015. https://www.eeas.europa.eu/eeas/joint-comprehensive-plan-action_en.

⁴⁶“Timeline - Iran: Eu Restrictive Measures.” Consilium, February 20, 2023. <https://www.consilium.europa.eu/en/policies/sanctions/iran/timeline-iran-eu-restrictive-measures/>.

⁴⁷O'Neill, Aaron. “Iran: Inflation Rate from 1987 to 2027.” Statista, November 18, 2022. <https://www-statista-com.ezproxy.unav.es/statistics/294320/iran-inflation-rate/>.

⁴⁸Ture, Elif, and Ali Reza Khazaei. Rep. *Determinants of Inflation in Iran and Policies to Curb It*. International Monetary Fund, 2022/181.

the economy recovered and is projected to continue to do so with an increase in its GDP, foreign direct investment, and in its export revenue as well as a decrease in its inflation rates.

US Policy Direction on Sanctions

It is unlikely that Iran will have all its sanctions lifted in the short term, especially those imposed for its support to Russia and human rights violations. However, because the Iranian sanctions have become such a politicized issue in the US, there is division across party lines. The tendency is that when there is a democratic president in power, it is likely that the sanctions towards Iran will become laxer and there will be more talks amongst these countries. On the other hand, when a republican president is in power sanctions tend to become more robust. This leads to an increase in chances of abandoning talks with Iran, as shown by Trump's withdrawal of the JCPOA. This back and forth will generate more distrust of Iran towards the US and will prevent any real action towards the removal of the sanctions as any president change will mean changes in any future deal made. This is already shown by Iran's demands for a permanent commitment from the US before it complies with the JCPOA's terms.

Economic Sectors

Division of Economic Sectors

Iran has had to evolve into a resistance economy in which it has stopped relying on imports and has focused on growing its own economic sectors for supplying its local demand and for exporting purposes. The Iranian economy is mostly state owned and while most of the economic revenue comes from its oil and gas production, it also has strong agricultural and service sectors. The agriculture represents 12.39%⁴⁹ of the GDP and is mainly composed of the cultivation of wheat, sugar cane, etc.⁵⁰ The industry makes up 38.01%⁵¹ of the GDP and is mainly composed of the production of petroleum petrochemicals, gas, fertilizer, textiles, construction materials, ferrous and non-ferrous metal fabrication, armaments, etc.⁵² The

⁴⁹World Bank. "Agriculture, Forestry, and Fishing, Value Added (% of GDP) - Iran, Islamic Rep." World Bank, 2021. <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=IR>.

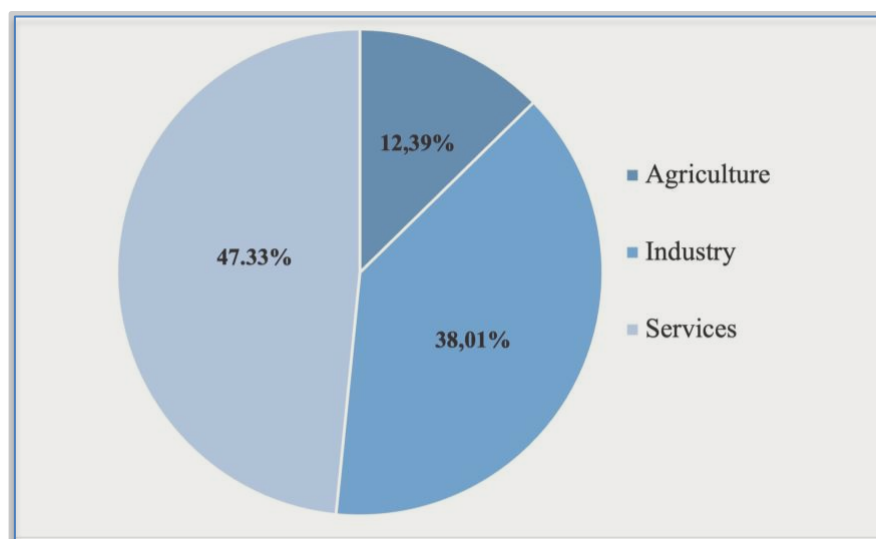
⁵⁰"Iran." Central Intelligence Agency. Central Intelligence Agency, February 10, 2023. <https://www.cia.gov/the-world-factbook/countries/iran/#economy>.

⁵¹World Bank. "Industry (Including Construction), Value Added (% of GDP) - Iran, Islamic Rep." World Bank, 2021. <https://data.worldbank.org/indicator/NV.IND.TOTL.ZS?locations=IR>.

⁵²Ibid

industrial sector grew 8.8% in 2019 and 4.5% in 2020, then fell in 2021 -2.6% but then recovered again: in 2022 with a 1.6% growth and is expected to continue to grow 1.4% in 2023 and 1.6% in 2024.⁵³ The third sector comprises 47.33% of the GDP; services have also faced continual growth after 2019 when it fell -15.9%. Since then, they increased 8.4% in 2020, 3.2% in 2021 and were expected to grow 3.1% in 2022; they are projected to increase 2.3% in 2023 and 2.0% in 2024.⁵⁴ Despite the pandemic, Iran continues to expand its industrial and service sectors to meet the rising demand for gas and oil, as well as the growing need for services.

Figure 2. Economic Sectors as Percentage of the GDP (2021)



Data Source: World Bank Indicators⁵⁵

Furthermore, the GDP growth in recent years is not only attributed to the oil industry, but also to other sectors of the Iranian economy. This shows how even if the oil and gas industry are the main sources of economic revenue, the Iranian government continues to promote and invest in the other sectors as well. The real non-oil GDP growth has continued to increase from 1.0% in 2019 to 4.3% in 2021, and it is has continued increasing by more than 2.0% until 2023⁵⁶. On the other hand, the real oil GDP fell drastically in 2019 as it decreased to -36.3%, but then it

⁵³Bank, World. "Iran Economic Monitor, Spring 2022." Open Knowledge Repository, April 1, 2022. <https://openknowledge.worldbank.org/handle/10986/37792>.

⁵⁴World Bank. "Services, Value Added (% of GDP) - Iran, Islamic Rep." World Bank, 2021. <https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS?locations=IR>.

⁵⁵World Bank. "Industry (Including Construction), Value Added (% of GDP) - Iran, Islamic Rep." World Bank , 2021. <https://data.worldbank.org/indicator/NV.IND.TOTL.ZS?locations=IR>.

⁵⁶Bank, World. "Iran Economic Monitor, Spring 2022." Open Knowledge Repository, April 1, 2022. <https://openknowledge.worldbank.org/handle/10986/37792>.

recovered and increased in 2021 by 10.5% and it is projected to increase by 3.0% in 2022 and 2.1% in 2023⁵⁷. As a result of the increase in the non-oil GDP, the Iranian economy was able to weather the fall of the oil GDP caused by US sanctions. In the following years, the Iranian economy will face economic growth as both the real non-oil GDP and the oil GDP will increase.

Future Diversification

The lack of economic diversification in revenues has been a threat to the country's economy for many years. However, in recent years, as Iran entered the digital era, it has started to develop other sectors and integrate them into its economy. According to the World Bank, Iran's Plan for 2016/17 to 2021/22 involved working on three main areas: developing a resilient economy, advancing in science and technology, and promoting cultural excellence.⁵⁸ The main priorities in the plan included the reform of financial and banking sectors, state-owned companies, and the management of oil revenues.⁵⁹

FinTech is a fast-growing concept of venture capitalists and a key aspect in the digital era.⁶⁰ It has in some way disrupted the trading, banking, and economic sectors, forcing states to either adapt or be left behind. In Iran, there are currently more than 180 FinTech startups changing the trading and banking sectors,⁶¹ with digital investment expected to bring in a revenue growth of 44.5% and an average transaction value of \$20,100 per user in the following year.⁶² However, for it to function, a solid market structure and legislative support are necessary. The innovations brought by FinTech have demonstrated to be beneficial to the economic sector of Iran, and this is shown by the \$166.8 billion solution in 2020 that caused a quick shift to the market structure and innovation of industries.⁶³

⁵⁷Ibid

⁵⁸El Khalil, Zeina. "Islamic Republic of Iran." World Bank, October 20, 2022. <https://www.worldbank.org/en/country/iran/overview>.

⁵⁹Ibid.

⁶⁰Apoorva. "Financial Technology." ClearTax, February 20, 2023. <https://cleartax.in/g/terms/financial-technology>.

⁶¹"Fintech Startups in Iran." Tracxn, January 11, 2023. <https://tracxn.com/explore/FinTech-Startups-in-Iran>.

⁶²Jocelyn, Vayola. "Fintech - Iran." Statista. Accessed February 28, 2023. <https://www.statista.com/outlook/dmo/fintech/iran>.

⁶³Mirzaei, Maryam. "Fintech Market in Iran: An Analysis of Fintech Ecosystem and Business Models." *Middle East Development Journal* 14, no. 2 (2022): 323–36. <https://doi.org/10.1080/17938120.2022.2143749>.

Not only are businesses in Iran using FinTech, but individuals are also shifting towards bank-independent management, with over 0.9 million Iranians adopting the technology.⁶⁴ FinTech companies are in Tehran and Shiraz, which are the most important cities with higher levels of economic activity.⁶⁵ This strategic move attracts investors to specific regions, boosting the economic sector and reinforcing the concept of innovation being beneficial for economic growth. Iran has shown readiness in its market structure for digital finance, making it a prominent market for FinTech startups. According to the UNCTAD e-commerce index, Iran is placed in the top 10 developing and transition economies from the East, South, and Southeast Asia region.⁶⁶ Although the FinTech market is still emerging in Iran, it has the potential to foster Iranian technology and the financial sector, boosting the state's position as an active economic player in the global scheme.

Due to sanctions that have been previously imposed on Iran, the banking sector has encountered several issues in regard with the global financial system. For Iran to diversify its industry and expand its economic sector, it needs to set out specific reforms on the banking sector.⁶⁷ Given that the banking industry ensures the connection between supply and demand of monetary resources, it is crucial for Iran to create a stable system in order to progress and ensure stability for foreign direct investment and lower inflation. Creating a diversity in incomes will only happen if there is a change in revenue generation of banks which relies on non-interest income that comes from different types of investments.⁶⁸ By integrating non-interest incomes, the economic sector will be able to resist shocks and no longer rely on the centralized strategy of earning, which is what the Republic has been doing for the past decades.⁶⁹

Iran's banking sector has been isolated from the global scheme for a long time, but it has managed to remain afloat given that no commercial banks in the country are owned by the

⁶⁴Ibid.

⁶⁵Ibid.

⁶⁶UNCTAD. "General Profile: Iran (Islamic Republic of)." UNCTADstat, October 20, 2022. <https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/364/index.html>.

⁶⁷Khajepour, Bijan. "Iran's Banking Sector Faces Hurdles to Reconnect to Global Financial System Post-Sanctions." *Al-Monitor*, October 6, 2022. <https://www.al-monitor.com/pro/memos/irans-banking-sector-faces-hurdles-reconnect-global-financial-system-post-sanctions>.

⁶⁸Nazari, Azim, Farshid Pourshahabi, and nesa Kamalian. "The Role of Banking Crisis in the Effect of Income Structure on Risk in the Iranian Banking Industry." *International Journal of Economics and Politics* 2, no. 1 (2021): 117–46. <https://doi.org/10.29252/jep.2.1.117>.

⁶⁹Ibid.

government.⁷⁰ The idea of reforming the banking sector in Iran and implementing diversification of income can be seen as successful in some cases but could also entail certain risks. However, any change to this structure would unravel many changes that would result in a beneficial shift to the economic sector of Iran.⁷¹ By reassuring the stability of the banking sector and securing the economic sector, the state would incentivize other players of the global scheme to invest more in the industries of Iran.

Included in the development of technology, Iran's drone industry is rising and has become a part of its military strategy as well.⁷² Iranian-made drones saw a boost during the Russia-Ukraine war since this pushed the industry into the global arena and became visible to other important players.⁷³ Apart from Russia, Iran has also used the drone industry to strengthen relations with other actors such as Venezuela, Ethiopia, and rebels in Yemen.⁷⁴ China is also a country that has increased its demand for Iranian drones.⁷⁵ Iran stands among the world's five leading countries in terms of drone capabilities.⁷⁶ Due to the actual high demand for drones, the industry will only continue to grow and allow the economic sector of the state to be more diverse and stable to changes. Moreover, the drone industry is not only contributing to the diversification of Iran's economy, but it is also becoming a great source of revenue for the country and impacting Tehran's relations with the international community and the global market.

⁷⁰Ibid.

⁷¹Ibid.

⁷²FAIR Team. "Iran's Drone Industry: Past, Present and Future." FAIR, February 24, 2023. <https://fairbd.net/iran-drone-industry-history/>.

⁷³FAIR Team. "Iran's Drone Industry: Past, Present and Future." FAIR, February 24, 2023. <https://fairbd.net/iran-drone-industry-history/>.

⁷⁴Ibid.

⁷⁵Iran Press. "Iran Emerged as Global Leader in Drone Production: US Officials." Iran Press, February 15, 2023. <https://iranpress.com/content/74087/iran-emerged-global-leader-drone-production-officials>.

⁷⁶Ibid.

POLITICAL AND SOCIAL OUTLOOK

- In the short term, Iran will continue to be a Shiite-ruled theocracy, in which religion will maintain a key role in society, politics and laws, as it has since the 1979 anti-west Islamic Revolution.
- The most probable succession prospect for Ali Khamenei is the current president, Ebrahim Raisi.
- Iran's ethnic and religious minorities will continue facing repression due to various internal and external factors that have resulted in multiple social protests. National cohesion will not be disrupted in the medium term.
- The ongoing protests in the country, which started in September 2022, haven't yet brought out any policy changes and are decreasing its intensity, therefore the most likely scenario is for them to fade away in a span of two years or less.

Political Overview

Recently, Iran's political life has faced instability due to the increase in discomfort felt not only by minorities but by major social groups within the Republic. Due to Iran's regional position, the country is susceptible to foreign conflicts infiltrating its borders. This is reflected through Iran's demography by creating severe fragmentation between different ethnic groups and political alliances. The President Ebrahim Raisi has tightened the grasp on internal policies and integrated more radical aspects to it. These changes triggered the social protests that started in September 2022. The social protests led to a social cooperation between all ethnic and social groups leading to an uproar that was seen worldwide. Recently, the protests have cooled down and are no longer a prominent or direct threat to the stability of the regime.

Theocracy: Shia Islam

Since the 1979 Revolution Iran is an Islamic theocracy. The Shah's millennia-long monarchy and regime was overthrown and replaced by Ruhollah Khomeini's theocratic authoritarianism. The current constitution built a mixed system of government that combines elements of a theocracy and a presidential system,⁷⁷ with the executive, parliament, and judiciary bodies overseen and controlled by the clergy. This system was justified through the actions of Khomeini of giving political leadership to the jurist of the Islamic canon law. The Islamic government was defined by Khomeini as *Hukumat-e Islami: Velayat-e faqih* (Islamic Government: Governance of the Jurist), which was the base for his revolutionary political theory.⁷⁸ Since then, laws, policies, and practices in the country have been based on this Shia ideology. Not only has *Velayat-e faqih* and Shiite values been the main drivers for politics in the country, but also plays an important part of the Iranians' day to day life.

Shift from West to Anti-West Regime

During the Shah's reign, Iran had very close relations with the US, being its most important ally in the region, along Israel. Aided by the US, Iran started its civil nuclear program and received many nuclear capabilities.⁷⁹ The US allowed Iran to achieve its strategic interests of becoming a regional power, which led the Shah to pass many Westernized reforms that lined up with US ideals.

The reforms advocated for more equal rights to women, promoted education through new universities, and boosted the economy. However, some were opposed by conservative Shiite clerics who believed Iran was becoming too Westernized. In the 1970s, discontent within the public grew due to the government's inability to meet rising expectations, fueled by resentment toward the US and blamed on rapid modernization.⁸⁰ The Western era in Iran ended with the

⁷⁷ Azari, Kasra Akhavan, and Mari Jože Osredkar. "Islamic Theocracy of Shia Twelvers in Iran ." Teof , December 13, 2022. <https://www.teof.uni-lj.si/uploads/File/Edinost/77/02/Azari.pdf>.

⁷⁸ Ibid.

⁷⁹ Malus , Katherine. "From 'Atoms for Peace' to 'JCPOA': History of Iranian Nuclear Development." From "Atoms for Peace" to "JCPOA": History of Iranian Nuclear Development. | K=1 Project, September 9, 2018. <https://k1project.columbia.edu/content/atoms-peace-jcpoa-history-iranian-nuclear-development>.

⁸⁰ Nasri, Farzeen. "Iranian Studies and the Iranian Revolution ." Cambridge Core. Cambridge University Press, June 11, 2011. <https://doi.org/10.2307>.

Islamic Revolution of 1979, where the Shah was removed with a coup d'état led by Ayatollah Khomeini.

The Islamic Revolution replaced a pro-Western authoritarian monarchy with an anti-Western totalitarian theocracy.⁸¹ The Islamic Republic rests on three ideological pillars. The first is the opposition to the US and the anti-West sentiment. The second is the antagonism towards Israel as it is its main competitor for regional power. Last, is the institutional misogyny that exists in its laws, society, and politics.⁸² These pillars defend and reinforce the basis of the system because they execute the ideas of the revolution regarding “not following the Western way”. Due to this, the Supreme Leader has to embody the anti-Western Islamic ideals, and this is why Khomeini was the leader to start the Islamic Republic. He was Iran’s first political and religious leader, paving the way during his lifetime and instating policies into the constitution that make it impossible for Iran to become Western and liberal ever again.⁸³

Current Political Regime

Ali Khamenei is the second and current Supreme Leader of Iran. He is the highest political and religious figure in the country, as well as the head of state. Ebrahim Raisi is the president and the head of government of the Islamic Republic, which stands for the second-highest ranked position in the country after the Supreme Leader. Although Iran is supposed to be a democratic republic, with a balance of powers between the executive, legislative, and judicial branches, the supposed balance is eschewed by the Supreme Leader. Khamenei holds direct control over the Guard Corps, different ministries, election process, and foreign policy, having the ultimate say in any decision related to them. The total control of Iran’s politics by the Supreme Leader combined with the radicalized state’s ideology are the main factors influencing Iran’s current political regime.

Presidential and Legislative Elections

⁸¹Chehabi, H. E. “The Political Regime of the Islamic Republic of Iran in Comparative Perspective.” Cambridge Core. Cambridge University Press, March 28, 2014. <https://www.cambridge.org/core>.

⁸²Milani, Farzaneh. “How Misogyny Imperiled Iran's Regime.” Foreign Policy, October 14, 2022. <https://foreignpolicy.com/2022/10/14/iran-women-protests-hijab-misogyny-imperiled-regime/>.

⁸³Encyclopaedia Britannica, ed. “Ruhollah Khomeini | Biography, Exile, Revolution, & Facts.” Britannica, July 20, 1998. <https://www.britannica.com/biography/Ruhollah-Khomeini>.

In the 2020 Iran hosted its 11th parliamentary election. The Council of Guardians acts as an upper legislative house in which it supervises election processes and approves the candidates beforehand.⁸⁴ The qualification process selects a majority of conservative candidates rather than committed reformists in order for the political scheme to remain stable and conservative. The 2020 parliamentary elections had the lowest turnout in the Islamic Republic's history amounting to 42.57%, contrasting with the previous election which had a turnout of 61.83%.⁸⁵ It was also particularly difficult for the public to support these elections due to the harsh social sentiment regarding the economic difficulties brought upon by US sanctions and corruption. The results of the legislative election ended with conservatives gaining 230 seats, leaving only 60 to religious minorities. This led to changes within the parliament given that the previous seat holders were significantly pro-Rouhani, the former president of Iran, a moderate.

The presidential election of 2021 was also influenced by the Council of Guardians which selected the candidates that could run. Ebrahim Raisi, who had previously occupied many positions in the Republic, became the winner of the election after the Council of Guardians eliminated most candidates that could pose a threat to his victory, ensuring conservative control over most government institutions.⁸⁶ Raisi has set more radical policies nationally; in foreign affairs he denied any concessions to the US concerning the negotiations on JCPOA or the Iranian missile program. He also reaffirmed his interest in strengthening ties with Russia and China while also bettering its relations with its neighboring countries. Given that Raisi must establish himself as a qualified politician and a potential successor to the Supreme Leader, his actions to build his image on internal, regional, and international levels are crucial.

Prospects of Supreme Leader's Successor

Iran's Supreme Leader is elected by the Assembly of Experts conformed by 88 clerics.⁸⁷ Not only is the leader involved in the political sector but also in the social and economic sector

⁸⁴ Afary, Janet, Khosrow Mostofi, and Peter William Avery. "Government and Society." Encyclopædia Britannica. Encyclopædia Britannica, inc., July 26, 1999. <https://www.britannica.com/place/Iran/Government-and-society>.

⁸⁵ Azizi, Arash. "Factbox: The Outcome of Iran's 2020 Parliamentary Elections." Atlantic Council, February 26, 2020. <https://www.atlanticcouncil.org/blogs/iransource/factbox-the-outcome-of-irans-2020-parliamentary-elections/>.

⁸⁶ Zaccara, Luciano. "Iran's Presidential Election 2021: What to Expect from Ebrahim Raisi's First Term." Elcano Royal Institute, January 4, 2022. <https://www.realinstitutoelcano.org/en/analyses/irans-presidential-election-2021-what-to-expect-from-ebrahim-raisi-first-term/>.

⁸⁷ Rahimpour, Rana. "Iran's Supreme Leader: Who Might Succeed Ali Khamenei?" BBC News. BBC, December 11, 2020. <https://www.bbc.com/news/world-middle-east-55257059>.

meaning that he has ultimate power. Given that the current Supreme Leader Ali Khamenei is 83 years old, the line of succession has to be defined but kept as secret until the moment Khamenei dies. The first and easiest suggestion would be Khamenei's son, Mojtaba Khamenei. Mojtaba is not popular amongst most Iranian people, but he could be the successor if the IRGC starts to support him. The next in line is rumored to be Ebrahim Raisi, who has more popularity in the discussion for the next Supreme Leader and has never personally refuted these allegations.⁸⁸ Raisi meets the requirements of becoming the next Supreme Leader and is considered by many to be an *ayatollah*. In order to gain more popularity and support, Raisi has to evolve the domestic and international performance of the Republic and continue spreading its desired ideologies.

National Cohesion Prospects

Religious Groups and Minorities

In 2021, Iran had a population of 87.9 million⁸⁹, making it the 17th most populated country in the world. It is characterized by a history of religious and ethnic complexity. According to government estimates, 99.4% of the Iranians are Muslims, of which 90-95% represent Shia and the other 5-10% are Sunni, most of them Turkmen, Arabs, Kurds, and Baluchis living in their respective provinces in the outskirts of the country.⁹⁰ In addition, the remaining less than 1% of the population is represented by the three largest non-Muslim minorities which are the Baha'is, Christians, and Yarsanis.⁹¹ Other religious minorities include Jews, Sabean-Mandaeans, and Zoroastrians.

Before the Islamic Revolution, Iran was a secular state with a Muslim majority. However, after 1979, Iran became a theocratic republic, and the word "Irani" was replaced by aqaliat, Bahai, and Sunni; which represent a form of exclusion within religious minorities in the country.⁹² The state's ideology influenced the creation of discriminating laws against minorities, which

⁸⁸Ibid.

⁸⁹World Bank. "Population, Total - Iran, Islamic Rep." World Bank, 2021. <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=IR>.

⁹⁰Office of International Religious Freedom. Rep. 2020 Report on International Religious Freedom: Iran . Office of International Religious Freedom , May 12, 2021. <https://www.state.gov/reports/2020-report-on-international-religious-freedom/iran/>.

⁹¹Ibid.

⁹²Sanasarian, Eliz. *Religious Minorities in Iran*. Cambridge: Cambridge Univ. Press, 2006.

fueled separatism within certain Iranian groups. Iran's constitution only recognizes Zoroastrians, Jews, and Christians as the official religious minorities in the country, which are allowed to practice their religious traditions "within the limits of the law".⁹³ Even though the Bahai's are the largest minority in Iran, the Islamic Republic does not recognize them as an official minority,⁹⁴ and they are not free to practice their religion or participate in organized religious communities unlike other recognized minorities.⁹⁵ The non-recognized minorities, deprived of any legal status, are treated as second-class citizens in which their basic rights are violated both by law and in practice.⁹⁶

The intense discrimination by the government and the exclusion of most minorities by the Iranian constitution is due to a combination of two main factors: the theocracy's extremist ideology and the government's perception of these minorities with the association of Western ideals. This leads to the persecution of religious minorities being even bigger.

Ethnic Minorities

The geographical location of Iran has a significant effect on the number of ethnic minorities within the country's territory. The Republic is surrounded by Azerbaijan, Armenia, Turkmenistan, Afghanistan, Pakistan, all the countries of the Gulf, Iraq and Turkey.⁹⁷ The largest ethnic population in Iran is composed of Persians making up more than 60% of the population.⁹⁸ Having so many groups of ethnic minorities has previously raised issues on the topic of secession. In the past, various groups have made claims regarding separatism which have built tensions and clashes with the Iranian government. Even though these ethnic minorities could share a common and united front they remained divided amongst each other demonstrating the fragmentation within the state.⁹⁹

⁹³Office of International Religious Freedom. Rep. 2020 Report on International Religious Freedom: Iran . Office of International Religious Freedom , May 12, 2021. <https://www.state.gov/reports/2020-report-on-international-religious-freedom/iran/>.

⁹⁴Délégation Permanente Auprès des Nations-Unies à Genève , FIDH. Rep. Discrimination Against Religious Minorities in Iran , August 2003. <https://www.fidh.org/IMG/pdf/ir0108a.pdf>.

⁹⁵Ibid.

⁹⁶Ibid.

⁹⁷Ghanea, Nazila, and Binesh Hass. "Seeking Justice and End to Neglect: Iran's Minorities Today ." Minority Rights Group, February 16, 2011. <https://minorityrights.org/country/iran/>.

⁹⁸Ibid.

⁹⁹Sanasarian, Eliz. *Religious Minorities in Iran*. Cambridge: Cambridge Univ. Press, 2006.

The ethnic communities are all found in different parts of the country. Azeris, the largest ethnic minority group, are concentrated mostly in the northwest.¹⁰⁰ In recent years, Azeris have experienced defamation within Iranian news outlets which has resulted in an increase of tension between the groups.

Another group that is important for the composition of the Iranian population is the Kurdish minority. The Kurds also reside in the northwest region of the country which is sometimes referred to as the Iranian Kurdistan.¹⁰¹ The Kurds are one of the main ethnic groups which promote the idea of separatist tendencies that deepen the clashes and tensions between the state and the group. These tensions are rooted in the fear of Kurdish minorities pressing for more independence and creating a semi-autonomous state. Allegations have been made regarding these clashes, alluding to ties being formed between Kurds and the Israeli government. This connection is said to have increased the intelligence-gathering operations in order to boost the fissures created between Kurds and Persians.¹⁰² The Iranian Arabs make up 2% of Iran's population, accounting for 1.6 million people.¹⁰³ They have also incentivized the idea of separatist movements within the Republic. This group is settled along the Iranian-Iraqi border in the southwest region of Iran and is also referred to as Ahwazi Arabs. Even though they can be considered a part of a majority group that is deeply integrated within Iranian society and politics they still experience economic hardship and repression of their language.

Lastly, the other minority group that has pushed for separatist movements is the Baluchis. This minority only comprises 2% of the Iranian population.¹⁰⁴ What sets this minority group apart from the Persians, initially, is that they are predominantly Sunni Muslims and reside between Pakistan and Iran. The Baluchis reside in one of the least developed areas of Iran which accounts for high unemployment rates in the country. The importance that this region holds is mostly military due to the border it shares with Pakistan.

¹⁰⁰Ghanea, Nazila, and Binesh Hass. "Seeking Justice and and End to Neglect: Iran's Minorities Today." Minority Rights Group, February 16, 2011. <https://minorityrights.org/country/iran/>.

¹⁰¹Beehner, Lionel. "Iran's Ethnic Groups." Council on Foreign Relations. Council on Foreign Relations, November 29, 2006. <https://www.cfr.org/backgrounder/irans-ethnic-groups>.

¹⁰²Ibid.

¹⁰³Coles, Isabel. "Insight: Iran's Arab Minority Drawn into Middle East Unrest." Reuters. Thomson Reuters, August 15, 2013. <https://www.reuters.com/article/us-iran-arabs-insight-idUSBRE97E0O620130815>.

¹⁰⁴Beehner, Lionel. "Iran's Ethnic Groups." Council on Foreign Relations. Council on Foreign Relations, November 29, 2006. <https://www.cfr.org/backgrounder/irans-ethnic-groups>.

Even though the constitution refers to the rights of religious and ethnic minorities it does not protect these from discrimination within the community. The Arabs and Baluchistan are an example of how regions in which ethnic minorities live are neglected and result in unemployment and poverty rates even though they can be of great benefit to the country's economy. Authorities in Tehran don't acknowledge the differences that are seen between the ethnic groups of the country which mitigate the concept of repression and exclusion.

In the medium term of the social reality of the Republic, it is not likely for there to be a considerable change to the inclusion of these minorities into Iranian society and even less changes towards the constitution. This would signal that national unity within different groups in Iran is not likely to happen in the short or medium term. Regarding the separatists movements, it is also unlikely for them to have an effect on the national cohesion of the state given that the regime is quick to shut them down. Ethnic minorities that are promoting separatist movements don't have much weight and their territories also represent a national interest to the Iranian government as the oil and gas reserves are located in the places where these minorities reside. Due to this, national cohesion is not threatened in the short term, even if there is social unrest.

External Conflicts with Effects on Minorities

Given that Iran is located in the center of the region, it is very prone and susceptible to any changes around it. Iran's foreign policies are tied to its regional position since it must always be aware of the situation around it given that the problems occurring in other states may infiltrate its borders. Another factor that makes it more susceptible is the number of ethnic minorities residing within its borders which experience frequent instabilities. External and hostile powers can use minorities to oppose and rebel against the country, destabilizing and endangering the regime.¹⁰⁵ The effects that international dynamics and inequalities have on minorities can be reflected within Iranian territory through the protests these groups create. This concept will be developed through examples of conflict-prone states and relationships with neighboring countries that have effects on these minorities.

¹⁰⁵Marshall, Tim, and John Scarlett. Prisoners of Geography Ten Maps That Tell You Everything You Need to Know about Global Politics. London: Elliot and Thompson Limited, 2019.

Tehran - Moscow

Since the start of the Russia-Ukraine war, the relationship between Tehran and Moscow has improved substantially. Russia has been a great historical rival to Iran as they have had very turbulent and unstable relations which continues to ignite mistrust among the Iranians. In the late 1980s, the ties began to improve at a slow pace but after the invasion of Ukraine the relationship had a convenient aspect that pushed their interests into a strategic partnership.¹⁰⁶ At the start of the invasion, Moscow needed both political and military support which pushed it to build a stronger alliance with Tehran. This was also seen as an opportunity for Tehran, given that it would place itself as a key ally to Russia. This would influence Tehran's economy, technology, political and military aspects in a positive way.

The relationship between Russia and Azerbaijan can be seen as turbulent. Considering Iranian Azeris are a large ethnic group in the Republic, the shift in the Iranian alliances towards Russia can be reflected and affect this group. Additionally, Iran and Azerbaijan have a mutually beneficial agreement regarding natural gas trade. During Yeltsin's presidency, the relations that the two states had built took a big turn from being neutral towards each other into being hostile.¹⁰⁷ In this period, Russia was pressuring Azerbaijan into stopping its cooperation with NATO and joining the Collective Security Treaty Organization. The relationship between Russia and Azerbaijan changed during the presidency of Putin.¹⁰⁸ Rather than remaining hostile, Russia changed its approach to a softer and more pragmatic one. Another important shift happened after the Georgia-Russia five-day war.¹⁰⁹ After this war, the Azeri minority was critical to its perspective of Russia due to the acts of aggression against another state. This has been extended into the current Russia-Ukraine war given that the tension between Russia and Azerbaijan lies in the actions of Russia against sovereign states. Both Ukraine and Azerbaijan gained independence from the Soviet Union after its dissolution. Currently, Azerbaijan has shown its support towards Ukraine, but it is still mindful of its actions in order to maintain good relations with Russia.

¹⁰⁶Rome, Henry. "Making Iran's Support for Russia More Costly." The Washington Institute, January 5, 2023. <https://www.washingtoninstitute.org/policy-analysis/making-irans-support-russia-more-costly>.

¹⁰⁷Allworth, Edward, and Evgeny Dmitrievich Silaev. "Russian Suzerainty." Encyclopædia Britannica. Encyclopædia Britannica, inc., July 26, 1999. <https://www.britannica.com/place/Azerbaijan/Russian-suzerainty>.

¹⁰⁸Ibid.

¹⁰⁹Ibid.

The strategic alliance between Tehran and Moscow will shift the whole geopolitics of the South Caucasus. After losing the Caucasian territories to the Russian Empire, Persia still had an estimated 15-20 million ethnic Azeris living in its territory,¹¹⁰ who are now considered an ethnic minority in Iran. After the dissolution of the Soviet Union, Moscow would not permit the interference of Iran in Azerbaijan and continued to dominate the South Caucasus. Currently, Tehran and Moscow are increasing their partnership through the expansion of trade, the improvement of transportation links, energy cooperation and the establishment of banking infrastructure between the two.¹¹¹ This connection and the support Azerbaijan is giving Ukraine during the war will affect the Iranian Azeris. The recent closeness between Tehran and Moscow increased the discomfort of Iranian Azeris because this support can be seen as a betrayal to the sovereignty of both Ukraine and Azerbaijan. As a minority, this group has already experienced discrimination in Iran and now adding the tension of different alliances from Azerbaijan to Ukraine and Iran to Russia, the Azeris could be even more secluded or face more discrimination.

Taliban in Kabul

The return of the Taliban to the power in Afghanistan in 2021 poses a threat to regional and international stability, especially to neighboring countries. There are concerns that the Taliban may provide a safe haven and allow the launching of international terrorist attacks from Afghan territory.¹¹² Iran's relationship with Pakistan and Afghanistan, has become critical, especially since the Taliban's takeover in Kabul. Iran has to pay more attention to this conflict and to the effects it can have on the ethnic minorities living within the borders. As mentioned previously, the Baluchis reside on the Iran-Pakistan border, which has great military importance. This ethnic minority now faces great danger.

Since 2021, there has been an increasing number of attacks in Pakistan's Baluchistan province. Unlike other groups of people living in Pakistan, the Baluchis have never had an established territory within the country. Therefore, whenever there is a terrorist attack, the Baluchis are

¹¹⁰Koknar, Ali M. "Iranian Azeris: A Giant Minority." The Washington Institute, June 6, 2006. <https://www.washingtoninstitute.org/policy-analysis/iranian-azeris-giant-minority>.

¹¹¹Rome, Henry. "Making Iran's Support for Russia More Costly." The Washington Institute, January 5, 2023. <https://www.washingtoninstitute.org/policy-analysis/making-irans-support-russia-more-costly>.

¹¹²Maizland, Lindsay. "The Taliban in Afghanistan." Council on Foreign Relations. Council on Foreign Relations, January 19, 2023. <https://www.cfr.org/background/taliban-afghanistan>.

forced to go back to the Iranian border.¹¹³ Iran has deployed a unit of security forces in Baluchistan in order to protect the border and increase security in the area, which demonstrates the high level of threat it has and its challenge for a long-term security strategy.¹¹⁴ Although both countries are working on strengthening security and developing infrastructure, instability and violence in the area against Baluchis is likely to continue, especially after the Taliban takeover of Afghanistan, which increases the terrorist attacks in the whole region.

Iran - Iraq

Although they are a small minority in Iran, the Iranian Arabs' strategic location at the head of the Gulf waterway next to the Iraqi border, and atop significant oil reserves, makes them a crucial group. Since they are a Sunni minority, when Saddam Hussein attempted to annex Khuzestan, he did it in the name of liberating the Iranian Arabs; however, this attempt is what started the Iran-Iraq War.¹¹⁵

The Iran-Iraq conflict has had long-lasting effects on the Iranian people and the minorities. It lasted from 1980 to 1988 and it came at a time when Iran was very vulnerable as it had just established itself as the Islamic Republic of Iran. It was a very costly war for Iran as Iraq damaged Iran's economy and infrastructure and the chemical warfare used against it had detrimental effects to its population. Even though Iraq had financial logistical, political and intelligence support of the US, other Western powers, and Arab states, Iran won the war.¹¹⁶ The resentment generated by the war towards the non-Shia Muslims amongst the Iranian people is still felt today.

There has been unrest in this area for many years. Leading to discrimination and repression towards the Iranian Arabs, and the government justifies this repression by stating that there are foreign plots to control the oil. They have also left the Ahwazis on the sidelines when it comes to the economic benefits of the oil from their region. Although the bulk of Iran's 137 billion barrel oil reserves lie beneath the soil of Khuzestan, most Ahwazis struggle to scratch a living

¹¹³Sinaee, Maryam. "Iran's Baluch Region in Poverty and under Siege." Iran International. Iran International, January 20, 2023. <https://www.iranintl.com/en/202301200682>.

¹¹⁴Ibid.

¹¹⁵Coles, Isabel. "Insight: Iran's Arab Minority Drawn into Middle East Unrest." Reuters. Thomson, August 15, 2013. <https://www.reuters.com/article/us-iran-arabs-insight-idUSBRE97E0O620130815>.

¹¹⁶Leverett, Flynt Lawrence, and Hillary Mann Leverett. *Going to Tehran*. 24. New York, NY: Picador, 2014.

off the land they lay claim to.¹¹⁷ The Ahwazi separatist movements have increased due to the evolution of the Sunni-Shiite tensions involving also the Iraqi Arabs and especially regarding the oil found in the region. This fuels the resentment of this minority group towards the Iranian government.¹¹⁸

This has evolved into protests that include Ahwazi civil rights movements as well as nationalist and separatist movements. As anti-regime protests grew across Iran, crackdowns from the IRGC against protesters also spread. However, the regime is focusing its retaliation where the country's non-Persian ethnic minorities are concentrated.¹¹⁹ The Arab separatist movement has ties with Iraq, it even sabotaged a pipeline with homemade explosive devices, targeting Iran's economy in revenge for the authorities' mistreatment of ethnic Arabs and for Tehran's roles in Syria and Iraq.¹²⁰ Nowadays, the protests are continuing to ensue. Therefore, the long history between Iraq, Iran and the Arab Iranians continues to generate tensions in these countries, despite the best efforts of Iran to maintain diplomatic relations with Iraq.

Kurds in Syria

The Kurds are an ethno-linguistic group that exists across the borders of Iran, Iraq, Syria, Turkey, Armenia, and other adjacent areas.¹²¹ They have been fighting for independence since the opportunity to become an autonomous country was lost in 1923 as the treaty was never ratified. All of these countries have been fighting nationalist Kurdish movements, but ever since the Kurds consolidated their power on northern Iraq, the rest of the countries have been fearful of something similar occurring in their territories. This has led to repression and discrimination of the Kurds.

¹¹⁷Coles, Isabel. "Insight: Iran's Arab Minority Drawn into Middle East Unrest." Reuters. Thomson Reuters, August 15, 2013. <https://www.reuters.com/article/us-iran-arabs-insight-idUSBRE97E0O620130815>.

¹¹⁸Minority Rights Group. "Arabs." Minority Rights Group, February 6, 2021. <https://minorityrights.org/minorities/arabs/>.

¹¹⁹Hamid, Riham, and Ruth Riegler. "As Anti-Regime Protests Swell across Iran, Ethnic Minorities Demand Freedom and Equality." The Washington Institute, October 14, 2022. <https://www.washingtoninstitute.org/policy-analysis/anti-regime-protests-swell-across-iran-ethnic-minorities-demand-freedom-and>.

¹²⁰Coles, Isabel. "Insight: Iran's Arab Minority Drawn into Middle East Unrest." Reuters. Thomson Reuters, August 15, 2013. <https://www.reuters.com/article/us-iran-arabs-insight-idUSBRE97E0O620130815>.

¹²¹Encyclopædia Britannica, ed. "Kurd." Encyclopædia Britannica. Encyclopædia Britannica, inc., May 27, 1999. <https://www.britannica.com/topic/Kurd>.

In Syria, during the Civil War, the Kurds got self-determination and in 2016 they declared their own autonomous region in Rojava.¹²² Rojava is a key region as it contains most of Syria's oil fields and the highest dams. Because of their strategic location and their fight against Al-Qaeda, the US has become their strongest ally. Kurdish leaders in Syria aspire to be America's permanent ally, like the Kurds next door in Iraq. But Rojava, unlike the Kurdish autonomous region in Iraq, lacks UN recognition.¹²³ Iran is wary about the US-Kurdish alliance, as it fears that such relations would enable the US to gain more influence in the region through the Kurds and potentially infiltrate Iran via its Kurdish minority.

Therefore, Iran supports all fights against the Kurds, and it has even threatened invasions in Kurdish-occupied areas in Iraq and Syria.¹²⁴ Because of Iran's fear of the Kurdish fighting for more autonomy, they have been repressing their own Kurdish minority as well as aiding the efforts in the exterior. Generating resentment and anger from part of the Kurds caused them to take to the streets to protest the repressive measures, and to demand more autonomy. Iranian security forces have used excessive and unlawful lethal force against protesters in Kurdistan province's capital, Sanandaj.¹²⁵ The Kurdish people, who continue to fight for their autonomy and face various repressive and discriminatory measures, have found resonance in social protests, despite Iran's condemnation of their efforts.

Social Protests

Iran's history has been plagued by protests for more than a century. Every movement has started with the intention of tackling a specific issue but most of them have faded away due to the strength of the regime and its influence over the Republic. Various protests have caused an impact on society that can be seen today. However, the only movement that produced a change in the structure of the state's political system was the 1979 Islamic Revolution. Iran's society

¹²²Kobe, and Rakka. "The Kurds Are Creating a State of Their Own in Northern Syria." *The Economist*. The Economist Newspaper, May 23, 2019. <https://www.economist.com/middle-east-and-africa/2019/05/23/the-kurds-are-creating-a-state-of-their-own-in-northern-syria>

¹²³Kobe, and Rakka. "The Kurds Are Creating a State of Their Own in Northern Syria." *The Economist*. The Economist Newspaper, May 23, 2019. <https://www.economist.com/middle-east-and-africa/2019/05/23/the-kurds-are-creating-a-state-of-their-own-in-northern-syria>

¹²⁴Frantzman, Seth J. "Iran and Turkey Share Common Interests in Their Targeting of Kurds." *The Jerusalem Post* | JPost.com, November 26, 2022. <https://www.jpost.com/middle-east/article-723437>.

¹²⁵"Iran: Brutal Repression in Kurdistan Capital." Human Rights Watch, December 21, 2022. <https://www.hrw.org/news/2022/12/21/iran-brutal-repression-kurdistan-capital>.

is built on a volatile environment which makes the country vulnerable to more public unrest and discontent, leading to multiple protests throughout its history.

Previous Protests

1979 Islamic Revolution

The 1979 protests that led to the Islamic Revolution started with a wave of anti-Western sentiments that had been growing for more than 20 years, since the 1951 oil nationalization movement. Ayatollah Ruhollah Khomeini led a popular uprising in which people took to the streets and forced the Shah to flee to the US, thus ousting him from power, marking the end of Iran's relations with the Western world, never to be allied again. Not only because of the rejection of the new government towards Western ideals, but due to the hostage crisis that ensued after Iranian protesters took over the US embassy, capturing 66 American diplomats and holding them hostage.¹²⁶

The success of the Iranian revolution caused a complete shift in Iranian policy. It was mainly due to the loss of military support for the Shah with the mass defection of the army. Another factor that played a key role in his fall for power was the complete mobilization of the Iranian people. Furthermore, the protests were effective because they showed the unity of the Iranian people. They were not protests of one social class or one minority, rather they included people from all different social classes and minorities, making them a successful driver of change.

2009 Green Movement

The Iranian Green Movement emerged after the presidential election of Mahmoud Ahmadinejad in 2009. Protesters demanded his removal from office due to suspected corruption in the elections. This movement can't be called a "revolution", it was not violent nor had the ultimate goal of dismantling the regime, and the protests faded away while not achieving the expected objective. Although the protests reached a peak of contention and pressure against the government, the protestors weren't able to have a strong collective action

¹²⁶The, Editors of Encyclopaedia Britannica, ed. "Iran Hostage Crisis." Encyclopædia Britannica. Encyclopædia Britannica, inc., October 6, 2005. <https://www.britannica.com/event/Iran-hostage-crisis>.

and identity.¹²⁷ The weak collective identity and motivations of the citizens can be seen as a cause for the failure of the movement. Also, the protests lacked cohesive leadership and a more imminent objective such as pressures regarding economic difficulties in the different industries, women's violation rights, and more.

Although the Green Movement didn't merely achieve its ultimate goal, it incentivized the population to rely on protesting to demonstrate their discontent towards specific concepts of the country. Protests in Iran have demonstrated to be the first option for the population when it comes to wanting democratic changes in the country.

Current Protests (2022)

These protests have taken various forms since the movement sparked last September. Initially, the protests were associated with the death of Mahsa Amini, a member of the Kurdish minority, after her arrest due to the improper use of the hijab and modest clothing. This pushed for a movement rooted in the cry for women, life, and liberty, but has rapidly transformed into a movement targeting the government which is now led by Ali Khamenei and the radical policies of Ebrahim Raisi. The ongoing protests have been compared to the 1979 Islamic Revolution given that it is the first protest after this revolution that creates a sense of cohesion between all regions and ethnicities of the country. The unity of the people is rooted in the shared anger towards the policies created by the government concerning the dress code.

After Raisi's election, there has been a notable increase in the public's frustration due to the implementation of more conservative policies. Protests transformed into direct condemnations towards the government and calling for an end of the current regime. Through these protests, the regime has lost support even amongst its core supporters and in the more conservative cities. The regime has tried to maintain a stable front by accusing foreign powers, specifically the US and Israel, of fostering discomfort within society.¹²⁸ Even though the regime has responded with harsh security measures, the population is still gathering in the streets to protest for a change in policies but more importantly in the regime as a whole. However, it is important

¹²⁷Reisinezhad, Arash. "The Iranian Green Movement: Fragmented Collective Action and Fragile Collective Identity ." *Iranian Studies* 48, no. 2 (March 2015): 193–222. <https://doi.org/https://www.jstor.org/stable/24483058>.

¹²⁸Askew, Joshua. "Threshold of Revolution: Why Iran's Protests Are Different This Time." *euronews*, February 1, 2023. <https://www.euronews.com/2022/12/20/iran-protests-what-caused-them-who-is-generation-z-will-the-unrest-lead-to-revolution>.

to mention that the protests' intensity has recently decreased, and that the government has agreed to cede to certain social demands. It was seen when Khamenei agreed to offer amnesty and reduce the sentences of the prisoners accused and convicted in the recent incidents.¹²⁹

Possible Scenarios of the Evolution of Protests

Figure 3. Possible Scenarios of the Evolution of Protests (In the short term)

Drivers of Change	Possible Scenarios		
	Protests fade away in the short term	Government agrees to certain social demands and policy changes	Regime Collapse
A solid collective identity and social unity towards the goal	—	++	+
Lack of strong leadership and figure in the protests.	++	—	--
IRG's military support to the current regime.	++	—	--
Economic sanctions as international pressures to weaken the regime.	—	+	+
Increased inequality: center-periphery, women's rights, minorities.	—	++	+
Radicalization of the regime's policies and lack of democracy.	—	—	+
Uncertainty and dislike over possible successor of the regime.	—	—	+
Strength and total control of the government	++	—	--

¹²⁹The Associated Press. "Iran Acknowledges It Has Detained 'Tens of Thousands' in Recent Protests." NPR, February 5, 2023. <https://www.npr.org/2023/02/05/1154584532/iran-acknowledges-it-has-detained-tens-of-thousands-in-recent-protests>.

- + + → Very positive impact on the plausibility of the scenario
- + → Positive impact on the plausibility of the scenario
- → Negative impact on the plausibility of the scenario
- – → Very negative impact on the plausibility of the scenario

Scenario 1: Protests fade away in the short term (*Most likely*)

The current protests started in September 2022 with the purpose of opposing the restrictive government policies against women's rights. Since then, they have evolved to object to the regime's radicalization and lack of policy changes. Although there is a strong collective identity, as the demonstrators from all social classes and minorities are all united towards the goal of a regime change,¹³⁰ there are many other drivers that show that the most plausible scenario is that the protests are going to fade away in the short term.

The lack of a strong leadership and a public figure leading the current protests is a positive driver for the protests to fade away. The current protests are not led by a strong figure, rather they are more characterized by the general discontent of all the populations fighting for the same objective but lacking an influential leader. It is very unlikely that the IRGC will stop supporting the regime and start siding with the protestors, as they did in the 1979 Revolution. If the military keeps supporting the government, there is no chance for the citizens to overthrow the regime. Furthermore, due to their military and political control, the regime continues to be very strong and authoritarian. This provides the government with the control to suppress and kill protestors without any real consequences that would make their power dwindle,¹³¹ acting as a positive driver for the protests to fade away as they continue to fear for their lives.

In conclusion, given that the protests have been ongoing for more than six months with no real changes in the government or their policies, the most likely scenario is that in a span of two years, the protests will fade away as they have in previous protests like the Green Movement.

¹³⁰The Associated Press. "Iran Acknowledges It Has Detained 'Tens of Thousands' in Recent Protests." NPR, February 5, 2023. <https://www.npr.org/2023/02/05/1154584532/iran-acknowledges-it-has-detained-tens-of-thousands-in-recent-protests>.

¹³¹Ibid.

Scenario 2: Government agrees to certain social demands and policy changes (*Moderately likely*)

The moderately likely scenario is that the government agrees to negotiate and change its policies, like the veil policy, and to comply with the protests' demands. As mentioned previously, the solid collective unity that is felt throughout Iran nowadays has not been felt since 1979. This factor would result in a very positive impact towards the scenario of the government acceding to changes within the policies in order to satisfy the social demands of the protest. If the whole population is pushing for the same goal it would be moderately plausible that the government concedes certain aspects of their demands in order for a settlement to be reached.

Nonetheless, it is important to notice that this scenario also has negative drivers. One of the most important negative drivers is the radicalization of the regime's policies and lack of democracy. It is very unlikely that the regime will budge on changes to its radical policies. These policies are the basis on which the Republic was built, deeply rooting their policies in conservative Shiite Islam. To change these policies would mean going against its anti-Western ideals, which is something with a low probability of happening. However, the government could potentially negotiate and concede on other aspects to decrease social discontent in the country.

In conclusion, given that Khamenei leads a strong radical theocracy, it is moderately likely that in the short term, a scenario in which the government changes established policies in order to satisfy the whims of the protestors could happen. However, it is possible that the government cedes to certain social demands, only if these don't represent going against the regime's strong ideals.

Scenario 3: Regime Collapse (*Unlikely*)

The increased inequality and specific economic factors as high inflation faced by the Iranian people is what constantly pushes some of them to revolt against the government. In this case, the lack of women's rights are being protested and supported by other sectors within the country. This could be seen as a pushing factor for the collapse of the regime due to the want

for change and equal rights. However, this aspect, on its own, is not enough to cause the total dismantling of the current governmental system.

In addition, this scenario has a majority of negative drivers. The two most influential factors that make this scenario unlikely are: the strong support of the military to the regime and the total control of the government in all sectors of the Republic. The function of the military in an autocratic state is essential for the well-functioning of it since it will always ensure the survival of the regime and the submission of the people. The total control of the government regarding all aspects of the country demonstrates the deep rootedness of the regime in Iranian politics, society, and life.

In conclusion, it is unlikely that the ongoing protests will result in the collapse of the regime in the medium term, as it has demonstrated to be resilient to protests and external pressures for more than 40 years.

ENERGY AND INFRASTRUCTURE PROSPECTS

- Iran has the third largest oil reserves and second largest gas reserves in the world. It is estimated that in 2023 and 2024, there will be continued growth in both the consumption and development of gas, as well as an average crude oil exports of 1 million barrels per day.
- The Russia-Ukraine war has presented Iran with the opportunity to become an alternative supplier of oil and gas due to the boycott of Russian energy. The Iranian government expects to double the oil production in the short term from approximately 2 million barrels per day to 4 million barrels per day.
- Recently, the Republic has forged key partnerships with various Asian and Middle Eastern countries that have fostered infrastructure investment, which will boost the expansion of the hydrocarbons industry.
- Iran has faced sanctions for more than 40 years. In the short term, the most plausible scenario is that sanctions will remain imposed.

Hydrocarbons Industry

Iran is one of the world's leading producers and exporters of oil and natural gas. This sector is a significant percentage of the country's income and a key driver of its economy. Nonetheless, Iran's hydrocarbons industry has faced many challenges in recent years, including the imposition of international sanctions, geopolitical tensions, and the lack of infrastructure and technology. These have limited the sector's potential for optimization and foreign investment. However, Iran has been working on developing strategies in order to mitigate the effects these challenges suppose. Recently, it has been establishing strategic partnerships with key Asian and Middle Eastern countries such as China, Russia, India, and Saudi Arabia to invest in the country. The Russia-Ukraine war presents an opportunity for Iran to become a new source of natural gas for the European market. These partnerships demonstrate the involvement of new actors in the region, and the agreements are aimed at working on future projects that will not

only benefit Iran's economy but also they will reinforce its position in the region. This indicates a positive outlook for the country's economic growth, industry, and development, as well as potentially attracting more foreign investment in the short term. Iran's hydrocarbon industry continues to play an essential role in the country's economy and global energy markets.

Oil Development

Iran has the third largest oil reserves in the world, making up 24% of oil reserves in the Middle East and 12% in the world.¹³² Despite its abundant reserves, Iran's crude oil production has fallen since 2017 because the oil sector has been subject to lack of foreign direct investment and international sanctions for several years. Additionally, Iran is a member of the OPEC and is the fifth largest oil producer of the organization but is exempt from production cuts under OPEC+ agreement due to the sanctions that have been imposed on it. However, in 2020 crude petroleum exports increased and became the second most exported product in Iran. That year, Iran exported \$1.18 billion in crude petroleum, making it the 36th largest exporter of crude Petroleum in the world.¹³³ Furthermore in 2021 there was an expansion of the oil industry as Iran's oil companies earned about \$40 billion in net oil export revenues, an increase from around \$15 billion in 2020.¹³⁴ Total export revenues increased in 2021 as a result of rising global oil prices as they recovered from the fall they took during the Covid-19 pandemic. It is estimated that the oil price increase in 2022 will further increment Iran's revenues in the short term and continue to boost the Iranian oil industry so it can take advantage of its ample reserves.

Trade Partners

Iran's economic success is heavily dependent on its oil trade partners, considering the crucial role they play in the industry. Iran's crude petroleum exports primarily target Europe and Asia, with China being the most significant trading partner.

China's importance as Iran's trade partner has increased. Shipment of crude oil rose at the end of 2020, resulting in an average of over 0.6 million barrels of crude oil per day to China in

¹³²EIA. Rep. Country Analysis Executive Summary: Iran. U.S. Energy Information Administration, 2022.

¹³³OEC. "Crude Petroleum in Iran." OEC, 2020. <https://oec.world/en/profile/bilateral-product/crude-petroleum/reporter/irn>.

¹³⁴EIA. Rep. Country Analysis Executive Summary: Iran. U.S. Energy Information Administration, 2022.

2021.¹³⁵ Even though Iran's oil exports dropped to less than 0.6 million barrels per day in the second quarter of 2022, due to the slow demand in China and competition from Russian oil, China's relevance remained. Iran continues to compete with Russia for the crude oil market share in China as refiners began purchasing more crude oil from Russia, which displaced some of Iran's crude oil exports to China. Especially after the Russia-Ukraine war, when Europe boycotted Russian oil, which resulted in Russia significantly discounting its crude oil price.¹³⁶ It is important to note that most of the Iranian oil that goes to China is transferred to countries such as Malaysia, UAE and others in order to avoid detection from customs authorities.

Other notable oil trade partners of Iran are Venezuela, Syria and the Netherlands. In 2021, Iran began exporting oil condensates to Venezuela amounting to around 70,000 barrels per day under a swap agreement to help Venezuela dilute its heavy crude oil and bolster its oil production and exports. In 2022, Iran increased its exports to Venezuela to 100,000 barrels per day showing the benefits of their bilateral agreement. Furthermore, the fastest growing export markets for crude petroleum of Iran between 2019 and 2020 were the Netherlands, resulting in Iran gaining \$26.2 million in trade revenues. Finally, Iran sent nearly all of its crude oil and condensate exports to China and Syria in 2021.¹³⁷ This makes Syria another important trading partner as 9% of the oil export went to this country in the shape of crude oil and oil products.

Production Forecast

The Iranian oil industry is on track to reverse the fall it had suffered and will likely increase its oil production as well as exports in 2023 and 2024. In 2021, Iran's oil production was 2,392,000 barrels per day.¹³⁸ According to the chief executive officer of the National Iranian Oil Company (NIOC), it is expected that Iran will raise its oil production capacity to over 4 million barrels per day this year,¹³⁹ almost doubling the production since 2021. It is a difficult goal, but production will increase consistently. The Iranian oil exports hit new highs in the last two

¹³⁵Ibid.

¹³⁶EIA. Rep. Country Analysis Executive Summary: Iran. U.S. Energy Information Administration, 2022.

¹³⁷Ibid.

¹³⁸OPEC. "Iran." OPEC, 2022. https://www.opec.org/opec_web/en/about_us/163.htm.

¹³⁹Paraskova, Tsvetana. "Iran to Raise Oil Output to over 4 Million BPD by March 2023." OilPrice.com, September 2, 2022. <https://oilprice.com/Latest-Energy-News/World-News/Iran-To-Raise-Oil-Output-To-Over-4-Million-Bpd-By-March-2023.html#:~:text=Iran%20will%20raise%20its%20oil,news%20agency%20IRNA%20on%20Friday>.

months of 2022 and are making a strong start to 2023 despite US sanctions.¹⁴⁰ It is expected that in 2023 Iran will maintain average crude exports of around 1 million barrels per day. Furthermore, it is expected that in the short term the oil exports to China will increase, as it is likely that China's oil imports will largely increase in 2023 to meet the additional demand for transportation fuels and provide feedstock for new refineries that will come online. Additionally, other factors such as the increased South Azadegan oil field production to 320,000 barrels per day at the beginning of 2023 are going to boost Iranian oil production.¹⁴¹

However, there is still some uncertainty as to the amount of growth that the oil industry and exports will experience, due to the high volatility of crude oil prices which could hinder the growth of the Iranian oil and gas market.¹⁴² Nevertheless, it is more likely that this will slow down the growth rather than completely hinder it. While the US sanctions deter European buyers from purchasing Iranian oil as well, the ongoing Russia-Ukraine war has presented Iran with the opportunity to export to these countries as they move away from Russian oil. 2024 will be a key year for this opportunity as the US presidential election will mark how the US policies towards Iran will develop. Therefore, even if there is a possibility for Europe as an oil export partner, European companies would be slow to return depending on the 2024 presidential election and Iranian bureaucracy, political indecision, and unattractive investment terms.¹⁴³

Gas Development

In 2021 Iran was ranked as the third largest natural gas producer and second largest reserve holder.¹⁴⁴ Iran holds around 17% of the world's natural gas reserves. As of 2021, the natural gas reserves were 1,200 trillion cubic feet which placed the Republic second to Russia. Even

¹⁴⁰Lawler, Alex, Bozorgmehr Sharafedin, and Chen Aizhu. "Iranian Oil Exports End 2022 at a High, despite No Nuclear Deal." Reuters. Thomson Reuters, January 16, 2023. <https://www.reuters.com/business/energy/iranian-oil-exports-end-2022-high-despite-no-nuclear-deal-2023-01-15/>.

¹⁴¹Eqbali, Aresu. "Iran to Boost South Azadegan Oil Output to 320,000 b/D by 2023 Following Delays." S&P Global Commodity Insights. S&P Global Commodity Insights, December 28, 2021. <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/122821-iran-to-boost-south-azadegan-oil-output-to-320000-bd-by-2023-following-delays>.

¹⁴²"Iran Oil & Gas Market Analysis - Industry Report - Trends, Size & Share." Iran Oil & Gas Market Analysis - Industry Report - Trends, Size & Share, 2023. <https://www.mordorintelligence.com/industry-reports/iran-oil-and-gas-market>.

¹⁴³Mills, Robin. "Could Iran Replace Russian Oil and Gas?" Arab Gulf States Institute in Washington, April 2, 2022. <https://agsi.org/could-iran-replace-russian-oil-and-gas/>.

¹⁴⁴EIA. Rep. Country Analysis Executive Summary: Iran. U.S. Energy Information Administration, 2022.

though it holds a large amount of gas reserves, its storage capacity is limited due to the sanctions imposed on the country. As long as sanctions are placed, due to space and storage constraints in the fields where condensate liquids are produced, the natural gas production cannot reach its maximum capacity.¹⁴⁵ Between 2019 and 2020 the natural gas consumption experienced a downfall due to the sanction on exports imposed by the US. Not only have sanctions affected the flow of exports but more importantly it has hindered its investment to expand the sector.

Most of Iran's natural gas production is consumed domestically. In 2021 the natural gas consumption in Iran was around 8.2 trillion cubic feet which was 4% higher than in 2020. In the last 10 years the consumption of gas has exponentially grown due to various factors such as substitution of oil with natural gas in several sectors, increase in domestic production and highly subsidized prices.¹⁴⁶ Iran's government has implemented the strategy of replacing certain liquid fuels with natural gas in order to continue expanding the sector and pipeline systems. Iran is an international gas giant and has the capacity to expand this sector and maximize the opportunity of entering the international gas market in the future. If sanctions are lifted or investment increases in this sector, Iran would be able to provide gas domestically while also exporting to Europe now that the region is seeking a replacement from Russian exports.

Trade Partners

Iran's geo-economic position allows for it to export natural gas to Turkey, Armenia, Iraq and Azerbaijan. In 2021 the exports of gas amounted to 635 billion cubic feet.¹⁴⁷ Iran receives imports from Azerbaijan and Turkmenistan. Iran's unpaid debt caused imports from Turkmenistan to cease in 2019. Similarly, Iran's exports to Iraq decreased in 2021 due to the financial reliance it had on the country. This didn't affect the total outcome of exports since Iran increased exports to Turkey, therefore balancing the total number of Iranian exports. The last 10 years, imports have considerably decreased from reaching a high 300 billion cubic feet to well below 50 billion cubic feet in 2021. On the other hand, exports have noticeably increased over the past decade.

¹⁴⁵Ibid.

¹⁴⁶EIA. Rep. Country Analysis Executive Summary: Iran. U.S. Energy Information Administration, 2022.

¹⁴⁷Ibid.

In 2021, 97% of Iran's natural gas exports were destined to Iraq and Turkey due to their demand in the electric power sector.¹⁴⁸ Even though both partnerships have experienced certain disruptions through the years, the natural gas flows have been restored. In regard to exports destined to Armenia and Azerbaijan, both parties made long-term swap agreements with Iran. The agreement with Armenia is based on Iran exporting natural gas and receiving electricity generated from the Armenian Nuclear Power Plant.¹⁴⁹ The relation with Azerbaijan is based wholly on natural gas. Iran exports natural gas to Azerbaijan, especially to the territory of Nakhchivan, and Iran receives natural gas destined to its northern provinces through the Astara-Kazi-Magomed pipeline. It is essential for Iran to maintain both import and export partners in order to strengthen collaboration and cohesion throughout the region. This also makes it possible for Iran to provide the necessary resources to neighboring countries while decreasing the reliance on Western imports and exports and maintaining its influence on the sidelines.

South Pars

This field, located under Iranian waters, is the northern extension of Qatar's North Field and is one of the largest gas fields in the world. The area belonging to Iran accounts for around 436 trillion cubic feet resulting in more than 40% of Iran's natural gas wealth.¹⁵⁰ This project started in 2004 with the goal of producing 25,000 barrels per day of crude oil.¹⁵¹ The planning of this field was divided into 24 phases, each one requiring large investments to move forward. According to the Iranian Oil Minister, Phase 11 of this project will start producing gas in May of this year.¹⁵² This phase was the last one developed and consisted in drilling 12 wells and laying 115 km pipelines to allow the transfer of mono-ethylene glycol and natural gas. These pipelines are essential because they would allow for the liquified gas and glycol to reach onshore plants and start the process.

¹⁴⁸Ibid.

¹⁴⁹Tagliapietra, Simone. Rep. Iran after the (Potential) Nuclear Deal: What's Next for the Country's Natural Gas Market? Eni Enrico Mattei (FEEM), 2014.

¹⁵⁰Vella, Heidi. "Developing South Pars: A Look at Iran's Mega Gas Field." Offshore Technology, February 15, 2017. <https://www.offshore-technology.com/features/featuredeveloping-south-pars-a-look-at-irans-mega-gas-field-5731632/>.

¹⁵¹Petroiran. "Development of South Pars Oil Layer (SPOL)." Development of South Pars Oil Layer (spol). Accessed March 19, 2023. <https://www.petroiran.com/en/projects/south-pars-oil-layers/>.

¹⁵²Tasnim News Agency. "Iran to Start Producing Gas from South Pars Phase 11 in Two Months." Eurasia Review, March 11, 2023. <https://www.eurasiareview.com/12032023-iran-to-start-producing-gas-from-south-pars-phase-11-in-two-months/>.

The advancements of this field in Iran are largely dependent on foreign investments and the involvement of foreign companies in its execution, as well as the partial lifting of sanctions in 2015. By moving forward with this plan, Iran builds its status and position in the region and in the international community. Through the South Pars field, Iran will increase energy security and produce more gas which can be used in the oil fields. By maximizing the benefits of this field, Iran will be able to boost its economy and make the most out of its oil and gas sector. It will also see a boost in its export opportunities. Currently, most of its natural gas production is consumed domestically but the South Pars field will allow for both domestic and foreign demand to be met.

Future of Hydrocarbon Industry

The future of Iran's hydrocarbon industry depends on internal and external factors such as international economic sanctions, government policies, global demand for oil and gas, foreign investment, and external conflicts that affect in one way or another the industry. Recently, Iran has been developing strategies in order to tackle these factors and take advantage of its large reserves and production capacity. The country has been working to modernize its oil and gas sector through the improvement of its refining capacity and the development of new projects. In order to achieve this, Iran is forming agreements and partnerships with other countries to attract foreign investment.

Iran and Russia are currently in the eyes of the international community as they are subject to Western sanctions. Not surprisingly, Russia has become Iran's biggest investor and ties between the two are reapproaching, not only on the diplomatic, military, and economic sector, but also on the energy one too. They have signed a memorandum for \$40 billion of Russian investment in Iranian gas projects and have already started working on its implementation.¹⁵³ Iran has also signed agreements with China in order to develop its oil and gas sectors. Due to geopolitical interests, both China and Russia have stakes in competing for Iran's hydrocarbon industry which requires investments in the country. Also, the reestablishment of diplomatic relations with Saudi Arabia is considered to be an opportunity to promote investment, develop

¹⁵³Smagin, Nikita. "Could a Russia-Iran Gas Partnership Bear Fruit?" Carnegie Politika, November 28, 2022. <https://carnegieendowment.org/politika/88497>.

the industry, and diversify Iran's partners. India also influences the future of the sector, due to potential projects and agreements that will be further analyzed.

Although Western sanctions and underinvestment have proven to be threats to the industry, Iran has demonstrated to be resilient to them. The future of the hydrocarbon industry is dependent on Iran's capacity to establish strong relationships with countries that will be willing to invest in the Republic, as it is currently doing by signing agreements with key partners.

Effects of Western boycott of Russia's oil and gas industry

Europe's boycott on Russian oil and gas due to the invasion of Ukraine, will encourage Iran to develop its hydrocarbon industry in the short and medium term. The reduction of Russia's supply presents an opportunity for big oil and gas producers, like Iran, to meet the global demand, allowing Iran to step in to make up for the European deficit on the market.¹⁵⁴ As soon as this problem started, the deputy minister of oil and gas affairs announced that Iran is considering exporting gas to Europe.¹⁵⁵

Europe faces a complex situation as it seeks to balance political interests, such as concerns over human rights violations and resulting sanctions, with the potential challenges of conducting trade with Iran. At the same time, Europe is desperate to find new energy sources and reduce reliance on Russia in order to meet its large energy demands. Iran would like to enter and obtain shares in the European gas market. Nevertheless, such a feat requires huge investments and capital resources that the country currently lacks.¹⁵⁶ As mentioned before, Iran's foreign direct investment is predicted to increase in the short term. Therefore, the country would have better infrastructure, technology, and export capacity to meet the international demand. Even though some Western countries wouldn't consider the Republic as a possible energy source, Iran will still be encouraged to develop its hydrocarbon industry in the short and medium term to increase its production and trade with its key partners.

¹⁵⁴Smagin, Nikita. "Could a Russia-Iran Gas Partnership Bear Fruit?" Carnegie Politika, November 28, 2022. <https://carnegieendowment.org/politika/88497>.

¹⁵⁵Shana. "Any Political, Legal Interference in Energy Market a Lose-Lose Game for All Players." Shana. Shana, March 19, 2023. <https://en.shana.ir/news/470504/Any-political-legal-interference-in-energy-market-a-lose-lose>.

¹⁵⁶Keynoush, Banafsheh. "Iran's Renewed Focus on Shared Gas Fields." Middle East Institute, March 17, 2023. <https://www.mei.edu/publications/irans-renewed-focus-shared-gas-fields>.

Infrastructure Investment

International Investment

Iran's energy infrastructure could use an injection of foreign capital to revitalize it and increase the access to Iran's reserves. Iran's foreign direct investment is expected to increase as seen through the recent projects and partnerships it has recently negotiated. China is a key player when it comes to foreign investment in infrastructure in Iran. This is reflected in the cooperation agreement that these two countries signed in 2022 where China agreed to invest \$400 billion in Iran for more than 25 years in exchange for a steady supply of oil for fuel. This strategic agreement is expected to boost industrial activity in Iran and enhance the longstanding political and economic alliance between the two nations. Moreover, the contract will further involve Iran into China's Belt and Road Initiative as the infrastructure plan is intended to stretch from East Asia to Europe.¹⁵⁷ This will highly benefit the Iranian energy infrastructure as the main sectors included in this agreement are oil, gas, petrochemical, renewables, nuclear power, and energy infrastructure.

Furthermore, Iran has also increased the foreign investment ties with other Asian and Middle Eastern countries as they are important players in Iran's sphere of influence. For example, Iran's bilateral relations with Iraq are expected to continue improving as both countries established a joint bank, The Islamic Regional Cooperation Bank for Development and Investment, in order to increase trade transactions that foster investment.¹⁵⁸ Another example is the investment ties between Iran and India, as India took over the operations of Chabahar Port in Iran and is going to continue to invest in the infrastructure of the port. A major investment opportunity for Iran is the re-establishment of close ties with Saudi Arabia as they have a potential to make a considerable investment in infrastructure. Saudi Arabia's finance minister says it could start investing in Iran "very quickly".¹⁵⁹ Investment from Saudi Arabia would likely be a major boom for Iran's economy, though it is unclear whether existing US sanctions on Iran would apply to financial activity between the two countries. Foreign

¹⁵⁷Market Line. Rep. PEST Country Analysis Report: Iran. Market Line, 2022. <https://advantage-marketline-com.ezproxy.unav.es/Analysis?reporttype=5908&location=100112>.

¹⁵⁸Ibid.

¹⁵⁹Turak, Natasha. "Saudi Arabia Could Start Investing in Iran 'Very Quickly,' Finance Minister Mohammed Al-Jadaan Says." CNBC. CNBC, March 15, 2023. <https://www.cnbc.com/2023/03/15/saudi-arabia-could-invest-in-iran-very-quickly-finance-minister.html>.

investment opportunities in Iranian infrastructure show the shift in the geopolitical dynamics as China and the rest of Asia increase their reach in Iran and the Middle East.

Gas Pipeline through the Caspian Sea

Due to the dependence of Europe on Russian oil and gas and the lack of diversity in suppliers it has been forced to seek alternative options for energy imports. The region of the Caspian Sea is of great relevance for Europe to import gas and oil which is why talks with Turkey, Azerbaijan and Turkmenistan have increased. The Caspian Sea has an estimate of 292 trillion cubic feet of natural gas and a pipeline infrastructure which connects it to the markets in Europe.¹⁶⁰ An important innovation to this region would entail pipeline between the east coast of Turkmenistan and the west of Azerbaijan since Turkmenistan has the fourth largest natural gas reserve. In economic terms, this pipeline would allow for natural gas to pass through the Caspian Sea in a profitable way while avoiding Russian territory. In order for the project of the trans-Caspian gas pipeline to advance it has to find new investors and revenue streams.

Russia and Iran are key players in the region of the Caspian Sea but have both been affected by economic sanctions making their presence more fragile and wavering. Iran is dealing with internal pressure due to the social protests that have been ongoing for the last months which currently makes the project of the Caspian Sea pipeline not a priority. Neither of these states have shown their support to the idea of a gas pipeline under sea in the past because it could harm their own gas partnerships. This could change in the future considering that legal obstacles have diminished since 2018 when the Convention on the Legal Status of the Caspian Sea was signed by all five states surrounding the Caspian region. This convention states that a project requires the consent of the parties involved to proceed. Even though Iran has opposed the idea of the pipeline in the past, it would be a good idea for it to support the project given that it could result in a future partnership regarding gas production and export.

Port of Chabahar

The Port of Chabahar is a strategic port in Southeastern Iran, not only for its geographic importance for trade and commerce but also for its geopolitical implications regarding

¹⁶⁰Coffey, Luke. "A Trans-Caspian Gas Pipeline Could Solve Europe's Energy Crisis." Arab News, June 11, 2022. <https://www.arabnews.com/node/2101491>.

international competition for dominance in the Middle East. Chabahar, Iran's first deepwater port, connects the country to sea trade routes. Recently, the port has attracted international attention as it can potentially become a hub for international trade and commerce in the Middle East. Therefore, alliances and agreements between countries have been made to take advantage of this opportunity that can change the dynamics of the region as a whole.

In January 2016, Iran, India and Afghanistan signed a trilateral economic agreement on developing the Chabahar Port in Southeastern Iran.¹⁶¹ This agreement holds immense value mostly to Iran and India since it will help both states reduce their dependence on the Suez Canal as the trade route for Europe.¹⁶² For India, Chabahar is the key point of the 'International North-South Transport Corridor', an ambitious project connecting India to Central Asia and Europe.¹⁶³ A link between Afghanistan and India could strengthen diplomatic, security and economic relations between New Delhi and Kabul because the corridor would avoid Pakistan. However, with the Taliban's return to power, things can change due to a high level of uncertainty.¹⁶⁴ India's involvement and desire to develop the port is not only motivated by its interest in Afghanistan but also in countering China's expanding influence in the Indian Ocean. The Iranian-Indian trade cooperation is considered a strategic alternative, if not a rival, to the Belt and Road Initiative and the China-Pakistan Economic Corridor, whose key point is the Gwadar port in Pakistan, close to Chabahar.¹⁶⁵ This exemplifies how new key actors such as India are competing with China for presence and dominance in the region.

On the other hand, it will help Iran mitigate US sanctions while encouraging economic ties with crucial neighboring states, thereby fostering its strategic foreign policy objectives. The port of Chabahar is a strategic opportunity for Iran that will not only boost the country's economy, but also it will reinforce its political and economic dominance in the Middle East. Chabahar demonstrates the emerging trend of new actors' involvement in the region as well as

¹⁶¹Omidi, Ali, and Gauri Noolkar-Oak. "Geopolitics of Chabahar Port for Iran, India and Afghanistan." *South Asia Research* 42, no. 1 (2021): 21–39. <https://doi.org/10.1177/02627280211055981>.

¹⁶²Kalyani, S K. "The Geopolitical Significance of Chabahar Port to India." The Peninsula Foundation, November 6, 2022. <https://www.thepeninsula.org.in/2022/11/06/the-geopolitical-significance-of-chabahar-port-to-india/>.

¹⁶³ Omidi, Ali, and Gauri Noolkar-Oak. "Geopolitics of Chabahar Port for Iran, India and Afghanistan." *South Asia Research* 42, no. 1 (2021): 21–39. <https://doi.org/10.1177/02627280211055981>.

¹⁶⁴Kalyani, S K. "The Geopolitical Significance of Chabahar Port to India." The Peninsula Foundation, November 6, 2022. <https://www.thepeninsula.org.in/2022/11/06/the-geopolitical-significance-of-chabahar-port-to-india/>.

¹⁶⁵ Omidi, Ali, and Gauri Noolkar-Oak. "Geopolitics of Chabahar Port for Iran, India and Afghanistan." *South Asia Research* 42, no. 1 (2021): 21–39. <https://doi.org/10.1177/02627280211055981>.

the gradual shift away from the US, thereby having consequential impacts at the regional level in the medium term.

Effects of International Sanctions in the Industry

Sanctions on Iran have had a huge impact on the country's hydrocarbon industry as they have stunted its growth and prevented Iran from fully reaching its potential. Furthermore, not only have they had an effect on the infrastructure development but also impacted the hydrocarbon industry. Some sanctions even go as far as explicitly punishing Iranian oil exports. For this reason, the evolution of the sanctions in the short term will play a significant role in shaping the future of the hydrocarbons industry in Iran. Three possible scenarios for the near future regarding economic sanctions will be presented.

Possible scenarios regarding economic sanctions in the short term

Figure 4. Possible Scenarios regarding Economic Sanctions (In the short term)

Drivers of Change	Possible Scenarios		
	Certain sanctions are lifted	Sanctions remain	Sanctions increase substantially
US abandonment of nuclear deal	–	++	–
Economic alliances with key Asian and Middle Eastern neighbors	+	–	--
Radical political leadership in Iran and anti-Western regime	--	+	++
US current policy direction on Iran	+	++	–
Human rights violations and protests	–	+	+
Iran as a key oil and gas supplier	++	–	–

- + + → Very positive impact on the plausibility of the scenario
- + → Positive impact on the plausibility of the scenario
- → Negative impact on the plausibility of the scenario
- – → Very negative impact on the plausibility of the scenario

Scenario 1: Sanctions remain (*Most likely*)

The most plausible scenario regarding economic sanctions is that they will remain in the short term. Since the withdrawal of the US from the nuclear deal, sanctions were reimposed by Washington, and it is most likely that they will remain in the medium term. Also, the radical political leadership and Iran's anti-Western regime influence the current and future economic sanctions. It is important to mention that changes in the political leadership in Iran can impact the shift in negotiations; however, Iran's radical ideology will remain regardless of the change of government since it has demonstrated over the years the grip it has over the territory and population. Therefore, the most probable scenario is for economic sanctions to remain.

Regarding current protests, it is important to mention that human rights violations have occurred in Iran over the last decades. Western countries and most of the international community punished these violations by imposing economic sanctions. Since these violations are recurrent in the Republic, it is unlikely that all sanctions will be totally lifted. Regardless of this fact, Iran's economy has proven to be resilient to sanctions and this can be seen by the country's economic growth in recent years and its future GDP expectations.

Scenario 2: Certain sanctions are lifted (*Moderately unlikely*)

It is moderately unlikely that certain sanctions currently imposed on Iran will be lifted in the short term because of current protests. An important reason for certain sanctions to be lifted is Iran's role in the oil and natural gas industry and its increase in economic and political alliances with Asia that can increase Iran's bargaining power in the removal of their current sanctions. Additionally, the current US policy towards Iran is more lenient and if sanctions are removed, it will be under a democratic government.

On the other hand, there are some negative drivers of change that make this scenario moderately likely. These include the US abandonment of the JCPOA and consequent re-imposition of sanctions, this makes it less plausible given that more sanctions were imposed on the Republic.

Additionally, these also encompass the radical politics of the current regime that sometimes infringe on human rights. If Iran continues to violate human rights, the international community will continue imposing sanctions rather than lifting them.

Human rights sanctions are strongly tied with the ongoing protests that are occurring in Iran so in the scenario that protests fade away, it is moderately unlikely that these sanctions will be lifted in the short term. However, in the medium term, once the country reaches stability after the end of the current protests, it is moderately likely that the sanctions imposed over the protests and the human rights violations, will be lifted.

Scenario 3: Sanctions increase substantially *(Least likely)*

One of the most important drivers that makes this scenario less likely in the short term, is the increase in economic alliances with key Asian and Middle Eastern partners. As Iran builds relations with key players it is important to note the growing influence of the Republic in the region. This allows for Iran to build a stable net of allies, making it harder for the US and its partners to continue increasing sanctions on the country. Another driver which makes this scenario less likely, is the withdrawal of the US from the JCPOA. After the reimposition of hundreds of sanctions under the Trump administration in 2018, the US used most of its leverage in the international community. It is also important to note that most of the sanctions imposed by the republican administration still remain under Biden's administration. Although the current international crisis regarding the Russia-Ukraine war has reactivated the sanctions by the EU to Iran due to the manufacture and supply of drones, it is unlikely that sanctions will increase drastically in the short term. It is important to clarify that this scenario involves that there will be no significant change in Iran's nuclear capabilities in the short term given that it is technically still part of the JCPOA. Therefore, this scenario is the least likely in the short term because the US has already imposed nuclear sanctions towards Iran.

These drivers demonstrate that in the short term it is unlikely for a large amount of sanctions to be imposed on Iran. The use of sanctions has been ongoing for decades and further escalation may not be in the best interest of Western countries, as the maximum extent of their effectiveness may have already been reached.

CONCLUSION

The Islamic Republic of Iran is committed to building resilience, harnessing volatility, and seizing opportunities to navigate the economic and political challenges it faces.

Iran has demonstrated resilience amidst another wave of sanctions imposed in 2018. The sanctions had a negative impact on inflation and foreign direct investment as they caused inflation to skyrocket and made investors lose their confidence in Iran's reliability. While they did impact the Iranian economy, it has recovered and it is expected to show a GDP growth rate of 2.05% in 2023 and 2024. However, due to changes in Iranian policy, inflation is expected to decrease by 10% in 2023 and foreign direct investment is expected to continue increasing in the short and medium term. Iran has developed several strategies to mitigate the obstacles created after the imposition of sanctions, these include building new relationships with key Asian and Middle Eastern partners, diversifying the economy, and maximizing its resources.

Furthermore, as demonstrated in the analysis regarding the political and social outlook, Iran has been able to harness volatility. Its foreign policies are influenced by its regional ambition and its geopolitical position placing Iran into a vulnerable situation. Furthermore, it has been able to maintain its rigorous Shiite regime despite protests, external conflicts and pressures coming from its own minorities. As a result of the regime's strength the most probable scenario is that the current protests are going to fade away in the short term. Additionally, the regime will most likely continue after Khamenei with Ebrahim Raisi as its next Supreme Leader and with its Shiite ideals deeply rooted in the political system.

Finally, the oil and natural gas industries provide partnership and infrastructure opportunities for Iran that will allow it to strengthen its position in the region and increase its economic potential. In both the oil and gas sector, Iran is expected to experience an expansion of production, consumption, and exports in the short term. Furthermore, Europe's boycott of Russian gas is an opportunity for Iran to become a key supplier to meet global demand.

In conclusion, despite the challenges posed by the sanctions and political pressures, Iran has demonstrated resilience and the ability to adapt to changing circumstances. With the prospects of becoming a diversified economy, the rigidity of its political regime, and the opportunities brought by the vast oil and gas reserves, Iran is expected to continue to grow and play a significant role in the region's geopolitical landscape.

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