

The Role of Identities and Interests in Iran's Foreign Policy Towards Syria and Iraq: A Constructivist Approach

By
Tamer Badawi

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Abstract

This study aims to problematize the relationship between identity and material interest in the Islamic Republic of Iran's foreign policy towards Iraq and Syria especially in the context of the Arab spring and the expansion of the Islamic State (IS). Historical memories and material interests play a significant role in the Islamic Republic's social construction of itself and others in the Middle East and the Al-Mashreq sub-region. While Iran's regional identity is studied in the context of the regime's Islamic ideology, the Islamic regime's material interests on the regional level are usually overlooked. The problematic relationship between identity and material interest is addressed in this study as mutually constitutive to understand the multifaceted factors that shapes the Islamic Republic of Iran's foreign policy towards the region.

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Introduction

This study addresses the political economy of the Islamic Republic of Iran's foreign policy towards Iraq and Syria before and after the Arab Spring and the rise of IS¹. It starts with the observation that the common military-strategic centric approach to Iran's expanding influence in the Middle East is one-dimensional. The prevalent analytical discourse perceives Iran's rivalry with its neighbours as a zero-sum game for military influence but not also as a profit-maximizing competition over regional commodity markets. This is mostly driven by the petro-state notion through which that Iran is typically portrayed whereas Iran's policies that aimed at economic diversification policies were not regionally contextualized. Given that dependency on oil exposes Iran's economy to sanctions and oil shocks from global markets, the Islamic Republic of Iran has endeavoured to diversify the economy by promoting non-oil exports to neighbouring countries (but not exclusively). Thus, political developments in neighbouring countries that impact their markets have far-reaching implications for the Islamic Republic of Iran's foreign policy.

This study will inquire, through a critical constructivist approach, about the economic drivers of Iran's foreign policy towards its adjacent Arab neighbourhood (Iraq and Syria). A critical constructivist approach will be employed in this research for two reasons. Firstly, foreign policy behaviour cannot be understood without analysing how the state's policymakers socially construct the country's regional identity, therefore, economic drivers are embedded in social construction. Secondly, how an economy performs is not measured based on objective macroeconomic and microeconomic indicators, but rather, based on how policymakers contextualize these indicators in intersecting social and political spheres. The Islamic Republic

¹The reason I will study this state's foreign policy towards Iraq and Syria in these two periods is that the Arab spring has led these two states to depend militarily and economically more on Iran in comparative to the pre-Arab spring period.

of Iran is not gradually pursuing policies aiming at economic diversification based on random sets of economic data, but rather, based on how its policymakers socially construct them.

This study argues that economic diversification does not necessarily lead to a less assertive foreign policy, and it might actually lead to a more assertive one. This argument is based on two hypotheses: Firstly, the more a petro-state is able to isolate its macro-economy from rent-dependence (*ipso facto* from exogenous shocks) through diversification, the more it is able to pursue more assertive policies with less financial risks. Secondly, if a trade partner of this state (which is pursuing diversification) engages in a conflict, it is likely that the latter will intervene to protect its trade partner from collapsing to maintain the profit-generating relationship (taking into consideration geographic proximity as a vital factor in military calculations). Nevertheless, how policymakers link their country's macro-economy to their foreign policy and the economic costs of pursuing a policy is about social construction.

As mentioned above, much of the available literature on Iran's foreign policy towards the Middle East is mostly militarily/strategically-centred. For instance, Imad Mansour argues that the alliance between Iran and Syria since late 1970s was driven by Syria's isolation in the Arab arena, benefiting Iran geopolitical interests². Iran found in Syria a medium to funnel its influence to the Arab region and to support Hezbollah, its proxy in Lebanon. After 2000, the alliance was strengthened due to Syria's failure to adapt to the changing systemic realities in the region.

In his comprehensive study on the history of the bilateral relations between Iran and Syria from the 1970s to the 2000s, Jubin Goodarzi touches upon the proto-economic aspects of this developing relationship. For instance, discounts on oil supplies have been used by Iran to influence Damascus's foreign policy during several periods in the 80s³. However, the author

² Imad Mansour. "Iran and instability in the Middle East: how preferences influence the regional order." *International journal* 63, no. 4 (2008): 941-964.

³ Jubin M Goodarzi, *Syria and Iran: diplomatic alliance and power politics in the Middle East*. IB Tauris, 2009.

does not present systemic quantitative data to comprehensively assess and locate the role of economic interests in formulating the strategic alliance between Damascus and Tehran.

In a policy paper written by Frederic Wehrey and Richard Sokolsky entitled 'Imagining a New Security Order in the Persian Gulf', the authors inquire about the possibilities of building a new security regime in the Gulf region subsequent to the nuclear deal by analysing Iran's engagement in the region. The Wehrey and Sokolsky refer several times to the economic aspects of Iran-GCC relations however without clarifying enough the extent to which this aspect is vital for both sides and without assessing its vitality for the sub-regional order⁴.

In his PhD dissertation, Adel Al-Toraifi attempts to assess the role of trade in the bilateral relations between The Kingdom of Saudi Arabia and the Islamic Republic of Iran. Al-Toraifi's study, that studies the bilateral relations between both countries from 1997 to 2009, focuses on the ideational and materialist factors in formulating the state's foreign policy⁵. It could be said that this study is one of the few studies that addresses the relation between Iran and an Arab country in this manner, however, the dissertation is not fully dedicated to the study the political economy of the relations in a comprehensive manner.

Excluding Al-Toraifi's study, the three works are just three illustrative examples of the dominant military-strategic approach that neglects the role of material interests in driving Tehran's foreign policy. Consequently, the project is aiming to fill this gap by drawing on critical constructivism to address Iran's economic relations with Iraq and Syria as two prominent case studies in the pre and post-Arab Spring periods. The economic relations, in this context, includes non-energy and energy trade. To sum up, this study seeks to answer three key questions:

⁴ Frederic Wehrey, and Richard Sokolsky. *Imagining a New Security Order in the Persian Gulf*. Vol. 14. Carnegie Endowment for International Peace, October, 2015.

⁵ Adel Al-Toraifi. "Understanding the role of state identity in foreign policy decision-making" PhD diss., London School of Economics and Political Science, 2012.

1. Can identity constructions play a role in furthering/limiting the Islamic Republic of Iran's material interests in the Middle East?
2. Do economic needs (economic security) play a substantial stake in formulating Iran's foreign policy towards its nearby Arab neighbourhood?
3. Does Iran's decreasing reliance on oil revenues (economic diversification) mean a lesser tendency to engage in armed conflicts?

In the first chapter I address the interwoven relationship between identities and interests in theory and subsequently empirically by examining the factors that contributed to the social construction of Iran's Islamo-national identity from the 19th century through the eruption of the Iranian revolution. Iran's constructed Islamo-national identity will be regionally contextualized (in the Middle East and the Al-Mashreq sub-region) in order to see how the overlooked role of economic interest impacts Iran's identity regionally. In the second chapter, I set out to show how will be made to understand how Iran's policymakers since the establishment of the Islamic Republic have socially constructed their economy. The focus will be on how the social constructions of the economy had far-reaching implications for the country's foreign policy. In the third chapter Iran's trade relations with the two war-torn countries, Syria and Iraq, will be addressed to show how Iran's economic influence increased under its constructed sphere of cultural influence during the Arab spring period and thereafter.

Methodologically, I employ qualitative process-tracing methodology using critical constructivism as the theoretical framework. Process-tracing can be defined generally as 'the analysis of evidence on processes, sequences, and conjunctures of events within a case for the purposes of either developing or testing hypotheses about causal mechanisms that might causally explain the case.'⁶ This methodology 'attempts to identify the intervening causal process – the causal chain and causal mechanisms – between an independent variable and the

⁶ Andrew Bennett and Jeffery T. Cheekel, *Process Tracing: From Philosophical Roots to Best Practices*. (Simon Fraser University, 2012), 10.

outcome of the dependent variable’⁷. However, the methodological versatile of process-tracing lies in its ability to ‘proceed forward, from potential causes to effects; backward, from effects to their possible causes; or both.’⁸

While casual mechanisms are not always apparent, it can be argued that casual mechanisms ‘are in some sense ultimately unobservable. We do not get to observe causality- we make inferences about it.’ Furthermore, ‘casual mechanisms are ontological entities and processes in the world, and theories or hypotheses are in our heads; we theorize about mechanisms. Such mechanisms are ultimately unobservable, but our hypotheses about them generate observable and testable implications.’⁹ Casual mechanisms are observable due to their dynamic existence in-between variables. Moreover, process-tracing method in this study is open to the interactive role of exogenous effects.

This method is often used by conventional constructivists to study the impact of an independent variable on a dependent variable in a linear direction. However, as critical constructivism does not offer clear starting points for analysis, in this study the process-tracing method will be used to highlight the impact of variables on each other in continuity. Therefore, rather than having a linear model of reasoning that advances from an independent variable to a dependent variable, variables are positioned in a cyclical model where they influence each other in an open-ended process. However, the employment of this method is relatively limited when using critical constructivism rather than conventional constructivism. In this context, the reasoning capacities of process-tracing are restrained as variables act as both independent and dependent variables simultaneously.

Critical constructivism points to the mutually constitutive relationship between identities and interests. However, basically, as a constructivist approach, identity remains key

⁷ Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (The MIT Press, 2005), 206.

⁸ Ibid., 218.

⁹ Bennett and T. Cheekel, *Process Tracing*, 13.

to understanding the interactive process as a quasi-starting point. Iran's Islamo-national identity, which developed as an output of complex historical processes, is key to understand how the geographic reach of the Islamic Republic of Iran's influence and how material interests shapes its regional identity and, concomitantly, shaped by it. Despite the abovementioned limitations, this study will use process-tracing methodology to trace the intertwined and cyclical rather than linear interaction between these two variables.

Chapter 1: Iranian Identity-Formation

In the first chapter, the theoretical foundations for the research will be laid out. Three theoretical approaches (historical materialism, neo-functionalism, and conventional constructivism) to the intertwined relationship between identity and interest will be addressed before presenting the suggested critical constructivist framework. Following the theoretic overview, the proposed critical constructivist framework will be applied to understand Iran's identity-formation and contemporary foreign policy in the context of its historical memory(ies), cartographic anxieties, and most importantly the development of material interests from the mid-nineteenth century.

1.1 *Historical Materialism*

Orthodox marxism, represented by Karl Marx and Friedrich Engels, basically presents ideas and identities (incorporated in ideology) as a byproduct of conflicting material interests that are embodied in class struggles. Ideology belongs to the super-structure that the materialistic structure operates and operates through. In their book '*The German Ideology*', Marx and Engels argue that dominant ideas in each historical epoch represent the ideology of ruling class(es) through which the class interests are propagated as the common interest of all the members of the society¹⁰.

Emphasizing the 'universal' dimension of these ideas remain key for sustaining their dominance. Drawing on the work of the marxist thinker Antonio Gramsci, neo-gramscianism views the material structure of the society in terms of the formation and dissemination of ideas (and consequently identities) through the concept of 'hegemony'. Hegemony (as opposed to 'domination') refers to the acquisition of consent by a class (or a coalition of classes) to rule other classes in the society. Hegemony takes place through civil society institutions that

¹⁰ Terry Eagleton. *Ideology: an introduction*. Vol. 9. (London: Verso, 1991): 56.

disseminate the ideology of the ruling class(es). Despite its economistic foundations, neo-gramscianism tries to problematize the role of ideas in furthering the material interests of ruling class(es).

1.2 Neo-Functionalism

Broadly emerging from a rational-choice epistemological background, neo-functionalism was introduced alongside other theories to explain the process of European integration in the context of the problematic identity-interest relationship. The theory was presented by Ernst B. Haas in his famous book *'The Unifying of Europe: Political, Social, and Economic Forces (1950-1957)'* to explain the institutional complexities of the integration process. Haas bases his theory on what he calls a 'pragmatist constructivist' ground, which predicates on a 'soft' variety (as opposed to 'hard') of the rational-choice epistemology.

According to Haas, 'interests explain choice (of the agent) but they result from strategic interaction among actors'¹¹. Moreover, these interests are 'derived from prior cognitive frameworks which are subject to re-examination'¹². Therefore, it can be concluded that 'there are no fixed interests because there are no predefined values, beliefs or preferences'¹³. However, as beliefs and values are constructed in a relational manner (using Wendtian terminology), 'choices derive from symbolic needs and their rhetorical articulation'¹⁴. Looking at the agent-structure dimension, Haas suggests that agency is 'constrained by the actors' enmeshment in networks, formed by institutions and by habit, not by structural forces'¹⁵.

Ernest Haas's argument is that 'spillover' effects accounted for the process of interest-driven European integration where 'low politics' (e.g. welfare issues) rather than 'high politics

¹¹ Ernst B. Haas. *The Uniting of Europe: political, social, and economic forces 1950-1957*. (Indian: The University of Notre Dame Press, 2004). xxv.

¹² Ibid., xxvi.

¹³ Ibid., xxvi.

¹⁴ Ibid, xxv.

¹⁵ B. Haas. *The Uniting of Europe*. xxvi.

(e.g. power issues) bore the potential for the collective pursuit of common interests¹⁶. Regional integration was projected to realize as sectoral actors would decide to bank on super-national institutions rather than their national governments to actualize their demands and interests. Therefore, rather than conceiving the state as a unitary actor, the state is an institutional amalgamation of bureaucrat-linked interest groups that aim to maximize their profit-driven activities. Therefore, the integration is not essentially state-driven where 'states agree to assign some degree of supranational responsibility for accomplishing a limited task and then discover that satisfying that function has external effects upon other of their interdependent activities'¹⁷. For Haas, interest-driven integration entails implications for identity-formation where 'the alleged primordial force of nationalism will be trumped by the utilitarian-instrumental human desire to better oneself in life, materially and in terms of status'¹⁸.

Neo-functionalism attempts to de-simplify the identity-interest relationship and introduce very useful insights to understand how interests and identities act on the institutional level. However, due to its rational-choice background, interest eventually trumps identity.

1.3 Conventional Constructivism

The conventional (or systemic) constructivist conception of the relationship between 'identity' and 'interest' (material) is essentially linear where identity solely constitutes the subject/agent's interest. Conventional constructivism, as presented by Alexander Wendt, conceives actors as agents that 'acquire identities—relatively stable, role-specific understandings and expectations about self—by participating in collective meanings' where

¹⁶ Thomas Gehring, "Integrating integration theory: Neo-functionalism and international regimes 1." *Global Society: Journal of Interdisciplinary International Relations* 10, no. 3 (1996): 228.

¹⁷ Philippe C. Schmitter, "Ernst B. Haas and the legacy of neofunctionalism." *Journal of European Public Policy* 12, no. 2 (2005): 257.

¹⁸ Thomas Christiansen, Knud Erik Jørgensen, and Antje Wiener, eds. *The social construction of Europe*. (Sage, 2001): 23.

‘identities are inherently relational’¹⁹. This necessarily entails morphing interest into a subject of cognitive representations that are exogenous to its very existence. By the virtue of this cognitive relationship, actors ‘define their interests in the process of defining situations’²⁰. Consequently, according to Wendt, ‘actors do not have a portfolio of interests that they carry around independent of social context’²¹.

Identity-formation takes place in the international arena in the context of the so-called ‘process’ (interaction and learning) in contrast to ‘structure’ (anarchy and the distribution of power). Whereas in the neorealist paradigm self-help evolves from anarchy, conventional constructivism would argue that self-help is endogenously generated and driven by the virtue of ‘process’. The neorealist account shows that structure produce certain effects even if actors did not intend them while the conventional constructivist account argues that the ‘material structure is shaped by process’. Therefore, conventional constructivism rejects rational choice-based theories that, according to Wendt, conceive ‘identities and interests of agents as exogenously given’²².

Despite the normative differences that their epistemologies produce, conventional constructivism categorizes neorealism and marxism as materialistic theories because both present material causes as independent variables in shaping the identities of actors/agents. These theories centralize ‘brute material forces’ that act independent of ideas and human nature²³. In the opposite direction, Wendt emphasizes human agency that enables the actor to impart meanings and contextualize objects. Interest formation takes place through the processes of imitation and social learning.

¹⁹ Alexander Wendt. "Anarchy is what states make of it: the social construction of power politics." *International Organization* 46, no. 02 (1992): 397.

²⁰ *Ibid.*, 398.

²¹ *Ibid.*, 398.

²² Alexander Wendt. "Anarchy is what states make of it", 391-392

²³ Alexander Wendt, *Social theory of international politics*. (Cambridge: Cambridge University, 1999), 94.

Material forces still play a role in Alexander Wendt's paradigm, though a exogenous/casual/accidental role, where he argues that social meanings (and therefore identities) are not 'immune' to material effects²⁴. Nevertheless, the impacts of material forces are limited to outcomes only. In his seminal book 'Social Theory of International Politics', Wendt points out to three examples through which material effects can exogenously impact the positioning of the actor. Firstly, 'the distribution of actors' material capabilities affects the possibility and likelihood of certain outcomes.'²⁵. Secondly, 'the "composition" of material capabilities, and in particular the character of the technology they embody, has similar constraining and enabling effects'²⁶. Thirdly, the geography of natural resources and the means of distributing them might unintendedly impact the environment by the subject/agent²⁷.

In conventional constructivism, the constitutive role of interests is not addressed in a clear manner. Though interest is more or less subordinate to identity in the Wendtian approach, it is not systematically marginalized but rather it remains de-located in a grey area.

1.4 Critical Constructivism

1.4.1 The Mutual Constitution of Identities and Interests

Broadly commencing from a constructivist point of view, identity acquires a substantial role in formulating interest (material). Nevertheless, the latter dynamically impinges on the former. However, the alternative critical approach that is presented here aims to provide debate-provoking impulses to understand the identity-interest relationship using conventional constructivism, neo-functionalism, and historical materialism. Critical constructivism, which incorporates themes from the previous schools, will be employed as the paper's theoretical framework.

²⁴ Ibid., 111.

²⁵ Ibid., 110.

²⁶ Alexander Wendt, *Social theory of international politics*. 110.

²⁷ Ibid., 111.

Critical constructivism does not provide a simple answer for the identity-interest problématique but rather further problematize the interlaced relationship. Identity is a continuing process of negotiation between people and interest groups where it does not have *a priori* existence that is independent of the relevant actors²⁸. In this context, Bill McSweeney presents the example of North Ireland's peace process where 'state and sub-state interests also jostling with the cognitive elements of identity to push some actors in the direction of change and others towards the imagined community of the past'²⁹.

Drawing on the existing critical constructivist literature, I suggest that identities and interests are cognitively (and institutionally) formulated in a mutually constitutive process. Both variables constitute each other not only based on instantaneous social construction but also based on an intrinsic value (for interest) and meaning (for identity) that developed historically through accumulated social constructions. However, if each variable would be hypothetically presented as independent and dependent variables in the mutually constitutive process, then theoretically both should endogenously bear a value/meaning that is independent of the instantaneous or the quasi-instantaneous relational process of social construction. Having an endogenous value/meaning prevents each variable from being morphed into a mere reflection of this instantaneous social relation (similar to the way the super-structure only reflects the structure in orthodox marxist terms), instead, this endogeneity leads to a dialectic relationship between the internal and external factors shaping both variables. Karin Fierke suggests that a constitutive discourse analysis of this relationship would require close observation of 'the matrix of identities and interests and the process by which they are gradually transformed through historical interaction.'³⁰ This suggestion, that I make here, needs more deliberation than is possible within the narrow scope of a Master's thesis, with the ideal

²⁸ Bill McSweeney, *Security, identity and interests: a sociology of international relations*. Vol. 69. (Cambridge University Press, 1999): 73.

²⁹ Ibid, 131.

³⁰ Karin M Fierke, *Critical approaches to international security*. (Polity Press, 2007): 81.

outcome of such a thoughtful process to lead to an understanding of this relationship in way that is neither simplified nor reduced to a mere mechanic form.

1.4.2 Articulation and Interpellation

As this study is aiming to address Iran's foreign policy towards two of the Arab region's countries (Syria and Iraq) in the context of the constitutive role of interests, I present the Islamic Republic of Iran as a political entity that 'acts' as an economic power maximizer where identity discourses is used to sustain this maximizing behaviour but it is also restrained by it. 'Articulation' and 'interpellation' are two important concepts for understanding this constructed rational behaviour. Jutta Weldes defines articulation as a 'process by which meaning is produced out of extant cultural raw materials or linguistic resources'³¹. Interpellation refers to 'a dual process whereby identities or subject-positions are created and concrete individuals are hailed into' ³². Through these two concepts, I argue using critical constructivism that the Islamic regime in Iran acts in a realist manner (in the Waltzian sense) through drawn-out processes of learning in the context of the diplomatic and bureaucratic encounters with regional and international powers. Therefore, the Islamic republic of Iran acts as an economic (and power) maximizer not by the virtue of being an exogenously-driven political unit in the international system that is characterized and driven by anarchy according to neorealism, but rather through the process of learning, which identity construction is central to. This means that the Islamic Republic of Iran's behaviour in the international arena can be transformed from one form to another based on its social constructions.

1.5 Development of Iran's *Islamo-national identity*

³¹ Jutta Weldes, "Constructing national interests," *European Journal of International Relations* 2, no. 3 (1996): 284.

³² *Ibid.*, 287.

To comprehend the Islamic Republic of Iran's behaviour(s) in the international arena and in the Middle East (the Arab region specifically), the constitutive role of 'interest' in the historical formation of Iran's identity has to be re-considered. But to begin with, it is important to take into consideration that the Iranian identity is neither coherent nor fixed but rather it is in a constant state of flux and transformation. The interplay between identity and interest is key to this transformative process. In this section, a brief historical overview of Iran's historical identity-formation will be presented to understand the underlying foundations and drivers of the Islamic Republic of Iran's foreign policy.

1.5.1 Identity Transformations in the 19th Century

As Iran from the beginning of the mid-19th century was being gradually incorporated in the global economy, this entailed far-reaching repercussions for the Iranian identity. The so-called 'Tobacco' revolt that took place in year 1889, which the Shi'ite cleric Mirza Shirazi was one of its leading figures, was against Nasir al-din Shah's concessions to a British company to monopolize the production and distribution of tobacco in Iran. This uprising marked the insurrection of Shi'ism against colonialism and its re-modulation into a discourse of resistance. Hamid Dabashi argues that the revolt 'represented the resistance of the Iranian national bourgeois to becoming subordinate to the overriding logic of colonialism.'³³ Although the transformation of Shi'ism into a discourse of resistance was broadly driven by materialist factors, it was basically the commencement of a drawn-out process of re-constructing of the Shi'ite collective memory within the larger process of producing an 'imagined Iranian community'. In the context of the colonial encroachment, constructed material forces were in continuing interaction with socially constructed and revolutionized historical memories of ancient and medieval Iran.

³³ Hamid Dabashi, *Islamic liberation theology: Resisting the empire*. (Routledge, 2008): 78.

The emergence of an Iranian imagined community was possible because Iran's cartographic contours were largely shaped throughout the 19th century after losing control over wide areas of the so-called 'Greater Iran' (which will be discussed later in this chapter). After two wars with Czarist Russia, that were followed by the two crucial treaties of Gulistan (in 1813) and Turkmeanchai (in 1827), Qajar Iran relinquished its control over the Caucasus and thereby its North Western borders were delimited³⁴. Later in 1857, Iran signed with Britain the Treaty of Paris where it lost its control over the territories of Afghanistan, hence its Eastern borders were shaped³⁵. Moreover, the Qajar dynasty contributed to the production of the cartographic contours of contemporary Iran by the virtue of establishing the military college of Dar al-Fanun (the polytechnic school) in year 1851 that systematically introduced military cartography and geography as scholarly disciplines to the country. The graduates of this school were to play considerable roles in shaping the country's identity(ies).

The increasing incorporation of Iran into the international economic system, and therefore its exploitation under the despotic Qajar rule, led to the outbreak of the constitutional revolution (1905-1907) that marked the maturing stage in the formulation of Iran's imagined community. Throughout this period, Shi'ism was being morphed into a quasi-national discourse in the context of the wider economic transformations. In return, the arising Shi'ite discourses were defining and delimiting the political means through which modern state-building can be achieved (e.g. the emergence of Mirza Hussein Naini's Shi'ite political thought).

1.5.2 The Pahlavi Era and the Crystallization of Islamism

Amid the British-Russian rivalry over partitioning Iran into spheres of influence, the centralization and secularization of the Iranian state was crucial in the process of developing

³⁴ Shiva Balaghi, *Nationalism and Cultural Production in Iran, 1848--1906*. (ProQuest, 2008): 23.

³⁵ *Ibid.*, 23.

Iran's identity following the military coup that was carried out by Reza Shah Pahlavi against the faltering Qajar dynasty in year 1921. Reza Shah's policies were aiming to 'crystallize Iranian identity in a centralized state with certain idea [the combination of an ancient past and the lure of modernity]'³⁶. Eliz Sanasarian argues that 'the Pahlavi rulers' policy on ethno-national and religious minorities was shaped by the goal to homogenize society and do away with diversity – to make everyone in an ethnic and religious minority an "Iranian"³⁷. According to Sanasarian, 'The goal was to make everyone part of a collective whole and to do away with particularities. Assimilation either through coercion or "positive incentives" – by rewarding those who acculturate – was a method of enforcement of state policy.'³⁸

The process of Persianisation that was undertaken by Reza Shah's regime did not develop only as Iran was constructing its multi-dimensional identity vis-à-vis its proximate neighbours (Arabs and Turks) and the two competing great powers (Britain and Russia), but also developed as economic transformation was driving the nationalist discourse and also simultaneously being shaped by it. The Iranian state could not re-integrate the ethnic groups existing in dispersed provinces economically to create an efficiently functioning centralized economy without crafting a unifying nationalist discourse. Although Reza Shah's regime modernization policies were pursued in a top-to-bottom manner, the nationalist discourse was gradually internalized (during Reza Shah's reign and thereafter) and the imagined economy became the basic mean to re-produce the collective identity in return. Nevertheless, several ethnic groups continued to resist forced integration and dissolution as Sanasarian explained.

According to Alam Saleh and James Worrall, 'there has been always a dichotomy between ancient Persianism and Shi'a Islamism'³⁹. However, since the relationship between

³⁶ Alam Saleh and James Worrall. "Between Darius and Khomeini: exploring Iran's national identity problématique." *National Identities* 17, no. 1 (2015): 82.

³⁷ Eliz Sanasarian, *Religious minorities in Iran*. Vol. 13. (Cambridge University Press, 2000): 5.

³⁸ *Ibid.*, 5.

³⁹ Saleh and Worrall, "Between Darius and Khomeini" 85.

both identity discourses is constructed, ‘dichotomy’ might not be the accurate term to use. The vigorous promotion of the secular Persianist discourse under Mohamed Reza Pahlavi’s despotic regime, largely led to the re-revolutionization of the Shi’ite faith and the mobilization of increasingly politicized subjects in the context of the regime’s statist top-to-bottom social engineering schemes. Mohamed Reza Pahlavi’s modernization schemes were gradually undermining the religiously conservative Tehran Bazaar (the city’s central traditional market) and the country’s whole Bazaaris as the regime embarked on building new markets and thereby mutate the country’s commercial networks.

However, according to Arang Keshavarzian, the state ‘neither mobilized the Tehran Bazaar nor sought to control it through patronage or monitoring, believing that the Bazaar would give way to new commercial and financial institutions’⁴⁰. Given the interwoven relations (social and material) between the Bazaar and the Shi’ite religious institution, the Shi’ite revolutionary mobilization was collectively driven by both parties. Basically, the interaction between identity and interest was determinant in selecting which factions from the wide revolutionary spectrum would trump the other factions and lead the Iranian revolution in year 1979 and thereafter.

1.5.3 Iran’s Identity Between the Revolution and the War

The establishment of the Islamic Republic of Iran, following the Iranian revolution, marked a significant transformation in the state’s self-image and foreign policy discourse. Ayatollah Sayyid Ruhollah Musavi Khomeini, the founder of the Islamic Republic of Iran, according to Saleh and Worrall, ‘persistently challenged Persianist ideas and asserted that only an Islamic Iran was ‘worth glorification’⁴¹. Therefore, the new Islamic regime sought to eradicate secular Iranian nationalism.

⁴⁰ Arang Keshavarzian, *Bazaar and state in Iran: The politics of the Tehran marketplace*. Vol. 26. (Cambridge University Press, 2007): 140.

⁴¹ Saleh and Worrall, "Between Darius and Khomeini" 86.

Nevertheless, the endeavour to eradicate nationalism saw the eventual setback with the eruption of the Iranian-Iraqi war in year 1980. In the beginning of the eight-year war, the new regime expected that Iraqi Shi'ite citizens (which constitute the majority of Iraqis if ethnic Kurds [Sunnis] were to be excluded) would align with the Islamic Republic on religious (sectarian) basis against the Pan-Arab Ba'athist regime in Baghdad. However, not only this did not realize, but it led to far-reaching repercussions for the nascent Islamist collective identity. As Saleh and Worrall puts it, 'in order to widen its appeal and unify the nation behind it in the conflict with Saddam, it was also forced to call upon a diluted form of nationalism'⁴². This crucial development, which can be deemed more important than the state's Islamic transformation in year 1979, could be possibly explained in the light of two dimensions, physiological trauma and post-revolutionary politico-economic institutional consolidation.

Karin Fierke presents trauma as an important aspect of human suffering in war that security studies have largely ignored despite its potential influence on international politics. Trauma is 'the product of a particular kind of environment conducive to extreme shock. However, it is not merely the violent sock, but a human encounter, characterized by hatred, betrayal or humiliation'⁴³. In this context, it can be argued that Iran's second identity transformation after the islamization, was a result of what the new regime's conceived as betrayal after the majority of Iraqi Shi'ites (which are brothers in faith) neither sided nor revolted against the Iraqi regime but rather sided with the regime in Baghdad largely on ethno-nationalist basis. Humiliation might have been felt as the new regime had high expectations as a result of romanticized perceptions of religious (sectarian) affinity and brotherhood. Rephrasing Fierke's words, following the traumatic experience, collective identity undergoes a process of consolidation⁴⁴. Therefore, 'trauma is the moment of painful awareness that the

⁴² Saleh and Worrall, "Between Darius and Khomeini" 87.

⁴³ Fierke, *Critical approaches to international security*, 126.

⁴⁴ *Ibid.*, 134.

infrastructures of life, which provide the foundation for feelings of security or protection of life, rest purely on social construction'⁴⁵. It can be argued that trauma played a vital role in Iran's formulating the Islamic Republic of Iran after its foundation.

In relation to the traumatic experience, Iran's identity transformations have to be understood in the context of the regime's endogenous politico-economic transformations. Following the Iranian revolution, the state's ability to regain economic control over the geographically sprawled country was significantly weakened. Under the financial restraints that was caused by the increasing military spending on one hand and the slumping global oil prices, the regime was compelled to maximize the economy's capabilities and resources more efficiently. However, this could not take place without reintegrating the country's societal sects and mobilizing them internally, which required re-crafting a new nationalist discourse that can re-unify the 'Iranians' under the new social and ideological conditions, which is similar to what Reza Shah's regime was aiming to. This is to say that material interests had far-reaching implications on Iran's identity transformations during and following the war.

Saleh and Worrall conclude that the Islamic regime 'ended up using two of the core elements of the nationalist monarchist identity creation: (1) proving modernity (2) Persianisation to fill the gaps in its own Islamic identity'⁴⁶. Thus highlighting the drawn-out transformative processes behind Iran's Islamo-national identity.

1.6 Iran's Foreign Policy and Economic Interests

Inevitably the endeavour to bind Islamic identity and the Persianist nationalist discourse created tensions within the state's discourse(s). Nevertheless, these inherent tensions present as well opportunities in the international arena. The role of the foreign policy discourse of the Islamic Republic of Iran, as a modern state, is to mould identity discourses into an amalgamated

⁴⁵ Fierke, *Critical approaches to international security*, 138.

⁴⁶ Saleh and Worrall, "Between Darius and Khomeini", 88.

and coherent discourse. As the Iranian state is not a unitary actor, sub-state actors (that have entrenched material interests) within the Islamic Republic might act uncoordinatedly, but the state's discursive mechanisms transforms and employs different voices strategically to produce a multi-tiered discourse that can advance the foreign policy goals of the system but also balance the sub-state actors and stabilize the political system.

Following the rise of Akbar Hashemi Rafsanjani to the presidency, which marked the transition from the revolution to state-building phase, pragmatism became a main feature in the Iran's foreign policy and reached its peak in Mohamed Khatami's presidency as reformists rose to power. Before the presidency of the centrist Hassan Rouhani, although a populist discourse dominated under Mahmoud Ahmadinejad's presidency, Iran's foreign policy continued to be pragmatic.

If the Islamic Republic of Iran were to communicate strategically with its regional and international allies and rivals, it needs to pragmatically take advantage of different voices for its public diplomacy. Most importantly, as the Islamic Republic is willing to maximize its economic potentials in its surrounding regional arenas, Iran's identity discourse(s) become central to underpin and expand its interests, however, identity in return imposes restraints on interests. The main goal of this chapter is to emphasize the process through which material interests, in the context of Wendtian 'process', plays a role in transforming the Iranian identity to facilitate (and limit) their maximization in the Middle East.

According to Shahram Akbarzadeh and James Barry, in Iran's foreign policy 'Iranism is evident in the way that Iran engages with its cultural sphere, those countries that fall within the boundaries of Iran's historical domain such as the Safavid or Sassanian Empires, and those that share Iranian cultural traditions'⁴⁷. Hence, the mutual cultural norms between Iran and its

⁴⁷ Shahram Akbarzadeh and James Barry, "State Identity in Iranian Foreign Policy." *British Journal of Middle Eastern Studies* (2016): 5.

neighbour are important for underpinning Iran's economic interests and influence in these countries. For the Islamic Republic of Iran, Iranism is intertwined with the Shi'ite and Islamic spheres where different tiers intersect. As Akbarzadeh and Barry puts it 'Iranism does not exist as a separate competing identity to Islam, but rather sits at one end of the Iranian identity continuum. In most instances, Iranians do not separate Islam and Iranian heritage from one another when describing their culture, seeing these as integral in many ways'⁴⁸. These social constructions do not take place only in everyday life but also in policy-circles that are influenced by everyday life identity constructions.

The main geographic area that is considered to be key to Iran's foreign policy priorities is the so-called 'Greater Iran', which is the imagined aggregation of the geographic areas that were under the control of the consecutive Persian empires till the Afsharid and Qajar empires. According to one of the perceptions, 'the Greater Iran plateau stretches from the Caucasus's mountains and Amu Darya and Syr Darya in the North to Pamir and the Sindh river'. The boundaries of Greater Iran 'extends to the Indian Ocean and the Persian Gulf and stretching in the South to the Tigris and Euphrates rivers in Iraq in the West'⁴⁹. Consequently, the Islamic Republic's national security relies on expanding its economic sphere of influence throughout the parameters of this wide area through promoting the culturally constructed mutuality. Behdar Zarei and Ali Zeinivand suggest that the Greater Iran plateau can be morphed into a 'convergent regional system that can be a platform for developing the region economically and culturally that the Islamic Republic of Iran centres'⁵⁰. Although Iran's cultural diplomacy plays a proactive role in widening Tehran's influence in the historical Iranian plateau, however, its influence is only touchable in the long term in the geographic areas where Iranism and Shi'ism intersect.

⁴⁸ Shahram Akbarzadeh and James Barry, "State Identity in Iranian Foreign Policy.", 6.

⁴⁹ Behdar Zarei and Ali Zeinivand, "Qalamro Iran Bozorg, Zaminsaz Yek Nezam Mantegh-ye." [Greater Iran's Boundries and the Creation of a Regional Regime] *Faslnameh Sazman-hay Bain-al-melali* (2013): 59.

⁵⁰ *Ibid.*, 79.

As a venue for partial intersection between Iranism and Shi'ism, the Eastern Arab region (Al-Mashreq sub-region), which is the area that stretches from the Eastern Mediterranean (Syria, Lebanon, Palestine, and Jordan) to Iraq's Western borders, gradually became one of the most vital areas in the Islamic Republic of Iran's national security agenda. Although the central governments in Iran exceeded these boundaries at times, Iran's leverage in the medieval ages, in the sub-region, was mostly bounded by the Tigris and Euphrates rivers. However, the Safavids attempted to reach the Mamluk-controlled Eastern Mediterranean⁵¹. The Safavid Shahs sought to maintain connections with the Arabic-speaking Shi'ite clerics of the Shi'ite population that historically inhabited Jabal Amel (in Southern Lebanon) in an endeavour to build up their religious legitimacy in the Muslim world.

The geo-strategic interest of the Islamic Republic of Iran in the region developed from the very beginning with the alignment of the Ba'athist regime in Damascus with Tehran during the eight-year war against Iraq and the establishment of Hezbollah in Lebanon as a deterring paramilitary force to Israel. Since then, the sub-region was gradually morphed into a battlefield for protracted proxy conflicts between the Islamic Republic, the Kingdom of Saudi Arabia, and Turkey, especially following the eruption of the Arab Spring. However, the geo-economic prominence of the region for Iran increased later as the economic needs of Tehran (in terms of non-oil trade and energy) developed and expanded amid the geopolitical vulnerability of its regional allies. In terms of policymaking, economic interests gradually moved from the periphery of the Islamic Republic's regional security agenda to the core.

In May 2014, Major General Yahya Rahim Safavi, one of the Supreme Leader's advisors and the former commander of the Islamic Revolutionary Guard Corps (IRGC), said

⁵¹ Hassanein Rabie. "Political Relations Between the Safavids of Persia and the Mamluks of Egypt and Syria in the Early Sixteenth Century." *Journal of the American Research Center in Egypt* 15 (1978): 76.

that 'Iran's sphere of influence extends to Iraq, Syria and, the Mediterranean'⁵². In November 2014, Hujjat al-Islam Ali Saeedi, the Supreme Leader's representative in the IRGC, said that 'today Iran's borders do not end at Shalamcheh and Mehran'. Moreover, 'if religious influence [of Iran] were to expand, this will not be realized without resisting the US. If the enemies' conspiracies in Gaza, Lebanon, Iraq and Syria are outmanoeuvred, this is due to the influence of the Islamic Revolution's discourse in these countries'⁵³. In March 2015, Ali Younisi, an advisor to president Hassan Rouhani, said that 'Iran became today an empire as it was throughout history and its current capital is Baghdad, which is the centre of our civilization, culture and, identity today as it was in the past'⁵⁴.

Not to mention the wider geo-strategic context, these statements should be understood as well within the scope of the Islamic Republic of Iran's increasingly entrenched economic interests in this geographic area, which developed following the expansion of the Syrian civil war and the upsurge of IS in the sub-region. These statements reflect complicated politico-economic institutional configurations that embed extensive material interests within the long-term national security priorities. National security, as a social construction, in return, drives material interests to be generated in order to sustain the involvement of relevant sub-state actors but in a way that disciplines their material interests simultaneously. This is to say that Iran's continuous construction of its regional identity, which the revival of historical memories is a main feature of, and the interests of relevant actors that formulate the state's foreign policy, are part and parcel.

⁵² "Sarlashgar Safavi dar bozorgdasht amleyat bayt al-maghdes anvan kard: Nofoz Iran ta miditraneh/ Marz defaa mah dar janoub lobnan," [General Safavi in the commemoration of Bayt Al-maghdes operations: Iran's influence reaches the Mediterranean/Our defence boundaries end at Lebanon] Fars News Agency, May 12, 2014. accessed May 17, 2016, <http://www.farsnews.com/newstext.php?nn=13930212000301>

⁵³ "Saeedi: Emrooz marz iran islami sahel miditraneh va bab al-mandab ast," [Saeedi: Iran's Islamic boundaries end at the Mediterranean coast and Bab-el-Mandeb] Nasim News Agency, November 27, 2014. accessed May 17, 2016, <http://goo.gl/guA0eS>

⁵⁴ "Iran: Asbahna Embratorya Asimataha Baghdad" [Iran: We became an empire and our capital is Baghdad] Al-Arabiya, accessed May 17, 2016, <http://goo.gl/K3vb1s>

In the second chapter, the political economy of the Islamic Republic of Iran will be addressed in order to understand the material aspect that contributes dialectically alongside other aspects in the formulation of Tehran's foreign policy.

Chapter 2: The Social Construction of Oil Revenues

The first chapter addressed how material interests play a substantial role in transforming Iran's identity through emphasizing the mutually constitutive relationship between identity and material interest. The first chapter aimed to show how the social construction(s) of the Islamic Republic of Iran's regional identity is connected to Tehran's material interests in the Mashreq region. In the second chapter, the political economy of the Islamic Republic of Iran will be addressed to comprehend how economic diversification impacted Iran's foreign policy. This chapter attempts to understand the social construction of oil since the establishment of the Islamic Republic of Iran and the emergence of economic diversification in economic policymaking.

2.1 From Ayatollah Khomeini to Ayatollah Khamenei

How the policymakers of the Islamic Republic of Iran perceived the country's role as a major oil exporter and planned its economic strategies was not only based on how the economy performed based on empirical figures but also how they socially constructed it in a meaningful context. In Patrick Hutton's words, economy in Foucault conception signifies the 'production of linguistic and institutional forms through which human beings define their relationships'⁵⁵. The proponents and policymakers of the Islamic Republic were aspiring to build an Islamic economic order that is based on the model of Mecca's ideal society that was led by Prophet Mohamed. The aspired society would be 'a just and humane society, without the exploitation, domination, alienation, and other social ills that have afflicted the contemporary capitalist societies'⁵⁶. The simultaneous emergence of economic nationalism with the establishment of

⁵⁵ Peterson, V. Spike. "Rewriting (global) political economy as reproductive, productive, and virtual (Foucauldian) economies." *International Feminist Journal of Politics* 4, no. 1 (2002): 4.

⁵⁶ Sohrab Behdad. "A disputed utopia: Islamic economics in revolutionary Iran." *Comparative Studies in Society and History* 36, no. 04 (1994): 775.

the Islamic Republic and the shifts that it saw reflects how the aspired Islamic economy of the country was socially constructed by the policymakers that belonged to several political camps.

Apparently, unlike the Iraqi Cleric Ayatollah Muhammad Baqir al-Sadr, the first leader of the Islamic Republic, Ayatollah Ruhollah Khomeini, did not present a crystal-clear comprehensive approach to the aspired economic system but rather he covered some economic dimensions in the context of ‘the more fundamental issues of the politico-economic organization of society’ in two of his important books, *Kashf al-Asrar* (Secrets Revealed) and *Hokomat-e Eslami* (The Islamic Government)⁵⁷. According to Sohrab Behdad, Ayatollah Khomeini was aiming to build an ‘Islamic balance’ that was neither statist, which was adopted by Baqir al-Sadr, nor a *laissez-faire*-oriented conservative approach. Out of Imam Khomeini’s flexible approach that emphasized social justice, the policymakers of the Islamic Republic were able to produce different social constructions of the aspired Islamic society, whether through revolutionary or pragmatic perspectives, in the context of the politico-economic institutional configurations that they belonged to.

Basically, the founder of the Islamic Republic and its first Supreme Leader, Ayatollah Khomeini, was concerned with two economic issues. The first was how to reduce economic reliance on foreign (especially Western) powers that furthered Iran’s dependence and vulnerability. The second was how to evenly redistribute oil revenues to the people. The inflow of oil revenue was not constructed negatively in terms of its impact on the economy’s performance but rather it was perceived positively if managed in an Islamic economy that would ensure the egalitarian distribution of wealth. Subsequent to the establishment of the Islamic Republic and the nationalization of the oil sector (that was seen as subordinate to the West), the means to realize this were available. However, by time, this social construction of

⁵⁷ Sohrab Behdad. "A disputed utopia" 804.

oil was to gradually change in the context of the competing social constructions of the aspired egalitarian economic system.

According to Evaleila Pesaran, ‘the winners of the 1979 Revolution all subscribed to a broadly leftist outlook favoring economic self-sufficiency and independence, but within that framework a range of views could be found⁵⁸.’ Two camps, which were not distinct and separated but rather intertwined and interdependent, emerged following the establishment of the Islamic Republic. The mercantilist camp ‘suggested that the traditional bazaari private sector (or at least those sections of it that actively supported the new regime) should be strengthened in the post-revolutionary economy⁵⁹. The statist camp encompassed ‘a range of groups who are broadly in favour of a limitation of private property rights. They can be found in certain factions of the parliament and in government, at the head of Iran’s many state-run industries and some para-statal revolutionary foundations, and also in the business enterprises of the Islamic Revolutionary Guards Corps (IRGC). They argue for an interpretation of Islamic economics that supports their claim for the necessity of a large, strong state to ensure that the economy operates in the interests of social justice and the needs of the “downtrodden” ’⁶⁰.

Mostly throughout the first decade following the establishment of the Islamic Republic, the statist approach to the economy and its management exerted a bigger influence over the country’s economic policymaking. Under the presidency of Sayyed Ali Hosseini Khamenei, the cabinet of the statist prime minister, Mir-Hosayn Musavi, approved the bill of the first development plan (1989 – 1993), which reflected the camp’s approach. The first development plan aimed at: 1- Renewing and underpinning the national defence capacities, production units, and overcoming the nation’s losses in the context of the war. 2- Realizing economic growth with emphasis on self-sufficiency of strategic agricultural commodities and stabilizing

⁵⁸ Evaleila Pesaran. *Iran's struggle for economic independence: reform and counter-reform in the post-revolutionary era*. (Taylor & Francis, 2011): 34.

⁵⁹ Ibid., 36.

⁶⁰ Ibid., 34.

inflation. 3- Securing the minimum basic needs of the population and realizing Islamic social security. 4- controlling the country's consumption⁶¹. However, according to Pesaran, 'the authors of the bill were willing to invite a limited degree of foreign investment, skills, and technologies for the advancement of domestic production and non-oil exports.' It could be said that, during this period, the policymakers of the Islamic Republic were not concerned with diversification away from oil to reduce economic vulnerability as much as they were concerned with rebuilding the economy and its capacities relying on oil revenues.

In terms of macroeconomic performance, Iran's economic indicators were fluctuating. Economic growth was low and volatile and improvements were mostly short-lived. Prior to 1979, average economic growth was reportedly four times higher than growth in the first two decades subsequent to the eruption of the revolution. Though oil production was lower than year 1976's level, oil production increased from 700 thousand barrel per day to 2.3 mbpd in 1983⁶². Moreover, though oil revenues drastically dropped from \$20.5 billion in 1979 to \$13.5 billion in 1980, the Islamic Republic's revenues rebounded in 1984 to \$16.7 billion⁶³. However, revenues declined again in 1986 to \$6.3 billion⁶⁴. Nevertheless, with mounting import bills, the foreign currency reserves were being eroded, which led to the establishment of the Foreign Exchange Allocation Commission. As a consequence, inflation substantially increased during this period. Reportedly, four-fifths of imports of "essential" goods were allocated to public enterprises and the rest to approved highly regulated private importers⁶⁵. The importers were mostly state-linked networks comprised of politically loyal businessmen.

⁶¹ Reza Shirzadeh. "Barnameh-hay Toseh Dar Iran Bad Az Enghlab Islami," [Development plans in Iran after the Islamic Revolution] *Faslnameh Takhosisi Olom Siyasi* (2010): 36.

⁶² Suzanne Maloney. *Iran's Political Economy Since the Revolution*. (Cambridge University Press, 2015), 4022, Kindle.

⁶³ Abbas Alnasrawi. "Economic consequences of the Iraq-Iran war*." *Third World Quarterly* 8, no. 3 (1986): 874.

⁶⁴ Maloney. *Iran's Political Economy Since the Revolution*, 4432, Kindle.

⁶⁵ *Ibid.*, 4056.

In mid-1980s, Iran came under pressure as Iraq started to extensively bomb its oil facilities, leading to sharp cuts in Iran's oil exports and therefore fiscal revenues⁶⁶. Despite protectionism, Iran's currency was devalued in 1982 in a multiple exchange rate system to enhance non-oil exports⁶⁷. However, in the beginning of the 1980s, Iran's non-oil exports declined to below one percent of the country's non-oil GDP⁶⁸. Eventually, at that time, Iran's increasing economic vulnerability to exogenous shocks due to fluctuating oil prices in global markets led segments of Iranian policymakers (which belong to sub-statal camps) to learn (in the Wendtian sense) how the state's substantial control over the economy and over-reliance on oil revenues could menace the regime's economic security and very existence. Not only this meant that policymakers changed their political identities, but it meant also that they socially reconstructed Imam Khomeini's discourse.

2.1.1 The Post-War Economy

As the mercantile-backed Akbar Hashemi Rafsanjani rose to the Iranian presidency, the administration in Tehran commenced the partial implementation of the IMF's structural adjustment policies that covered government spending, exchange rates, price controls, and subsidies. Although social justice remained a main concern, from this point, neoliberal-inspired economic efficiency emerged as an aspect of the aspired Islamic society and oil rents were increasingly perceived as problematic for the Western-educated economic policymakers in the Islamic Republic. However, the policies that were pursued since late 1980s to the beginning of the 1990s, during the reconstruction period, proved disastrous. The administration embarked on massive external borrowing to rebuild the country's economic capacities, which actually led

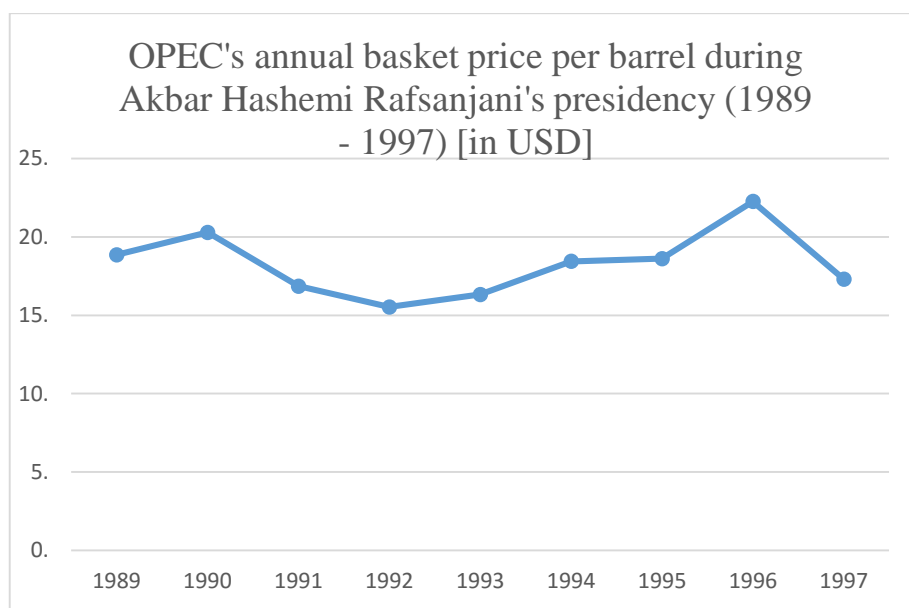
⁶⁶ Jubin Goodarzi. *Syria and Iran: diplomatic alliance and power politics in the Middle East*. (IB Tauris, 2009), 158.

⁶⁷ Sohrab Behdad. "Foreign exchange gap, structural constraints, and the political economy of exchange rate determination in Iran." *International journal of middle east studies* 20, no. 01 (1988): 4.

⁶⁸ Hadi Salehi Esfahani and M. Hashem Pesaran. "The Iranian economy in the twentieth century: A global perspective." *Iranian Studies* 42, no. 2 (2009): 204.

to the explosion of Iran's external debt from \$5.8 billion in 1988 to \$28.5 billion in 1993⁶⁹. Moreover, with the drastic cuts in tariff barriers, Iran accumulated a large current account deficit as oil prices slumped (see figure 1). The balance of payments crisis caused inflation to skyrocket. Eventually provisional restrictions on economic activities were imposed.

Figure (1)



Source: Statista

The second development plan (1994 – 1999), that was approved under the presidency of Akbar Hashemi Rafsanjani, emphasized promoting non-oil exports (point 5) and more state-private sector balanced relations (point 10). The second development plan was aiming to: 1- Realizing social justice and develop the society's culture. 2- Increasing productivity. 3- Developing human capital in the required sectors. 4- Promoting economic growth with focus on agriculture. 5- Promoting non-oil exports. 6- Preserving the environment and benefiting from the country's natural resources. 7- Underpinning the country's defensive capabilities. 8- Enhancing the rule of law and the citizens' political participation. 9- Supporting scientific

⁶⁹ Hossein Askari. "Iran's economic policy dilemma." *International Journal* 59, no. 3 (2004): 656.

research. 10- Realizing more balance between the statist, private and, cooperative segments of the economy⁷⁰.

In third development plan (2000 – 2004), under the presidency of the reformist (*Eslâh-Talab*) Mohamed Khatami, economic liberalization was more emphasized under which economic diversification became more central in economic planning in the Islamic Republic of Iran. The third plan was aiming to: 1- Reforming the structure of the economy through re-organizing monopolies and transferring shares of statal enterprises to the cooperative and private sectors. 2- Reforming the administration of the public sector through reducing the state's involvement in economic activities are focusing on reforming the administrative structure. 3- Pursuing policies targeting the reformation of financial markets, investment, labour, commodity markets, services and, accelerating economic growth. 4- Improving the redistribution of wealth and restructuring subsidies. 5- Decentralizing decision-making through preparing local Islamic councils for further administrative integration⁷¹.

As oil price increased under the presidency of Mohamed Khatami (see figure 2), the Oil Stabilization Fund (OSF) [which was morphed later into the National Development Fund] was established in year 1999 for the purpose of using oil revenue surpluses in developing the country's non-oil economic sectors⁷². Although the Islamic Republic under the presidency of Rafsanjani and Khatami emphasized economic diversification and promoting non-oil exports, Iran's dependency on oil revenues following the revolution (1980 – 2002) increased in comparison to pre-revolutionary Iran (1959 – 1979). According to Massoud Karshenas and Hassan Hakimian, the correlation coefficient between Iran's annual real GDP growth and oil export revenues in the post-revolutionary period was stronger than the correlation in the pre-

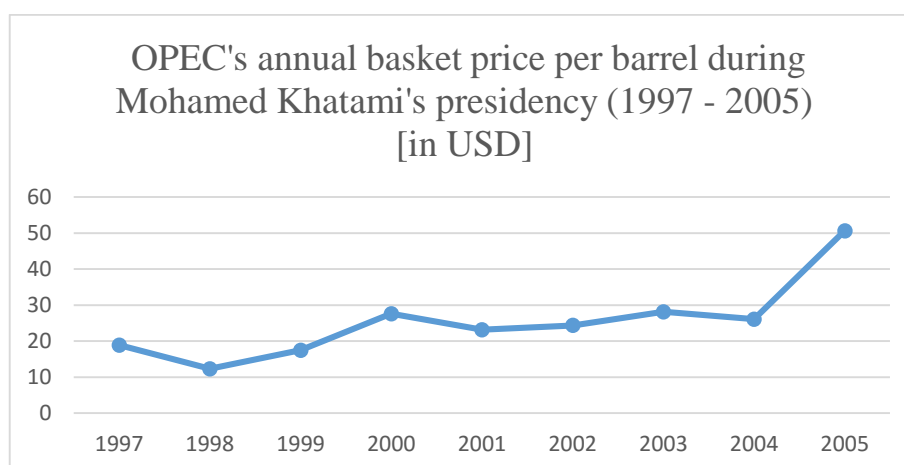
⁷⁰ Shirzadeh. "Barnameh-hay Toseh Dar Iran Bad Az Enghlab Islami," 36 – 37.

⁷¹ Ibid., 38.

⁷² Esfahani and Pesaran. "The Iranian economy in the twentieth century" *Iranian Studies* 42, no. 2 (2009): 195.

revolutionary period⁷³. Moreover, due to the procyclicality of fiscal policy in Iran, real GDP growth rates in the post-revolutionary period remained volatile in the periods of oil price booms and busts (see figure 3). On the other hand, according to Esfahani and Pesaran, Iran's non-oil export basket became more diversified as it was moving from traditional and agricultural exports to manufactured and processed commodity exports⁷⁴.

Figure (2)



Source: Statista

Table (1)

Year	% Change in GDP	% Change in Non-oil GDP	% Change in Oil Revenues
Boom Phases			
1982 – 83	12.9	8.2	51.2
1989 – 91	8.6	7.7	21.0
1996	6.1	7.1	27.6
1999 – 2002	4.3	5.3	27.9
Bust Phases			
1978 – 81	-3.7	-9.0	-9.9
1984 – 86	-2.3	-0.6	-31.1
1988	-3.5	-5.8	-10.1
1994	0.5	1.8	1.9
1998	2.9	3.0	-35.8

Source: Karshenas and Hakimian (2005)

⁷³ Massoud Karshenas, and Hassan Hakimian. "Oil, economic diversification and the democratic process in Iran." *Iranian Studies* 38, no. 1 (2005): 74.

⁷⁴ Esfahani and Pesaran. "The Iranian economy in the twentieth century, 205.

Under the principalist (*Osul-Garâ*) president Mahmoud Ahmadinejad, Iran's economy saw important developments that would substantially impact the directions of economic diversification financially and institutionally and most importantly saw changes in terms how policymakers were socially re-constructing the Iranian economy in a global context. In the fourth development plan (2005 – 2009), the Islamic Republic's policymakers aspired to transform the country's economy into a 'knowledge-led economy' that would rely on tech entrepreneurship. This reflects how Tehran's policymakers were socially re-constructing the country's economy through a less inward approach while tilting towards a more globally-integrative approach. Nonetheless, for the policymakers, this was aspired to take place in a way that would not undermine the endeavoured economic self-sufficiency and erode the country's identity, but on the contrary, increase its cultural immunity by coping with global developments.

The fourth plan aimed to: 1- Promote a knowledge-led national economy. 2- Preserve the environment. 3- Promote safety, human security and, social justice. 4- Preserve the country's Islamic – Iranian identity and culture. 5- Underpin national security. 6- Modernize the state and increasing its administrative efficiency. Alongside promoting the aspired knowledge economy, increasing social justice and enhancing efficiency became thematic in the Islamic Republic's developmental plans. Moreover, in the fourth plan, the regime continued to emphasize economic diversification⁷⁵

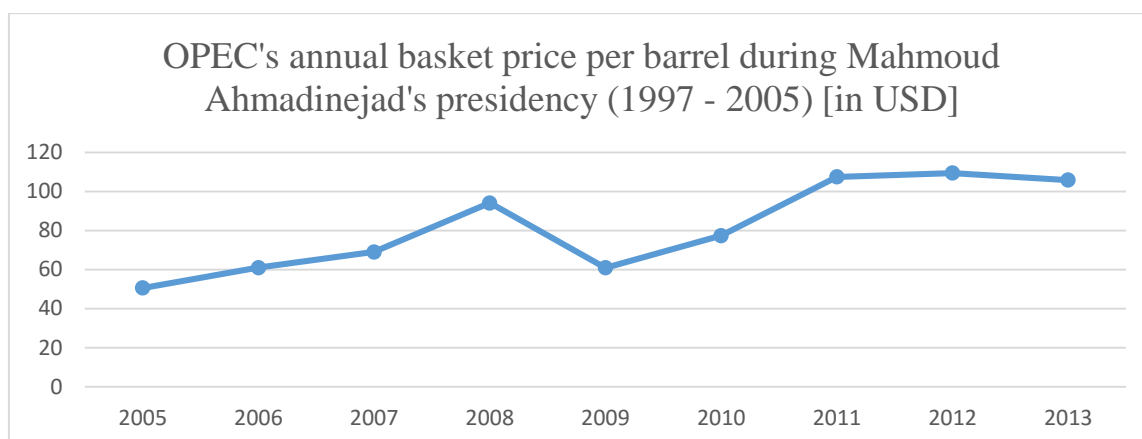
2.1.2 Reducing Oil Dependency with the Imposition of Sanctions

In the context of president Ahmadinejad's populist economic policies, and under skyrocketing oil prices, Iran's dependency on oil continued. Nevertheless, oil revenues were used in diversifying the economy and creating economic linkages between the oil and non-oil

⁷⁵ Shirzadeh. "Barnameh-hay Toseh Dar Iran Bad Az Enghlab Islami," 39.

sectors through investing in the petrochemical sector, which acquires a substantial stake in the country's non-oil exports basket. During Ahmadinejad's presidency, OPEC's basket price average (see figure 3) increased by 348 percent in comparison to the average price in Rafsanjani's period and by 209 percent in comparison to the average price in Khatami's period.

Figure (3)



Source: Statista

The imposition of sanctions on Iran's oil sector in January 2012 over the country's controversial nuclear program is considered to be a significant development that prompted the Islamic Republic to accelerate the efforts aiming at economic diversification and reduce its budgetary reliance on oil revenues. The embargo led to a drastic decline in Iran's oil sales by 1 – 1.5 million barrel per day, which led to declining foreign currency reserves, negative real GDP growth and, skyrocketing inflation⁷⁶. In the Persian year 1391 (2012 – 2013 fiscal year), the planned budgetary reliance on oil amounted to 40.3 percent⁷⁷. The planned rate increased in the following Persian year of 1392 (fiscal year 2013 – 2014) to 42.8 percent⁷⁸. However, under the presidency of Hassan Rouhani, the rate was reduced in year 1393's budget (fiscal

⁷⁶ Elena Ianchovichina, Shantayanan Devarajan, Csilla Lakatos. 2016. Lifting economic sanctions on Iran: global effects and strategic responses. Policy Research working paper; no. WPS 7549. Washington, D.C.: World Bank Group. 8.

⁷⁷ "Bararsi Layhe Bodje Sal 1392: 2. Bodje Be Zaban Sadeh," [Scrutinizing 1392's budget bill: 2. The budget in a simple language] Islamic Parliament Research Center (February 2013), 20.

⁷⁸ "Tahlili Bar Ghanon Bodje Sal 1393 Va Shalesh-hay Egray An," [Analysing 1393's budget law and the challenges of its implementation] Islamic Parliament Research Center (April 2014), 7.

year 2014 – 2015) to 39 percent and to 36.3 in 1394's budget (fiscal year 2015 – 2016)⁷⁹. Moreover, the Islamic Republic was moving towards improving its non-oil trade balance, by which non-oil exports would cover the country's non-oil imports. In year 2012/2013, Tehran imported commodities worth \$57 billion and exported commodities worth \$34 billion, which means that Iran's non-oil exports covered 60 percent of its import bills⁸⁰. In year 2015/2016, Iran's non-oil trade balance turned positive with a surplus for the first time since the establishment of the Islamic Republic⁸¹. These advancements were mostly attributed to curbed imports and increased oil and gas-derived commodity exports.

As the economy was sliding to stagflation after the imposition of 2012's economic sanctions, the Supreme Leader, Sayyed Ali Hosseini Khamenei, in February 2014, outlined the general policies of Iran's 'resistance economy'. The Supreme Leader announced 24 objectives to be implemented in order to strengthen the Iranian economy⁸². Among the emphasized objectives, the following objectives can be considered to be the key targets: The promotion of domestic production and the consequent reduction of dependence on imports, further regional and international economic collaboration, especially with neighbours, increasing oil and gas value-added exports, implementing reforms to rationalize government costs and, increasing tax revenues and, reducing dependency on oil and gas export revenue. Nonetheless, many of the resistance economy's themes were already introduced in the 2005-announced 20-Year Prospective Document that 'called on the Iranian government to pave the way for Iran to

⁷⁹ "Bararsi Layhe Bodje Sal 1394: 2. Bodje Be Zaban Sadeh," [Scrutinizing 1392's budget bill: 2. The budget in a simple language] Islamic Parliament Research Center (November 2014), 14.

⁸⁰ Patrick Clawson, "Iran beyond oil?" The Washington Institute for Near East Policy, April 3, 2013. Accessed May 17, 2016, <http://www.washingtoninstitute.org/policy-analysis/view/iran-beyond-oil>

⁸¹ Maysam Bizaer, "What Iran's first non-oil trade surplus means for its economy" Al-Monitor, May 1, 2016. Accessed May 17, 2016, <http://www.al-monitor.com/pulse/originals/2016/04/iran-nonoil-trade-balance-turns-positive-first-time-1979.html>

⁸² "Eblagh Seyasay-hay Koli 'Eghtsad Moghawamaty' Tavasot Rahbar Enghlab: Eghtesad Moghawam; Algoy Elhambaksh Az Nezam Eghtsadi Islam Va Forsat Monasebi Bray-e Tahghog Hamaseh Eghtsadi Ast, " [Announcing the outline of the 'resistance economy' by the Supreme Leader: The resistance economy is an Islamically-inspired model and an opportunity for the realization of an energetic economy] Fars News Agency, February 19, 2014. Accessed May 17, 2016, <http://www.farsnews.com/newstext.php?nn=13921130000154>

become a knowledge-based economy and the region's top economic and technological power' by year 2025⁸³.

Although the themes of the resistance economy covered several social aspects, however, the emphasis was on increasing economic efficiency, domestic production and, exporting capacities. In the context of the Islamic Republic of Iran's international challenges, it can be seen how the regime's social construction of the aspired economic system was continuing its gradual shift from the social justice and egalitarianism-centric discourse towards another discourse that emphasizes economic efficiency, diversification, self-sufficiency and, enhancing the country's exporting capacities. Apparently, the resistance economy model is combining features from the import substitution industrialization (ISI) and export-led growth models. Nevertheless, different political camps within the regime have distinct social constructions of what could be genuinely conceived as a resistant economy. These different social constructions basically shaped by the politico-economic configurations that can be explained by the mutually constitutive relationship between interest and identity.

As a pivotal economic player in Islamic Republic, the IRGC, alongside other quasi-statist organizations, is a main stakeholder in developing the Iranian economy into the aspired resistant economy, which non-oil exporting is a main feature of. Therefore, the IRGC is theoretically one of the driving forces for diversifying the economy. During Hashemi Rafsanjani's presidency, the IRGC were incorporated into the economy as part of the post-war reconstruction efforts to maximize the country's human and economic capacities in order to achieve a quick recovery but as well to reward the organization for its war efforts. Yet during Mahmoud Ahmadinejad's presidency, the IRGC's corporations exerted a bigger stake in the economy after the Supreme Leader issued an executive order to privatize 80 percent of the

⁸³ Bijan Khajehpour, "Decoding Iran's 'resistance economy'" Al-Monitor, February 24, 2014. Accessed May 17, 2016, <http://www.al-monitor.com/pulse/originals/2014/02/decoding-resistance-economy-iran.html>

public sector⁸⁴. Reportedly, most of the privatized corporations to Iran went to the state-linked private sector. According to Kevan Harris, 13.5 percent of Iran's state-owned assets that were privatized between 2006 and 2010 went to the genuine private sector. The rest of the \$70 billion worth of assets were transferred to semi-governmental organizations—like IRGC-linked enterprises⁸⁵. Consequently, not to mention other economically involved powerful quasi-statist organizations, based on the IRGC's positioning in the economy, it can be concluded that promoting non-exports and securing its supply chains are part and parcel of the institution's long-term economic security.

Although the more Iran proceeded with privatization the IRGC's economic power increased in the private sector (whether the institution itself acquired assets via its affiliated firms or via the firms owned by its veteran officers) which would theoretically lead to further convergence between mercantile and statist groups, however, every player socially constructs the Islamic Republic's interests differently as economic interests are not the sole determinant in formulating each group's strategic objectives.

If the IRGC's economic interests were to be placed in a wider context, then the promotion of Iran's regional non-oil trade becomes, conceivably, central to the IRGC's strategic interests. According to Esfahani and Pesaran, 'neighbouring countries have become important and rapidly expanding export markets where cultural affinity and short distances between producer and markets important assets. This is particularly the case, for example, in Iran's economic relations with Afghanistan and Iraq.' Therefore, at this point, the intersection between identity and interest can be observed in the context of the regime's changing politico-economic institutional configurations.

⁸⁴ Yeganeh Torbati, Steve Stecklow and Babak Dehghanpisheh, "Special Report: To expand Khamenei's grip on the economy, Iran stretched its laws" Reuters, November 13, 2013. Accessed May 17, 2016, <http://www.reuters.com/article/us-iran-setad-legal-specialreport-idUSBRE9AC0JS20131113>

⁸⁵ Kevan Harris. "The rise of the subcontractor state: Politics of pseudo-privatization in the Islamic Republic of Iran." *International Journal of Middle East Studies* 45, no. 01 (2013): 46.

This chapter sought to track how oil revenues were socially constructed since the establishment of the Islamic Republic and how the emergence of economic diversification in economic planning had far-reaching implications for the Islamic Republic's foreign policy, considering the objectives of the resistance economy. In the next chapter, trade relations between Iran and both Iraq and Syria will be geopolitically contextualized.

Chapter 3: Contextualizing Trade with Iraq and Syria

In the first chapter of this study, the complex relationship between identity and interest has been problematized. From a critical constructivist approach, I sought to show the interplay between both variables in developing the Iranian Islamo-national identity with focus on the regional context. The second chapter endeavoured to shed the light on the economic dynamics that impacts Iran's foreign policy and the social reconstructions of its identity. In this chapter, it will be shown how the Islamic Republic of Iran's economic relations significantly developed with Iraq and Syria during before and after the eruption of the Arab Spring and the expansion of IS.

3.1 Iranian–Iraqi Trade Relations between the US Invasion and Rise of IS

As mentioned in the first chapter, with the establishment of the Islamic Republic of Iran, Iraq was seen as part of the Iranian's sphere of influence in the region especially in religious terms. During the war with Iraq, Tehran supported Iraqi Shi'ite proxies that fought against the regime in Baghdad. The Supreme Council for Islamic Revolution in Iraq (SCIRI) and Al-Dawa party were prominently supported by the Islamic Republic during the war⁸⁶. However, the isolation and limited religious interaction between Iraq and Iranian Shi'ites came to an end with the fall of the Ba'athist regime in Baghdad following the American invasion of Iraq in year 2003. In Vali Nasr's words, 'Iraq's liberation has also generated new cultural, economic, and political ties among Shi'ite communities across the Middle East'⁸⁷.

The Islamic Republic's political and military influence increased after the American invasion. Politically, Tehran was acting as a mediator between the Iraqi Shi'ite players in Baghdad, thereby, by pursuing a dual policy, a balanced relationship between the loyal Iraqi

⁸⁶ Alireza Nader, *Iran's Role in Iraq: Room for Cooperation?*. Santa Monica, CA: RAND Corporation, (2015):

⁸⁷ Vali Nasr, "When the Shiites rise." *FOREIGN AFFAIRS-NEW YORK*- 85, no. 4 (2006): 4.

actors would provide the Islamic Republic with political leverage over the Iraqi scene. Militarily, following the invasion, Tehran supported several Iraqi Shi'ite paramilitary forces. Though these forces were backed by Tehran, their loyalty to the Islamic Republic varied from groups totally aligned with Tehran such as the Asaib Ahl al-Haq organization to other groups functioning more independently and ideologically less associated with Tehran such as the dissolved Al-Mahdi Army that was led by Muqtada al-Sadr. Badr Organization is another major paramilitary force that was backed by Tehran and well engaged in the political process in Baghdad. The IRGC's elitist unit, the Quds force, was reportedly responsible, following the invasion, for supporting an array of Iraqi Shi'ite paramilitary forces through training, guidance, and providing weaponry. Since the U.S invasion, the IRGC continued to support Iraqi Shi'ite paramilitary forces. With the upsurge of IS, Iran's IRGC influence increased and became more evident as it helped establishing the Popular Mobilization Forces (PMF). According to some estimations, 50 Iraqi Shi'ite paramilitary force operated in Iraq following the rise of IS⁸⁸.

However, Iraqi Shi'ite political parties and parliamentary forces, which are semi-incorporated into the Iraqi state structure, should not be perceived as a homogenous power or a unitary actor due to their religious (sectarian) identity and connections with Iran, but rather, as actors that have different agendas. Iraqi Shi'ite actors have different social constructions of their identity and their country's positioning in the region. This explains why economic protectionism, for instance, has been on the rise in the Iraqi political discourse in the post-Arab spring period.

After the invasion, Iran offered Iraq financial and technical support to rebuild the country's energy and electricity infrastructure. Numerous trade deals were concluded between both parties especially with the rise of the former Iraqi Interim Prime Minister Ibrahim al-

⁸⁸ Phillip Smyth. " All the Ayatollah's Men, " *The Foreign Policy*, September 18, 2014. Accessed May 21, 2016, <http://goo.gl/DUKqn0>

Jaafari to power⁸⁹. According to Iran's customs administration's statistics, the Persian year 1382 (2003 – 2004), the Islamic Republic exported to Iraq non-oil commodities worth \$588.4 million while imported from Iraq commodities worth \$95.7 million⁹⁰. The year following al-Jaafari's visit to Tehran in 2005 and the conclusion of trade deals between both parties, trade between the two sides increased significantly with a widening trade imbalance in favour of Tehran. In year 1384 (2005 – 2006), Iran exported to Iraq commodities worth \$1.2 billion while imported from Iraq commodities worth \$7.4 million⁹¹. From year 1382 to year 1384, the Islamic Republic's exports to Iraq increased approximately by 108 percent, meanwhile, the latter's exports to the former, during the same period, dropped by 90.7 percent. The drastic fall in Iraq's exports could be attributed to increasing political instability and declining productivity.

According to the available figures gathered from the Observatory of Economic Complexity (OEC) based on BACI International Trade Database, in year 2003, foodstuff and agricultural products constituted nearly 32.8 percent of Iran's non-oil exports. In terms on low-value products, textiles constituted nearly 28 percent of Iran's exports while mineral products such cement accounted for approximately 3 percent of the exports. Medium value-added exports such as plastics, chemical products, machines, and transportation constituted approximately 13.1 percent of the Iranian export basket to Iraq⁹². In year 2005, foodstuff and agricultural products roughly maintained their share by constituting 32.9 percent of the Iranian export basket to Iraq. In comparison to year 2003's export basket composition, the share of textiles declined to 12.6 percent while the share of cement slightly increased to 4.8 percent.

⁸⁹ Nasr, "When the Shiites rise.", 60.

⁹⁰ The Islamic Republic of Iran's Customs Administration's year 1382 data:
<http://goo.gl/o6kIFw>

⁹¹ The Islamic Republic of Iran's Customs Administration's year 1384 data:
<http://goo.gl/15PR4J>

⁹² The Observatory of Economic Complexity's data visualization of Iran's exports to Iraq in 2003:
<http://goo.gl/Zao6zm>

Metals and glass combined accounted for 20 percent of the export basket. The share of medium value-added products such as plastics, chemical products, machines, and transportation increased to comprise 22 percent of the export basket⁹³. In year 2006, the share of foodstuff and agricultural products surged to constitute 40 percent of the export basket. For low value exports, the share of textiles decreased to 6.7 percent and cement plunged to 1.3 percent while metals and glass exports slightly decreased to 18.3 percent. Plastics, chemical products, machines, and transportation increased moderately to 24.9 percent⁹⁴. Overall, from year 2003 to 2006, foodstuff and agricultural exports saw a substantial increase while low value export produces such as cement and metals increased considerably. Medium value-added exports such as plastics, chemicals, machines increased in a moderate pace (see figure 4).

Under the Iranian-backed Iraqi Prime Minister Nouri al-Maliki that rose to power in mid-2006, trade between Tehran and Baghdad substantially increased and the trade imbalance between both sides significantly grew. In year 2007, Iranian exports increased by 71 percent. In the following years, Tehran's exports to Iraq continued to achieve high growth levels. In year 2006, Iran's non-oil exports to Iraq were \$1.7 billion to reach \$6.4 billion in year 2014⁹⁵. During the same period, Iraqi exports to Iran fluctuated from \$35.4 million in 2006 and reached its peak in 2011 at value of \$124.4 million to decrease to \$61 million. Obviously, the trade imbalance tremendously increased in Tehran's favour (see figure 5). Interestingly, as oil prices in the global markets plunged during global financial crisis in 2009, Iraq's imports of Iranian non-oil commodities slightly decreased in the following year. However, as oil prices recovered, Iraq's imports from Iran substantially increased. According to Iran's Trade Promotion

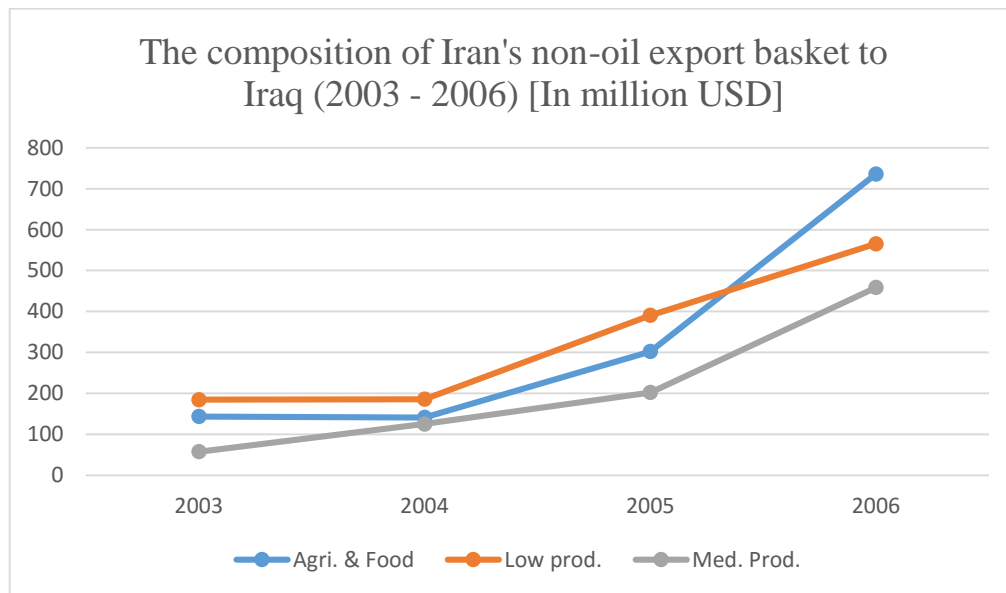
⁹³ The Observatory of Economic Complexity's data visualization of Iran's exports to Iraq in 2005:
<http://goo.gl/fYECzc>

⁹⁴ The Observatory of Economic Complexity's data visualization of Iran's exports to Iraq in 2006:
<http://goo.gl/5I2qYR>

⁹⁵ The Islamic Republic of Iran's Customs Administration's data for year 1393:
<http://goo.gl/NEYHNB>

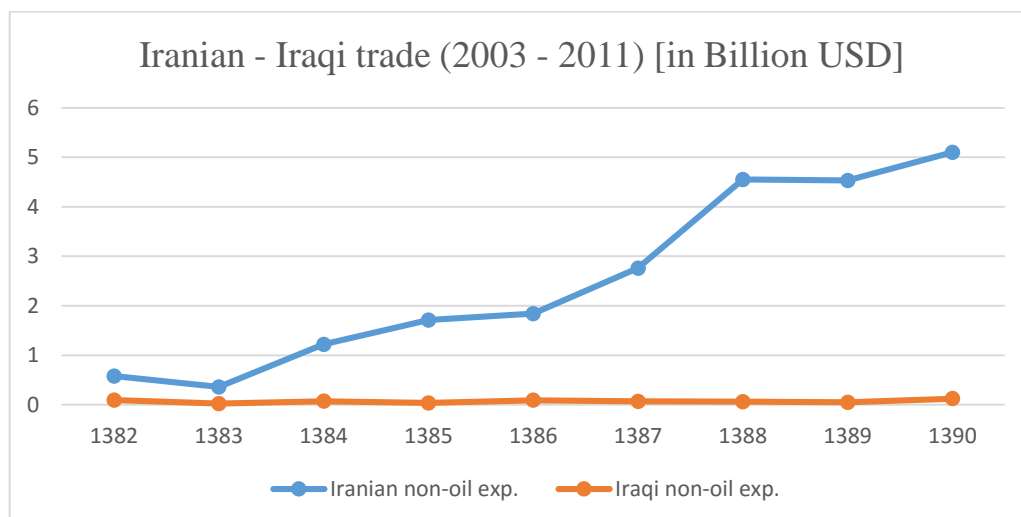
Organization's reports, between year 1387 and 1393 (2006 – 2014), Iraq was swinging between Iran's first and second non-oil trade partner alongside China and the United Arab Emirates (UAE).

Figure (4)



Source: Based on figures from the Observatory of Economic Complexity (OEC)

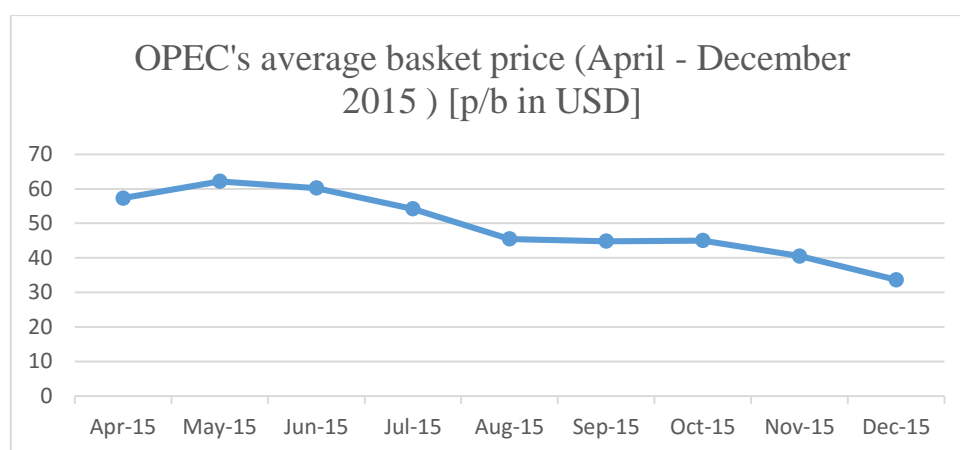
Figure (5)



Source: Based on figures gathered from Iran's Customs Administration

As the Islamic State (IS) emerged in Iraq and commenced its expansion in the central provinces of the country by mid-2014, Turkey's trade supply routes with Baghdad and Southern Iraq were cut, presenting an opportunity to Iran to expand its economic influence in Iraq. Turkey's trade relations and market shares in Iraq have been constantly growing since mid-2000s and Iran has been a trade rival. In 2006, Turkey exported to Iraq commodities worth \$2.4 billion and in 2014 Ankara's exports dramatically increased to reach \$10.8 billion^{96 97}. While Turkish commodities are reportedly known to have a good quality, Iran's commodities, that were generally known to have a lower quality, poured into Iraqi markets by the virtue of Tehran's strong political connections with Baghdad, cultural affinity, and geographic proximity which lowers transportation costs to Iraq's capital and the South's capital, Al-Basra in the context of the turbulent security atmosphere. While oil prices were decreasing since mid-2014 and plunged drastically in 2015 (see figure 8), Iraq's imports from Iran only slightly decreased from \$6.4 billion in 2014 to \$6.2 billion in 2015 (see figure 9). Given that Iraq heavily relies on oil revenues for importing commodities, the country's imports were expected to decrease dramatically.

Figure (8)

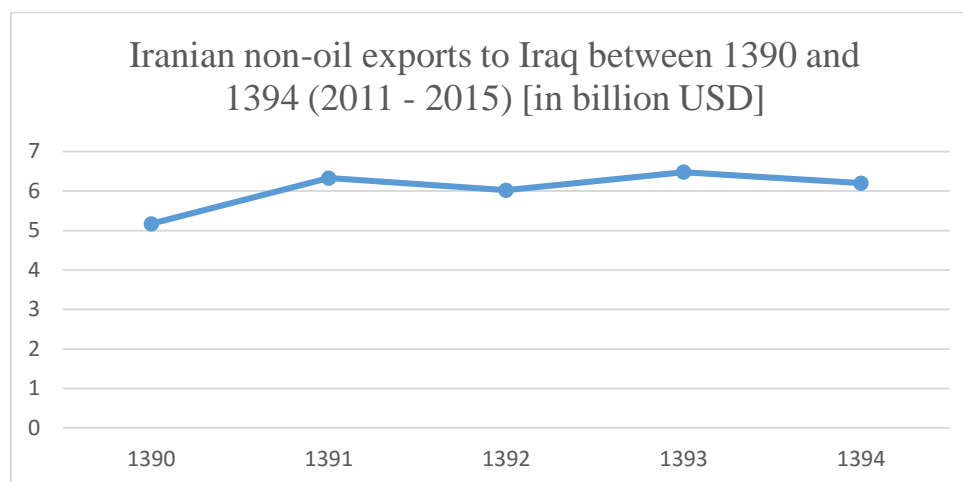


⁹⁶ The Observatory of Economic Complexity's data visualization of Turkey's exports to Iraq in 2006: <http://goo.gl/VJrDLt>

⁹⁷ The Observatory of Economic Complexity's data visualization of Turkey's exports to Iraq in 2014: <http://goo.gl/OfuxdN>

Source: OPEC

Figure (9)



Source: Iran's Customs Administration and Iran Trade Promotion Organization

In addition to non-oil commodity exports, Iran is active in the Iraqi construction sector especially in housing construction. Moreover, according to some estimates in 2014, Iraq receives 70 percent of Iran's engineering services⁹⁸. According to a statement made by Ali Tayebnia, Iran's economy minister in May 2014, Iran's exports to Iraq, including engineering services and electricity, are worth \$12 billion⁹⁹. In February 2015, Valiollah Afkhami Rad, Iran's Deputy Minister of Industry, Mine and Trade stated that Iran aims to increase non-oil exports to Iraq and scale up trade to reach \$20 - 25 billion in the upcoming years¹⁰⁰. Therefore, it can be assumed that with the Iraqi government planning to reconstruct the country after outmanoeuvring IS, the Islamic Republic will acquire a substantial stake in these plans. Energy is a main aspect of Iran's geo-economic vision in the region. In July 2011, Tehran, Baghdad, and Damascus agreed upon building a gas pipeline that would run from Southern Iran till Syria

⁹⁸ "70 Darsad Saderat Khadamat Fani Mohandesi Kashvar be Iraq Anjam medahad," [70 Percent of the country's engineering services go to Iraq] Mehr News Agency, July 5, 2014. Accessed May 21, 2016, <http://goo.gl/WTniva>

⁹⁹ "Hajm Tejarat Iran Va Iraq 12 Milyard Dollar," [Trade between iran and Iraq amounts to \$12 billion] Mashregh News, 12 May, 2013. Accessed May 21, 2016, <http://goo.gl/LNYpNF>

¹⁰⁰ "Afzayesh Mobadalat Tojari Iran Va Iraq Be 25 Milyard Dollar," [Trade between Iran and Iraq to increase to \$25 billion] Mehr News Agency, February 19, 2015. Accessed May 21, 2016, <http://goo.gl/ByFtuq>

to supply the two countries with natural gas. Nonetheless, the project cannot proceed to Syria without the eradication of IS and settling the conflict in Syria¹⁰¹.

Iranian trade officials stated several times the trade opportunities that Tehran has after the rise of IS. In a businessmen gathering in Iran's Western Azerbaijan province in November 2015, the Islamic Republic of Iran's representative in Iraq said that the resentment of the Iraqi people towards neighbouring countries that support IS (most likely referring to Turkey and Saudi Arabia), is a good opportunity for promoting our exports to this country¹⁰². Earlier, in October 2014, a report published by Iran's Students News Agency (ISNA) said that losing access to the Iraq Kurdistan's market might present to Iran an opportunity to compensate by increasing exports to Southern Iraq¹⁰³.

According to a report published by the Financial Times in October 2015, Esmaeel Zamani, managing director of the state-run Arvand Free Zone Organisation stated: "Insecurity [in Iraq] is not good for Iran but critical conditions there have prepared the southern Iraq market for us".¹⁰⁴ Iran has been working on constructing and developing of Free Trade Zones (FTZs) in order to increase scale up trade with Iraq. Moreover, constructing and developing transportation routes is a priority for the Iranian side in order to facilitate market access to the Iraqi market. In the context of the Islamic Republic's plans to morph the country into a regional trade hub, Iran's head of Free Trade Zones Organizations stated: "Now that Iran no longer faces international sanctions, we are trying to build a bridge between Caspian Sea [in the north] and the Persian Gulf via railway which means Arvand can feed not only Iraq but also

¹⁰¹ "Ebham Darbareh Khat Loleh Jadeed Gaz Iran Be Iraq Va Soreyah," [Vagueness over the gas pipeline linking Iran to Iraq and Soreyeh] Deutsche Welle Farsi, 25 July 2011. Accessed May 21, 2016, <http://goo.gl/uJrxXU>

¹⁰² "Sharayet Fe'le, Bohtaren Zaman Toseh Saderat Iran be Iraq" [The current situation is the best situation for promoting Iranian exports to Iraq] The Islamic Republic News Agency (IRNA), November 24, 2014. Accessed May 21, 2016, <http://goo.gl/4SPJpg>

¹⁰³ "Worod Da'esh be Iraq, Tahded ya Forsat?," [The emergence of IS in Iraq: A threat or an opportunity?] the Iranian Students News Agency (ISNA), 22 October, 2014. Accessed May 21, 2016, <http://goo.gl/G3pJGH>

¹⁰⁴ Najmeh Bozorgmehr, "Iran eyes Iraq trade decades after war," *The Financial Times*, October 28, 2015. Accessed May 21, 2016, <http://goo.gl/nBwb82>

Russia,”¹⁰⁵. This statement reflects how the Islamic Republic’s trade policy is drawn in lines with the policymakers’ social constructions of the country’s regional identity(ies).

3.2 Iranian–Syrian Trade Relations after the Syrian Uprising

With the commencement of the Iranian – Iraqi war, the Islamic Republic and the Ba’athist regime in Damascus that was headed by president Hafiz Al-Assad developed friendly political relations. During the war with Iraq, the Syrian regime in Damascus logistically supported Tehran vis-à-vis its rival in Baghdad. Despite their political disagreements over Lebanon in the 1980s with rivalries between the Syria-backed Amal movement and the Iranian-backed Hezbollah, both sides remained cooperative to a large extent. Damascus remained a vital transit route for supplying Hezbollah with weaponry. During the 1990s and the 2000s under president Bashar Al-Assad, the alliance between Syria and Iran became more strategic with Damascus’s increasing regional isolation after Egypt, Jordan, and the Palestine Liberation Organization (PLO) signed peace treaties with Tel Aviv¹⁰⁶. Tehran perceives Syria’s geostrategic importance in two areas. First, Syria is considered to be a station that Tehran’s navy can use to monitor Israel in the Eastern Mediterranean and conduct extensive activities in the area. Second, Syria, as abovementioned, is a transit route for supplying Hezbollah in Lebanon with weapons and providing logistical support. Reportedly, the IRGC’s Quds elite unit has been the liaison that was responsible for logistically supporting the organization in Lebanon.

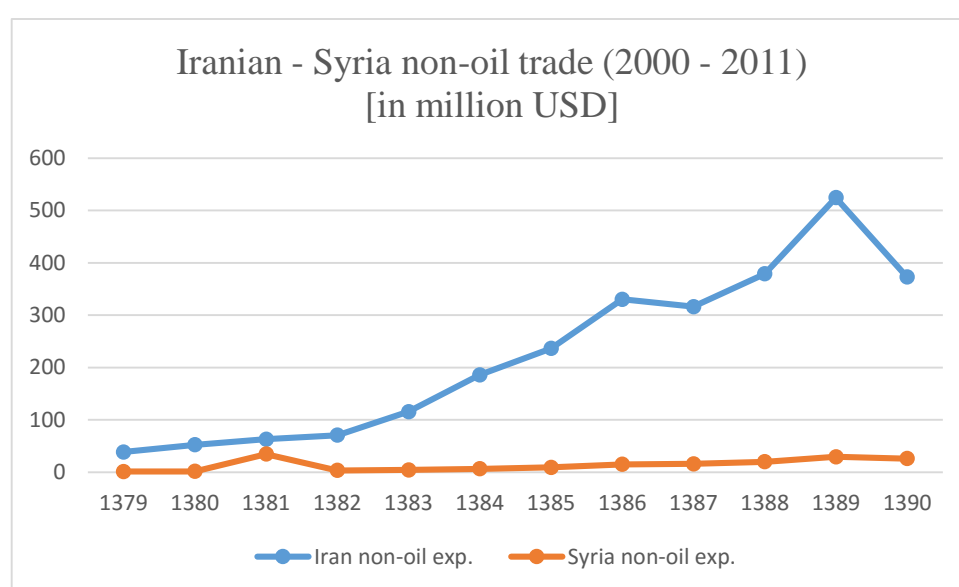
Despite the strategic alliance between the Islamic Republic and Syria, trade relations between both sides was insignificant. According to the Iranian Customs Administration, in the Persian year 1379 (2000 – 2001), Iranian non-oil exports to Syria amounted to \$38.5 million and reached \$186 million by the mid-2000s. In year 1390 (2011 – 2012), which is the transition

¹⁰⁵ Bozorgmehr, "Iran eyes Iraq trade decades after war,"

¹⁰⁶Imad Mansour. "Iran and instability in the Middle East: how preferences influence the regional order." *International journal* 63, no. 4 (2008): 948.

period where the Syrian uprising developed into a full-fledged civil war, the Islamic Republic exported to Damascus non-oil commodities worth \$372 million. In year 1379 (2001 – 2001), Syria exported non-oil commodities worth \$1.3 million to reach only \$26.2 million in year 1390 (2011 – 2012). Despite the insignificance of trade relations between both parties, an expanding trade imbalance is evident (see figure 10). Throughout this period beginning from year 2000 to 2011, the bulk of Iran’s non-oil exports to Syria were medium value-added commodities. Based on the gathered figures from the Observatory of Economic Complexity (OEC) based on figures gathered from BACI International Trade Database, medium value-added commodities such as machinery, transportation, chemicals, and plastics constituted an approximate average of 68.9 percent of Iran’s non-oil exports from year 2000 to 2011.

Figure (10)



Source: Iran’s Customs Administration

The eruption of the Syrian uprising was a turning point in the trade relations between the two countries. Aspiring to scale up the trade to \$2 billion (if engineering services are excluded), Iran and Syria signed a free trade treaty, which allowed Tehran to boost its non-oil

exports to Damascus¹⁰⁷. As a consequence, Iran's non-oil exports reached \$870 million in 2014 according to Iran's Trade Promotion Organization. It has been reported that Syria's economy and foreign trade deputy minister, Abdul-Salam Ali, stated that Damascus imported commodities from Syria worth 422 billion Syrian Liras (\$2.6 billion), constituting 34 percent of Syria's imports¹⁰⁸. However, this figure seems exaggerated comparable to Iran's figures. The most likely figure is \$1 billion worth of Iranian exports. Besides the free trade treaty, the increase in Syria's imports from Iran can be attributed to the loans that Damascus received from Tehran. Syria received \$1 billion as a loan from Tehran in January 2013 and then received a second loan in August 2013 that amounted to \$3.6 billion for the purchase of oil products¹⁰⁹. In July 2015, Syria received a \$1 billion credit line from the Islamic Republic¹¹⁰. To facilitate Iran's access to Syria's regime-controlled markets, both sides agreed in year 2015 to launch direct maritime commercial transportation lines¹¹¹.

3.3 The Importance of Iran's Non-Oil Trade with Syria and Iraq

Iraq and Syria, as strategic allies, became increasingly two important regional markets for the Islamic Republic of Iran's non-oil commodity trade. Tehran's expanding market influence is not only about the quality and competitiveness of Iranian commodities but as well about political connections between Tehran and both capitals. The Islamic Republic aims to maintain this profit-generating strategic alliances that simulate its macro-economy and trade balance. Since mid-2012, Tehran has been grappling with the sanctions imposed on its oil and banking sectors that did not only deliver a blow to one of the most important sources of the

¹⁰⁷ "Aghaz Ijray Mowafaghat-nameh Tejarat Azad Iran va Soreyeh Az Emrooz" [Commencing the implementation of the free trade agreement between Iran and Syria from today] *Asr Iran*, 28 April, 2012. Accessed May 22, 2016, <http://goo.gl/RScGAH>

¹⁰⁸ Salam Al-Saadi, "Mostawradat Soreyah Tartafe'e wa Iran Tohaymen," [Syria's imports increase and Iran dominates] *Al-Modon*, 14 November, 2014. Accessed May 22, 2016, <http://goo.gl/AMNHCx>

¹⁰⁹ Salam Al-Saadi, "Iran's Stakes in Syria's Economy", *Sada* (Carnegie Endowment for International Peace), June 2, 2015. Accessed May 22, 2016, <http://goo.gl/xqAyP5>

¹¹⁰ *Ibid.*

¹¹¹ Salam Al-Saadi, "Iran's Stakes in Syria's Economy"

government's revenues but also obscured Iran's ability to conduct non-oil trade with the world. As Iraq and Syria did not abide by the sanctions regime, the markets of both countries became a backdoor strategy for Iran to absorb the shock and compensate for its losses in terms of its diminishing non-oil trade with the world. The Islamic Republic of Iran continued to have trade relations with the world but it was difficult to sustain them for two reasons. Firstly, as the country was prevented from using the SWIFT system, it became difficult to conduct financial transactions though Tehran was developing alternative means to facilitate the transactions. Secondly, with the rising costs of importation, the competitiveness of Iranian non-oil commodity exports decreased relatively.

The uprising in Syria and the rise of IS in Iraq that followed the Arab spring, presented to Iran an opportunity to boost its economic potentials in Al-Mashreq region and compete with Turkey. The increasing military reliance of Baghdad and Damascus on Tehran led to further economic cooperation between them. It can be argued that the Islamic Republic of Iran aspires to build an Iranian-Mashreqi economic block where Tehran assumes the leading position.

Conclusion

This study examined the role of economic drivers in formulating the Islamic Republic of Iran's foreign policy towards Syria and Iraq in the context of the Arab spring and the upsurge of IS in the Al-Mashreq sub-region. The aim of this study was to analyze the often overlooked role of economic interests in the formulation of Iran's foreign policy but while not overemphasizing this aspect over other important factors such as geo-strategic and security considerations. The role of economic interests was investigated in the context of the unaddressed relationship between identity. While this study does not claim to add to the existing literature on the interlaced relationship, it endeavours, drawing on critical constructivism, to shed the light on the interplay between both variables in the case of Iran's foreign policy towards the Middle East in general and the Al-Mashreq sub-region specifically.

Identities and interests are mutually constitutive and the foreign policies of states cannot be understood without appreciating them in the context of the complex and multifaceted relationship between both variables. The Iranian social constructions of the Middle East and prioritized sub-regions' historical identities are not disconnected from the economic interests of the actors crafting the Islamic Republic of Iran's foreign policy but rather play a role in their constitution. The social constructions of the other are part of how Iranian policymakers define and construct their identity which is the product of a drawn-out historical process that material interests are part of.

Identity transformations (which are social constructions) in Iraq and Syria have implications for Iran as a growing non-oil commodity exporter. Cultural affinity, which is a social construction, helps the Islamic Republic in diversifying its economy by exporting its non-oil commodities to the areas where it enjoys hard and soft power but as well bounds its sphere of economic influence. Trade figures show how Iran's exports to Iraq were rapidly growing since mid-2000s and only exhibited a slight decrease after the upsurge of IS and the

drastic fall in oil prices since mid-2014. This illustrates how the economic downturn and high security risks had only minimal impacts on the flow of Iran's non-oil exports to Iraq. Trade figures show more vigorous growth in Iranian non-oil exports to Syria with the commencement of the civil war and the Syrian government's inability to maintain control of the country that led to an expanded Iranian military role in the country.

This study concludes that economic diversification and less reliance on oil revenues does not necessarily result decreased militarized interstate disputes (MIDs). Since the imposition of the sanctions in 2012, Iran has been gradually relying less in its annual budgets on oil revenues and more on taxation and non-oil sources of income. Accordingly, the share of oil rents is projected to gradually decrease in Iran's gross domestic product in the future.

While the existing literature on rentierism suggest that less reliance on oil revenues will translate into less engagement in conflicts, this study argued that this might not be Iran's case. Firstly, though oil rents encourage petro-states to pursue assertive foreign policies, the behaviour does not necessarily change with economic transformation because a rentier mentality might develop where regimes will not be willing to appear less geopolitically engaged. Secondly, it is possible that with a macro-economy gradually becoming less exposed to exogenous shocks from global oil markets, engaging in conflicts might become less costly as financial risks decrease though security and political instability might lead to a decrease in non-oil exports and foreign direct investment (FDI). Thirdly, and most importantly in the case of Iran, if diversification becomes export-oriented, it is likely that the state will engage in conflicts (depending on military calculations) to prevent its neighbouring allies from collapsing due to the far-reaching economic repercussions that will be entailed.

Critical Constructivism offered in this study a more comprehensive approach to the behaviour of Iran as a rentier state that is undergoing structural economic transformations. This approach helps us to understand how policymakers in the Islamic Republic of Iran make cost-

benefit calculations when crafting their foreign policies in the context of their social constructions of the self and the others.

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