

Iran

Persian Gulf Stability Hinges on U.S.-Iran Dialogue

By Hooshang Amirahmadi

The Persian Gulf will remain unstable and conflict-prone until Iran is incorporated into the region's economic and security arrangements. Iran possesses over 750 miles of shoreline on the Persian Gulf and the Gulf of Oman, is the Gulf's most populous country, overlooks the Strait of Hormuz and, by regional standards, has a diversified economy. It also is the only state that has played a major role in the region for centuries.

Considering the positive developments in Iran's foreign and domestic policy, the country can be included in regional groupings and this will, in fact, benefit the states in the region and beyond. This perspective underscores the necessity of a dialogue between Iran and the United States. Unfortunately, however, current U.S. policy toward Iran is misguided and counterproductive.

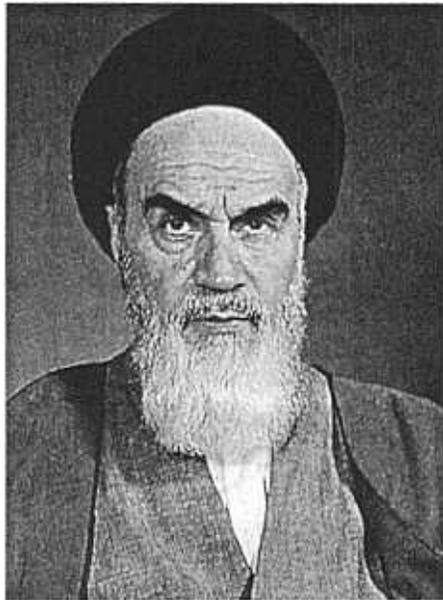
As a very frequent visitor to Iran, I have had numerous talks on the subject both with Iranian officials and with dissident leaders in the country, as well as several years of involvement with U.S.-Iran relations and Gulf affairs.

Since 1980, the Gulf has witnessed the costliest and bloodiest wars of the second half of this century. These wars have cost the region over a million lives and over \$1 trillion in destroyed wealth. In the same period, the countries surrounding the Gulf have spent over \$300 billion on importing and maintaining weapons systems—and this is a conservative estimate. It is reported that the Pentagon spends some \$50 billion a year on its deployments in the region.

The legacy of this staggering economic waste hits at a time when Gulf states are experiencing dwindling oil revenues. In 1981, OPEC members enjoyed a per capita oil income of about \$800. By 1994, this figure had declined to a mere \$290.

Meanwhile, the global demand for Persian Gulf oil is growing rapidly, a fact that necessitates major investment in the region's oil sector. According to Dr. Subroto, OPEC's former secretary-general, the organization's members will need to invest \$100 billion in their respective oil sectors if OPEC production is to reach the necessary 35 million barrels a day by the turn of the century. Economic mismanagement and declining oil revenues have combined to make the need for foreign investment greater than ever before.

The political costs of economic problems are even more pressing. Thus far, the legitimacy of the region's states has rested on their investment capacity and the generous subsidies they have paid to their citizens. But these practices are no longer affordable. Even Saudi Arabia faces troubling budget deficits and foreign debt. As a



The late Ayatollah Ruhollah Khomeini, founder and leader of the Islamic Republic of Iran.

consequence, the internal stability of the Persian Gulf states has eroded significantly.

Simultaneously, the Persian Gulf suffers from bilateral and multilateral antagonism. Five years after Desert Storm, the Gulf states are more divided than they have ever been. Border and territorial disputes, manifest or latent, are a major source of this interstate conflict. Meanwhile, the geopolitics of oil is changing as Asia's growing economies and populous countries look to the Gulf for their rapidly expanding energy needs.

While Iran and Iraq adhere to the U.N.-brokered cease-fire agreement, they have yet to sign a comprehensive peace treaty. Even though Iran's adventurism abroad has subsided, the Gulf monarchies still feel threatened by the specter of Islamic fundamentalism permeating their shores. Iran's dispute with the United Arab Emirates over the Tunbs and Abu Musa has expanded to a dispute with the GCC and the Arab

League, including Syria, traditionally Iran's leading Arab ally.

Therefore, to Iran, Iraq and Saudi Arabia, the main regional powers, lasting peace and regional cooperation seem unattainable. Complicating the tense situation is the spiraling conflict between the United States and Iran, a conflict that threatens to escalate beyond redemption.

The instability and potential volatility of the Gulf is not a subject of dispute. What is in dispute are the causes of this instability and what should be done about it. Iran and Iraq are blamed by the United States and its allies. They argue that Iraq's militarism led to two wars in the Gulf and has the potential to do so again. The Iraqi leadership also is condemned for trying to develop weapons of mass destruction and for its oppression of the country's Kurdish and Shi'i populations. Iran is viewed as the world's leading sponsor of terrorism and as aiming to subvert pro-Western regimes in the region. The Islamic Republic, the U.S. and its allies believe, is seeking to acquire a nuclear weapons capability in an attempt to dominate the region. Iran also is held responsible for opposing the Arab-Israeli peace process.

The U.S. solution is isolating and containing both Iraq and Iran through economic sanctions, U.S. military involvement in the region and ever-deepening strategic ties to the Gulf monarchies. While multilateral sanctions are in place against Iraq, the United States is attempting unilaterally to impose similar sanctions against Iran.

For their part, Iran and Iraq see U.S. "imperialism" as the culprit. They believe that, in the post-Cold War era, the U.S. needs enemies to rationalize its military presence in the Gulf, and to justify selling billions in expensive weapons systems to the Gulf's monarchs.

Naturally, Tehran and Baghdad advocate a region free of the current U.S. domination, where regional problems can be met with

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regional solutions. Tehran also has advocated regional cooperation and a security system that includes all of the states in the Persian Gulf region.

The war of words, it seems to me, has obscured a realistic appraisal of the causes of regional instability. Iran and Iraq have undoubtedly pursued destructive policies. Saddam Hussain and his clan have started two wars in the region and their human rights record is abysmal. Iranian clerics began their reign by taking hostages. Since then, they have attempted to export Islamic revolution, supported militant Islamic movements, and opposed Arab-Israeli reconciliation.

But for helping Saddam Hussain build his military machine in the 1980s, the United States and the Gulf monarchies are worthy of blame as well. Gary Sick, who was at the National Security Council under Presidents Ford, Carter and Reagan, is one of many experts who believe that Washington yearns for an all-purpose enemy who provides a focus for U.S. strategic planning and justifies multi-billion-dollar arms sales in the region and defense spending at a time of major spending cuts. I am in agreement with him here, especially when you consider the impact of Israel and its deep ties to the United States.

If long-term stability is the goal, the solution must focus on including all parties in a regional dialogue, with the United States as a mediator. Here, the most promising first step is dialogue between the United States and Iran.

United States' Iran Policy is Misguided

Unfortunately, current American policy toward Iran disallows such a dialogue. This policy functions on four distinct levels. First, it downgrades Iran's strategic and economic significance, suggesting that the U.S. can avoid reconciling with Iran at no great loss to its own strategic and economic interests.

Second, this policy suggests that even if working relations with Iran would benefit the United States, attempts at U.S.-Iran reconciliation would be futile given the messianic, destabilizing and anti-American ambitions of the ruling clerics in Tehran.

Third, despite their claim that Iran is insignificant, current American policy makers don't leave Iran alone. On the contrary, they argue that, given its capabilities and intentions, Iran is dangerous to U.S. interests in the region and therefore must be prevented from gaining strength. Finally, they pre-

scribe "dual containment" to stop Iran from becoming more menacing.

Inherent in these arguments is the belief that a weak, bankrupt Iran is better for regional stability, and that Iran can, in fact, be isolated. Proponents of a hard line toward Iran assume that the current "stick and no carrots" policy will in due course positively alter the behavior of the Islamic Republic, or even force it out of power.

Many foreign policy thinkers in the United States, however, believe Washington's current policy toward Iran will only make the region more unstable. They hope to see a positive change after the American presidential elections this year. Iran's parliamentary and presidential elections offer hope for dialogue as well.

Unlike Iraq, Iran cannot be isolated. Geography alone makes this difficult, if not impossible. U.S. sanctions against Iran have met with little approval among the industrialized nations or Russia, China and India. Indeed, after the United States prevented American oil companies from buying Iranian crude, the National Iranian Oil Company was able to find alternative buyers in a surprisingly short period. East Asia's new thirst for oil provides Iran with new options.

The history of the region for the past century demonstrates that a strong Iran has never initiated any significant hostility toward any of its neighbors. On the contrary, when Iran has been unstable or weak, its neighbors have acted aggressively against it; and the ripple effect of these aggressions has expanded beyond the region.

I believe that if the Shah of Iran had still been in power in 1980, and had Iran's military not been in disarray, Saddam Hussain would not have dared to invade Iran. And if that war had not happened, Saddam would have not plunged Iraq into the economic chaos that led him later to invade Kuwait. This dual containment aimed at weakening the Iranian economy makes a serious mistake in assuming that a weaker Iran is a desirable outcome.

A strong, economically vibrant, and reliable Iran, effectively integrated into the community of nations, would exert a tremendous stabilizing influence on Afghanistan, Central Asia, the Caucasus, Eastern Turkey, Iraq, and, most important, the Persian Gulf. In this regard, Iran's potential dwarfs that of any other regional power and cooperation with the United States strengthens Iran's positive role.

I am no apologist for the ruling clerics in Tehran. Much of their behavior over the past 16 years has been unsettling. They still owe the United States an explanation for the hostage crisis, which was arguably their

biggest foreign policy fiasco. Iran's opposition to the Arab-Israeli peace, in which the United States has invested much political will, also is wrong and indeed self-defeating. Iran must distance itself from militant groups in the region.

Still, unlike Iraq under Saddam Hussain, Iran under the clergy is reformable, especially if the more progressive elements within the Islamic Republic and the budding Iranian civil society manage to sideline the regressive elements in the hierarchy. Iran has a parliament and an elected president and is opening up. Policies of exclusion only hinder the transformation already underway and strengthen the anti-reform forces.

Today's Iran cannot be judged by yardsticks designed for the Khomeini era. You may note that Khomeini's name no longer comes up in Rafsanjani's speeches, nor in the pronouncements of most other Iranian leaders. The days when Iran was bent on exporting its revolution are over. Ideological zeal has given way to pragmatic and nationalistic calculation. The reason Iran objects to the Arab-Israeli peace process and supports Islamic militants in Lebanon and the occupied territories is not pan-Islamic ideology. Rather, Iran's disruptive behavior must be viewed in terms of the Persian world view and the fact that it is being forced into a corner.

As the Persian Gulf's most populous, and historically most deeply entrenched country, Iran yearns for a presence in the region that surrounds it. This has nothing to do with the current Islamic regime; Iran under the Shah felt the same way, and the clergy's successors will feel the same way too. But the American attempt to isolate it incites Iran to direct its energy elsewhere, analogous to the "irrational" acts of someone whose freedom of movement is curtailed.

According to former U.S. Assistant Secretary of Defense for International Security Affairs Joseph Nye, it is wrong for the United States to pursue a policy of containment toward Russia and China. He maintains that if they are treated as enemies, they will become enemies. It is surprising that the same line of argument is not applied to Iran.

American officials often complain that Tehran sends conflicting messages regarding its intentions. This is a valid complaint that is nowhere more apparent than in the Salman Rushdie case, where Iranian leaders seem incapable of making up their minds on the guarantees they are prepared to make. Such mixed messages are attributable, in part, to the muddled chains of command in the decentralized, almost

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feudal, power structures in Iran.

The good news is that the United States and its regional allies can support the more moderate factions in Iran. True, this policy led to the Iran-Contra fiasco under U.S. President Ronald Reagan. But the grip of the hard-line elements in power is far less firm now than it was in the 1980s. The Iranian clergy is not a monolith, and current U.S. policy is unrealistic for treating it as such.

But the United States sends conflicting messages, too. U.S. Speaker of the House Newt Gingrich has asked for funds intended to destabilize the Iranian government, calling Iran "the most dangerous country in the world." Yet, President Clinton recently told the *Sharq al-Awsat* newspaper that the U.S. is prepared for a dialogue with Iran. Given Iran's strategic significance and economic potential, dialogue with Iran will better serve U.S. interests than will continued hostility.

Iran Has Immense Strategic Significance

The first element in Iran's strategic significance is political Islam, which currently represents the most formidable revolutionary force in the Middle East and beyond. It seethes in Algeria, Egypt, the occupied territories, and even Turkey. Its influence in the Persian Gulf is by no means negligible. Islamic movements have mounted a serious challenge to pro-Western regimes in the region and the momentum of these movements shows no signs of abating.

A forward U.S. military presence will not stem this tide. On the contrary, direct U.S. intervention in the region will only incite the most militant Islamic movements to unite more vigorously under an anti-American banner. Political Islam cannot be overturned; it can only be accommodated and, hopefully, tamed.

As the only living example of political Islam in action, the Iranian revolution of 1979 offers valuable lessons. More effectively than any extant ideology, Islam emboldens revolutionaries to unite and undermine existing hierarchies. But Islam is not well suited to the demands of modern statecraft. Indeed, even some senior Iranian clerics are realizing the necessity of separating religion from politics.

If Iran is integrated effectively into the region's economic and security arrangements, its experience in and connections to Islamic movements can be utilized to moderate the disruptive effects of militancy.

The second element of Iran's strategic significance is Russia's uncertain future.

Recent elections in the Russian Federation make it abundantly clear that communists and nationalists will play an increasingly dominant role in that country. Iran is ideally situated to offer logistical and strategic support to former Soviet republics wishing to maximize their autonomy from Russia. If Iran is forced into a corner, however, it can side with Russia. The next few years will be crucial in this regard, as both Iran and Russia are conducting presidential elections whose outcomes have been largely unpredictable. At a conference I held in Washington last April, Ambassador Richard Murphy of the U.S. Council on Foreign Relations warned:

"If we assume the continuation of the American effort to isolate Tehran and Baghdad, we must assume their readiness to develop common interest with a pariah in Moscow. In that case the question of who will wield influence over the world oil map could look very different than it does today. Such a world would be far less hospitable to consumers, and less favorable to producers, subject to pressure from a belt of oil producers stretching from the Arctic to the Persian Gulf."

Third on the list of issues that accord Iran strategic significance is the uncertain future of Iraq. Saddam Hussain's ouster will fundamentally alter Iraq's inner dynamics and foreign posture. Iran possesses influence among Iraq's Shi'i population which it could use to a constructive end. In addition, Iran is far less burdened with Kurdish insurgency than are either Iraq or Turkey. Indeed, Iran has in the past been able to use this asset to influence Iraq's domestic policies.

Iran Has Great Economic Potential

Iran's position in the world energy market is particularly important. It was the first oil producer in the region and is now the fourth largest producer after Saudi Arabia, the U.S. and Russia. It owns 10 percent of the world's oil and, as a founding member of OPEC and its second largest producer, Iran continues to play a major role in balancing its policies and decisions. However, to play a positive role, Iran needs foreign assistance to develop its oil fields.

The world will gradually move into the natural gas era. Here again Iran occupies an important place. It owns 15 percent of the world's natural gas, second only to Russia. Considering that Iran's current share in world gas production is only 1.3 percent, such huge reserves indicate Iran's immense potential as a major exporter of gas in the future. To compare, Russia holds 34 percent of the world's proven gas reserves, but its share in current production is as high as 27 percent.

Iran's strategic significance for the world energy market goes beyond its oil and gas reserves and production. With the collapse of the former Soviet Union, the oil- and gas-rich Caspian Sea region has attracted the world's leading oil and gas companies. Iran also is vital to the development of the Commonwealth of Independent States (CIS) economies because it can provide them with the best trade route for their future oil and gas pipelines to Europe and the Far East.

Finally, Iranian expertise in the oil industry is the highest in the Persian Gulf region. However, Iran's technical know-how is not often utilized because, among other obstacles, it lacks financial resources and technology. The U.S. can help the world oil market and its own economic interests by allowing its oil companies to invest in Iran to expand capacity.

Iranian industry has been forced to look inward after the revolution. It has learned to manufacture domestically much that was imported in the past. Iran now is host to a new breed of engineers, keenly aware of the value of domestic initiative. Nowhere is this more apparent than in mines and metallurgy. Spurred by the country's vast resources of iron and copper, Iranian engineers have devised technologies for processing steel which they believe could turn Iran into the main regional exporter of steel and copper in the next century.

It is quite conceivable that before the end of the decade, Iranian exports of processed metals could double to reach \$1 billion. If Iran acquired foreign help, however, given its domestic aptitude and the low price of labor, it could take a major leap in exports. The same could be said about Iran's nascent auto industry. If political obstacles were surmounted, its reasonably priced skilled labor and its large domestic market would make Iran an attractive site for foreign investment in these sectors. Iran already has in place a vibrant petrochemical industry.

Even the staunchest advocates of U.S. sanctions on Iran concede that it is the ideal regional transport route for energy, capital and consumer goods. By connecting the Persian Gulf and the Caspian Sea, Iran can provide the shortest and safest routes to and from Central Asia and the Caucasus. It also can become the nerve center of a Silk Road alliance by meeting a sizable portion of China's growing demand for imported oil.

Under a current Iranian agreement with Turkmenistan, the two countries wish to embark on building a 1500-mile pipeline that will transport natural gas from Turkmenistan through Iran to Europe. The pipeline will require over \$5 billion before it is completed in 7 to 10 years. Iran is ex-

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pected to provide 80 percent of the initial investment, and will in return receive natural gas from Turkmenistan. The pipeline would connect Europe to one-fourth of the world's natural gas reserves. Iran is by far the most economically feasible route for transporting Central Asian gas.

Iran is actively searching for contracts with Azerbaijan to transport the latter's oil to Europe. The Azeri consortium's turning to Russia or Georgia and Turkey as transport routes makes no economic sense whatsoever. Economists agree that choosing Iran would yield noticeably lower transaction costs. While Azerbaijan bowed to U.S. pressure in denying Iran a stake in the giant consortium, it is nonetheless interested in cooperating with the Islamic Republic in developing other fields and in swap deals. Swap arrangements have much potential, as Iran has access to large ports in the Persian Gulf. This is another advantage Iran possesses over Russia as a transport route. It seems to me that a route through Iran would make strategic sense too.

Currently Iran is engaged in a feasibility study for developing a gas pipeline to India and Pakistan. Plans also exist for export of Iranian gas to Europe and the Far East. Thus Iran and Pakistan are busy planning a 1600-km pipeline which will take Iran's gas to that country. Iran also has agreed to supply India with natural gas through the extension of the proposed pipeline.

Some argue that Iran is not a lucrative market. To substantiate their claim, they point to Iran's economic problems and the low volume of Iran's recent imports, which have averaged a mere \$15 billion for the past three years. True, this is a small figure even by the developing world's standards. But using Iran's recent import figures as a way of judging the country's economic potential is faulty for two reasons. First, Iran's economy is only at the incipient stages of structural change, away from oil and toward transport and manufacturing. Per capita oil income is now \$200, down from \$1300 in 1976.

Second, Iran's true economic potential lies in becoming a site for joint ventures in oil, manufacturing and regional transport networks. These joint ventures could supply the growing Iranian population (of some 64 million at present) and also growing markets around Iran. Thus, focusing solely on current levels of imports or economic difficulties is short-sighted. Over the next five years, Iran plans to import some \$100 billion worth of goods and ser-

vices.

Iran's sizable debt of \$25 billion to \$30 billion also is cited by those who argue against the country's economic significance. Since 1994, however, the government has paid parts of the debt, rescheduled others, and restricted imports to build reserves of some \$6 billion to \$7 billion at present. Iran's second economic plan has earmarked some 20 to 25 percent of oil income for repayment of the debt.

Current U.S. policy on Iran is unpopular among the vast majority of policy experts in Washington, who believe that a policy of engagement is the most plausible course for changing Iran's disruptive behavior. With the exception of Israel, the "stick with no carrot" policy has no real support among U.S. allies either. Iran needs to be given incentives for dialogue and modifying its behavior. Unfortunately, Washington's current policy leaves no room for such incentives or dialogue.

I have listened to tens of top Iranian officials complain that their overtures for dialogue with the United States have been rebuffed by Washington. The Iranian foreign and petroleum ministries tell me that Iran's offer to Conoco and its attempt at joining the consortium in Azerbaijan chiefly were designed to provide Iran with a forum of mutual interest with the United States, upon which further reconciliation could be built. President Rafsanjani's interviews with ABC and CNN have underscored Iran's readiness for dialogue. This would have been unimaginable a few years ago.

The main problem with the current U.S. approach to Iran is that it sacrifices the long-term interest of the United States in stability throughout the Persian Gulf as a whole to the demands of short-term political expediency. Iran's incorporation into the region and into international capital markets makes business and strategic sense.

Its isolation, on the other hand, will result in exorbitant political and economic costs which harm all parties concerned. Most important, if Iran is engaged, its transition toward democracy will gain further momentum.

Iranian Elections...

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or against the Islamic Republic," said a European ambassador. "They'll be voting for nuances and personalities within the present system."

Nonetheless, progressive Iranians were encouraged by the debate itself. "There is a growing trend toward liberalization now," said Said Leylaz, a prominent television

and newspaper reporter. "It's an uncertain path and problems are bound to arise at first. But technology and education are changing people so fast in Iran that there have to be political changes to match. Iran is at a turning point."

Intellectuals still are not allowed to challenge Iran's system of Islamic government, but they have begun to debate its nature. Students talk about democratic reform and discuss Karl Popper's theories of the open society. Abdolkarim Soroush, a liberal Islamic university lecturer, tentatively suggests that mosque and state should be separated. Politicians within the ruling elite criticize the executive power of the supreme religious leader. "The whole period has been a turning point for Iran," said one long-time foreign resident. "The intellectuals have left no subject untouched."

Indeed, Iran's youth—half of the population is under 20—may well be having a decisive impact on this year's polls.

Revolutionary rhetoric means little to people who are too young to remember the last Shah's regime. Instead, young Iranians are flocking to study English or computer skills at the scores of private institutes opening in the major cities. "Iranians are starting to demand a modern society," explained Begum, a young school teacher from Tabriz in northern Iran. "They want better consumer goods and more contact with the outside world. They want to live in a civilized country."

In the long term, the present regime will also be challenged by dropping oil earnings: productivity is low, domestic consumption is high and oil prices are flat. However, development of non-oil exports is hindered by the bazaaris, powerful monopolistic traders, who offer vital support to the Islamic regime. Iranian analysts believe that the development of a modern, diversified exporting economy would entail breaking their hold. That in turn could upset the present system.

The authorities are uncertain how to react to these new currents. They fear that an established or effective opposition, even one within the system, would be too much of a threat. No one is expecting the mullahs to disappear from politics overnight—Nateq Nouri is still considered one of the front-runners for the 1997 presidential battle—but the openness of the debate is a sign of gradual evolution within the Islamic Republic. "The growth of the technocrats is an irreversible trend in Iran," said the European ambassador. "There's definitely a feeling among the Iranians that they have to run the country better if they want it to survive."