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There is no doubt that the Iranian leaders are feeling the heat on all fronts. On the nuclear front the negotiations have practically stagnated, which can be translated to no sanctions lifting and hence no relief for the severely ailing economy. On the Syrian front Tehran and Hezbollah of Lebanon are the only solo ideological defenders of the falling Assad regime and just recently commended their "axis of resistance" with Syria. Upon his fall, Iran will lose a very important regional stronghold.

On the economic side Western sanctions have been very damaging. They seem to have worked more effectively than they were expected due to significant economic mismanagement of the government. On the internal affairs front the increasing differences between the Supreme Leader camp and the Ahmadinejad camp have prevented the regime to adopt a unified stance against the ongoing international pressures. The Supreme Leader has practically eliminated the Ahmadinejad team from being in control of sensitive affairs such security and international matters.

Iran's Nuclear Dossier

Iran and the P5+1 group, comprising the five U.N. Security Council permanent members plus Germany, are to hold another round of talks to discuss efforts to resolve Tehran's nuclear issues after the technical expert level and deputy level talks. So far the past negotiations earlier this year failed to bring about desired results. What may be concluded from the previous negotiations is that the West is not so eager to grant momentous concessions to Iran such as lifting its devastating oil and financial sanctions, perhaps because it believes that it has an upper hand in making Iran comply with its conditions for any future concessions due to growing pressures on Iran's economy.

Also, it is believed that there are other purposes in dragging out the talks and preventing their progress. One option is that perhaps there is a link with the U.S. presidential elections in November. On the other hand, the Israeli and neo-conservative lobby do not desire any diplomatic solution to the nuclear deadlock. Since the beginning of the nuclear negotiations Israel has tried hard to declare that the diplomatic effort to stop Tehran's enrichment of uranium is dead. This is also valid for the Iranian hardliners that do not want to compromise at any price with the West. If these nuclear negotiations fail, the possibility of an Israeli attack will become much more imminent. So far the US government has resisted against Israel's pressure to bomb Iran's nuclear sites.

Earlier Israeli Defense Minister Ehud Barak claimed that a new U.S. intelligence report brings Washington's assessment closer to the Israeli intelligence community's view that the Islamic Republic has made considerable progress toward military nuclear capability. In response, Washington indicated it had not changed its view that Iran was not yet on the verge of building a nuclear bomb; despite Defense Minister Ehud Barak's statement that US intelligence now viewed the threat as more urgent.

During the previous negotiations Iran demanded that the P5+1 include easing oil and banking sanctions among the incentives offered to Iran for a nuclear compromise, which the P5+1 has so far refused. As sanctions have started to take their toll largely because of government mismanagement of the economy, the uncompromising prolonged nuclear negotiations have frustrated Iran's leaders. At the beginning of the negotiations they had hoped to get a fast relief on the economic sanctions to prevent their economy spiraling down the path of complete stagnation.

The most important issue that surrounded these negotiations is the repetition of Iran's and P5+1's contradictory view points and the absence of the least flexibility between the two parties. While both groups assert hope to reach an agreement before a negotiation encounter; and after the negotiations proclaim optimism for the next round of negotiations, their discussions haven't touched any tangible result yet. It seems that, however, this negotiation route will inevitably have to pass a series of obstacles such as the crisis in Syria and the presidential elections in the US, but still it is not known that whether after bypassing these obstacles what will hold for the fate of these negotiations.

Support for Assad's Regime

On the Syrian side, in a recent move Tehran explained its relationship with Damascus as an "axis of resistance" that will not allow to be broken. Iran and the Lebanese Hezbollah are the only ideological backers of the Assad regime although the Chinese and Russians also defend his regime. Syria has been an ally of the former Soviet Union and after its collapse continued to be a Russian ally against the West.

Russia has enjoyed a historically strong, stable, and friendly relationship with Syria. Russia also maintains a naval base in the Syrian port of Tartus for its naval activities. After the uprising against the Assad regime more than a year ago, Moscow has held a strong position in support of Syria's government and against international action endorsed by Western countries.

China's relationship with the Syrian regime isn't all that strong or important. However, China is so hesitant about giving the West any leverage to over through despotic regimes fearing increasing Western influence on the new regimes.

So far the Iran-Syria alliance has instigated significant challenges for Western diplomacy in the region. Iran and Syria are also strategically tied. Syria was the first country to recognize the new regime after the 1979 Iranian revolution. It was also the

first country to begin its political relationship with the new establishment in Iran. Both countries have enjoyed a very good and strong relationship for the past 3 decades.

On the very early days of the Islamic Revolution the common regional interests and perspective between the two countries brought them closer together and later on established a strategic alliance in their relations. Their common position grew more when Israel invaded Lebanon in 1982. They collaborated to found the Lebanese militant group Hezbollah to combat the Israelis. Therefore, the triangle of Iran, Syria and Hezbollah was formed, which put Israel's leaders in an awkward position.

During the coming years Iran offered massive financial aids to Syria for its support of Iran during the Iran-Iraq war. As a result, Syria became Iran's most important ally in the region. Their close relationship persisted after the war and after the death of Hafez Assad, when his son Bashar Assad took office.

At present, their cooperation is broken into two dimensions. Syria plays as Iran's gateway for much of its economic activity with other countries and economic support of militant groups such as Hezbollah, which include trade, financial aids, engineering that amounts to billions of dollars of economic transactions.

The other dimension is their strategic and regional issues. Syria is Israel's neighbor. It plays an important role in helping Iran's regional influence. Iran's staunch support for the Syrian regime is in line with not losing its regional stronghold against its rivals and enemies, i.e. Israel and some of the Arab countries.

Iran is in very risky condition by backing the Assad regime. Iran's support for Syria has helped the Assad regime maintain a brutal fight of repression against the Syrian people, shielding it from the full effect of international and Arab sanctions. In case of Assad's fall, Iran's regional position and economic relations will receive a heavy blow. The Lebanese Hezbollah's situation will also get seriously affected. This has made Iran's leaders very nervous. Due to this fact, Iran has been the periodic recipient of Syrian authorities and has sent its envoys to Syria, Iraq, Lebanon and other regional countries to mediate the growing civil war.

However, the US, the EU and their Arab allies have excluded Iran from diplomatic meetings on the crisis in Syria. To include itself in Syria conflict affairs, Iran recently hosted an emergency consultation meeting of "Syrian friends" as it calls it, in Tehran. Officials of 28 countries participated in the meeting to reach a solution for the bloody conflict in Syria. But no specific conclusion was reached during the meeting.

The important question is whether Iran will give up its support of Assad's regime in Syria, if the West at least partially lifts the sanctions and addresses Iran's nuclear requests? Perhaps the support for Assad's regime is the only key card that Iran can play against the West. As it appears there is a general agreement among the West and other Arab nations that sooner or later Assad must go. If Assad's regime falls, it will put Iran in a much more difficult position.

Western Sanctions, Mismanagement and Economic Stagnation

Economic Mismanagement of the government in addition to US and EU sanctions has severely damaged the Iranian economy. On the one hand, because of economic mismanagement Iran is not in a suitable position to implement economic accommodative policies. High unemployment—in particular among the youth, high inflation, massive stray liquidity, declining production, instability in the foreign exchange market, high imports, low exports, increasing corruption, etc., which all stem from adopting wrong economic policies have put Iran’s economy in a grave danger. Also, government monopoly, increasing entrance of state organizations such the IRGC (Islamic Republic Guards Corps) and state foundations in the economy have practically eliminated competition and put the private sector in a very weak position.

On the other hand, US, EU, and international sanctions have cutoff the banking system from using the international banking network SWIFT to conduct international financial transactions, prevented US and EU countries from buying Iranian oil, encouraged others for not buying and punished others from buying Iranian oil, banned EU insurers to insure ships carrying Iranian oil, and banned many international companies to supply their products to Iran. As a result, Iran will encounter a huge foreign exchange income. Oil accounts for about 80 percent of Iran’s foreign currency income.

The combination of all these issues has put Iran’s economy in a very awkward situation. Economic costs have increased drastically. As an example, according to Ahmad Khorram – the former Minister of Roads and Transportation under President Mohammad Khatami – during the Khatami presidency the cost to execute each phase of the South Pars natural gas field was about \$1 billion, but now it costs between \$3.5 billion to \$5 billion.

But the number of sanctions has not stopped yet. The government and US Congress are both busy on a regular basis to impose more sanctions. The US government in a recent announcement said that a new set of sanctions on Iran’s energy and petrochemical sectors have been imposed. The Obama administration tightened its oil-related sanctions against Iran. This was followed by new congressional legislation that promises to extend those sanctions further. With the latest restriction placed on the importing of Iranian oil, sanctions are now tighter than ever. The International Energy Agency just announced that Iranian oil production has fallen below 3 million barrels a day for the first time in 20 years due to US and EU sanctions.

These sanctions along with foreign exchange policies of the past few years are compounding the country’s foreign exchange rate woes, sending the national currency falling to a record low and making dollars hard to come by. It is highly expected that considering much lower oil revenue this year, Iran will encounter a significant shortage of foreign exchange, increasing foreign exchange rates and hence deteriorating economic conditions.

At last after acknowledging the critical economic situation due sanctions, economic policymakers including Central Bank governor, Mahmoud Bahmani, plan to introduce a “resistive economy” as they call it to combat the sanctions. But they should bear this in mind that it is much more difficult for them to build economic infrastructure that they destroyed in the past few years.

On the macroeconomic side, the new Central Bank estimates point to rising inflation. Its new reports indicate that the year-on-year inflation (CPI) rate has hit the 24.9% mark and the average annual inflation rate has reached 22.4%. Considering the nominal interest rate of 20% on long-term deposits, the real rates are -4.9% based on the year-on-year inflation rate and -2.4% based on the average annual inflation rate. The same reports point to an 81% rise in fruit prices in one year.

At the same time, the 9th and 10th governments have spent over half of country’s foreign exchange resources to control the soaring prices. Imports have absorbed \$347.2 billion of foreign exchange resources from the inauguration of the 9th government until the end of 1390 (March 2012).

Iran has struggled to find a reliable customer base for its oil given international sanctions pressure. The recent levels suggest Tehran is receding somewhat from the international energy sector. OPEC in its August report said Iranian crude oil production in part affected a decline in overall output from the cartel. Iran saw its export options curtailed by sanctions imposed by the U.S. and European governments.

The fall in Iran’s crude sales due to the recent imposed sanctions has hit Tehran with several challenges. Iran is producing about 2.8 million barrels a day; already lower about one million barrels a day since the beginning of the year. But it is exporting only an estimated 1.6 to 1.8 million barrels a day. The drop in Iran’s oil sales as well as lower oil prices will lead to much lower foreign exchange earnings this year. The figure is estimated \$50 billion, down more than half the figure last year. This huge income loss means nothing but low economic growth if any, higher inflation, and higher unemployment.

In addition, the surge in liquidity in the society caused by frequent withdrawals from the foreign exchange account (fund) and exercising pressure on the Central Bank to print money entail devastating consequences for the country’s economy curing which will not be easily possible in the future. It should have been considered alarming when liquidity began to rise in 2010, an omen that heralded the creation of an inflationary stagnation.

On the other hand, government’s failure to introduce a clear economic strategy along with the announcement of rash decisions in interviews and speeches by the head of state and other authorities has caused severe economic stagnation, higher investment risks, a rise in unemployment, financial turbulence and outflows of capital.

In the ongoing economic crisis in Iran, the economic policy makers have failed to furnish a long-term plan to rid the economy of its structural and ideological problems. So far, they have only resorted to short-term responses, often hastily, to sudden economic shifts in the ongoing crisis without addressing the root causes.

Internal Conflicts

The 33 years of the Islamic Republic never witnessed such a public disagreement between the leader and the president like the current public confrontation. The internal tensions between rival factions - supporters of the supreme leader and those of the president - are a hurdle to a consistent response to US and EU sanctions as well as a possibility of a strike on Iran's nuclear sites.

The dismissal of the Intelligence minister by Ahmadinejad and re-instating him immediately by Khamenei, the parliamentary elections on March 2, 2012, which gave a solid majority to the circle around the supreme leader, accusing some of the close friends of Ahmadinejad of being in a "current of deviation," a term coined by his opponents to define a ideological movement which they say is too liberal, nationalist and not nearly religious enough to coexist with the conservatives, and fighting over Saeed Mortazavi – a controversial figure, who is accused of being involved in murdering four of the 2009 presidential election protesters in Kahrizak prison – for grating him the responsibility of the Social Security Organization of Iran by Ahmadinejad are some samples of power struggles between the two camps.

There are eleven months to go before Iran's next presidential election in June 2013. Until then a powerful, critical parliament will be able to limit activities of Mahmoud Ahmadinejad. Ahmadinejad's men are already excluded from the nuclear negotiation team and foreign affairs by Ayatollah Khamenei. There are signs that Ahmadinejad is being prevented from using resources over the next year to assist one of his close comrades to run for president.

The embattled president thus faces a struggle to last until the end of his term in office. If more pressures are imposed upon him, he has stated many times that he has information and evidence against many in the system potentially damaging to the supreme-leaders supporters, which he could reveal if necessary.

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