Iran and the Arab World addresses the most crucial, and most ignored, Middle East politics. With a population twice as large as the Gulf states combined, immense reserves of oil and gas, and a leadership position in the worldwide movement of Islam, Iran must be a part of any future vision of the Arab Middle East in general. Yet Iran’s political isolation is more than just a refusal to discuss its role in the future of the region. Through this barrier of silence with illuminating studies with Syria, Lebanon, Iraq, Egypt, Saudi Arabia, and the Gulf Cooperation Council. This is a “must read” for anyone interested in the New World Order in the Persian Gulf and the region.

David W. Bulliet, Professor of History, Columbia University

Relations are crucial for understanding the contemporary Middle East. To date, no monograph has treated this important topic—the Iran-Iraq war, Iran’s role in the Lebanon, and the radical Islamic forces in the Arab world. Iran and the Arab World admirably fills this lacuna. In a set of incisive essays that analyze ideology, United States policy, and Iran’s relations with Iran and Arab relations, this volume offers critical insights into prospects for conflict and stability in the region. Iran and the Arab World is a must reading for those seeking a truly comprehensive Middle East politics.

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Iran and the Arab World

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KURDISH ETHNONATIONALISM
MIDDLE EAST POLITICS
POLITICAL DEVELOPMENT IN CHILE
A STUDY ON CHINESE FOREIGN POLICY

St. Martin’s Press New York
Until the end of the US-led war against Iraq, the relationship between the Islamic Republic of Iran and the Kingdom of Saudi Arabia remained tense and unfriendly. While tension also existed between the two nations during the reign of the late Shah Mohammad Reza Pahlavi, it was nowhere close to the essentially antagonistic relations that developed between the two countries in the aftermath of the Revolution in 1979.

The Iraqi invasion of Iran on 22 September 1980 and the subsequent eight-year war between the two countries became another turning-point in the worsening relations between the Islamic Republic and the Saudi Kingdom. From that moment, the essentially ideological contest gradually developed into political confrontation on several fronts. The relationship became even more tense when a Saudi-engineered glut in 1985–6 led to a sharp drop in OPEC oil prices, with extremely negative consequences for the Iranian war economy.

This deteriorating relationship reached its lowest point in 1987 when a political demonstration by the Iranian pilgrims in Mecca turned into a bloody confrontation with the Saudi police. At that point verbal abuse intensified from both sides and diplomatic relations were severed. The late Ayatollah Rouhollah Khomeini even proclaimed Saudi Arabia as the Islamic Republic's main enemy although Iran was in the midst of its war with Iraq. The Islamic leaders in Tehran also began to call the Kingdom by its old name, Hijaz, questioning the legitimacy of the House of Saud's rule in Islam's birthplace.

Iran–Saudi relations improved slightly under the leadership of the pragmatist President Ali Akbar Hashemi Rafsanjani beginning in 1989. After the ceasefire with Iraq in August 1988 and the death of Ayatollah Khomeini in 1989, the Islamic Republic began to redefine its foreign policy from the earlier confrontational approach toward a more moderate and cooperative one with the states in the region.

This change notwithstanding, Iran–Saudi Arabia relations remained tense and unfriendly until the US-led war against Iraq was successfully con-
The shrinking demand and expanding competition combined with mis-
taken OPEC policies and what I have elsewhere called 'the Saudi factor' to
cause the 1986 crash in oil markets; oil prices declined from about $28 per
barrel in mid-January 1986 to $10 per barrel by the first week of April 1986.
Indeed, real, that is the inflation-adjusted, prices were even lower, about $4
to $5 per barrel. OPEC remained inattentive to transformations occurring in
the world oil market and, as a result, did not adopt a long-term strategic
perspective in the pricing of its oil. Instead of intervening in the market to
regulate its prices at a stable level and in relation to supply-demand forces,
OPEC decided to take advantage of short-term gains in prices.

From the perspective of Iran—Saudi relations, however, it is the impact of
the Saudi factor on the world oil market that is most significant. Following
the 1973 oil price-hike, the intra-OPEC power struggle grew, over OPEC
leadership. As a consequence, the organisation became increasingly politi-
cised. From the very beginning the two main contestants were Iran and
Saudi Arabia. The 'struggle for the leadership of OPEC remained a dormant
issue under the tight market of 1979–1980. It was only in soft market
periods (for instance, 1974–1978 and 1981–1985) that this struggle created
considerable intra-OPEC tensions.15

After the Iranian Revolution, Saudi Arabia became the absolute 'swing
producer' of OPEC, a position that contributed to its growing power within
the organisation in the subsequent years. The Kingdom used its new-found
power to make economic and political gains and friends. In particular, it
used its power within OPEC to regulate oil prices according to the eco-

THE OPEC FACTOR

To appreciate the importance of the OPEC factor in Iran–Saudi Arabia
relations, one must take note of the fact that most modern sectors of the
Iranian economy depend on the world market for some 65 to 75 per cent of
their various inputs, from raw materials to technology. These imports must
be paid for by oil revenue which constitutes over 90 per cent of the
country's foreign exchange earnings. Oil is, in short, the economy's real
lifeline. Yet Iran has only limited control over the production, export and
price of its oil, as they are largely determined by changes in the world oil
market and within OPEC. The two factors are interrelated and worked
together to cripple the Islamic Republic's oil-earning capability.

To begin with, in the aftermath of the 1973 Arab oil embargo, the West
became increasingly oil-conscious. The United States led the crusade against
OPEC which began with the creation of the International Energy Agency
(IEA) in 1974. Except France, all major oil-consuming nations in the West
participated in this new 'cartel of oil companies'.1 The cartel's main task
was to create a surplus of energy by a combination of several means
including reduction in demand, development of new energy sources, and
the engineering of the occasional glut.

In retrospect, this policy was quite successful. In 1985, demand for oil in
the non-Communist world was 5 per cent lower than it was in 1973. For
OPEC, the decline was even more severe. By 1986, OPEC had lost some 20
million barrels a day of its potential production, of which 14 to 15 mb/d had
been taken away by non-OPEC producers including those in the North Sea.2

In the meantime, the world oil market was flooded by oil from Saudi Arabia
and the new OPEC competitors, resulting in a major oversupply or glut by
1985.3 Within OPEC, Iran was the biggest loser. Its share of OPEC produc-
tion and exports of crude oil declined from 19.1 per cent and 18.2 per cent
in 1976 to 14.1 and 13.4 in 1985 respectively. Part of this decline, however,
resulted from the Iran–Iraq war and an earlier deliberate government policy
to reduce dependency on the oil sector.4

In the following pages, the first section focuses on the OPEC factor. The
next section focuses on the ideological and cultural roots of the tension
between the two regimes in Tehran and Riyadh. In the third section, the
Persian Gulf factor and the US role in Iranian–Saudi Arabian relations are
discussed. The chapter is then concluded with a few remarks about recent
changes in the relations between the two nations and the prospect for the
future.
This Saudi policy was part of a larger mutual commitment that had developed between the Kingdom and the United States beginning in the mid-1970s. In Terzian’s words:

A new strategic triangle had emerged on the international scene – OPEC at the mercy of Saudi Arabia; Saudi Arabia aligned with the United States; the United States committed to the protection of Riyadh – and OPEC was to remain a prisoner of this triangle throughout the following years, escaping only thanks to exceptional – and ephemeral circumstances.6

Thus, following the Iranian Revolution in 1979, according to Mohammad Farouk Al Husseini:

Saudi Arabia was called upon by the international community to increase its production in order to alleviate the adverse effect that might have been engendered by a world energy crisis. Production was accordingly increased to 9.5 mb/d in 1979, 9.9 mb/d in 1980 and 9.8 mb/d in 1981.7

Aramco was already, in late 1978, producing some 2.5 to 3 mb/d more than its production earlier that year. As was later revealed by a US Senate report, Aramco’s maximum production capacity was about 9.3 mb/d and the overproduction had ‘caused irreparable damage and reduced the ultimate recovery rate of oil in places’.8 Although the Saudis’ overproduction policy had begun in the mid-1970s, it became a well-established practice only after the Iranian oil workers went on strike in 1978, causing an almost complete halt in the country’s oil exports.

The Saudi Kingdom also tried to keep a lid on oil prices. However, due to the soft market condition prevailing in 1979–80, these Saudi ‘malicious tactics’ proved largely ineffective. As was noted by Fesharaki and Isaak:

In 1979, the Saudis initially kept their prices at $18/barrel—$4/barrel below similar-quality crude – but spot prices rose to $45/barrel. The Saudis were forced, step by step, to raise their prices to $24/barrel, then $26, $28, and $30, and finally to $32/barrel in December 1980. Still their prices were $3–4/barrel below similar-quality crude.9

According to Terzian, ‘this gap between Saudi prices and those of other producers represented a loss of over $23,000 million over the period February 1979 to September 1981...’.10 The lower prices of Saudi oil also led to widespread corruption among top-ranking Saudi personalities, including some members of the royal family. The two most important cases involved the notorious Prince Mohammed bin Abdul Aziz, King Khalid’s elder brother, and Prince Bandar bin Faisal bin Saud (presently Saudi Ambassador in the US). Both are reported to have approached oil companies, offering them lower-priced oil in exchange for multi-billion-dollar commissions.11

Whatever the cost, by 1981, Saudi Arabia had ‘succeeded in imposing its will on the other OPEC members, forcing them to realign prices at the lowered Saudi scale’.12 In an interview with NBC television on 19 April 1981, Ahmed Zaki Yamani, then Saudi Oil Minister, said that the current oil glut was ‘engineered’ by his Government to stabilise the world oil price.13 Another source also quoted the Minister for expressing a similar idea: ‘we engineered the glut and want to see it in order to stabilize the price of oil’.14 It was following this policy that the Saudis found themselves in opposition to the other 12 members of OPEC during the Organisation’s sixtieth meeting in Geneva on 25–7 May 1981.

While this Saudi policy has been inflicting real wounds on OPEC (for example, prices collapsed in February 1982), the Kingdom introduced an even more ‘malicious’ tactic in 1985. This new policy is known as ‘netback’ pricing arrangements, oil companies buying Saudi oil were guaranteed profits at the refining stage by indexing the crude oil price to the market value of the products made from it. The netback mechanism, therefore, reduced the risk of the volatile oil market. Under such a lucrative arrangement for the oil companies, Saudi Arabia had no difficulty in increasing its production and exports and flooding the oil market.

Indeed, by the end of 1985 its production had doubled and its exports more than doubled. Specifically, Saudi oil exports rose from 2.5 mb/d in the fall of 1985 to 4.5 mb/d in early 1986 and close to 6 mb/d in the summer of that year. As a result, ‘the potential world over-supply of oil, as earlier in the year, became an actual over-supply...’.15 It was in the aftermath of this development that OPEC terminated its policy of fixing its oil price and of restricting production to the level of world demand after accounting for non-OPEC oil. These changes then set the stage for the big crash of 1986, which had, strangely enough, occurred in less than two months after Iran had taken the Iraqi port of Faw following a surprise major offensive. At the time, the Saudis remained very concerned about the fate of Iraq, which in a sense was connected to their own fate.

Generally speaking, while all OPEC members suffered from the declining oil market and of the Saudi policies, the Islamic Republic was impacted the most. In the words of Iran’s Deputy Foreign Minister, the Saudis’ policy dealt a ‘severe blow to OPEC’ and the Kingdom was ‘guilty of the greatest treason ever committed against the oppressed and deprived countries...’.16 The Republic was involved in a war for which it had no international
support and had inherited an economy that was in deep crisis and highly dependent on oil revenue. Moreover, the Saudi policies were not just designed to 'cripple the Islamic regime economically' but also to strengthen its enemy, Iraq. The Saudis were 'financing Iraq's war effort' from the start and in a variety of ways, including unilateral transfers in cash and in kind, credit arrangements, and loans. In a single year in 1981, for instance, Saudi Arabia, along with Kuwait, Qatar, and the United Arab Emirates, 'provided Iraq with financial assistance, in the form of an interest free loan of $30,000 million'.

To achieve maximum destructive effect, the Saudi policy was also coordinated with the United States' destabilising campaigns and economic sanctions against the Islamic Government in the aftermath of the American hostage drama in Tehran. For example, on 5 June 1984, a Saudi F-15 shot down an Iranian F-4 Phantom, an event which, according to Elizabeth Gamlen, happened as 'A direct consequence' of the Saudi air cover by 'the US operated and controlled AWACS.'

In a single year in 1981, for instance, Iran was perhaps fortunate that the oil price crash of 1986 was equally harmful to the American oil industry in Texas. As a result, and according to James Bill, Iran's and America's interests converged on this issue. The US then pressured the Saudis to sign an agreement with Iran on lower production and stabilise oil prices at $18 per barrel in August 1986. The New York Times was blunt about this US approach to the Saudis:

In the Spring of 1986, George Bush traveled to Saudi Arabia to plead with the world's biggest oil exporter to stop flooding the market. Mr. Bush told the Saudis that their overproduction, by driving down the price, was jeopardizing the American oil industry, in turn undermining the nation's economic strength and security.

The Saudis also came under pressure from other OPEC and non-OPEC producers, notably Egypt, which was also suffering from lower oil prices and loss of oil revenue.

Saudi Arabia continued to undermine the Islamic Republic in the period following the Iran–Iraq war. As was widely reported in the New York Times, along with Kuwait, the United Arab Emirates, Qatar and Iraq, the Kingdom stepped up its oil production almost immediately after the ceasefire between Iran and Iraq on 20 August 1988. By early October, Saudi production had reached 5.7 mb/d, well above its OPEC quota of 4.3 mb/d. The Saudis claimed that they were protecting their market share from Iran's possible incursion, a pretext that soon became untenable. The Islamic Republic continued to produce at less than its OPEC quota of 2.4 mb/d throughout 1988.

Meanwhile, the Saudi Government and its allies in Arab OPEC raised the question of production parity between Iran and Iraq as a condition for a new OPEC accord on price and production. This was rather an unfair demand, since Iraq's share had always been lower and Iran has a much bigger economy and a population four times larger than that of Iraq. Nevertheless, after an initial period of resistance, Iran gave in, only to find that the Saudis had another plan in their bag: almost immediately the Kingdom attempted to sabotage the OPEC agreement by conditioning its implementation to settling certain political disputes between itself and the Islamic Republic. To back up this new demand, the Saudis threatened to lower their oil prices, a position that only led to widespread protest by other members of the organisation.

The Saudis' anti-Islamic Republic policies did not always go unanswered. To confront the Saudis in OPEC, Iran tried, sometimes successfully, to create a united front with the 'radical states' within OPEC (Algeria and Libya). The Islamic Government was also successful in applying, at times, an aggressive pricing strategy in spot markets and in making extensive barter deals with Eastern European nations. In 1982, for example, Iran announced three successive price-cuts in less than three weeks and its oil price was between $4 and $5 lower than the price for comparable Saudi oil. Even the United States, who had once boycotted Iranian oil, took advantage of the situation and purchased the cheap Iranian oil to build up its reserves. It seemed as if the Republic had a design to paralyse the 'Saudi OPEC'.

In response to Iran's price-cuts, the Saudis surprised everyone in the oil market when they offered to cut their production in order to boost prices. But Iran did not give in and the country's oil revenue increased in its post-revolutionary peaks in 1982 and 1983 (($20 billion and $20.4 billion respectively). It must be noted, however, that at the time, Iran was making progress in the war, a development that was closely watched by the Saudi Government. It was not, however, until Iran had retaken the City of Khorramshahr from the occupying Iraqis on 24 May 1982 that the Saudis took the Islamic Republic seriously.

Surprised by the sudden Iranian success in the war, the Saudis panicked, offering Iran lucrative compensation for war damage and cooperation in regional affairs. The Islamic Republic was, however, in a totally different mood. Confident of its newfound military power and assured by its increased oil revenue, the Republic had decided to continue the war until Saddam Hussein was overthrown and its allies punished. In Ayatollah Khomeini's words, 'Jang, jang ta refa'a Fitnah' (War, war until the removal of the plot). Iran rebuffed a second Saudi mediation to end the war when in May 1985 the Saudi Foreign Minister travelled to Tehran on behalf of the
Islamic Conference Organisation (ICO) and the Gulf Cooperation Council (GCC).

Meanwhile, the Republic’s policy toward Saudi Arabia, as declared by Mohammad Gharazi, then Iranian Oil Minister, would consist of ‘isolating Saudi Arabia, compelling her to behave as one member amongst others’. But, he continued, ‘Our struggle with Riyadh will not take place on the oil market, it is a political struggle. Once Saddam Hussein has fallen, many problems will be resolved.’ In retrospect, this proved wishful thinking on the part of the leadership in Tehran, who could not see the larger political economy of the Middle East and its place within the capitalist world system. As is well-known by now, the United States intervened in the war on the side of Iraq, initially creating a stalemate, then forcing the Islamic Republic into a situation where it had to accept a less than optimal condition to end the war. The Islamic leadership had ended the hostage drama in an exactly similar fashion.

IDEOLOGICAL AND CULTURAL FACTORS

The fact that the Saudis continued to undermine the Islamic Republic in the period following the ceasefire between Iran and Iraq indicated fundamental disagreements between the two regimes over their ideological and cultural orientations. In particular, Iran–Saudi rivalry over religious legitimacy proved tenacious and damaging to both sides. While the Islamic Republic considered the Saudis’ Vahabism as an ‘American brand of Islam’, the Kingdom was very hostile to the revolutionary spirit of Ayatollah Khomeini’s Islam. This ideological division had overshadowed the traditional Shia–Sunn division between the two countries. The Islamic regime in Tehran was also inimical to the Saudis for their close friendship with the US. This relationship was considered unacceptable since the Saudis were de facto guardians of Islam’s holiest places, Mecca in particular.

Significant cultural and nationalistic differences also divide the two nations. Shi’ism in Iran is closely identified with Iranian nationalism while the Vahabi Sunnism provides legitimacy to the Saudis’ version of Arab nationalism. The Arab culture is predominantly Islamic, while that of Iran is a mixture of its pre-Islamic Zoroastrian and Islamic cultures. The two nations also speak different languages, have different calendar years, and celebrate different holidays. Their food, music and dress are also dissimilar. These and other differences have resulted in differing national identities and nationalistic purposes and rivalries. Thus, it is no wonder that the Iraqi leadership should justify its invasion of Iran in terms of ‘Persian racism’, ‘Persian colonialism’ and ‘Persian expansionism’.

The Saudis also echoed similar voices and acted accordingly. For example, like the Iraqis, they call the Persian Gulf the ‘Arab Gulf’ and the Iranian Khuzistan province, is known to them as ‘Arabistan’. They also accused Iran for its ‘racist’ and ‘expansionist’ policy for the war with Iraq, ignoring the fact that the Iraqi leadership was aggressive and expansionist by design and ideology. Worst yet, they supported Iraq’s territorial claim against Iran and helped the Iraqi regime to dismember the country during the war. This Saudi position remains unchanged despite Iran’s principled stand against Iraq’s invasion of Kuwait and its support for the anti-Iraqi coalition. Ironically, Kuwait also took a similar position, a policy that backfired two years later when Iraq invaded Kuwait.

The ideological confrontation in the context of cultural differences gradually turned into political confrontation between the two regimes on many fronts. The Republic attempted to export its revolution to the neighboring states and begin supporting anti-government and Shia movements in the Arab world, including Saudi Arabia. The Saudis responded by assisting Iraq in its war against Iran and by imposing restrictions on Iranian pilgrims. The two countries also took their struggle to Afghanistan, where they supported rival mujahedin groups fighting the central government and the Soviet Union.

The Saudis also financed certain Iranian opposition groups and backed at least one coup plan to overthrow the Islamic Republic. Thus, according to Samuel Segev (a former Israeli intelligence official), at least four governments were cooperating in the planning of a coup to overthrow the Islamic Republic in 1982. The plan, which aimed at restoring the throne for the Shah’s son, was organised by Israeli arms merchants and the then Defence Minister Ariel Sharon, financed by the Saudi Government (at some $800 million), backed by the CIA (under the directorship of William Casey), and based in the Sudan under the leadership of Ja’far Numeiri. The plot was cancelled because of the change in government in Israel after the massacre at the Sabra and Shatila Palestinian refugee camps.

The most important political confrontation between the two states, however, took place on the streets of Mecca. Ayatollah Khomeini had on various occasions called for the Saudi people to rise up against their leadership, but such calls almost always fell on deaf ears: there was one exception. In November of 1979, a group of several hundred religious people, most allegedly Shia, seized the Grand Mosque in Mecca to force changes on the Saudi king. They were quickly and mercilessly subdued and
destroyed by the Saudi police and troops. Iran alleged that American troops and advisers had helped in the operation.

Iran then tried to make hajj (the annual Muslim pilgrimage to Mecca) into a religious-political event and to politicise pilgrimage. Each year the hajj brings a large number of Muslims to Mecca in order to show solidarity and common purpose. Viewing the ritual as a political-religious event, the late Ayatollah Khomeini urged pilgrims to hold anti-American and anti-imperialist political demonstrations in the name of barâ'at az moshrekeen (liberation from infidels). The Saudis disputed this interpretation and responded by adding new restrictions on Iranian pilgrims, resulting in clashes in several years that left a few Iranians dead. The hajj confrontation reached its climax on 31 July 1987, when Saudi troops killed some 450 Iranian pilgrims during a political rally.

Shocked by the event, the late Ayatollah blamed the US and declared that the Saudis were Iran's number one enemy, although Iran at the time was in the midst of its war with Iraq. After some political manoeuvring, Iranians were banned from pilgrimage in 1989 and the war of words between the two regimes reached a new level of hostility. The Saudis had already broken diplomatic relations with Iran in April 1988. The leadership in Tehran also began calling Saudi Arabia by its old name, Hijaz, implying that the House of Saud did not have the legitimacy to rule in the birthplace of Islam.

THE PERSIAN GULF FACTOR

The Iranian–Saudi Arabian tension also reflects the two countries' claims over the leadership of the Persian Gulf and its security. Iran has long considered itself a leader in the Persian Gulf, a claim that is largely justified. It is the largest country in the Gulf area with a population almost seven times that of Saudi Arabia. Iran also has the longest coastline with the Persian Gulf compared to any Gulf state including Saudi Arabia. Moreover, Iran owns many islands in the Gulf, including Qeshm, the largest one, and controls the Strait of Hormuz, the Persian Gulf's most strategic point and the Saudis' major oil exports outlet. It is correct, therefore, that the Gulf should be called (and recognized internationally as) the Persian Gulf. Historically, too, Iran has often been the strongest state and a leader in the area. Indeed, even during its golden days, the Ottoman Empire was unable to subordinate Iran, which remained strong and independent.

The Saudis also consider themselves a leader in the Arab Gulf states, a claim that was legitimated in the aftermath of their involvement in the 1962 civil war in Yemen and its negotiated conclusion in 1968. Saudi Arabia is also the largest among the states in the Arabian Peninsula and has by far the greatest economic power there. It sits on some 66 billion barrels of proven oil reserves, a source that the Saudis have tried to use since the sellers' market in the 1970s to dominate regional politics. Yet, compared to Iran, Iraq, Syria and Egypt, Saudi Arabia seems still to remain a minor force in the region, their vast oil wealth notwithstanding. The Saudis are particularly weak militarily and politically, a fact which was well-demonstrated by the Kuwait crisis. They had to call upon the US to come to their defence when Saddam Hussein's army took over Kuwait. The political power of its oil wealth has also proven weak in the 1980s buyers' market.

However, what has emboldened the Saudis in recent years is the special relation that they have developed with the United States, particularly since the Revolution in Iran. The American interest in Saudi Arabia originally grew when the country emerged as a force for moderation during the participation negotiations (which increased ownership of the oil states in upstream production to a majority share) and during the Tehran negotiations (following which oil prices quadrupled in 1974). In subsequent years, the Saudis became a moderating force within OPEC and a trusted friend of the West. Saudi moderation and oil wealth also assisted the state in gaining credibility as an intermediary in a region torn by extremists, conflicts and poverty. The American–Saudi special relation reached a turning-point in the aftermath of the Iranian Revolution. The anti-American and anti-Saudi stand of the Islamic Republic became a unifying factor between the US and Saudi Arabia.

Meanwhile, direct US involvement in the Persian Gulf increased in the aftermath of the Shah's departure, which coincided with the Soviet Union's intervention in Afghanistan. The Shah's departure had made the 'Nixon Doctrine' largely obsolete and created new security concern for the US. These developments also prompted the Carter administration in 1980 to declare the Middle East an area 'vital' to American interests, a declaration that became known as the Carter Doctrine.

Accordingly, the US expressed its willingness to take military action against 'any outside force to gain control' of the Persian Gulf.17 Already in 1979 and following the takeover of the American Embassy in Tehran by radical Muslim students, the Pentagon had announced the formation of the Rapid Deployment Joint Task Force (of some 100 000 marines). This was later expanded into the US Central Command, which aimed at organising the Persian Gulf Arab states into a US-led military alliance.

The American administration had also begun a search for new alliances that could resist possible Soviet or Iranian expansion in the area. As part of this new strategy, the US also began to strengthen friendly states such as
Saudi Arabia. Thus, in his State of the Union Address on 23 January 1980, President Carter noted that the United States was ready to cooperate with the states in the Middle East to meet the 'new threat' (primarily Iran) to the security of the Persian Gulf. In November 1981, and only two months after the outbreak of the Iran–Iraq war, Saudi Arabia along with Kuwait, Bahrain, Qatar, the UAE and Oman agreed to sign a mutual security pact. This was realised in May 1981 in the form of the Gulf Cooperation Council (GCC), an organisation that later became known for its unequivocal support of Iraq in its war against Iran.

The GCC’s emphasis on Islam as the basis of its unity was an indication that the organisation had been formed to counter the Islamic Republic’s threat to the Gulf. The GCC’s original perspective on a ‘Gulfanization’ of Persian Gulf security was also directed toward Iran, as a carrot for the Islamic regime in Tehran which was against superpower-involvement in the area and advocated a non-aligned policy. The organisation substantially increased the Saudis’ power and its dominance among the Gulf Arab states and vis-a-vis the Islamic Republic. The Saudis also tried to use it to assert their leadership in the area and buy favour from the US.

The Reagan administration also encouraged its friends in the region to take a conflictual stand towards the adventurism of the leadership in Tehran and cooperated with certain plans designed to overthrow the Islamic regime. In the Middle East, the 'Reagan Doctrine' was to be operationalised by Saudi Arabia, Iraq and Israel, among other less important regional allies (e.g. the Sudan under Ja’far Numeiri). In return, these governments would receive special favour from Washington. Iraq’s military also received equipment from the US and its allies and was given access to vital target-data by the American intelligence sources in the region. By 1984, United States Awacs planes in Saudi Arabia were directly involved in war intelligence operations on the side of Iraq. This American tilt toward Iraq and the GCC was complemented by Operation Staunch, launched by the Reagan administration to halt shipments of arms to Iran.

Despite these and other developments favourable to the Saudis, they were not able to effectively use them against the Islamic Republic for years. Thus, between 1981 and the spring of 1987, the GCC followed a policy of appeasing Iran; thereafter until the Iran–Iraq ceasefire in August 1988, the GCC took a confrontational stand, a policy that began when Kuwait asked the US to reflag its tankers. Even then the Saudis refused to use force against Iran. During this later phase, the Iran–Contra fiasco had become a source of embarrassment for the Reagan administration, Iran had made significant progress in the war, and the US had become very concerned about a possible Iranian victory and its consequences for the Gulf states.
missiles used to deliver them'. Whatever the American plan for the security of the region, it is almost certain that the cooperation between Iran and Saudi Arabia will be necessary for its proper operation.

PRAGMATISM AND PROSPECT FOR THE FUTURE

Confrontation between Iran and Saudi Arabia continued for a while after the Iran–Iraq ceasefire in 1988. From late 1989, however, the Republic began to change its confrontational policy in the direction of more cooperation with the states within OPEC and in the region, with the Saudis in particular. This shift occurred for a variety of reasons, most importantly because of the death of Ayatollah Khomeini, the ascent of the pragmatists to power, the foreign exchange needs for postwar reconstruction, and the urgency for reintegration into the capitalist world market as the Soviet Union began to decline further.

The change was accelerated in the aftermath of the US-led war against Iraq. Foreign Ministers of Iran and Saudi Arabia travelled to Riyadh and Tehran to talk on a variety of issues ranging from Persian Gulf security matters and economic cooperation to disputes over hajj ritual and OPEC policy. In retrospect, their achievements have been most significant. Iran restored full diplomatic ties with Saudi Arabia in March 1991 and the hajj problem has for the time being been resolved to the satisfaction of both regimes; Iranians were allowed to perform pilgrimage in 1991 for the first time in four years. The two regimes will also cooperate within OPEC and expand economic ties. Relations with Egypt were also normalised as the two countries reopened interest sections in each other’s capital. Iran also warmed its relations with other Persian Gulf Arab states, Kuwait in particular. Iran won a $100-million contract from Kuwait to help put out the flames of some thirty blazing oilfields.

In Iran’s assessment, the world had by then entered into a ‘new period’ with ‘new realities’, necessitating a wholly ‘new approach’ to foreign and domestic policies. In particular, Iran’s behaviour during the crisis is said to have increased its international stature and improved its relations with the West. Meanwhile, Iraqi defeat has strengthened Iran’s regional standing, making it possible for Iran to advocate a new concept of security arrangement based on economic cooperation. These changes have, in turn, necessitated a more outward-looking strategy for Iran.

The first major sign that Iran was gradually lapsing into the pre-revolutionary oil policy and taking a more pragmatist and accommodationist stand with regard to OPEC and the Persian Gulf states came during the International Conference on the Persian Gulf, organised in Tehran by the Ministry of Foreign Affairs in November 1989 (the author was among the participants). The main theme of the Conference was regional solidarity and emphasis was placed on unity, common interests and cultural heritage between Iran and its Persian Gulf neighbours, while divisive issues were hardly raised. As was indicated to me by an official of the Foreign Ministry at the Conference, ‘we wish to use reconstruction as a unifying factor in the region and one that would strengthen the economic ties among the Persian Gulf states’.

The new Persian Gulf policy was again underscored during a major international conference on ‘Oil and Gas in the Decade of 1990: Prospects for Cooperation’, held in the historic city of Isfahan, Iran, on 12 May. Foreign participants included OPEC’s Director; Oil Ministers of Saudi Arabia, Kuwait, Venezuela, Indonesia, Algeria, the Soviet Union, South Korea, and Oman; executives of over 60 oil companies from the US, Europe and Asia; and researchers and newsmen from a variety of institutions in the West. Domestic participants included several ministers and many high-ranking government officials.

In a message, President Rafsanjani emphasised that the ‘bipolar world system’ is all but gone, and Foreign Minister Ali Akbar Velayati said that ‘a new order’ is emerging in which ‘economic considerations overshadow political priorities’. The Chief of Plan and Budget Organisation, Mas’ud Roughani Zanjani, indicated Iran’s determination to create a free-market evolution in the world oil markets, and restructuring in the world economy. In the meantime, he said, in a post-conference interview, that Iran is taking steps to change its oil production, pricing and marketing policies. The new pricing policy, he said, is based on cooperation with Saudi Arabia and other OPEC members. This policy will also focus on the actual oil market and seek a stable price rather than push for a higher unsustainable price as in the past. The pricing policy will also account for economic growth in the West.

As part of the new Persian Gulf policy, the Government has also declared
exports. They have a relatively large but unsaturated market: some 15 million people live in the littoral states (excluding Iraq) with per capita incomes higher than those in the industrialised West. These countries lack mineral resources and are cash exporters of agricultural and light consumer products, in the production of which Iran has a comparative advantage in the region. The postwar trade liberalisation policy concerning prospective importers in the Persian Gulf areas is also directed toward encouraging the transfer of foreign exchange to the country.

Third, proximity and traditional/cultural ties between Iran’s southern ports and the Sheikhdoms of the Persian Gulf are additional assets. Dubai and Sharja in particular are very important to Iran, as these ports handle a significant portion of exports from international business to the region. In 1987, for instance, the non-oil exports through Dubai to the region amounted to $10 billion and the Emirate’s re-export to Iran in the same year reached an estimated $365 million.

Fourth, considerable surpluses exist in the current account balances of the Sheikhdoms of the Persian Gulf, notably Kuwait and the UAE. For the 1970–87 period, the two nation’s surpluses amounted to $110 billion and $70 billion respectively. Some $250 billion of the region’s private money is also invested abroad. Even a small portion of this wealth, if redirected to Iran, could make a significant contribution to the country’s postwar reconstruction. The new Persian Gulf diplomacy is designed to generate interest on the part of the governments, financial institutions, and investors in the region to make such transfer happen. Iran’s support for the liberation of Kuwait has improved its chance for such transfers, at least at modest levels.

Lastly, the Islamic Republic hopes to use the Persian Gulf states as mediators between itself and Iraq. A peace settlement will then save Iran billions in the defence budget. This has become even more urgent now that Iran–Iraq relations are again deteriorating in the aftermath of the US-led war against Iraq and the subsequent uprisings of the Kurds and the Shi’ites against Saddam Hussein’s regime in Baghdad. The Iraqi government blamed Iran for the uprisings and accused Tehran of masterminding the civil unrest that followed the war.

Iran’s intentions are good and sound but tremendous historical and structural constraints tend to work against the Islamic Republic’s Persian Gulf policy. Clearly, a precondition is the conclusion of a comprehensive peace with Iraq and further normalisation of relations with Egypt. The Islamic Republic must also work hard to gain the trust of Persian Gulf states and potential investors and financiers. There are also the traditional sources of Iran–Arab tension. The prospect for these preconditions for a better Iran–Arab relation to be met in the immediate future is good, but is at present
negligible. Relations with Saudi Arabia have improved but their new competition in Central Asia is potentially conflict-generating. Both nations are trying hard to spread their specific version of Islam in the area - the unsettled situation in Afghanistan is another source of potential tension.

Another stumbling-block in the path towards better relations between Iran and Arab nations is the United States, with whom Iran has not been able to resolve its disputes. Although Iran tried hard to release American hostages in Lebanon as a major step in normalisation of relations between the two states, various constraints prevented Iran from achieving results. Israel's unwillingness to enter into a deal with the Lebanese Hizbullah was the main constraint. Normalisation of relations with the US as a factor in Iran–Arab relations has become particularly important now that the ties between the US and the moderate as well as so-called radical Arab states have strengthened.

Moreover, a policy of unity and cooperation that does not address the existing tensions between the Arabs and the Iranians will be viewed as out of line with reality and as a sign of weakness. No Arab country will take such a policy from Iran seriously. Peter Ford of the *Christian Science Monitor* quoted a 'Saudi specialist on Gulf affairs' as saying that 'If the Iranians open their hand to us, we will open our heart to them.' The specialist then continued: 'We don't trust them, but we are ready to give them a chance.' These sentiments, according to Ford are 'shared by many in the Arab world'. The author then goes on to say that 'The gulf between Iran and the Arab world is more than a body of waters . . .'.

The Islamic radicals also continue to distrust the Persian Gulf family autocracies. They cite the Saudi and Kuwaiti hostility towards the Revolution and the fact that Kuwait and Saudi Arabia invited American participation in the war against their own 'Arab brother' Iraq as evidence. Both these countries helped Iraq finance its war against Iran and got the US involved in the tanker war. The radicals also consider Saudi Arabia and Kuwait as inimical to Iran's economic interests, citing their predatory behaviour within OPEC as proof. The Saudi 'American Islam' is another factor to which the radicals direct their hostility. Most recently, radicals have denounced the US–Arab plan for the security of the Persian Gulf.

These obstacles notwithstanding, the prospect for President Rafsanjani's success in the longer term is very good given the trends thus far. The changes in the former Soviet Union are also in the direction of Iran's new approach to regional issues. Iran's importance is being increasingly acknowledged by the states in the region and the West. Secretary Baker has already admitted Iran's 'major role' in any security system for the Persian Gulf. Syria has been helping bridge the gap between Iran and its Arab neighbours. Ford also quoted Mohammed Heir al-Walid, editor of Syria's government-run daily *Tishreen* as saying that: 'You can not do anything significant in that area [the Persian Gulf] without the Iranians, and if you ignore them, any political step is doomed to failure.' This is particularly true with respect to a security arrangement for the Gulf.

The moderate Arab states, Saudi Arabia in particular, also wish to see President Rafsanjani succeed since, otherwise, they fear, fundamentalists may return to power to Tehran. They think inclusion of Iran in the future security system for the Persian Gulf will improve President Rafsanjani's chance for survival and success. These states have also become more dependent on Iran as Egypt has withdrawn from a plan for a Gulf role and Syrians are not trusted. It must be noted, however, that no Arab country, including Iran's best Arab friend Syria, wants to see Iranian soldiers on Arab soil as part of any peacekeeping force. As a member of Syrian Ba'ath Party put it: 'Iran would never be asked to protect an Arab country.' The Arab states did, however, ask the US to protect an Arab country, a fact that underscores the Arabs' lack of trust in Iran's offer of protection or friendship. For them Iran's participation in a security system means exchange of information, cooperation in matters of security, and increased economic and routine regional political interactions. Egypt also remains concerned about Iran's growing influence among the Persian Gulf states, particularly now that it has withdrawn its forces from Kuwait, and does not wish to participate in a military alliance in that area.

In conclusion, Iranian–Saudi Arabian relations since the Revolution have suffered from a complex of factors including ideological differences, rivalry over religious legitimacy, traditional (cultural) sources of tension between Iranians and Arabs, political confrontations, struggle over OPEC leadership, rivalry over the supremacy in the Persian Gulf, and the US factor in Iranian–Arab tension. Some of these factors, including rivalry over religious legitimacy and struggle over OPEC have been suspended for the time being. Other factors, including rivalry over supremacy in the Persian Gulf, and the US factor, could also be eliminated in the near future.

Iran's economic potentials and programmes can particularly help further close the gulf between Iran and its Arab neighbours. In that case and given that Iran's new policy of moderation and cooperation continues, the gap between Iran and the US could also gradually be closed, making more friendly relations possible between Iran and Persian Gulf Arab states, the Saudis in particular. The West's recognition of Iran's traditional leadership position in the Persian Gulf will indeed help close the Iran–Arab gap and increase political stability in the region.

However, the Iranian–Arab gap, and for that matter, the distance between
Iran and Saudi Arabia, will never totally close since differences in culture-related nationalistic aspirations will remain a constant dividing factor between the nations. However, such a splintering need not interfere in diplomatic relations or prevent the two nations from expanding their cooperation and neighbourly relations in all political, economic, and cultural spheres. As in the past, both sides will lose from continued hostility, but gain from cooperation based on a mutual recognition of each other's national interests.

NOTES

9 The Lion and the Sphinx: Iranian–Egyptian Relations in Perspective*
Nader Entessar

Iran and Egypt have been major non-Arab and Arab players, respectively, on the Middle Eastern scene for many years. Egypt has long played a leading role in Arab politics. Culturally, intellectually, and militarily, Egypt has remained the linchpin of the Arab world and a barometer of change in the Middle East. Although Egypt's influence in the Middle East has been influenced by the vagaries of inter-Arab relations for the past quarter of a century, Cairo's preeminence in Arab politics is an acknowledged fact. Factors that have affected Egypt's Persian Gulf policy in general, and its relations with Iran in particular, have included Arab nationalism, the perception of Egypt's security interests; economic concerns and, in recent years, the challenge of Islamic fundamentalism.

NASSER'S GULF POLICY

After the overthrow of Egypt's pro-Western monarch in 1952 and the emergence of a radical nationalist regime under the leadership of Colonel Gamal Abdel Nasser, Egyptian foreign policy took a decidedly pan-Arabist turn. Increasingly, the new Egyptian government saw itself as the defender of Arab causes and promoter of Arab unity in the Middle East. Nasser's activist foreign policy projected Egypt into the forefront of African politics and propelled the country into a leading position in the nascent non-aligned movement. As Nasser often stated, the horizon of Egyptian diplomacy ranged from the Atlantic Ocean to the Gulf region.

Nasser's bête noire in the Persian Gulf was the British political and military presence in the region. Nasser particularly objected to the formation of the Baghdad Pact, which included the Gulf countries of Iran and Iraq, and which was designed to promote Western interests by offering a counterweight to the Soviet threat and the challenge of radical nationalism in the area.