

IRAN AND IMPLICATIONS FOR US GULF STRATEGY

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ABSTRACT

Title: Iran and Implications for U.S. Gulf Strategy

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This paper is about changes in Iran, fueled primarily by economic problems, in addition to the end of the Cold War, the Iran/Iraq War, and Desert Storm. The changes reflect new directions in Iran's domestic, foreign, and defense policies. President Rafsanjani, a relative moderate, must be cautious in view of the continued influence of Iranian hardliners, but if the Consultative Assembly elections reduce their clout, then his job will be easier.

The paper also examines the implications for the U.S. policy. Iran's importance as the potential dominant player in the Gulf cannot be ignored. A way needs to be found to integrate Iran into security arrangements, and at the same time not sacrifice our principles, vital interests, and the support of our traditional Gulf allies.

DOMESTIC CONSIDERATIONS

Iran's political landscape changed markedly in 1989. A mid-level mullah, Ali Hosseini Khomeini, assumed the office of Supreme Leader of the Revolution (chief of state) on June 4 that year and the speaker of the Consultative Assembly, Ali Akbar Hashemi Rafsanjani, became president (head of government) on August 3.(1) Their administration ushered in a second phase of the Iranian Islamic Revolution, one more pragmatic, with less emphasis on ideology. The need for economic revitalization spurred the drive for change. After the eight year war with Iraq ended in 1988, Iran was exhausted. The economy continues to suffer from the war's ill effects and those of the political turmoil from the early days of the revolution: industrial backwardness, massive corruption, brain drain, ideological rigidities, and economic mismanagement.

Government statistics cite inflation at 26.1 percent for 1991, but Western diplomats estimate that it may be 50 percent. Oil revenues, about \$15 billion yearly, represent about 90 percent of Iran's export earnings. They help purchase Iran's purchase of \$25 billion in food and other goods, some once produced by Iranians. Iranian external debt in 1991 amounted to an estimated \$10 billion.
(2)(3)(4)

Most important for the government, the average Iranian citizen perceives a declining standard of living. In 1980, annual per capita income in Iran was \$2000. By 1990, it had dropped to \$1400. Salaries now average \$60-\$100 monthly and rarely suffice for household costs.(5)(6) The Iranian press has freely taken the government to task over the economic ills, and Iranians have

protested. In January 1992, workers at Tehran's oil refinery struck for two weeks demanding a raise for office workers. This escalated into a small demonstration in front of the Oil Ministry. Eventually, the government succumbed and granted a 25 percent wage increase to refinery workers nationwide. Similarly, during the past year, students protested increased tuition fees at one school but to no avail. From December 1991 to April 1991, the Iranian labor force conducted 2000 mini-strikes over economic issues. (7)

Neither Khomeinei nor Rafsanjani nor any other current political leader in Iran has the late Ayatollah Ruhollah Mousavi Khomeinei's charisma. Khomeinei was able to spur Iranians to make tremendous sacrifices for the sake of Islam. With Khomeinei gone and the onset of severe economic hardships, enthusiasm for sacrifice has waned.

Not surprisingly, there is growing public disbelief at the hardline fundamentalist vision of a socialist utopia. This is coupled with an antagonistic relationship between "hardliners" and "moderates." In general Iranian radicals or hardliners favor central control of the economy, non-reliance on foreign powers for economic development, and export of the Islamic revolution. Moderates or traditionalists resist self-imposed economic restrictions, seek outside investment and technology transfer, and are ambiguous on the export of the Islamic revolution. On the latter point, Rafsanjani -- acknowledged leader of the moderates -- currently argues that Iran should encourage revolution by example, and this will stimulate Muslims elsewhere to emulate the Iranian Islamic Republic. Earlier, as assembly speaker, Rafsanjani had

explicitly advocated exporting the message of the revolution, in and of itself "its own duty." (8)

Rafsanjani, very much the dominant power in the Rafsanjani/Khammenei administration, had a useful tool when he assumed power, the new constitution for Iran approved in mid-July 1989. The new document reduced the powers of the "Supreme Leader," expanded those of the president, and eliminated the office of the prime minister. The latter was a significant move as the incumbent was Mir Husseini Mousawi, considered a radical. In effect, the new constitution gave Rafsanjani a considerably freer hand in governing without interference from clerics or a potential rival in the prime minister.(9)

Rafsanjani has built upon this base to reduce the radicals' influence and consolidate power. For example, he subordinated the formerly independent Islamic Revolutionary Guards Corps to the Defense Ministry and merged the komitehs (a revolutionary police organ and power base for radicals) with the more apolitical Gendarmerie and National Police.

His major challenges come from adversaries in the 270-member Iranian Consultative Assembly. They have stymied his efforts at economic reform, in particular the estimated \$120 billion five year development program initiated in January 1990. The plan called for an increased private sector role, foreign investment, and development of non-oil sources of revenue. Relief for Rafsanjani is expected to come in April 1992 with Consultative Assembly elections.(10) Rafsanjani established a mechanism facilitating

the election of his supporters.

Notably, a Rafsanjani-allied body, the Council of Guardians, was set up to screen candidates; it blocked a good number of hardline incumbents from running. Among them were Sadeq Khalkali, the notorious "hanging judge," and Ibrahim Ashgharzadeh, spokesman for the students who held Americans hostages in Tehran from 1979-81. (11)

Post-elections, no matter how they turn out, Iranian politics will still require Rafsanjani to balance the competing interests of economic necessity and revolutionary fealty. The fractured nature of Iranian politics, the government's ability to suppress dissent, and the absence of a viable alternative to the present government should allow Rafsanjani to manage economic disaffection for the time being. However, relief must come at some point. A new assembly, less able to block Rafsanjani's economic initiatives, may help that become a reality.

IRAN'S FOREIGN POLICY

Overview

Iran's foreign policy under Rafsanjani is partly geared toward providing that relief. Iran has actively promoted improved economic relations with European Economic Community nations, Japan, and China. These countries are capable of extending trade, investment, and technological opportunities. Tehran's efforts have borne fruit. In 1990, for example, trade with Western Europe, Japan and China increased 65 percent compared to the previous year.

Japan has been a big investor in Iran. Recently, officials of the Iranian Qeshm Island Free Trade Zone and Kobe Company of Japan signed an agreement for a \$6 billion petro-chemical project to be completed in 1995.(12)

In addition to economic reasons, Rafsanjani has pursued a more moderate foreign policy for geopolitical goals. Iran wants to gain recognition in the world arena and to resume the role of regional Gulf power. The timing is advantageous for Iran to implement this policy, given the end of Cold War superpower rivalries and a weakened Iraq after Desert Storm. Iran appears to be relying more on traditional diplomacy as a tool in pursuing its goals. However it has not abandoned subversion, intimidation, and terrorism as alternative means to gain its objectives when necessary. In addition, Teharan still wants to adhere to a non-aligned policy, in the spirit of the Cold War "Neither East nor West" philosophy.

Geographically and demographically, Iran could be the most important player in the region. (See Map 1.) It borders Iraq and occupies the entire Gulf northern shore. Its population of 59.6 million is more than the combined populations of the Gulf Cooperation Council (GCC) states, plus Yemen and Iraq. Iran will likely maintain or increase its population supremacy with an annual growth rate of 3.6 percent. (13)

Iran clearly is a power to be reckoned with now and increasingly in the future. In Rafsanjani's words to the Iranian Navy in November 1990:

Nobody can ignore the role of the Islamic Republic..Now they pay attention to the fact that the Islamic Republic can be

the anchor on which stability depends..Our policy is not adventurous; we do not intend to throw the region into turmoil or insecurity. Our policy is based on full tranquility in the region..We can be an axis for stability and security.(14)

Iran's Relations with the GCC and Iraq

Iran has acted to increase its influence with the Gulf Cooperation Council (GCC) states. Founded in 1981 with Saudi Arabia in the lead, Kuwait, Oman, Qatar, the United Arab Emirates, and Bahrain are also members. The Saudis are the dominant power, and they did not invite Iran and Iraq to join. During the Iran/Iraq War, the GCC acted as a coalition against Iran and a de facto supporter of Iraq.

Iran's ambassador to the UN, Kamal Kharrazi, described Iran's concept of regional cooperation and security in the Gulf in early 1992 as now based on two principles, "common values" between all the countries and "cooperation--not confrontation." (15) To a limited extent, Iran has adhered to these principles.

Tehran has diplomatic relations with all the GCC countries. Although it did not join the Desert Storm Coalition, Iran opposed the Iraqi invasion of Kuwait and adhered to the UN sanctions against Iraq, thus pleasing GCC members across-the-board. In addition, Iran has made numerous gestures to the smaller GCC states including:

- o offering to build an underwater pipeline to carry fresh water from Iran to Qatar and Kuwait;
- o increasing utilization of Sharjah (UAE) as a transshipment point for Iranian trade;

- o offering to send trade missions to Oman; and
- o establishing a ferry service between Fujayrah

(UAE) and Bandar Abbas (Iran) and Chah Bahar (Iran).

Iran has also tried to placate the Saudis, by coming to terms on arrangements for Iranian pilgrims' visits to Islamic holy sites.(16)

These overtures have provoked mixed reactions. Iranian broadcasts claim that Qatar has accepted the idea of a pipeline, but there has been no official confirmation from the other side. The Omanis thus far have not accepted any Iranian trade missions. Overall, the GCC states remain quite guarded in their relations with Iran. While they welcome signs of post-Khomeini moderation in Iran's policies and, to some extent, behavior, they inevitably view Teheran's ambitions through the optic of centuries of Sunni-Shi'a, Arab-Persian antipathy, hostility, and rivalry.

Specifically addressing the Saudi case, there are two main factors mitigating against closer relations.

First, the Saudis themselves desire to remain the dominant power in the Gulf, at least among the states of the Arabian Peninsula. Thus, the Saudis see Iran's ambitions as a direct threat to their interests. Saudi Arabia and Iran also have fundamental differences over how Gulf security is defined and achieved. Iran resents its exclusion from the GCC, and has stressed that the Saudi-sponsored premise is falsely based on the concept of "Arab defense" -- excluding Iran -- rather than on "Islamic defense." Further, Iran stresses that regional security

should be organized without reliance on outside powers, read the U.S. Saudi Arabia has a more benign view of the U.S. role, although not to the point of allowing U.S. or western political influence to disturb the Kingdom's Islamic society.

Second, the Saudis distrust Rafsanjani's motives, believing that he has perforce changed Iranian tactics, but not Khomeinei's ultimate goals of exporting revolution to other countries -- by violent means if necessary -- despite disclaimers to the contrary. The Saudis interpret Iranian actions as proof of their suspicions.

Iran broadcasts anti-Saudi government programs into Saudi Arabia's heavily Shi'a populated Eastern Province. Iran is flirting with Yemen, a country which supported Iraq during the Kuwait crisis, while denying it, and whose relations with the Saudis remain tense. Further, Iran has practiced terrorism against the Saudis.

For example, the Saudis blame Tehran for a 1989 bombing in Mecca for which they executed 16 pro-Iranian Shia that same year.(17) In retaliation, Iranian supported groups assassinated three Saudi diplomats in Thailand in 1990 and seriously injured another in Turkey in 1991.

Subversive activities indirectly affecting Riyadh also disturb the Saudis, particularly the possibility of a Khartoum-Tehran axis. The Saudi fear is that the alliance is aimed at transforming secular Middle East and African governments into Islamic theocratic nations. Although ruled by a military junta, Sudan is in effect controlled by Hassan Turabi, leader of the

National Islamic Front. Last December, Rafsanjani visited Khartoum, accompanied by Minister of Defense Akbar Torkan and commander of the Revolutionary Guards Major General Hussein Radhair. The latter signed a mutual defense pact with officials from Sudan's new Islamic shock troops, the Popular Defense Forces. According to press reports, Iran has offered Sudan about \$35 million in credits for weapons and a promise of oil if the Libyan supply runs dry.(18)(19)

Evidence of Sudanese/Iranian involvement in subversive activity is fragmentary, but increasing numbers of terrorist groups, such as the Iranian-backed Islamic Jihad for the Liberation of Palestine, are appearing in Khartoum. Moreover, other governments, such as Algeria, are charging Sudanese/Iranian complicity. Iran supported the Algerian Islamic Salvation Front (ISF). On the eve of the Front's parliamentary victory in December 1991, the Algerian government expelled the Iranian ambassador for allegedly meddling in Algerian affairs. The Algerians charged Sudan with acting as a conduit for Iranian funding of the ISF.

Similarly, Saudi Arabia and Iran are at loggerheads in Somalia. Tehran is evidently financing the Somali faction of General Farah Aideed who is challenging the government of President Ali Mahdi Mohamed. Ali Mahdi is financed by the Saudis and Egyptians. There is also Saudi-Iranian rivalry in the newly independent Muslim states of Central Asia, a point addressed later in more detail. (20) (21)

If Iran truly wants to build a constructive relationship with

the Saudis, it has a considerable way to go. In addition to the natural competition between the two countries in the Gulf and elsewhere, domestic considerations restrict Tehran's actions toward Riyadh. For Iranian hardliners, the Saudi government is still run by traitors to true Islam. Rafsanjani has to listen to these voices, though he may have the upper hand. The same kinds of domestic considerations also influence his moves toward two other important players in the Gulf, Iraq and the U.S.

Domestic politics were partly responsible for the Iranians' April 4, 1992 air raid against a rebel Iranian (mujahedin-e khalq) base in Iraq. In engaging in the strike, Iran conducted the most serious military action against Iraq since the Iran/Iraq War fighting ended in 1988. Commenting on the attack four days later, an Iranian Air Force Commander indicated that the raid was in retaliation for mujahedin attacks in Western Iran aimed at "disrupting the elections" for the Consultative Assembly.(22) The mujahedin charged in turn that the Iranian action was a ploy to arouse the population before elections. Indeed, Rafsanjani may also have been looking for a way to show hardline critics how tough he could be in facing enemies of the revolution.

After all, he had little to lose politically and militarily. On the latter point, Iran lost only one out of eight F-4 planes in the sortie, and the Iraqis captured an Iranian pilot and a navigator. Iraq is presently weak militarily and cannot mount any type of offensive action against Tehran; a weakened Iraq permits Iran to be more assertive. With respect to world opinion, in the

UN, Iran received a slap on the wrist for violating the 1988 cease-fire agreement with Iraq. The Security Council called on all parties to refrain from all acts of violence and observe the cease-fire resolution.(23)

Iran's overall relationship with Iraq can be characterized as one of friction, and this is unlikely to change until Saddam Hussein goes. In October 1990, Tehran and Baghdad reestablished relations and came to agreement on issues pending since the cease-fire, such as evacuation of Iranian territory and division of the Shatt al Arab according to the 1975 Algiers agreement. Relations soured again, however, when Baghdad accused Tehran of helping Shi'a and Kurdish rebels during the March 1991 uprisings in Iraq.

Nonetheless, Iran must proceed carefully with respect to Iraq. Iran very much favors retention of Iraq's territorial integrity for it fears the spread of nationalism among ethnic groups in its own population. At the same time, Iran would prefer to see a pro-Iranian Shi'a government in control in Baghdad, and not Saddam Hussein's Sunni-controlled regime. For the future, Tehran will likely be somewhat circumspect in its relations with Iraq and always alert to any significant changes in Iraq's military capabilities.

Iran and the U.S.

Hardliners seem particularly influential in impacting upon Iran's relations with the U.S., perhaps more so than with any other country. Despite Iran's need for U.S. technology and the positive influence of the U.S. with international lending associations such

as the World Bank, the hardliners still retain enough clout within Iran to cause Rafsanjani to proceed with caution with respect to the U.S. This was clear during and after the release of all U.S. hostages held by pro-Iranian Lebanese groups.

For instance, the radical newspaper *Salam* criticized the government for the hostage negotiations and later its chief editor was cited on June 11, 1991 saying that Iran "cannot resume any relations with the U.S. administration for many years." It may have not been the newspaper, but some sort of political pressure affected Rafsanjani. In March 1991, Rafsanjani stated Iran would be willing to improve relations with the U.S. once it abandoned its "hostility toward Iran." Two months later he stated, "Iran is not thinking about restoring relations with the U.S." (24) (25)

This hardliner influence may explain other Iranian actions. Washington does not have diplomatic relations with Tehran, and communicates with Iran through the Swiss. Nonetheless, the U.S. has a longstanding offer on the table to talk with authorized Iranian representatives. But Iran did not seize the improved atmosphere after the hostage release as an opportunity for rapprochement with the U.S. Instead, Iranian official pronouncements and press explained the releases as enhancing Tehran's image, eliminating a lever the U.S. had over Tehran in its relations with the Europeans, and helping persuade former UN Secretary General Perez de Cuellar to declare Iraq responsible for the Iran/Iraq War. (26)

Other factors play in Iran's enmity toward the U.S. For

instance, Iran resents the continued freeze on Iranian assets. Iran is also is adamantly against the U.S. playing a role, particularly with a physical presence, in the Gulf and Middle East. In part, Tehran fears the Muslim world being shaped in America's image, rather than its own. For the same reasons, it rejects the U.S. approach toward the Middle East peace process. Tehran felt so strongly about the latter issue that it convened a conference of radical Palestinian groups in Tehran in the fall of 1991 to condemn the process and ostensibly offer an alternative.

In a recent speech to the Iranian Air Force, Khomeiney was quite blunt on the subject: "We will never allow any other power, whether from this area or from outside, especially America, to become the gendarme of this oil-rich and prosperous region of the world." (27)

Despite the distance and bitterness, there are incremental improvements in the Iran/U.S. relationship. Iran clearly needs technology for economic development, and the U.S. is cognizant of that and of the potential future economic market Iran represents. For its part, Iran imported \$527 million in American goods in 1991, nearly a ninefold increase from 1989. (28)

Although Iranian officials allege there are no signs of "good will" by the U.S., evidence points to the contrary. Iran is on the U.S. list of state sponsors of terrorism and is subject to the trade restrictions on high technology and military items associated with that. Despite this factor, the US Commerce Department approved the sale of \$59 million worth of advanced technology

equipment to Iran during a 13 month period in 1990-91. (Bush administration critics charge that this is dangerous as some of the material is dual-use.) The U.S. is also moving to approve the sale of two A-300 Airbus jetliner engines, which incorporate American technology, to Iran. (29) (30)

How far the "Great Satan" has to go to meet Iranian concerns is uncertain. Future improvements in the relationship may proceed quietly and slowly. Election of a moderate, new Consultative Assembly may make it easier for Rafsanjani to hasten the pace, should he desire to do so. Enmity and suspicion of the U.S. are integral parts of the Iranian Islamic Revolution and a cohesive force holding various factions together. The question for Rafsanjani in the new revolution is, can he afford to improve relations with the U.S. in view of domestic political constraints?

A New Playing Field--the Muslim Republics

Iran and the U.S. and its allies are competing for influence in a new playing field, the former Soviet Muslim Republics. The only vital strategic interests the U.S. has in Central Asia are the long range ballistic missiles in Kazakhstan, presently under Russian control. But events in these states can produce a chain reaction elsewhere and affect friends of the U.S., such as Turkey and Saudi Arabia. The U.S. has in fact advocated their adopting a secular model like Turkey's, much to Iran's chagrin.

The six new Muslim Republics -- Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, and Uzbekistan -- present

Iran with potential problems and opportunities. Iran can either project power into new areas or be consumed by competition and lose influence. Geography and demography are key considerations in examining Iranian options. (See map 2.) Iran wants to prevent rivals, particularly the U.S., Saudi Arabia, Turkey and even Pakistan, from dominating an area which extends to its northern border. Further, nationalist revivalism is of prime concern, as is the case with Iraq's nationalist movements. Approximately 14 million Azeris live in northern Iran, almost twice as many as in Azerbaijan proper. Irrendentism in Azerbaijan is a potential challenge.(31)

Thus far, Iran has followed a fairly pragmatic policy toward the republics. Arms transfer agreements with Russia, which Iran does not want to jeopardize by irritating Russia with destabilizing policies in the republics, are a constraint. More importantly, to date the republics represent no clear threat to Iran. Iran has established diplomatic relations with all the republics and dispatched Foreign Minister Ali Akbar Velayati to visit the new states. In a March 19, 1992 magazine interview Velayati stated, "Iran's improving relations with the Caucasus and Central Asian countries does not mean we force them to accept our standards. We advise them on the methods we prefer."(32) Later in March, Iranian foreign ministry officials announced that with respect to Central Asia, Tehran has begun "an active diplomacy to solve regional instabilities" that threaten Iran's national security.

Indeed, Iran has adopted a high profile with the republics by

- o encouraging visits of government, religious, and business officials;
- o serving as peacemaker in the dispute between Armenia and Azerbaijan over Nagorno-Karabkh; and
- o signing trade and investment agreements with all the new republics. (33)

In the economic realm, perhaps Iran's most prominent effort since the republics gained independence occurred in mid-February 1992. Iran hosted a summit meeting of the Economic Cooperation Organization (ECO), founded in 1965. Turkey and Pakistan also are original members of the heretofore moribund organization geared toward encouraging regional economic cooperation. Leaders of the Central Asian Republics attended, and Turkmenistan, Uzbekistan and Azerbaijan attained formal recognition as full members. Tajikistan, Kyrgyzstan and Kazakhstan came as observers and membership for them is under consideration. (34)

Reflecting in part their competition for influence in the region, Turkey and Iran took different approaches at the meeting, with Iran seeking to include political and security issues in the discussions. Rafsanjani characterized the gathering as one of a "large Islamic family," referred to issues concerning Muslims such as the "plight of the Palestinians," and said that the organization could draw lessons from organizations like OPEC and ASEAN. Then Turkish President Turgut Ozal adopted a more secular and less politicized approach, advocating that the ECO adopt an infrastructure similar to the European Community's and take

immediate steps to eliminate tariffs and non-tariff barriers.(35)

At this juncture, it is unclear whether Turkey and Iran resolved their differences over the ECO's goal or whether it will now become more active. It potentially could combine the strengths of Turkey and Iran towards the interests of all and serve as a framework for expanded regional cooperation. Taking a long view, there are reasons for Iran to wish to work with, and not against, Turkey as a team in the Muslim Republics, or at least not to irritate Ankara. Iran needs Turkey in a larger context to jointly maintain Iraq's isolation. Although it may be viewed by hardline Iranians as a proxy for the U.S., Turkey is at least a Muslim country and could be used as the lesser of two evils.

Iran (as well as Turkey and others) face challenges in influencing the republics because of economic and social considerations. They are in the process of nation-building. All six are clearly interested in improving their economies and are anxious to promote investment and receive economic assistance. Despite the recession in the U.S. and elsewhere, the West and moderate Gulf states are better able to meet those needs than Iran. On April 1, 1992, the U.S. and Germany announced a \$24 billion program to aid all ex-Soviet Republics on behalf of the G-7 countries. (36) The package is by no means ready for implementation. The U.S. share is \$6.6 billion, some of which may be cut by Congress. In the end, however, it appears that the West will outspend Iran at least for the short term.

Similarly, the Saudis have committed \$1.5 billion in aid to the former Soviet republics, of which \$500 million remains unspent as of mid-March. The Saudis have said that this money will go to the Muslim Republics, including another \$750 million from the Saudi Development Fund. The other GCC states have likewise pledged about \$2 billion more in economic assistance for Central Asia.

Turkey is quite active with plans to broadcast 89 hours of television weekly in Turkish to the Muslim republics. In addition, Turkey has embarked on an ambitious program involving 6000 scholarships for Muslim republic students to study in Turkey in addition to donations of tons of food, medicine, and technical expertise. (37)

The republics' linguistic, ethnic and cultural diversity also complicates Iran's potential for influence. With the exception of Azerbaijan, the Muslim populations are Sunni. Although the Azeris are Shi'a and have a cultural affinity to Iran, their language is more related to Turkish. Turkic languages and Turkish culture are predominant in the republics, but there are echoes of Iranian culture throughout the region. Tajikistan is linguistically and ethnically closer to Iran than Turkey. Interest in pre-Islamic Iran is strong in this republic. For example, in 1991, the Tadjiks celebrated the anniversary of a famous pre-Islamic Iranian musician of the Sassanid court, "Barbard." (39)

Although proud of their pan-Turkish nationalism, the Uzbeks also lay claim to Iranian roots, claiming the Iranian Samanid dynasty as forefathers.

With respect to the competing attractions of Islam versus secularism, the new states at this juncture seem overwhelmingly to prefer secularism over an Iranian style theocracy. During Secretary Baker's February 1992 trip to four Central Asian republics, the press reported many of the region's leaders told him privately that they are concerned about--and would like to avoid--any rise in Islamic revolutionary fervor in their states. President Askar Akayev of Khyrgyzstan recently announced publicly, "I'm against religious extremists, just as I was against communist extremists." (40)

Problems could arise if the republics' experiments in democracy fail. With the exception of Kyrgyzstan and perhaps Kazakhstan, the power structure in the republics remains in the hands of the old communist party nomenklatura. Not without opposition, however. In Azerbaijan, the ruling old communist guard and the new opposition are engaged in a power struggle, detracting from efforts to settle the dispute with Armenia. Instability and political frustration could sour popular support for democracy in the republics.

Similarly, the transition to free market economies, now experienced by all of them, poses problems. In mid-January 1992, student demonstrations in Tashkent, capital of Uzbekistan, left as many as six dead. (41) The protest followed prices increases ranging from three-fold to thirty-fold introduced the same month. Reflecting the concern throughout the region, Tajikistan passed a law stiffening penalties for demonstrations during the work day.

If further economic deterioration is associated with the free market experiment, religion, as the "opiate of the masses" for some, could become more attractive. Thus, Islamic fundamentalism could gain ascendancy, but not necessarily of the Iranian variety. Perhaps with this in mind, Saudi Arabia, for example, has supported Islamic groups in Tadjikistan and Uzbekistan, and spreading Wahabi (Sunni fundamentalist) practices among them. The leader of Tadjikistan's Islamic movement told Western reporters that an Islamic government in his country would not be similar to that of Iran because Tadjiks are Sunnis. (42)

In time, a scenario could also evolve in which Saudi Arabia or Turkey gained dominant influence in the Muslim republics. If virulently anti-Iranian governments then came to power, then Iran might adopt a more aggressive posture, perhaps transferring arms to pro-Iranian sympathizers in the republics or engaging in widescale subversive activities in Saudi Arabia, Turkey and elsewhere. If the arms-related constraint of maintaining good relations with Russia disappeared, this course appears more likely. Events in the region could deteriorate and have serious ripple effects in the Gulf.

MILITARY BUILD-UP

Such a scenario becomes all the more alarming in view of Iran's arms' build-up and other potential military capabilities in the region. Following the Iran-Iraq War, the Iranian military was in a shambles. CIA Director Robert Gates has estimated that Iran

is now spending \$2 billion annually on weapons from foreign suppliers. Iran's motivations are not only to "redress the military imbalance with Iraq," according to Gates, " but also to increase its ability to influence and intimidate its gulf neighbors." (43) Iranian UN Ambassador Kharrazi in turn has denied that his country wants to play the role of regional superpower, stipulating that Iran spends only 1.3 percent of its GNP on defense. Kharrazi described the weapons program as part of Iran's "defensive strategy and the need for a balance of power in the region." (44)

The scope of the build-up indicates that Iran's ambitions could be other than benign. Rafsanjani is overseeing an effort to essentially rebuild Iran's military. Iran appears to be acquiring advanced jets, tanks, missiles and submarines. Its suppliers include Russia and the former Soviet satellites, China and North Korea.

One of the keys to the rearming process is a 1989 agreement with the former Soviet Union. Press reports indicate Iran agreed to spend about half of a \$10 billion 5-year weapons budget on Soviet weapons. To sweeten the deal, the Soviets agreed to upgrade two hydroelectric dams and a steel plant the Soviets originally built in central Iran in 1960.(45)(46)

The Iranians evidently arranged to purchase sophisticated conventional weapons from the Soviets and a planned construction of a T-72 tank production line near Tehran. The main emphasis of the deal, however, is on revitalizing the Iranian air force. Thus far,

press reports indicate Tehran has purchased about a dozen SU 24 fighter-bombers from Moscow, 20 MIG 29s, and perhaps a few MIG-30s. Eventually, Iran will probably purchase more MIG-29s to build its fleet to approximately 50 planes. In addition to these planes, the Iranians have bought about 24 F-7 fighters from China. (47)

Iran still has the planes from the Iraqi fleet from Desert Storm, and claims ownership until Iraq pays several hundred million dollars in war reparations. Alternatively, Iran could sell part of the fleet or absorb the planes into the Iranian air force. Iran has neither the parts or pilots for the Mirage fighters, but could use the MIG-29s, SU24s and SU22s.

On the naval front, Iran appears to have arranged to purchase two to three Kilo-class submarines from the Russians. If the deal is consumated, the submarines represent a major breakthrough for the Iranians and are particularly worrisome. The current Iranian navy includes only destroyers, frigates, patrol craft, and two midget submarines for mining harbors and shore waters. The kilo-class submarine is an advanced diesel-powered boat, particularly effective in choke points, confined waters and in coastal defense missions. It travels quietly, has the capacity to spend 45 days at sea without going into port, and can fire torpedos at oil tankers or warships. The submarine could help achieve the top Iranian navy admiral's goal to "control the Strait of Hormuz" through which passes one-sixth of the world's oil supplies. (48)

The head of naval intelligence, Rear Admiral Schaefer, has expressed doubt that Iran could succeed in sealing off the

Persian Gulf for a lengthy period. However, he did admit that the "quiet, modern diesel submarines are very, very difficult targets" for anti-submarine forces to locate and that it would take some time for the U.S. Navy to destroy them.(49)

There are reports that Iran is also seeking to build or import weapons of mass destruction (WMD) and advanced ballistic missiles. In the latter case, Iran already has Scud B surface to surface missiles (SSMs) and media reports allege perhaps Scud Cs from North Korea. China also may have shipped Iran some sensitive gyroscopes used in rocket guidance systems. Regarding WMD, Iran probably has a biological capability and has already demonstrated its ability to use chemical weapons against Iraq during the Iran/Iraq War. (50)

On the nuclear front, last fall, Vice President Ayatollah Mohajerani advocated that, "The Islamic countries should collectively utilize their resources to achieve nuclear strength." (51) Tehran subsequently officially denied seeking to buy nuclear arms. Iran is a signatory to the 1968 Nuclear Nonproliferation Treaty and is not believed to have produced a significant amount of enriched uranium. Further, at Iran's invitation, an inspection team from the International Atomic Energy Agency (IAEA) visited Iran on February 7, 1992 and found Iran's activities consistent with a peaceful nuclear program.(52)

Iran maintains it wants nuclear energy because its oil supplies will eventually be exhausted and it wishes to use radioactive elements in medicine and agriculture. With the IAEA's

good bill of health, Iran hopes "that there won't be any excuses left for a lack of cooperation." (53)

More wary Western delegates to the IAEA recommended that in view of "Iranian nuclear ambitions," the IAEA should make further visits and the West should retain an informal embargo of shipments of nuclear-weapons related material. Although future visits are possible, the IAEA said they are not envisioned as special inspections aimed at revealing clandestine activities. In any event, if Iran is trying to attain a nuclear weapons capability, the CIA publicly estimates that the goal is unlikely to be achieved before the year 2000. (54)

FUTURE US STRATEGY IN THE GULF

The U.S. can draw several conclusions about present day Iran and U.S. policy in the Gulf: (1) Iran is an important player in the region and should be factored into our future planning. (2) Iran does not pose a strategic threat to the U.S., and is unlikely to do so in the future. (3) Any short-term military action by Iran toward the Gulf states now is unlikely and would probably be limited. (4) However, with economic recovery, Iran will be a formidable regional power, geopolitically and if present trends continue, militarily. (5) If Iran develops a nuclear weapons capability, then the stakes for U.S. and GCC interests would rise dramatically.

The conventional view of U.S. interests in the region do

include Iran. For five decades the US has considered the Gulf a region of vital interest because of its oil resources. Saudi Arabia, Iraq, the United Arab Emirates, Kuwait, and Iran hold two-thirds of the world's total estimated oil reserves and Gulf producers supply over a quarter of current daily demand.

	<u>Crude Oil Reserves</u> <u>(as of 1/1/92)</u> <u>billion bbls:</u>	<u>Production</u> <u>millions</u> <u>bbls/day</u>
Saudi Arabia	257.8	8.3
Iraq	100.0	0.249
UAE	98.1	2.3
Kuwait	94.0	0.450
Iran	92.9	2.3
Oman	4.2	0.705
Yemen	4.0	0.215
Qatar	2.6	0.390
Bahrain	0.1	0.370

Total Gulf	653.7	15.846
Total World	991.0	58.630
(55)		

The U.S. is not as dependent on this oil as our European and Japanese allies, but we certainly would be affected with a disruption in supplies, given the fungibility of the international oil market. It may be worth noting that Japan receives most of its oil from Iran.

The main focus of US strategy toward the Persian Gulf is in assuring access to petroleum at reasonable prices. Other important interests in the Gulf include: promoting democracy and human rights; increasing commercial opportunities for US business; and seeking diplomatic and financial support from the Gulf states for keeping pressure on Saddam, backing the Arab-Israeli peace process, and stabilizing the situation in the Muslim Republics bordering the

Gulf region.

As enunciated to date, US security strategy contains various elements:

- o encouraging collective planning and action by the GCC states;
- o supporting cooperation between GCC countries and their regional friends toward this same goal;
- o offering to meet the legitimate defense needs of the GCC states through arms sales while working toward the longer term goal of arms control;
- o maintaining close security ties to Gulf states, to include military exercises and the maintenance of an enhanced naval presence in the Gulf; and
- o supporting the UN in bringing Iraqi weapons of mass destruction (WMD) under control. (56)

The aim is to deter future threats by improving defensive capabilities among the Gulf countries themselves, and with the backing of the U.S. if need be. Clearly it shows that the U.S. is attempting to draw lessons from Desert Storm and is taking advantage of the post-war interval while it is the dominant foreign power in the region.

Thus far, the policy has met mixed results. On the plus side, there seems to be no problem with the U.S. Navy's continued and enhanced presence in the Gulf. Bilateral access and prepositioning agreements have been concluded with Oman, Kuwait, and Bahrain, and work is continuing on similar agreements with Qatar, the UAE, and

Saudi Arabia. Despite Iraqi obdurance, the U.S. and other Desert Storm Coalition partners are keeping pressure on Saddam through the UN, especially its inspection teams in their efforts to destroy Iraq's WMD capability. Bilateral military cooperation between U.S. and GCC states' forces has increased significantly, including military exercises; trilateral and multilateral exercises are on the drawing board.

On the negative side, collective planning among GCC countries has not advanced much. Oman proposed at the GCC summit in Kuwait last December establishing a multinational 100,000 man GCC force, but the other GCC members, especially the Saudis, opposed the measure. The GCC states also rejected the proposal in the so-called "Damascus Declaration" to have permanent Egyptian and Syrian forces deployed in their countries, and they have not gone far otherwise in including regional friends in the security arrangement. The GCC is also far from achieving goals of coordinated procurement and standardization among forces. Similarly, there is no integrated command and control system for the GCC.

The question of arms sales and disarmament is more complicated. A major factor in current policy is President Bush's arms control proposal for the Middle East unveiled in his speech at the US Air Force Academy in Colorado on May 29, 1991. The President proposed continuation of the worldwide arms embargo on Iraq; arms transfer negotiations among suppliers; elimination of ballistic missiles in the region as a first step

before ceasing production, acquisition, and testing of SSMS; strengthening of the Biological Weapons Convention; and in the nuclear area, on-site inspection. (57)

Suppliers were amenable to the negotiations. On July 8, 1991, the five major weapons suppliers--also the five permanent members of the UN Security Council-- met to discuss the Bush initiative. They are due to meet again in May 1992. Thus far, there appear to have been discussions only, but no specific guidelines for restraints on destabilizing transfers of conventional arms.

Some members of Congress were less receptive to the initiative, regarding it as insufficient and contradictory, particularly coupled with the policy to continue arms sales to Gulf states. A June 27, 1991 House hearing on Conventional Arms Sales with Assistant Secretary of State for Political Military Affairs Richard Clarke testifying is illustrative. At that hearing, Congressman Dante Fascell (D-Florida) pointed out that "in meeting legitimate needs of our friends" in the Gulf and elsewhere in the Middle East, it would be difficult "to talk all the other suppliers into a policy of restraint." (58) Further, Fascell and others Members unsuccessfully pushed passage of a bill proposing that the U.S. take the lead in advocating an immediate arms sales moratorium, in concert with other suppliers and with safeguards for the President to change course. The Congress and administration are due for another clash on the issue of arms sales for Gulf defense. Saudi Arabia has asked to buy 72 F-15 combat jets with a long-term value of \$13 billion. Congressman Melvin Levine (D-

California) has collected more than 200 signatures of members who oppose the sale on the ground it contradicts the administration's nonproliferation policy.(59)

U.S. Policy: Advantages and Disadvantages

What are the advantages of U.S. policy in the Gulf, post Desert Storm, and what are its disadvantages? In the nature of things, these are for the most part two sides of the same coin.

For now, there is no question that the mutual interest of U.S./western buyers and Gulf sellers is being met in international oil markets. The U.S. demonstrated in unequivocal terms when Saddam invaded Kuwait that we would stand up for our interests and for our friends, and the lesson was not lost on anyone in the Gulf. For the medium term and long term, it is likely to continue to be the case that the U.S. will oppose efforts to establish hegemony in the Gulf by any power -- Iraq, Iran, or powers from outside.

The advantage of our current policy is that we are working with Gulf countries who share an important common interest with us, despite many significant differences between us -- world outlook, culture and religion, political systems -- and despite the difficulties that those differences create. (Take the trade-offs between our oil interests and those in promoting democracy, for instance.)

Another advantage is that our policy takes account of the changing international climate and the restrictions caused by fiscal difficulties at home. In a word, the policy relies to an

increasing extent on coalition interests and cooperation, the principle of burdensharing, and an insistence that our friends first look to themselves, then to the region, and then to the U.S. to backstop their security.

What are the disadvantages? The most obvious is that the kind of relationship which the U.S. ought to have with the most populous and in ways most potentially powerful country in the region --Iran-- is missing, in a kind of deep freeze. There are plenty of good reasons for this state of affairs: the history of our support for the Shah, Iranian leaders who continue to "satanize" the U.S., ongoing Iranian backing for terrorism via such groups as Hizballah, and so on. But what is it that the U.S. can do to help move this relationship in a more constructive direction? That is a question which our policy may not have given enough attention to.

Another disadvantage lies in the differences in interests between the U.S. and our friends in the region. All agree at this point that the war to expel Saddam from Kuwait was a great success. But until Saddam is gone and Iraq stabilizes, the accounting will not be closed -- and the Kuwaitis and Saudis especially will not be able to weigh finally if the costs were worth it, even if Saddam left them no decent alternative at the time.

The political impact of U.S. policy and actions in the Gulf is not something we can control completely, and sometimes not well at all. That goes for the U.S. electorate as well as Muslims inveighing against "the New World Order" in Iran, Iraq, and in Islamic circles in the Arabian Peninsula. This is not so much a

disadvantage of our policy, as an illustration of its inevitable limits in the real world.

The U.S. was fortunate in Desert Shield/Desert Storm. Would the U.S. be capable of complementing, much less leading, an effort to defend Persian Gulf interests in the case of another Saddam Hussein invasion? It is correct that "new battlefield" weapons can provide "force multipliers," but in some scenarios would that be sufficient? With the proposed downsizing of the US military, the U.S. might have neither the troops nor the assets to devote to a repeat of the Saddam Hussein invasion. And if there is a next time, the U.S. would probably not have five months to respond.

Part of the problem again lies in Iran's refusal to engage in a dialogue with the U.S. In the words of Assistant Secretary of State for Near East Affairs Edward Djerejian, "The ball is in their court." (60) However, if it wished to, the U.S. could encourage others of further including Iran in the security dialogue. Although it seems extremely unlikely Iran would ever belong to the GCC, perhaps some other mechanism could be found to facilitate Tehran's involvement in Gulf security.

As a first step, the GCC might engage Iran in a multilateral effort to solve common problems such as pollution and water resources. If Iran could somehow convince its Arab neighbors of its good faith and non-threatening intentions, Saudi Arabia and other GCC states might be interested in a comprehensive security treaty for the Gulf with Iran as a partner and with the U.S. and others as guarantors. As far-fetched as it sounds, only two decades

ago Saudi Arabia and the Shah's Iran had a modus vivendi on Gulf security. Quid pro quos could be offered to entice Iran to join a new collective security effort and abandon unacceptable behavior.

If the Consultative Assembly elections result in more moderate policies toward the U.S., the U.S. may want to seize the opportunity to engage Iran further. One gesture, particularly, if Iran worked to release the remaining European hostages, would be to approach Iran and suggest reestablishing diplomatic relations. Iran is on the terrorism list, but so is Syria, with whom we have relations.

There are, of course, disadvantages to the U.S., with this approach as well. There would likely be Congressional opposition to a more positive U.S. posture toward Iran, even with another hostage release. Also, some of our friends in the region would object.

Overall a constraint to adopting any strategy for this region (and others) is that there is no national consensus yet on whether the U.S. will continue to attempt to be a superpower, whether it should reduce its role and become a middle power as some commentators advocate, or will turn entirely inward.(61) The Presidential elections in November should help resolve the issue.

If the U.S. places less emphasis on the superpower role, then the issue of trying to lessen our dependence on oil, and that of our allies, should be addressed. It is unlikely that alternative sources of oil will reduce world dependency on the resource for at least the next two decades given present use rates. However,

studies indicate that improving the American fleet of cars and light trucks by 12 miles per gallon would displace all imports from the Persian Gulf.(62)

In conclusion, one of the advantages of focusing on the GCC and excluding Iran (and for that matter Iraq and Yemen), is that there is more of a chance of cohesion in the security alliance, absent a broad political solution to the area's problems. But, non-involvement of Iran and others in future security arrangements means perpetuation of rivalry, confrontation, and probably more violence in the Gulf.

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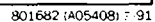
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Major Muslim Ethnic Groups in Iran and the Muslim Countries of the CIS

