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# SPECIAL REPORT

1200 17th Street NW • Washington, DC 20036 • 202.457.1700 • fax 202.429.6063

## ABOUT THE REPORT

This report focuses on Iran's interactions with groups in Lebanon, Iraq, and, to a lesser extent, the Palestinian territories. The intent is to help policymakers understand the real extent of Iranian influence so that they can better motivate Iran and its allies to become more constructive actors in the Middle East.

Barbara Slavin, on leave from the post of senior diplomatic reporter for *USA TODAY*, is a Jennings Randolph fellow at the United States Institute of Peace. The author of *Bitter Friends, Bitter Enemies: Iran, the U.S., and the Twisted Path to Confrontation* (St. Martin's Press), she has also written for *The Economist* and the *New York Times* and is a U.S. foreign policy commentator on NPR, PBS, and C-SPAN.

*Barbara Slavin*

## Mullahs, Money, and Militias

### How Iran Exerts Its Influence in the Middle East

#### Summary

Iran has been a significant player in the Middle East, influencing and being influenced by its neighbors since long before the advent of the petrodollar or the Islamic revolution of 1979. But in the past five years, Iran's regional power has expanded considerably. Benefiting from Bush administration policies—especially the toppling of Saddam Hussein—as well as record oil prices, Iran has deepened its relationships with militant factions in Iraq, Lebanon, and Palestine and accelerated a nuclear program that could give it the ability to make atomic weapons within the next few years. President Bush, Secretary of Defense Robert Gates, and other administration officials have repeatedly labeled Iran a major, if not *the* major, threat to U.S. interests and U.S. allies in the Middle East. Yet Iran's reach remains constrained by an open-ended U.S. military presence in the region, domestic weakness, and historic divisions between Arabs and Persians, Sunnis and Shiites, and among Shiites. Though happy to take advantage of power vacuums, Iran neither wants nor is able to recreate the Persian Empire, nor is it about to become a second Soviet Union. As Mohammad Atrianfar, a veteran publisher of Iranian reformist newspapers, said in a March interview in Tehran, "We are not going to stretch our legs beyond the capacity of our carpets."

Iran's goals appear to be largely defensive: to achieve strategic depth and safeguard its system against foreign intervention, to have a major say in regional decisions, and to prevent or minimize actions that might run counter to Iranian interests. In the service of those interests, Iran has been willing to sacrifice many non-Iranian lives.

To achieve its goals, Iran exerts influence in three major ways: through ties with Shiite clerics, or *mullahs*, financial aid for humanitarian and political causes, and weapons and training supplied to militant groups. Much of this support pales in comparison with U.S. contributions to American allies and with other resources available to Iran's partners, although Iran appears to get (literally) more bang for its bucks. Recipients of Iranian lar-

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gesse, especially the Lebanese group Hezbollah, are not mere proxies and appear to have considerable tactical autonomy and influence on Iranian policies. Many Iraqis, including Shiite groups close to Iran, are trying to hedge their ties with Tehran by maintaining links to the United States.

To contain harmful Iranian influence, the United States may have to act on a number of fronts, working to stabilize Iraq and Lebanon and to resolve the Arab-Israeli conflict without magnifying its own confrontation with Iran. The U.S. government should consider direct talks with Iran to try to constrain Iran’s motivation to further destabilize the region and should establish contacts, if possible, with some of Iran’s partners to increase U.S. options, knowledge, and flexibility.

## The Mullahs

Regional concerns about spreading Shiite theocracy tend to underestimate the fundamental fact that religion both supports and limits Iran’s efforts to project power. The rift between Sunni and Shiite Muslims, which dates to the earliest days of Islam, is deep and has been exacerbated by Sunni perceptions of Iran’s rise. Both the Wahhabi clerics of Saudi Arabia and the ideologues of al-Qaeda regard Shiism as heresy. Sunni Muslim nations, unnerved by the toppling of Saddam, are vigilant against perceived Iranian efforts to stir up Shiite populations in the Arab nations across the Persian Gulf. Despite urban myths about Iranian proselytizing, there is no evidence of widespread conversion of Sunnis to Shiism even in Syria, an Iranian ally.

Iran’s influence even among Shiites is complex and does not always support greater power for the Iranian state. A minority sect representing perhaps 10 to 15 percent of the world’s 1.3 billion Muslims, Shiism is multinational and multiethnic, with major constituencies in Iran, Iraq, and Lebanon as well as Afghanistan, India, Pakistan, and the Persian Gulf. Links between Persian and Arab Shiite clerics are historically close. Many key Iranian religious leaders are *seyyids*, descendants of the Prophet Muhammad through his daughter, Fatima, and son-in-law and cousin, Ali, whom Shiites revere as the Prophet’s rightful successor. This relationship has a downside, however. Because Islam originated among Arabs and was imposed on Iran by Arab invaders in the seventh century, some Iranians, particularly among the educated elite, regard the 1979 Islamic revolution as being as much Arab as Iranian. I have often heard Iranians curse “Arabs” for inflicting religious rule on them and complain about Iranian funds spent on “Arab” causes, such as the Palestinian-Israeli conflict.

Iranian influence is also blunted by the populist nature of Shiite Islam, in which the faithful get to choose which senior cleric, or *marja-e taqlid* (source of emulation), to follow. Iran’s supreme leader, Ayatollah Ali Khamenei, is not a significant source of emulation even in his own country; most religious Iranians instead follow Grand Ayatollah Ali Sistani, an Iranian-born Shiite leader who lives in Najaf, Iraq, and who opposes the Iranian concept of *velayet-e faqih*, or rule by a senior cleric or clerical council.

## The Shiite Triangle: Lebanon, Iraq, and Iran

Iranian Shiite leaders have had particularly close relations with the Shiites of Lebanon and Iraq, with frequent migration and considerable intermarriage among clerical families. Iran-Iraq ties date nearly to the beginning of Islam, when the two were joined in one Islamic empire. Iran-Lebanon relations developed in the sixteenth century after the Safavid dynasty made Shiism the state religion of Persia and imported Arab clerics, primarily from Lebanon, to guide its subjects in the practice of Shiism. Lebanese clerics found refuge there from oppressive Ottoman rulers who were militant Sunnis.

In a March 2008 interview in Beirut, Ali Fayyad, a senior theoretician for the Iran-backed Lebanese movement Hezbollah, asserted that the notion of *velayet-e faqih* actu-

ally originated with Ali ibn Abd al-Ali al-Karaki, a sixteenth-century Lebanese cleric who immigrated to Iran. Karaki declared that high-ranking clerics were the deputies of the hidden, or twelfth, imam, a descendant of the Prophet Muhammad who went into hiding for his own protection in the ninth century and who is expected by the Shiite faithful to return as the *mahdi*, or messiah, to bring justice to the world. In the absence of the twelfth imam, Karaki said, senior clerics are allowed to issue religious rulings. Fayyad said that another Lebanese émigré designed the most important square in Isfahan, Persia's capital under the Safavids. He added, "That period is very important to understanding the relationship between the Shiites of Lebanon and Iran."

Clerics from Lebanon and Iran also interacted in Najaf, the burial place of Ali and the main center for Shiite learning before the Iranian theological center of Qom rose in prominence following the 1979 revolution. Among the most influential clerics in Najaf have been members of the Sadr family, descended from the seventh Shiite imam, Musa Kazem, an eighth-century religious leader who is buried in the Kazimain section of Baghdad. (The Sadr Family tree is shown in figure 1.) Distinguished members of this family include Ibrahim Sharafdin Ameli, who emigrated to Najaf from the Jabal Amil region of south Lebanon in the seventeenth century. A great-grandson, Sadr al-Din Isfahani, moved to Isfahan.<sup>2</sup> Among Sadr al-Din's descendants are Muhammad Baqr al-Sadr (1935–80), a pioneer in the shaping of political Islam throughout the Middle East; the imam Musa al-Sadr (1928–?), an Iran-born cleric who galvanized the Shiites of Lebanon; and Muqtada al-Sadr (b. 1973), the preeminent leader of poor and working-class Iraqi Shiites since the overthrow of Saddam Hussein.

### ***The Shiite Revival***

Muhammad Baqr al-Sadr provided much of the intellectual framework for a Shiite revival. Beginning in the 1950s, he and other senior clerics sought ways to make religion relevant and competitive with popular leftist movements of the time, especially Communism and Baathism. Sadr helped found the first Shiite political party in the Middle East, Da'wa (the Call), in Najaf in the late 1950s.<sup>3</sup> (The party has lost influence in recent years because it lacks a militia, but it remains useful as a bridge among Iraqi Shiite factions; post-Saddam Iraq's current and previous prime ministers are party members.) In 1959, Baqr al-Sadr published the treatise *Falsafatuna* (Our Philosophy), which criticized communism from a religious perspective.<sup>4</sup> Another work, *Iqtisaduna* (Our Economics), combined aspects of socialism and capitalism in a synthesis that Sadr hoped would be more attractive to Shiites than the systems of East or West.<sup>5</sup> Sadr supported a greater political role for clerics and modernization of the clergy. Arrested repeatedly in the late 1970s, he was executed in 1980 for opposition to Saddam's Baathist regime.

Sadr greatly influenced Ayatollah Ruhollah Khomeini (1902–89), the leader of the Iranian revolution, who studied in Najaf in the 1960s and 1970s and there promulgated his theory of *velayet-e faqih*. Another Sadr colleague was Muhammad Hussein Fadlullah, whose 1976 book *Al Islam wa Mantaq al Quwa* (Islam and the Logic of Force) justified armed resistance to oppressive governments and gave theological backing to the movement that became Hezbollah.<sup>6</sup> Fadlullah, one of the most important clerics in Lebanon, maintains that he is independent of Hezbollah and Iran. However, students of Sadr and Fadlullah in Najaf in the 1960s and 1970s included three future leaders of Hezbollah: Shubhi al-Tufayli, Abbas Mussawi, and the party's current head, Hassan Nasrallah.<sup>7</sup>

Other notable Sadrs include the late imam Musa al-Sadr, a cousin and brother-in-law of Muhammad Baqr. Musa al-Sadr was born in Qom and moved to Lebanon in 1959 at the urging of the top Iraqi Shiite cleric of the time, Muhsin al-Hakim.<sup>8</sup> In Lebanon, Sadr instigated the first modern mass political movement of Shiites, the Harakat al Mahrumin (Movement of the Deprived, or Dispossessed), and later formed a militia, Afwaj al-Muqawama al-Lubnaniya, known by its acronym as Amal, Arabic for "hope." Though eclipsed by Hezbollah in the 1980s, Amal retains a following in Lebanon.

Tall, striking, and charismatic, Musa al-Sadr attracted many supporters, though he appears to have alienated both Khomeini and Shah Mohammad Reza Pahlavi of Iran, being too moderate for the former and too radical for the latter. Richard Norton, a Middle East scholar at Boston University, quotes the late Iranian prime minister Shapur Bakhtiar as saying that the shah initially backed Sadr in hopes that Sadr would create a Shiite state combining Iran, Iraq, and Lebanon (an early version of the so-called Shia crescent now looming large in the imaginations of anxious Sunni Arab rulers).<sup>9</sup> Sadr met with Iranian intelligence operatives and took Iranian money for social projects in Lebanon but broke with the shah as the regime became increasingly despotic.<sup>10</sup> Khomeini, meanwhile, may have resented Sadr, who was extremely popular and a better public speaker.<sup>11</sup>

Sadr disappeared during a 1978 trip to Libya. The regime of Libyan leader Moammar Gadhafi appears to have carried out the killing, possibly at the behest of Khomeini, who was jealous of Sadr, for Palestinians, with whom Lebanese Shiites had clashed, or for the shah, who feared the religious revival that Sadr had unleashed. "There is no definitive answer," Norton said in an interview. "I continue to hear educated Lebanese Shi'is say it was done by Khomeini because Musa Sadr was the moderate wing of the revolution and wanted a more inclusive face."

Musa al-Sadr's living relatives include two sons, Hamid and Sadr al-Din, the latter of whom once served as the deputy head of the Iranian Red Crescent; a cousin, Muqtada al-Sadr, the Iraqi militia and party leader; and a nephew, Seyyid Mohammad Sadr, a former Iranian deputy foreign minister who ran for parliament on a reformist ticket in Iran's March 2008 parliamentary elections. A niece of Musa al-Sadr is married to former Iranian President Mohammad Khatami.

"This family has one root in Najaf, one root in Lebanon, and one root in Iran," said Rasoul Jafarian, a cleric and scholar who produced the Sadr family tree included in this report (figure 1) and who manages a library of 100,000 volumes—one of seven libraries in Qom funded by contributions to Ayatollah Sistani. In the past, Jafarian said, Shiite clerics traveled regularly between Iraq and Iran without giving it much thought. "We didn't have such geopolitical borders," he said.

### ***Sistani Runs His Network from Iran***

Born in 1930 in Mashhad, Iran, Ayatollah Sistani has lived in Najaf for over half a century. Recognizing the importance of his constituency in Iran, the most populous Shiite nation, Sistani sent a son-in-law, Seyyid Javad Shahristani, to Qom in 1977. In a March interview in Qom, in a large residential compound built for Sistani followers, Shahristani said he is in charge of twenty-seven institutions, including centers for culture, social welfare, medical care, astronomy, translation, and high tech. Religious taxes paid to Sistani support about fifty thousand students, the largest number of seminarians in Qom, and funds collected in Iran are also sent to Iraq, Shahristani said.

Three hundred years ago, an ancestor of Shahristani moved to Najaf from Iran and took the common Persian surname Shahristan, Shahristani said. He said he has not been back to Iraq despite the toppling of Saddam, because of his important position in Qom and concerns about his security in Iraq. "I am ordered not to move from here," he said in fluent Farsi. Fingering a string of black prayer beads, Shahristani downplayed tensions between Iran and Iraq, saying, "I cannot feel what is the meaning of 'Iranian' or 'Iraqi.'" However, he said it would be a mistake to assume that Iran commands the allegiance of Iraqi Shiites. Iraq's tribal culture is distinct, and Iraqis are more religiously observant than Iranians, he said. "The culture of the Germans is completely different from the English," he added by way of illustration.

### ***Muqtada al-Sadr's Enigmatic Relationship with Iran***

Some Iraqi leaders hope to restore Najaf as a center for religious instruction, in part to blunt Iranian influence in Iraq. However, security concerns such as those that keep Shah-

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ristani in Qom are preventing Najaf from a quick recovery after four decades of Saddam's repressive rule, sanctions, and warfare. Only four grand ayatollahs reside in Najaf, while about twenty live in Qom. One senior Iraqi cleric in Qom is Kazem al-Haeri, a past source of emulation for Muqtada al-Sadr. Despite reports that Sadr is studying with Haeri to become an ayatollah, neither Shahristani nor Jafarian reported having seen Sadr in Qom. There have also been reports that Sadr is studying with Iran's Iraqi-born judiciary chief, Ayatollah Mahmoud Hashemi Shahroudi.<sup>12</sup> However, an Iranian official, who asked not to be named, denied these reports.

Sadr's relationship with Iran is enigmatic. Several clerics from another noted Shiite family, the Hakims, fled Iraq for Iran after Saddam attacked Iran in 1980; the Sadrs stayed put. Muqtada's father, Ayatollah Mohammed Sadeq al-Sadr, and two brothers were assassinated by Saddam in 1999. Muqtada has portrayed himself as an Iraqi nationalist opposed to excessive influence by Iran. However, he has relied on Iran for military support for his Mahdi Army, as a buffer against the United States, and as a mediator in his quarrels with the Iraqi government and breakaway Shiite factions. Economic and military ties between Sadr and Iran are discussed later in this report.

Iran has had closer relations with the Hakim family over the past quarter century and worked with the Hakims to create an Iraqi exile organization, the Supreme Council for the Islamic Revolution in Iraq (SCIRI), to oppose Saddam in the early 1980s. Since 2003, however, Iran has annoyed the Hakims at times by also giving support to Sadr and splinter Shiite groups believed to have killed two provincial governors from the Hakim party in southern Iraq, in August 2007. A few months before the killings, in an apparent effort to demonstrate its independence from Tehran, the party changed its name to the Islamic Supreme Council of Iraq (ISCI), dropping "Revolution." It also hinted that it no longer saw Khamenei as its spiritual guide and had switched its allegiance to Sistani.<sup>13</sup> The Hakims have cultivated relations with the United States and sought to be a bridge between the United States and Iran. Roy Mottahedeh, a Harvard University scholar of Shiism, said the Hakims believe that when Sistani dies, a member of their family should claim the top marja position; they have a candidate in Ayatollah Mohammad Saeed al-Hakim, a cousin of Abdul Aziz al-Hakim, the current leader of ISCI.

### ***Iran and Fadlullah***

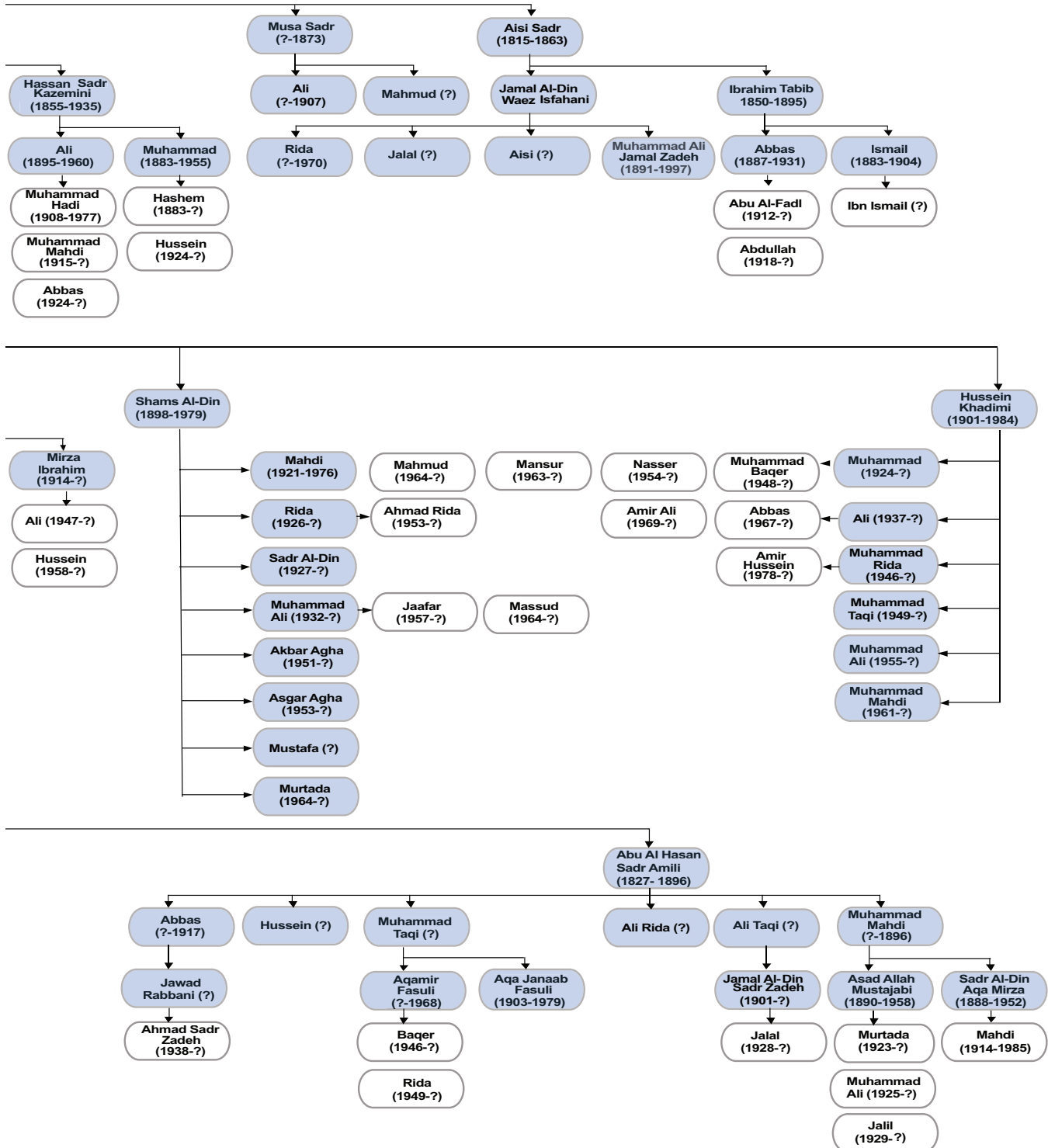
Khamenei's preeminence is also challenged in Lebanon, where he faces competition from Muhammad Hussein Fadlullah. Hezbollah officially regards Khamenei as its source of emulation, but many Lebanese Shiites, including a number of Hezbollah members, prefer Sistani or Fadlullah. Fadlullah, who was born in Najaf and moved to Beirut in 1966, has built a number of religious, commercial, and social welfare institutions in Lebanon. In his Beirut compound in March, he discussed his views of Iran to the accompaniment of jackhammers reconstructing buildings destroyed by Israeli bombing in 2006. Asked his opinion of Khomeini, Fadlullah said he established a relationship with the Iranian cleric not when they both lived in Najaf but after the Iranian revolution. "We met several times, and he (Khomeini) had a lot of respect for me," Fadlullah said, suggesting that he is Khomeini's equal if not his superior. "I supported many of his views, culturally and politically. We also saw eye to eye on the issue of American imperialism."

Fadlullah distanced himself from Iran after Khomeini's death and has not accepted Khamenei as a spiritual or political leader. "I disagree with the notion that the faqih should have absolute power on an executive and a religious level," Fadlullah said, adding that a leader should be popularly elected for a set term. In Iran, the supreme leader is chosen by the Assembly of Experts, a clerical body that is elected but whose candidates must pass vetting by a group largely appointed by the supreme leader. Khomeini ruled until he died, and Khamenei appears likely to do the same. This system has little appeal outside Iran, particularly in multidominational countries such as Lebanon and Iraq.

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**Blue** - mentioned in text of report  
 ○ - Brothers or end of male line  
 ? - Date of death unknown or person is still alive



In political terms, however, Fadlullah's relations with Iran have improved as a result of the Sunni-Shiite polarization in Lebanon following the 2005 assassination of former prime minister Rafiq Hariri and the 2006 war with Israel. Where Fadlullah used to refer to himself as the "Arab marja as opposed to the Persians," he now focuses on the need to shore up Hezbollah against U.S.-backed threats to the movement.<sup>14</sup> A European diplomat in Beirut said Fadlullah also has defended Iran's right to a civilian nuclear program.

In summary, Iran's ability to project power, even among fellow Shiites, is aided by historic and familial ties between clerics but constrained by sectarian and ethnic divisions and the nature of the religion itself. Shiism is not a monolith, and Iran's supreme leader faces competition from a number of prominent figures whose allegiances are not necessarily to the Iranian state.

## The Money

There were no pictures of Iranian leaders outside the Rassoul al-Aazam (the Greatest Prophet) Hospital in Beirut's southern suburbs when I visited in March. Nor were any prominently displayed within the spotless interior. Still, the hospital, founded in 1988, is a prime illustration of how Iran exerts influence in Lebanon.

The Martyrs Foundation, a charity established by Ayatollah Khomeini to support the relatives of those who died in the 1980-88 Iran-Iraq war, financed the construction of Rassoul al-Aazam to care for Hezbollah fighters and their families. While the hospital takes care of operating expenses, the Martyrs Foundation pays for renovations and additions, such as a school for nursing and radiology that opened in January 2008, and a seventy-two-bed cardiac hospital set to open at the beginning of 2009. The hospital, located in the dahiya, the southern suburbs of Beirut heavily bombed by Israel in 2006, was not hit but has been refurbished and decorated with cheerful mosaics. Its state-of-the-art equipment includes Lebanon's first open MRI and a neonatal facility for premature babies. The hospital has grown and now treats about 200,000 patients a year. Care is free for the families of Lebanese killed in the fighting with Israel, and 15 percent of other patients get special discounts, said Fatima Zaraket, head of the hospital's nursing department. "Rarely do people come and pay the whole bill," she said. On March 20, 2008, the anniversary of the Prophet Muhammad's birthday, all outpatient services were free.

Most Americans see Hezbollah as a terrorist organization responsible for violent attacks on Americans and Israelis. Founded in the aftermath of the Israeli invasion of Lebanon in 1982, Hezbollah has evolved into something more: a major Lebanese political faction that has attracted mass support in the same way that Chicago ward heelers once did, providing cradle-to-grave social services for Lebanon's historically downtrodden Shiite community. When the 1975-90 civil war and periodic Israeli bombing devastated Shiite centers in south Beirut and southern Lebanon, a weak central government lacked the resources, motivation, and popular trust to repair the damage and care for survivors. With Iranian support, Hezbollah has provided medical care, education, electricity, and clean water for hundreds of thousands of Lebanese. Within a year after the 2006 war, Iran had rebuilt 504 roads, 19 bridges, 149 schools, 48 mosques and churches, and 64 power stations.<sup>15</sup> In February 2008 in Washington, Judith Harik, president of Matn University in Beirut and a veteran expert on Hezbollah, told a Middle East Institute conference on Iran that over the past two decades Iran has built 330 schools serving 700,000 students, 20 hospitals and clinics, and 550 miles of roads in Lebanon. According to Timur Goksel, a former spokesman for United Nations peacekeepers in Lebanon, Hezbollah runs one of the best private school systems in the country. He said Hezbollah also established Lebanon's first microfinance institution, which makes loans for small shops and cottage industries. "When you are such a presence in the country, you can't be marginalized," Goksel said. "Hezbollah filled a gap."

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In helping Hezbollah provide such services, Iran builds on a role in Lebanon that predates the organization. In the 1960s and 1970s, the cleric Musa al-Sadr invested substantial funds from the shah and from Iranian charities in Lebanon. An Iranian official in Tehran said Sadr received about \$50 million a year from the shah before they had a falling-out in the 1970s. The shah's successors have been more generous. Iranian support for Hezbollah increased from about \$30 million a year in 1985 to more than \$60 million in 1988.<sup>16</sup> In the 1990s, Iran cut back on contributions to concentrate on domestic reconstruction following the Iran-Iraq war. A dramatic drop in oil prices also had an impact, as did the moderate views of Mohammad Khatami, Iran's president from 1997 to 2005. Khatami sought a broader relationship with the Lebanese government and said that Iran would accept the results of successful Arab-Israeli peace talks. Richard Norton said that Hezbollah compensated for the reduction in Iranian funds by collecting more money from wealthy Lebanese Shiite expatriates. Iranian aid to Hezbollah increased again as Arab peace talks with Israel collapsed, Iranian neoconservatives rose to power, and Iran and the West moved toward confrontation over Iran's nuclear program and its involvement in Iraq. Rising oil prices gave Iran the means to increase aid to Hezbollah (as well as to Hamas in Palestine). "There has been a substantial surge (in Iranian funding) since Khatami left office," Norton said.

### ***Cash and Carry***

No one knows for sure how much Iranian money is flowing into Lebanon, or the proportions going to military versus civilian projects. The U.S. Treasury asserts that Hezbollah receives \$100 million to \$200 million a year in Iranian funds, though the Treasury has documented only \$50 million, transmitted in 2001 to 2006 by Iran's central bank through one Iranian financial institution, Bank Saderat, now under U.S. sanctions.<sup>17</sup> The Treasury department has also forbidden U.S. dealings with Iran's Martyrs Foundation, which, the Department says, supported Hezbollah operations against Israel in 2006.<sup>18</sup> Iranian officials have said they spent \$155 million on relief and reconstruction for Lebanon from August 2006 to August 2007 and announced that they would give \$12,000 to every Lebanese who lost a home.<sup>19</sup> An official in the pro-Western Lebanese government of Prime Minister Fuad Siniora estimated that Iran is providing \$100 million to Hezbollah *each month*, much of it arriving in cash across the porous Syrian-Lebanese border. A former Khatami official in Tehran said that in the past two years Iran had given Hezbollah \$1.2 billion, a figure echoed by a European diplomat in Beirut.

Whatever the exact amount, Hezbollah leaders say these contributions should be seen in the context of a country in which competing factions have historically sought outside support. Israel, for example, paid millions of dollars to a proxy, the South Lebanon Army, in southern Lebanon, which was occupied by Israel from 1978 to 2000. The United States, France, and Saudi Arabia have bankrolled the Siniora government. The Bush administration provided \$520 million to Lebanon in 2007, including \$220 million in military aid, one-fifth of total U.S. military assistance to foreign governments (excluding Iraq).<sup>20</sup> Israel remains the largest recipient of U.S. aid apart from Iraq, receiving an average of nearly \$3 billion a year for the past three decades. In 2007, the United States promised to maintain a high level of assistance for another decade.

Ali Fayyad, president of the Consultative Center for Studies and Documentation, a Hezbollah think tank in Beirut, said Hezbollah need not apologize for taking Iranian cash. He compared the relationship to that between the United States and Israel, even though Hezbollah is not a sovereign state. "Hezbollah has a special ideological relationship with Iran and is supported on the political and social level," he said. "Most of the health and education institutions here are supported by Iran. The U.S. and Europeans are supporting Israel. Why does Israel have this right and we do not?"

***Iran maybe providing \$100 million to Hezbollah each month, much of it arriving in cash across the porous Syrian-Lebanese border.***

Iran benefits by association with Hezbollah, even when Iran is not the source of funding, because of Hezbollah's reputation for competence and incorruptibility; for Lebanese Shiites, Hezbollah is the contractor of choice. Following the 2006 war, the Siniora government offered up to \$53,000 each to families who lost their homes in the dahiya. In a sign of Shiite confidence in Hezbollah, most of the families agreed to turn over their government stipends to Al Waad (the Promise), an organization created by Hezbollah to rebuild 37,000 destroyed housing units, said Hassan Jishi, an architect and general manager of Al Waad. Much of the dahiya remains a huge construction site, with dozens of deep excavation pits cut into the reddish soil. As of March 2008, only one of 1,100 damaged or destroyed apartment buildings had been rebuilt, but Jishi said that all reconstruction would be done by the end of 2009 and that the new housing would be better than what it replaced. Ironically, Saudi Arabia—a bitter rival of Iran and an opponent of Hezbollah—was the source of much of the funding. A Lebanese government spokesman said Saudi Arabia had provided \$570 million for the reconstruction effort.<sup>21</sup> "For this association, there's no Iranian money," Jishi said.

Ordinary Lebanese also contribute to reconstruction, dropping small sums into boxes with the logo of the Martyrs Foundation found throughout the dahiya and giving money at traffic lights to "Islamic Scouts" holding Plexiglas containers. Veteran Beirut-based British journalist David Hirst said Hezbollah benefits from comparisons to other Lebanese organizations whose leaders are widely viewed as corrupt. "They come across as very honest people, unlike any other militia," he said. "Hezbollah has established itself in its own right but would be much reduced if the alliance with Iran was suddenly cut."

Wealthy Lebanese Shiites, in a diaspora that stretches from Latin America to West Africa to the Persian Gulf, are another important source of money for Hezbollah and other Shiite organizations in Lebanon. Nicholas Noe, editor of Mideastwire.com and a Hezbollah analyst, said Iranian contributions pale in comparison to what Hezbollah gets from other sources. The cleric Muhammad Hussein Fadlullah said that he spends \$5 million to \$6 million a year on welfare activities. "My welfare, academic, and health associations rely purely on donations from the people and *khums* (religious taxes)," he said. "There is no money from any state." Fadlullah added that he also has supporters and contributors in Iraq and is establishing an orphanage in Baghdad.

### ***The Hezbollah Example***

Iran has tried to replicate the Hezbollah model elsewhere in the Arab world, taking advantage of U.S. and Israeli missteps. Hamas is a prime example. The organization was founded in the late 1980s with tacit Israeli approval as a foil to the Palestine Liberation Organization (PLO), then Israel's greatest foe, but it managed to overshadow the Palestinian Authority by offering social services with a minimum of corruption. Its Mr. Clean image helped it win 2006 legislative elections, which the Bush administration promoted despite warnings that Hamas might win. In 2007, after a failed effort to share power with the PLO-led Palestinian Authority, Hamas seized control of Gaza.

Under U.S. pressure, Saudi Arabia and other Persian Gulf Arab states reduced support for Hamas following its 2006 electoral victory. Iran stepped in and promised \$50 million in emergency help. Hamas Prime Minister Ismail Haniyeh was caught trying to cross the border between Egypt and Gaza in December 2006 with \$35 million in cash, believed to be from Iran.<sup>22</sup> More money came in when Gaza residents briefly managed to break down the barrier wall between their crowded enclave and Egypt in January 2008.

There are limits to this relationship, however. Hamas is a Sunni Muslim organization with ties to Egypt's Muslim Brotherhood and is sensitive to charges that it is a Persian puppet. The Hamas alliance with Iran is opportunistic on both sides and could end under the terms of a U.S.-Iran reconciliation that also involves real progress toward Arab-Israeli peace.

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Iran has also provided funds to Iraq, although that financial relationship is less crucial for a country that has received ample U.S. aid and has substantial oil revenues. Still, U.S. officials such as Ambassador Ryan Crocker have repeatedly accused Iran of trying to “Lebanonize” Iraq and to replicate Hezbollah through its support for Iraqi Shiite groups.

Iran’s military support for Iraqis is discussed later in this report. In terms of acknowledged economic help, Iran has given money mostly to the government of Prime Minister Nouri al-Maliki—a government that the United States also supports. Iran has provided \$10 million in grants and offered \$2 billion in low-interest loans—\$1 billion in 2005 and the second billion when Iranian President Mahmoud Ahmadinejad visited Iraq in March 2008. Iranian funds have financed roads in the northern Kurdish area, an airport near Najaf to accommodate Iranian pilgrims who visit the shrine of Ali, and a power plant that is to provide electricity to Najaf and its sister shrine city, Karbala.<sup>23</sup> Iran also supplied kerosene, diesel fuel, and consumer goods worth \$2 billion in 2007.<sup>24</sup> Manouchehr Mohammadi, Iranian deputy foreign minister for research and education, said in an interview in Tehran in March that Iran has agreed to build two electrical power plants, one in Basra and the other in Baghdad, and a pipeline between the oil fields of Basra and Iran’s refinery at Abadan.

Iran is also supplying power directly from its own electrical grid. An Iraqi official well informed about Iran’s economic role said Iran provides 200 megawatts of electricity daily to southern Iraq, 150 megawatts to eastern Iraq, and 120 megawatts to the Kurdish north and has promised \$1 million toward the \$150 million power plant in Najaf. The Iraqi official, who asked not to be named to avoid upsetting the Iranians, said that some of Iran’s promises have not been kept. “There are many memorandums of understanding, but we face paperwork and bureaucracy,” he said. An Iranian official, who also asked not to be identified, complained about the slow pace of infrastructure upgrading along the Iran-Iraq border, which, he said, limits the numbers of Iranian pilgrims able to visit Najaf and Karbala. In March 2008, the Iranian government barred pilgrims from traveling individually to Iraq, citing security concerns.

Neither Iranian nor Iraqi officials have provided figures for Iranian support for Iraqi charitable foundations such as the Shahid al-Mihrab foundation, named for Mohammad Baqr al-Hakim, head of SCIRI-ISCI, who was assassinated in Najaf in August 2003. The foundation has reportedly spent millions of dollars on mosques and schools and given assistance to 65,000 poor and displaced families. It has also paid for trips to Iran and for mass weddings, including one in which 1,000 couples each received \$800 in cash, clothing, a bed, and other household goods.<sup>25</sup> Ammar al-Hakim, the son of ISCI leader Abdul-Aziz al-Hakim, who runs the foundation, claims that the funds all come from religious taxes, not Iran.<sup>26</sup> (Devout Shiites are supposed to contribute one-fifth of their annual income to their source of emulation.)

It is also unclear whether Iran contributes to charities run by Muqtada al-Sadr. According to Refugees International, offices affiliated with Sadr, supplying shelter and food, are the largest provider of humanitarian services to two million internally displaced Iraqis.<sup>27</sup> In Sadr City, the sprawling Baghdad slum named for Muqtada’s father, the Organization of the Martyr Sadr provides key municipal services, including garbage collection, firefighting, and school and hospital administration.<sup>28</sup> Others say that Ayatollah Sistani runs the best-organized humanitarian network in Iraq. Religious taxes paid to Sistani’s son-in-law, Shahrastani, financed \$1 million worth of food, clothing, and medicine for Iraq from 2003 to 2004.<sup>29</sup>

### ***The United States Pays Much More***

Iranian economic aid to Iraq equals only a tiny fraction of U.S. assistance of more than \$45 billion since 2003.<sup>30</sup> However, much of the U.S. money was allocated for massive projects that were never completed, and millions of dollars were also lost through waste

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and corruption. Iran, on the other hand, provides materials and services at a lower cost and benefits from its proximity and intimate knowledge of the terrain.

Keith Crane, a senior economist at the Rand Corporation, said Iraq should not require economic assistance in the future, because the Iraqi economy generates sufficient oil revenues, expected to top \$100 billion in 2008. Iran is unlikely to invest in Iraq's oil sector, Crane added, because Iran is having trouble increasing its own production. Iran may be involved in oil smuggling that siphons up to \$5 billion a year from Iraqi government coffers. The Maliki government's assault on militias in Basra, beginning in March 2008, appeared aimed in part at establishing better control over oil production and trade in the south, where 1.6 million barrels of Iraq's daily 2.5 million barrels of oil production is pumped.<sup>31</sup>

In summary, Iran has provided crucial financial aid to Hezbollah, Hamas, and Iraqi Shiite groups (including a government also backed by the United States). However, these bodies have other sources of funds and could survive without Iranian help.

## The Militias

In February 2008, pictures of a middle-aged man sporting a billed cap and a salt-and-pepper beard abruptly appeared on Iranian stamps, on the streets of downtown Tehran, along the road to the Beirut airport, and in Beirut's southern suburbs. They were images of Imad Mughniyah, one of the world's most wanted men and a top liaison between Iran's Revolutionary Guards and Lebanon's Hezbollah for more than two decades.

Blamed by the United States and Israel for acts that have killed hundreds of soldiers and civilians from Lebanon to Saudi Arabia to Argentina, Mughniyah was a man of mystery until he died in a massive car bombing in Damascus on February 12, 2008.<sup>32</sup> For decades, both Hezbollah and Iran denied his very existence. In death, however, he was embraced by Iran and by Hezbollah leader Hassan Nasrallah as a "great revolutionary." Nasrallah vowed revenge against Israel, which he blamed for the assassination, "at the time, place, and manner" of the organization's choosing.<sup>33</sup> In an interview in Qom a month after the assassination, Ali Larijani, the former Iranian national security adviser, brought up Mughniyah's death without prompting. He accused the United States of "terrorism" for killing Mughniyah with Israel's help.

Iran's military support for nonstate groups and its cultivation of individuals such as Mughniyah arouse great concern and opposition from the United States and its allies in the Middle East. Iran, of course, sees its behavior differently: as a means of projecting influence and a deterrent to attack, as well as an expression of Iran's own liberation theology, which obliges it to back Muslims against oppression and foreign occupation. Hezbollah remains Islamic Iran's proudest foreign policy achievement—proof that its revolution has transcended the country's Persian identity. An Iranian official said Iran might sever ties with Hamas one day but would have great difficulty cutting links with Hezbollah. "We love them," said the official, who spoke on condition that he not be identified. He called Mughniyah "a lovely man."

One reason for the close Iran-Hezbollah connection is the relationship forged between Lebanese Shiites and Iranian dissidents in Lebanon before the Iranian revolution. Both received training from the PLO, which established a state within a state in Lebanon after its expulsion from Jordan in 1971. Simon Karam, a former Lebanese ambassador to the United States, said the late Palestinian leader Khalil al-Wazir (also known as Abu Jihad) "discovered" Mughniyah. "He was a promising youngster in the student brigade of Abu Jihad," Karam said. After the PLO was ejected from Lebanon following the 1982 Israeli invasion, "Mughniyah and others found themselves on the run and were sheltered by the Iranian embassy in Beirut," said Karam. Mughniyah subsequently was recruited by Iranian Revolutionary Guards and served as a bodyguard to Fadlullah before becoming the military liaison between Iran and Hezbollah.

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In attracting militia members, Hezbollah built on the consciousness-raising done by Musa al-Sadr, Fadlullah, and the PLO, as well as the dislocations caused by Lebanon's 1975–90 civil war and the Israeli invasions of 1978 and 1982. However, Hezbollah would never have been created if not for the Iranian revolution. The violent overthrow of the shah in 1979 "sent shockwaves through the region," said Ibrahim Mousawi, editor of the Hezbollah weekly *Al Intiqad* (Criticism). The leader of the revolution, Ayatollah Khomeini, saw its ideology as one that would spread beyond Iran, and actively sought to export the revolution. Even though Iran was still in the throes of war with Iraq, it dispatched 1,500 of its Revolutionary Guards to Lebanon's Bekaa Valley in 1982. The Guards recruited and trained young men from three Lebanese Shiite groups—Da'wa, so-called Islamic Amal, and the Lebanese Union of Muslim Students—to defend Lebanon's Shiites against Israel and to project Iranian influence.

### ***A Two-Way Street***

In the early years of the relationship, Iran was clearly the dominant player, so much so that a 1985 "open letter" proclaiming Hezbollah's existence reads as though it were written in Tehran. (Hezbollah claims the author was Lebanese, but Hezbollah think tank leader Fayyad would not identify him.) Nominally, Hezbollah still owes allegiance to Iran's supreme leader, and a representative of Khamenei, Mohammed Yazbeck, sits on Hezbollah's consultative council. In reality, however, the relationship has evolved over the past quarter century into one in which the two are more equal. The death of Khomeini and his succession by the less distinguished Khamenei in 1989, and the reduction in Iranian financial support to Hezbollah during the 1990s led to greater autonomy for the Lebanese group. So did Hezbollah's entrance into Lebanese electoral politics in 1992 and its willingness to ally itself with other Lebanese parties. Israel's unilateral withdrawal from south Lebanon in 2000, after a two-decade occupation, bolstered Hezbollah's reputation within Lebanon and the region at large as the only Arab army that could stand up to the Jewish state. Hezbollah has also successfully portrayed its thirty-four-day war with Israel in 2006 as a victory despite heavy losses for Lebanon.

According to both Iranian and Hezbollah officials, Iran and Hezbollah confer about major military and political decisions, but Hezbollah has tactical autonomy and influences Iranian policy toward the Arab-Israeli conflict as much as or more than the reverse. "In 2000, after the Israeli withdrawal, Hezbollah became more influential in Iranian politics," Fayyad said. "The Iranian decision-making process depends on what Hezbollah is saying and advising the Iranian leaders. It's a two-way street."

Lebanese and Iranian officials said it was Hezbollah's decision to occupy briefly much of West Beirut in May 2008 after the Siniora government sought to close Hezbollah's communications network and reassign an airport security official who had reportedly been monitoring the travel of VIPs. Nasrallah asserted that a war had been imposed on Hezbollah and that "it is our duty to defend our arms, resistance, and the legitimacy of this resistance."<sup>34</sup> The fighting, in which Lebanon's U.S.-supplied army initially stood idle, reinforced Hezbollah's image of military strength while violating its pledges never to turn its weapons against fellow Lebanese.

Uncertainty remains over whether Hezbollah sought advance permission from Iran to kidnap two Israeli soldiers on July 12, 2006. The incident, which also led to the deaths of eight Israelis, was the catalyst for war. Those who believe that Iran gave the go-ahead point to a visit to Damascus, just before the war, by then Iranian national security adviser Larijani, as well as the fact that July 12 was the day the Bush administration had set as the deadline for Iran to respond to a conditional offer of negotiations over its nuclear program. However, both Iranian leaders and Nasrallah have said they were surprised by the heavy Israeli retaliation. Hezbollah's need for operational security would seem to have precluded an explicit Hezbollah request to Iran for permission to kidnap the Israelis.

"Hezbollah is more independent, sovereign, and self-reliant in decision making than many Arab governments," Mousawi contended. "There is full trust from the Iranian side in the wisdom of the Hezbollah leadership." He added that this is in part because of a need for secrecy when mounting operations.

Timor Goksel, the former spokesman for UN peacekeepers in Lebanon, said Nasrallah had eliminated middle levels of reporting and established a separate military command in southern Lebanon to safeguard operational security "because he was losing too many young people" to Israeli attacks. Therefore, Goksel also doubted that Hezbollah had sought explicit Iranian approval for the July 12 raid.

Another factor in the Hezbollah-Iranian relationship is the relations both have with Syria, which has been a source and conduit for arms deliveries to Hezbollah. Hezbollah's refusal to budge on demands that it and its allies obtain a third plus one of the ministries in any new Lebanese government (a so-called blocking third) reflected both its own drive for power and Syria's desire to stymie an international tribunal that might find top Syrian officials responsible for the assassination of Rafiq Hariri. Bassel Salloukh, a political scientist at the Lebanese American University, said Hezbollah's freedom of action had increased since Syria's UN-mandated withdrawal of troops from Lebanon in 2005. As of May 2008, however, Hezbollah had not tested the limits of Syria's or Iran's support by advocating policies opposed by either nation.

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### ***A Short-Term Victory***

The May 2008 fighting ended in an apparent political victory for Hezbollah. Under the terms of an agreement brokered in Qatar, the opposition got eleven of thirty seats in a new cabinet, and army chief Gen. Michel Suleiman became president. Hezbollah was allowed to keep its arms and its penetration of Lebanese security. In the longer term, however, much will depend on the wider regional environment as well as on Hezbollah's behavior. If it uses its veto power indiscriminately, it will destroy the consensual basis of Lebanese politics, which requires buy-in from all major groups before policy decisions are made. Parliamentary elections due in 2009 could demonstrate a backlash against Hezbollah's use of force against fellow Lebanese. Hezbollah's show of strength could also provoke increased Sunni fundamentalist militancy and lessen Iran's appeal to the Arab street, because some will see Iran as not living up to its contention that it supports pan-Islamic, nonsectarian causes.

A major question for U.S. and Israeli policymakers is what Hezbollah would do if Israel or the United States attacked Iran over its nuclear program or its behavior in Iraq. Emile el-Hokayem, a research fellow at the Henry L. Stimson Center in Washington, believes that Hezbollah would retaliate and calls the Lebanese group "Iran's first line of defense." Iranian officials such as Mohsen Rezaie, former commander of the Revolutionary Guards, have linked U.S. pressure on Iran over the nuclear issue to military action by Iranian-backed groups such as Hezbollah.<sup>35</sup> However, Hezbollah also needs to take into account domestic Lebanese politics and the fact that its Shiite constituency is still recovering from 2006. "If another war with Israel started and Hezbollah was seen as starting it, it would be very damaging" (to Hezbollah's domestic standing), said Aram Nerguizian, a researcher at the Center for Strategic and International Studies in Washington. Although Iran sometimes appears willing to fight to the last Arab, "Arabs will not fight Persian battles," Nerguizian said.

Another wild card is the possibility of a Syrian-Israeli peace agreement, under whose terms Syria would be obliged to stop facilitating arms transfers to Hezbollah. Hezbollah's enhanced role in the Lebanese government may be intended to preserve the organization's independence should such an agreement be reached.

A peace deal would also blunt Iran's connection to the Arab-Israeli conflict. However, Ahmad Moussalli, a political scientist at the American University of Beirut, said Hezbollah

already has the upper hand in terms of policy toward Israel. The Hezbollah-Iran relationship is “a partnership rather than a patron-client relationship,” he asserted. “Iran is the dominant force in religious and ideological matters, but the relationship is reversed when it comes to the Arab-Israeli conflict. In this area, Nasrallah’s charisma and victories put him, if not on a par with Khamenei, then in a powerful position to get what he wants.”

An Iranian official said that many Iranians see Nasrallah as a more decisive and magnetic figure than Iran’s own supreme leader. Khamenei was shocked and nervous when the 2006 war with Israel broke out, the Iranian said, but relieved when Hezbollah managed to survive and emerge as the perceived victor. Despite the damage done to Lebanon, Hezbollah burnished its regional reputation. In a 2008 poll in six Arab countries including Lebanon, Nasrallah was chosen as the most popular leader; his popularity nearly doubled from 14 percent before the 2006 conflict to 26 percent after.<sup>36</sup> Karam called Nasrallah “Iran’s wunderkind.” Whether Nasrallah will retain that popularity following the May 2008 fighting remains to be seen.

### ***Rearmament***

Iran and Syria appear to have gone to great lengths to reequip Hezbollah since the 2006 conflict. Israeli officials estimated that as of May 2008, Hezbollah had 40,000 rockets, compared with 12,000 before the 2006 war. Iranian and Syrian weapons are trucked over the border between Syria and Lebanon; according to Israeli and Arab sources, some Iranian arms are also sent through Turkey, apparently without the authorization of the Turkish government. A Lebanese official said that Iran has prepared a new military infrastructure for Hezbollah, including underground storage facilities, north of the Litani River to compensate for the deployment of 13,000 UN peacekeepers and 15,000 Lebanese army troops between the Litani and the Israeli border. Hezbollah soldiers who used to keep a low profile in the south are now more open about their presence, the Lebanese official said, adding that they are also well paid, receiving \$1,000 a month compared with \$500 for the average soldier in the Lebanese army.

Hezbollah proved its superior fighting ability against other Lebanese in May 2008. However, it does not appear to be eager for another war with Israel. “The savings of two generations of Lebanese Shia were wiped out in 2006,” Karam said. The political crisis that left the country without a president for months hurt the economy, especially the tourist industry. Both Christian and Sunni militias rearmed, and Hezbollah sent new recruits to Iran for advanced training and reached out to Sunnis, Christians, and Druze in southern Lebanon.<sup>37</sup> Interviewed in March 2008, officials from all sides of the Lebanese political spectrum said they feared a regional war, perhaps sparked by a U.S. or Israeli attack on Iran, before President Bush leaves office.

Bringing stability to Lebanon requires a broad diplomatic approach. “Things will stay the same until there is a regional solution,” said Marie-Joelle Zahar, a Lebanon specialist at the University of Montreal. Asked what could alter the Iran-Hezbollah bond, she said serious movement toward Arab-Israeli peace, coupled with a U.S.-Iran agreement over the Iranian nuclear program. In 2003, the Iranian government proposed comprehensive talks with the United States that included discussion of turning Hezbollah into “a mere political organization within Lebanon” and accepting a two-state solution to the Arab-Israeli conflict. The Bush administration did not reply to the offer, but Iran might show similar flexibility in future negotiations.<sup>38</sup> Zahar said U.S. efforts to bolster anti-Iranian forces within Lebanon and in the region without also seeking a diplomatic breakthrough with Iran would not work.

Hezbollah members also stressed the need for a regional settlement as well as political changes in Lebanon that acknowledge the organization’s power. “The arms of Hezbollah in Lebanon are a means to an end,” Mousawi said. “They could be part of the army.” Before it will consider giving up its weapons and tactical independence, Hezbollah demands that Israel withdraw from Shebaa Farms, a tiny (eight-square-mile) bit of territory that the

Lebanese government says is Lebanese but the United Nations says is part of the Israeli-occupied Syrian Golan Heights. Hezbollah also wants freedom for Lebanese prisoners in Israeli jails and an end to Israeli military overflights of Lebanon.

Many Lebanese, even those who support Hezbollah, suggest that Hezbollah is merely exploiting these issues to justify keeping its weapons. Asked if Hezbollah would disarm and join the Lebanese Army if its demands were met, Mousawi and Fayyad equivocated and spoke of the importance of an Israeli-Palestinian settlement that would settle the status of nearly half a million Palestinian refugees in Lebanon. "I can't see an answer without a long-lasting peace in the region," Mousawi said.

Mousawi said that improved relations between the United States and Iran would facilitate a settlement in Lebanon and beyond. It "will release a wave of optimism, and things will be more relaxed in the whole region," he said. Fayyad, however, felt that an Israeli-Syrian peace deal returning the Golan Heights to Damascus would have a greater impact on the Lebanese situation. "We are within the complexities of the Israeli-Arab conflict," he said.

### ***Hezbollah and Hamas***

Officials from both Hamas and Israel have said that Israel's unilateral withdrawal from southern Lebanon in 2000 and Hezbollah's performance in 2006 deeply affected Hamas. "Hezbollah's success in providing an asymmetric response to the IDF's [Israeli Defense Forces] might during the second Lebanon war made it a role model for Hamas," a recent Israeli report said.<sup>39</sup> Military cooperation between Hezbollah and Hamas, between Iran and Hamas, and between Hamas and Syria has increased since the Hamas takeover of Gaza last year and now extends into the West Bank, nominally under the control of the Palestinian Authority. An Arab security official who asked not to be identified said that Hezbollah recruited Palestinian activists in Jordan and sent them to the West Bank after they received military training in Syria. The official added that Hezbollah taught Hamas operatives in Gaza how to capture Israeli soldiers. The two have practiced a kind of tag-team behavior; Hamas captured an Israeli soldier in 2006 shortly before the Hezbollah raid in the north.

Israeli officials accuse Iran of providing Hamas with weapons, such as 120mm mortar shells, though they acknowledge that much of the weaponry Hamas has used against Israel was made in Gaza or inherited from the Palestinian Authority after the Hamas takeover. "It is more difficult to transport weapons into the Gaza Strip because of its relative distance from sources of external support and tight Israeli inspection (and not-so-tight Egyptian inspection) along the border," the recent Israeli report said.<sup>40</sup> The report also asserted that Hamas members have gone to Iran, Syria, and Lebanon for military training.

### ***Iran and Iraq***

Iran's military role in Iraq is a subject of heated debate. Iranian officials adamantly deny providing training, explosives, and rockets to Iraqi Shiite militias, and U.S. officials just as adamantly claim that Iran is supplying expertise and arms that have killed scores of Americans and hundreds, if not thousands, of Iraqis. A State Department report on terrorism alleged that in 2007 the Qods (Jerusalem) Force of the Iranian Revolutionary Guard Corps "continued to provide Iraqi militants with Iranian-produced advanced rockets, sniper rifles, automatic weapons, mortars . . . and explosively formed projectiles (EFPs) that have a higher lethality rate than other types of improvised explosive devices and are specially designed to defeat armored vehicles used by Coalition Forces."<sup>41</sup>

U.S. officials assert that in 2008 Iraqi militants have received a steady supply of rockets and EFPs that bear a clear Iranian signature, such as fuses made only in Iran and a special kind of copper plating. U.S. officials say Iran has also provided training to Iraqis



in Iran. As of May 2008, U.S. forces had fewer than 10 Iranians in custody in Iraq but had arrested 6,000 members of the Mahdi Army said to have undergone Iranian training or received Iranian weapons, and more than 200 members of “special units”—renegade Mahdi Army members allegedly cultivated by Iran. The U.S. military blames Iran for an uptick in U.S. casualties in April 2008 to the highest number in seven months and for an increase of rocket fire into the Green Zone. While conceding that it might take time to reduce the attacks—as one U.S. official put it, “the spigot is far from the hose”—Bush administration officials maintain that Iran can reduce the number and lethality of Iraqi attacks on U.S. and Iraqi government forces if it so chooses. In support of U.S. demands, a delegation from the government of Prime Minister Nouri al-Maliki went to Iran in May 2008 and “presented a list of names, training camps, and cells linked to Iran,” according to Haidar al-Ibadi, a member of Maliki’s Da’wa party.<sup>42</sup> Anthony Cordesman, an expert on the Middle East and military matters at the Center for Strategic and International Studies in Washington, said, regarding Iranian aid to Iraqi militants, “There’s a significant amount of stuff; it’s improving in quality and it can’t be ignored.”

There have also been reports that Hezbollah is playing a role in Iraq. In March 2007, U.S. forces arrested Ali Mussa Daquduq, an alleged Hezbollah operative, in Iraq. The State Department terrorism report said that the Qods Force and Hezbollah together provide training for Iraqi militants inside Iran.<sup>43</sup>

Iran’s links to Iraqi Shiite militants are long-standing. The Revolutionary Guards organized the Badr Brigades, the military wing of the Islamic Supreme Council of Iraq (ISCI), among Iraqi Shiites who had fled or been deported from Iraq in the early 1980s. The Badr Brigades fought on the Iranian side during the 1980–88 Iran-Iraq war and incorporated Iraqi Shiite prisoners of war into its ranks. Following the U.S. invasion of Iraq in 2003, thousands of Badr members entered Iraq, along with elements of the Qods Force. Lawrence Wilkerson, chief of staff to Colin Powell when Powell was secretary of state, said that Iran sent 2,000 Revolutionary Guards and paramilitaries into southern Iraq behind U.S. armored columns in March 2003. “The Iranians got security from our logistics tail and began taking Basra before we had reached Baghdad,” Wilkerson said.<sup>44</sup>

In 2005, after the United States transferred sovereignty to the first post-Saddam government, Badr members took over Iraq’s interior ministry and became Iraqi soldiers and police.<sup>45</sup> They now form the bulk of Iraqi security forces. Iraqi Sunnis and Iraq’s Arab neighbors question whether these forces will incorporate Sunni fighters—the “sons of Iraq” assembled by the United States—or turn against them if U.S. forces withdraw.

Iran has shown great flexibility—and opportunism—in handling Iraq. It was the first Iraqi neighbor to send an official delegation to meet with the U.S.-created Iraqi Governing Council in 2003 and, as of May 2008, was the only Iraqi neighbor to have an ambassador in Baghdad—a source of considerable frustration for the Maliki government and the United States. Iran has maintained ties with ISCI and Badr while also establishing a relationship with the Mahdi Army and splinter groups. Ali Alawi, an official in Iraq’s early post-Saddam governments, calls Iran’s knowledge of Iraq “all-encompassing and unsurpassed.” Alawi points out that not only are there many Iraqis who spent time in Iran during the Saddam period, but also, several high-level Iranian officials were born in Iraq.<sup>46</sup> The long-time head of the Iranian judiciary, Ayatollah Mahmoud Hashemi Shahroudi, is Iraqi by birth and came to Iran in the early 1980s as part of the Iraqi Islamic opposition to Saddam.<sup>47</sup>

### ***Iran and Sadr***

A representative in Washington of an Iraqi faction pointed up Iran’s extensive knowledge of Iraq’s security services, saying that when an Iranian diplomat was kidnapped in Baghdad in 2007, the Iranians “called not the interior or defense minister but the police station in the neighborhood where the guy was picked up.” He added that the Iranians had “converted” Muqtada al-Sadr during the 2005–06 prime ministership of Ibrahim

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al-Jaafari, who lived for a decade in Iran. “They told Sadr, you need weapons, training, and trade, and Iran is the only country that can provide it,” the official said. In October 2007 Iran brokered a cease-fire between ISCI-Badr and the Mahdi Army, following bloody clashes between the two groups in Karbala that killed more than fifty people. The agreement was signed by Sadr and Abdel Aziz al-Hakim, the leader of ISCI, in Tehran, in the presence of Ayatollah Khamenei.<sup>48</sup> Sadr reportedly fled to Iran as the U.S. surge began in 2007. “Muqtada’s in Qom, allegedly studying, lying low,” the Iraqi said. “The Iranians can unleash him when they want.” As for the special groups, the Iraqi said that Iran maintains them “as an insurance policy” against a U.S. attack.

Kenneth Katzman, a Middle East expert at the Congressional Research Service, calls Sadr “a made man” in the sense that he has recognized Iran’s inevitable influence over the Shiites of Iraq. Katzman said Sadr turned to Iran for weapons after a failed attempt to take over Najaf in 2004. At the same time, Katzman said, Iran saw virtue in promoting elements within Iraq that could give it leverage against the United States—and an ability to retaliate against any U.S. attack—as ISCI and Badr became increasingly integrated into U.S.-backed Iraqi security forces.

Iran’s influence and flexibility were also demonstrated after the Maliki government began an assault on pro-Sadr militiamen and criminals in Basra in March 2008. Iranian officials endorsed the crackdown, quietly at first, then brokered a cease-fire when the operation appeared to go awry and cause excessive civilian casualties.<sup>49</sup> When the Iraqi government regrouped and appeared to have taken control of Basra, Iran publicly supported Maliki. “The idea of the government in Basra was to fight outlaws,” said Iranian ambassador to Iraq (and former Qods Force officer) Hassan Kazemi Qomi.<sup>50</sup> However, Qomi condemned U.S. and Iraqi operations against the Mahdi Army in the Baghdad slum of Sadr City—not coincidentally, the launching site for rockets fired at the U.S. embassy in the Green Zone.

Despite its support for Sadr and alleged links to the special groups, Iran’s preference appears to be for ISCI, which represents middle-class Iraqi Shiites, to dominate the Iraqi government—an aim shared by U.S. policymakers. The Iranian official who spoke about Hezbollah said that Iran does not trust Sadr and believes that Sadr is closer to Saudi Arabia and other Arab nations that oppose Iranian influence in Iraq. Sadr “isn’t suitable to be a leader; he is completely different from Hassan Nasrallah,” the official said. Iran asserts that it is trying to broker a deal between ISCI and Sadr so they can work together. However, Katzman said that Iran would support Sadr if the Maliki-ISCI government faltered.

Iran’s methods may look devious, but its goals for Iraq appear to be fairly straightforward: to create a zone of influence and a buffer against U.S. attack. “Iran’s main concern with Iraq is security,” said the Iraqi representative in Washington. “The Iranians don’t want a failed state; they want Iraq as a ‘little brother.’” Iranian officials have rebuked the Maliki government for its apparent willingness to sign a status-of-forces agreement with the United States that would permit U.S. bases in Iraq.<sup>51</sup> But Iran appears willing to accept a modest U.S. presence for a while to prevent a Sunni comeback and keep U.S. forces preoccupied. Mohammad Atrianfar, a veteran publisher of reformist newspapers who is close to former Iranian president Akhbar Hashemi Rafsanjani, said that a U.S. role in Iraq is acceptable but that the United States should acknowledge Iran’s influence, too. “If you close our role in Iraq, you will have less influence over Muqtada al-Sadr, Basra, and Najaf,” Atrianfar said in a March 2008 interview in Tehran. Of Sadr, Atrianfar added, “Iran is trying to tame him.”

Iranian officials insist that they seek a stable Iraq. Larijani accused other unnamed foreign countries of backing terrorism by Sunni extremists in Iraq. “You know very well what countries in the region are opposed” to a Shiite-majority government, he said in an interview in Qom. “There are some extremists [who] are opposed to us. It doesn’t take a rocket scientist to understand this.” However, U.S. officials say that the al-Qaeda threat has diminished and that Iran now poses the biggest challenge to Iraqi stability. They

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worry that Iran may miscalculate and press its influence in Iraq too far, and warn that this could provoke a U.S. military retaliation.

Iranian officials say that they oppose a formal division of Iraq. The Iranian government has not expressed a view about whether a certain number of southern provinces should form an autonomous federal district similar to the Kurdish north. ISCI leader Hakim has advocated a nine-province “Shiastan” that would include the main oil-producing areas. Sadr has opposed such a division, and other parties in the south have sought a three-province region.

“We are supporting the government that has come to power with the vote of the people,” said Manouchehr Mohammadi, Iran’s deputy foreign minister for research and education. “Whether Iraq creates more federal districts” depends on their own decision. They are mature enough to decide how to deal with these issues.” However, Mohammadi appeared to tilt toward the Shiastan concept, noting that during Ottoman rule of Iraq, the country was divided into three large regions with “some autonomy” for the local rulers of Mosul, Baghdad, and Basra. “The *vali* [representative of the Ottoman sultan] was a local person, and the central government did not intervene,” Mohammadi said.

In summary, Iran has provided weapons and training that have empowered Hezbollah, helped Hamas survive, and both bolstered and undermined the Maliki government. Iran has shown an ability to calibrate the level of violence in Iraq and could destroy that country’s chances for stability or improve them considerably.

### ***Internal Constraints***

There is no doubt that Iran has increased its sphere of influence during the Bush administration. At the same time, its ability to project power in the region is constrained by internal as well as external factors. Despite record oil revenues, the government of President Ahmadinejad has failed to meet electoral promises to improve the lot of the average Iranian. Handouts to the poor have been devalued by inflation, running at over 20 percent. The government has also had trouble reducing unemployment. Ahmadinejad’s strident pronouncements on Israel and the Holocaust and his aggressive defense of Iran’s nuclear program have frightened away both Iranian and foreign investment—investment needed to increase the oil and gas production on which Iran’s export earnings depend. Even within the ruling conservative elite, internal politics are churning, and Ahmadinejad is likely to face stiff opposition from a new parliament and several rivals for the presidency in 2009.

In this environment, Iranian leaders must tread carefully. Iran’s provision of millions of dollars to Lebanese Shiites and Sunni Palestinians and soft loans to Iraq arouse resentment from ordinary Iranians struggling to make ends meet. Despite Ahmadinejad’s defense of Arab causes, and the religious links among Shiites, there is little affinity between the average Iranian and the average Arab. Given the opportunity to travel regionally, most Iranians go to Dubai, home to a large expatriate Iranian community, rather than Beirut, while Lebanese Shiites prefer Paris to Tehran.

Iranian religious pilgrims visit Najaf and Karbala, but Iranian identification with Iraqis is minimal. This is a consequence of the 1980–88 war, which Iraq started and which killed more than a quarter-million Iranians, as well as of grievances that go back centuries. I well recall being told by an Iranian, as violence mounted in Iraq in 2006, “What do you expect? They killed our Imam Hossein.” The reference was to the most emotional event in the history of Shiism: the murder of the Prophet Muhammad’s grandson on the plains of Karbala in 680, by the army of the Sunni caliph, Yazid.

Iranians, with a long historical memory, also see their pre-Islamic culture as superior to that of the Arabs, and bemoan the seventh-century battle of Qadisiyeh, when the Arabs defeated the Persian Empire and converted Persians to Islam by the sword. These cultural divisions form a solid barrier to the spread of Iranian hegemony. So does the U.S.

***Ahmadinejad is likely to face stiff opposition from a new parliament and several rivals for the presidency in 2009.***

military, which, despite being stretched thin by repeated deployments, is not about to quit the Middle East. U.S. Arab allies along the Persian Gulf, as well as the Maliki government in Iraq, are busily signing new defense agreements with the United States, France, and NATO to convey the message to Tehran that there is a limit to what Iran can do even in its own backyard.

Many Iranians understand their country's limitations. "The United States is a superpower, and that is accepted [by Iran]," said Atrianfar. "The United States has 30 percent of the power in the world and 50 percent of the knowledge. Iran has 3 percent of the power in the world and 5 percent of the knowledge, and this should be accepted [by the United States]. As soon as this level of power is accepted, we won't demand more. If you don't accept it, however, we will find another way and put pressure on you through the neighbors. If you block a creek, the water will eventually overflow."

In asserting what it sees as its rightful influence, Iran is contributing to, and benefiting from, a trend toward disintegration intensified by the U.S. invasion of Iraq. "The whole region is breaking apart, and the most obvious feature is the emergence of nonstate actors," said British author David Hirst. "These nonstate actors are a law unto themselves and don't respond to military defeats the way the Arabs states did."

Hirst, author of the upcoming book *Beware of Small States*, sees Iran as attempting to fill the role of Nasserite Egypt through its support for groups such as Hezbollah. The strategy reflects the weakness of once-powerful Arab nations and the United States more than it does Iranian strength, he says. Meanwhile, Iran-backed nonstate actors also face barriers to advancement. "Hezbollah is trying to achieve the kind of dominance in Lebanon that the Maronites had, which boomeranged against them," Hirst said, adding that ultimately, Hezbollah will have to decide whether its "jihadist" aspirations exceed its desire to be a major Lebanese political force.

## Conclusions

***It is critical to see Iran in its true dimensions: more powerful than Saddam Hussein's Iraq but constrained by internal problems and external resistance.***

For U.S. policymakers, it is critical to see Iran in its true dimensions: more powerful than Saddam Hussein's Iraq but constrained by internal problems and external resistance. Iran has increased its sphere of influence since 2001, and its allies have scored major military and political victories. But Iran's ability to project power is limited by its Persian, Shiite identity and its conventional military weakness. Although its nuclear program is accelerating, it has made slow progress considering that it began, with U.S. help, more than a half century ago.

U.S. policies of rejecting unconditional negotiations with Iran while blaming Iran for much of the violence in the Middle East have bolstered Iran rather than weakened it. Iran and other local actors have sought to compensate for what they perceive as polarizing U.S. actions by attempting to broker deals in Lebanon, between Israel and Syria, and between Israel and Hamas without U.S. involvement. Ultimately, however, the United States must be brought in, if for no other reason than as a guarantor of Israeli security.

Also, it is hard to envision lasting peace in Lebanon, Palestine, or Iraq without a reduction in tensions between the United States and Iran—or at least the beginning of a negotiating process that reduces misunderstandings and the possibilities for miscalculation. Many analysts remain convinced that Iran, if presented with sufficient incentives—as well as continued pressures—would curtail its malign regional interference. Such a "grand bargain" would likely require an end to U.S. sanctions against Iran, and Iranian integration into regional security forums and other global institutions.

"At some point, Iranians will be willing to trade the Arabs for the United States," said Adnan Obu Odeh, a former Jordanian information minister and ambassador to the United Nations. "They want to survive."

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