Economic Factors in Middle East Foreign Policies: the Case of Oil and Gas Exporters with Special Reference to Saudi Arabia and Iran

Submitted by Robert Mason to the University of Exeter as a thesis for the Degree of Doctor of Philosophy in Middle East Politics, June 2012

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Abstract

This thesis identifies the relationship between economic factors and non-economic factors, and the relative weight of each, in the conduct of Middle East foreign policies but with special reference to Saudi Arabia and Iran between 2001 and 2012. In the Saudi case, economic factors are contextualized within its traditional themes of maintaining security and stability through international alliances and promoting stable and long term energy export markets. In the case of Iran, economic factors such as the role of sanctions in facilitating closer ties with a range of anti-western states are put into perspective by other factors such as national security issues and emerging splits in the decision making elite. The research draws on a conceptual hybrid of constructivism and omni-balancing and by doing so pays particular attention to the perceptions of foreign policy decision makers in their assessments of the domestic, regional and international environments. The conceptual framework therefore accounts for historical events such as the Islamic revolution and perceived hostility to it, and enduring Saudi-Iranian tensions based on sectarian and ideological struggles for dominance across the Middle East.

Oil policy, including oil production, pricing and security of supply and demand, is found to be the paramount economic factor in the foreign policies of Saudi Arabia and Iran, but weighted in favour of the former. As swing producer in OPEC, Saudi Arabia needs to maintain sustainable oil supplies to its allies in the West, and increasingly East, whilst leveraging its oil reserves against adversaries such as Iran. In contrast, Iran has the incentive, but a dwindling capability, to maximise its oil revenues to fund the national budget amid tightening U.S.-led sanctions designed to curb its nuclear programme. The thesis also finds that economic factors such as ‘riyal politik’ as well as non-oil trade and investment deals are less effective in Saudi and Iranian foreign policy. This is because they tend to be offered or utilised as short-term leveraging mechanisms in new or unstable bilateral relationships with a variety of state or non-state actors which do not always share their ideological perspective or interests. To overcome significant geo-strategic and ideological incompatibilities, reciprocal confidence building measures and active engagement on a broad set of contentious issues is prescribed.
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1. Conceptualising Economic Factors in Middle East Foreign Policies

1.1 INTRODUCTION

This thesis assesses the relationship between economic factors and non-economic factors, and the relative weight of each, in the conduct of Middle East foreign policies but with special reference to Saudi Arabia and Iran. In the Saudi case, economic factors are contextualized within its traditional themes of maintaining security and stability through international alliances and its promotion of stable and long term energy export markets. In the case of Iran, negative economic factors such as sanctions are put into perspective by other factors such as perceived hostility to the Islamic revolution, national security issues and emerging splits in the decision making elite.

The Middle East, defined here as the Arab states plus Turkey, Israel and Iran, is one of the most geo-strategically important regions in the world. Its significance, opportunities and challenges are disproportionate to the size of the region and derive largely from its oil, the Israel – Palestine conflict, terrorism and anti-imperialist foreign policies. Hydrocarbon based relationships have been important, if not to say crucial, between the Gulf States, Iran and the West (defined as the U.S., UK, France and Germany). They are also becoming an increasingly important component of relations with Russia and China, which along with the West, function as the main bilateral relations under study and the ‘international community’ in the following chapters.

Saudi Arabia and Iran have been chosen due to their economic and political features, as well as the positions they occupy in the regional and international system. Saudi Arabia has allied itself with the U.S., and has a leadership role in the GCC and across the Islamic world based on its guardianship of the two holy places (Mecca and Medina) and through the influence of Salafism. Economically, Saudi Arabia’s main influence is derived from being the swing producer in the Organisation of Petroleum Exporting Countries (OPEC). Iran is included in this research because it pursues a

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1 *Salafiyya* or Salafism ‘refers to the movement that believes that Muslims should emulate the first three generations of Islam referred to as the pious forefathers (*al-salaf al-salih*) as much as possible in all areas of life.’ Roel Meijer (ed.), ‘Global Salafism: Islam’s New Religious Movement’, (New York: Columbia University Press, 2009), xiii
revolutionary agenda and countering policies against the West through Shi’a and anti-Western allies. It is increasingly the subject of unprecedented international sanctions and yet remains heavily dependent on oil and gas revenues for its national budget.

Other Middle East states have not been included in this research because they exhibit different characteristics to the states under review, such as not being major oil and gas exporters. Expanding the number of case studies could nonetheless provide an interesting insight into the role of economic factors in ‘small states’ of the region, states which are less susceptible to the geo-strategic imperatives of these potential regional hegemons, or states which derive a significant part of their budget from economic factors which are not related to the export of hydrocarbons.

1.2 A CONCEPTUAL FRAMEWORK

The study of Foreign Policy Analysis (FPA), as a sub-discipline of International Relations (IR), emerged during the 1950s and 1960s from the combined works of Snyder, Bruck and Sapin\(^2\) who argued for a conceptual framework that reflected forces at the sub-state level; Rosenau\(^3\) who argued for a multi-dimensional approach to FPA; and the Sprouts\(^4\) who emphasised the importance of perception and interpretation of the global environment by decision makers. For the first time, FPA challenged conventional IR thinking by attempting to account for all the factors involved in foreign policy making, even those at the sub-system level. FPA, although successful in identifying a range of contributing factors to foreign policy, ranging from individual to group behaviour, was unable to generate a conceptual framework which could easily be reconciled with the dominant IR schools of thought. Therefore, the challenges for FPA remain both conceptual and integrationist.

IR theory made advances in the late 1970s and 1980s when neo-realists such as Waltz\(^5\) and Walt\(^6\) sought to explain the Middle East through the same universally

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\(^5\) Kenneth Waltz, *Theory of International Politics*, (Reading, Massachusetts: Addison Wesley, 1979)
applied conceptual principles as those which explained other regions. It wasn’t until the early 1990s with the end of the Cold War and the accompanying transition from a bi-polar world to a uni-polar world, that actor-specific FPA gained renewed attention. Constructivism, which focuses on the ‘(socially constructed) meanings of facts and objects they [states] encounter in their domestic and external environments, that inspires their actions’, therefore enjoyed a renewed popularity as it was much better than neo-realism at accounting for the onset of globalisation. This brought with it the formation of new international relations between states and regions, and an increase in non-state influences on the state (largely through soft power such as international media).

In response, adjusted realism attempted to reconcile the changing balance between soft and hard power approaches to foreign policies aimed at a) national security threats and b) other national interests during eras which are not so dominated by conflict. However, the conventional neo-realist approach remained a useful theory for explaining the recurrent impact that major conflicts and threats have had on foreign policy. Firstly, in the way the U.S. perceived the first Gulf War to impinge on its own national interests which led to its subsequent involvement. Secondly, in the unusually high level of support that states such as Saudi Arabia gave to the campaign. As the Middle East still remains a region prone to conflict, so too are foreign policies implemented with security foremost in mind. However, it is hard to know beyond security factors which other factors influence foreign policy because of a lack of transparency at the state level, also known as the ‘black box’ of the decision making process.

The relative weight of constructivist thought, and the unique identity, ideational and ideological factors examined within it, thus point to the necessity to take an ‘inside-

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8 Raymond Hinnebusch, ‘Introduction to the Politics of the Middle East’, The International Politics of the Middle East, (Manchester: Manchester University Press, 2003), 12
10 ibid, 105
out’ perspective to FPA. Piscatori, Korany and Dessouki all promote this idea when addressing the foreign policies of Arab states. Such a perspective is a useful one when attempting to open the ‘black box’ of foreign policy to the point of being able to glimpse some of its structures and levers of power. Constructivism is particularly useful in reference to states such as Iran, because, as Akbar Rezaei observes, it contends with multiple layers of complexity, including competing factions and interests. It also helps to analyse the important juxtaposition of Islam, pan-Arabism and national sovereignty, and the rivalries associated with ideological and symbolic interpretation and actions.

These actions can be viewed as a means by which Middle East states attempt to define their identity, decision making and policy implementation over the long term. By trying to conceive and communicate policies in this way, it not only grants more freedom of action to the government as a moral authority, but also bestows greater legitimacy on the government from the people. Hill points out that the belief system of a political leader is a function of both experience and the political system, and whilst deeply rooted in this structure, it can change. A leader’s role conception could have important consequences for foreign policy, since it helps shape the national identity (including sub and supra-national identities), attitudes and strategy which influence decision making at the domestic, regional and international levels. Indeed, Constructivism would hold that this is exactly what forms the basis for international relations.

This debate between structure and identity has been at the heart of conflict in the regional system for decades. For example, pan-Arabism has had insurmountable material obstacles to overcome in the form of penetration in the region by great

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14 Ali Akbar Rezaei, ‘Foreign Policy Theories: Implications for the Foreign Policy Analysis of Iran’, Iran’s Foreign Policy: From Khatami to Ahmadinejad, 27
15 Raymond Hinnebusch, Analyzing Middle East Foreign Policies – and the relationship with Europe, 246
17 ibid, 9
powers, growing military insecurity and the material consolidation of each state.\textsuperscript{18} These issues are still relevant today, especially in the lack of regional cohesion and an over-reliance on great powers for security guarantees instead of a pan-regional operational security framework. Barnett points to pan-Arabism as evidence that struggles don’t have to be over territory or ‘realist’ priorities, but could equally be over legitimacy that stems from a ‘normative order of the Arab system’ which is purely symbolic or ideational rather than strategic.\textsuperscript{19} He takes a directly opposite view to the utilitarian one; a vision of the state which defines its national interests, rather than the material interest of the state which defines its national interest.\textsuperscript{20} With the demise of pan-Arabism and collective security, insecurity from a perceived Israeli threat, U.S. domination in the region and unequal revenues from oil and gas, the Middle East remains prone to putting national interests above regional ones.\textsuperscript{21} Salloukh and Brynen suggest that these issues also make the Middle East a ‘permeated’ region, due primarily to the influence of non-regional actors such as the U.S., and influences as diverse as oil, trade and migration on foreign policy.\textsuperscript{22}

These ideas are in fact part of a new swathe of FPA concepts which are rooted in the traditional international relations theories, but specify additional forces and dynamics within the Middle East system that could prove to be effective or decisive in the course of foreign policy making. Even with these additions, a specific and broad based conceptual framework for the analysis of contemporary Middle East foreign policies remains elusive. Although there have been a growing number of contributions in the field from notable authors such as Nonneman,\textsuperscript{23} Hinnebusch,\textsuperscript{24} and

\textsuperscript{18} Raymond Hinnebusch, ‘Explaining International Politics in the Middle East: The Struggle of Regional Identity and Systemic Structure’, \textit{Analyzing Middle East Foreign Policies – and the Relationship with Europe}, 248
\textsuperscript{19} \textit{ibid}, 246; Bassel F Salloukh, ‘Regime Autonomy and Regional Foreign Policy Choices in the Middle East: A Theoretical Exploration’, \textit{Persistent Permeability? Regionalism, Localism, and Globalisation in the Middle East}, 86
\textsuperscript{20} Raymond Hinnebusch, ‘Explaining International Politics in the Middle East: The Struggle of Regional Identity and Systemic Structure’, \textit{Analyzing Middle East Foreign Policies – and the relationship with Europe}, 243
\textsuperscript{21} \textit{ibid}, 249 - 255
\textsuperscript{22} Bassel F. Salloukh & Rex Brynen, ‘Pondering Permeability: Some Introductory Explorations’, \textit{Persistent Permeability? Regionalism, Localism, and Globalisation in the Middle East}, 1
\textsuperscript{24} Raymond Hinnebusch, ‘Introduction: The Analytical Framework’, \textit{The Foreign Policies of Middle East States}, 18
Ehteshami,\textsuperscript{25} there are still a wide range of views as to what foreign policy is, what frameworks should be used to set parameters to their study, and what determinants prove decisive. The difficulty in definition reflects the extent to which foreign policy is formulated and executed according to both internal and external variables.\textsuperscript{26}

In 2004, Holsti defined foreign policy as: ‘…attitudes and commitments toward the external environment, its fundamental strategy accomplishing its domestic and external objectives and aspirations for coping with persisting threats.’\textsuperscript{27} It doesn’t draw on the environment in which such policies are being formulated, the reasoning behind such policies or a classification system. However, Korany and Dessouki have outlined the three basic types of foreign policy as a function of engagement in international politics: isolation, non-alignment, and coalition building or alliance construction.\textsuperscript{28} Apart from an almost binary ‘snapshot’ of a state’s foreign policy orientation, this still doesn’t explain the reasons for such an orientation. Some of these factors have been captured in other works by Gause (Gulf War),\textsuperscript{29} Salloukh and Brynen (regional permeability),\textsuperscript{30} and Ansari (U.S. and Iranian relations).\textsuperscript{31} The main bar to a conceptual framework which fits Middle East FPA remains the disconnections between such works that are dominated by IR theory, and the over-reliance of FPA on the analysis of the inner workings of states. Constructivism goes some way to bridging this gap by linking the state and system levels through social constructions and ‘intersubjective understandings’.\textsuperscript{32}

Constructivism is also part of reconciling national identity and state resources in the Middle East as outlined in Rothstein’s argument about foreign policy determinants.

\textsuperscript{25} Anoushiravan Ehteshami and Mahjoob Zweiri, ‘Introduction’, in Anoushiravan Ehteshami and Mahjoob Zweiri (eds.), \textit{Iran’s Foreign Policy: From Khatami to Ahmadinejad}, (Reading: Ithaca Press, 2008), xiii
\textsuperscript{26} \textit{ibid}, 8
\textsuperscript{27} Kal Holsti, \textit{International Politics}, 7\textsuperscript{th} ed. (Englewood Cliffs: Prentice Hall, 2004)
\textsuperscript{29} F. Gregory Gause III, ‘The Gulf War and the 1990s’, \textit{The International Relations of the Persian Gulf}, (Cambridge: Cambridge University Press, 2010), 102 - 103
\textsuperscript{31} Ali Ansari, \textit{Confronting Iran: the Failure of American Foreign Policy and the Roots of Mistrust}, (London: Hurst, 2006)
being linked to areas of ‘conflict’ or ‘poverty’: Conflict is caused by tensions between sub-state identities such as tribal, ethnic, religious or class groups (although it is also true of state relations with supra-state identities\(^{33}\)). Poverty highlights the gap between foreign policy demands on the state and insufficient resources to deliver on them. East and Hagen’s work found that the more consolidated a state was, (i.e. becoming less exposed to conflict and poverty issues), the greater the capacity and consistency in its actions.\(^{34}\)

Morgenthau argues Middle East states tend to bandwagon because they lack purpose and resources of their own.\(^{35}\) The difference between those states which choose to align their interests with the global ‘core’ can be said to bandwagon, whilst others may choose to ‘balance’ or ‘trade-off’ some of their interests in an attempt to gain greater relative autonomy from the West.\(^{36}\) Bandwagoning is particularly prevalent amongst “small states” as Clapham notes, not only due to their lack of resources but also as an interim mode while they seek alternative partners to balance with.\(^{37}\) The combination of the Middle East mainly occupying the periphery of the international system and being a ‘permeated’ region makes it particularly susceptible to bandwagoning tendencies. Threat perception is also an important factor of bandwagoning or balancing, whether with or against states in possession of specific resources, such as WMD, or more general ones, such as advanced economies.\(^{38}\)

Evidence from Miller suggests that “balancing” may be just as attractive to small states since the benefits of bandwagoning could be temporary and ultimately disadvantageous to long term relations with another power.\(^{39}\) Walt suggests that bandwagoning is less common than ‘balancing’ because there is almost always some

\(^{33}\) Raymond Hinnebusch, ‘Explaining International Politics in the Middle East: The Struggle of Regional Identity and Systemic Structure’, Analyzing Middle East Foreign Policies – and the Relationship with Europe, 249 - 255


\(^{36}\) Gerd Nonneman, ‘Saudi-European Relations 1902-2001 – a Pragmatic Quest for Relative Autonomy’, International Affairs, 654

\(^{37}\) Christopher Clapham, ‘The Domestic Politics of Foreign Policy Management’, Africa and the International system, (Cambridge: Cambridge University Press, 1996), 64

\(^{38}\) Stephen M. Walt, ‘Explaining Alliance Formation’, The Origins of Alliances, 22

\(^{39}\) Rory Miller, ‘Conclusion’, The Politics of Trade and Diplomacy: Ireland’s Evolving Relationship with the Muslim Middle East, Irish Studies in International Affairs, 15, 2004, 144
kind of policy alternative or leveraging mechanism for a developing state.\textsuperscript{40} All
developing states have some autonomy when making their foreign policy decisions,
and in particular states such as Saudi Arabia, because they have better leverage in the
economic sphere.\textsuperscript{41} Balancing has thus been termed a ‘struggle’ by Pranger because a
state must use whatever capacities it has in order to ensure its own survival.\textsuperscript{42}

In an inter-dependent world, there is an element of ‘bandwagoning’ between all states
as they develop alliances with partners that best serve their needs. Rather than
‘balancing’ with one great power, managed multi-dependence is a more complex
approach that illustrates the ‘balancing’ and playing-off that occurs between a state
and a series of powers. In so doing, a state is able to carve out greater relative
autonomy in the domestic, regional and international environments.\textsuperscript{43} ‘Relative
autonomy’ therefore means dependency theory is applicable only some of the time at
best and is much more likely to be a two-way or asymmetrical co-dependent
relationship.\textsuperscript{44}

There is of course, the possibility of an accidental convergence of interests between a
developing state and a power patron which is neither planned nor intentional. The
‘reductionist’ approach outlined by Hinnebusch or the ‘coincidence of interests’
approach, as outlined by Nonneman, views foreign policies of developed and
developing states as being fundamentally on the same course, seeking the same
objectives, whether intentionally or not.\textsuperscript{45} The emphasis in alliance building is
therefore about reconciling ideological factors which produce discrepancies between
comparative foreign policy objectives between states and the environment in which

\textsuperscript{40} Stephen M. Walt, ‘Introduction: Exploring Alliance Formation’, \textit{The Origins of Alliances}, 5
\textsuperscript{41} \textit{ibid}, 29
\textsuperscript{42} Robert Pranger, ‘Foreign Policy Capacity in the Middle East’, \textit{The Middle East in Global
\textsuperscript{43} Enabling or constraining factors might include the material and political resources available;
competition between regional or global powers; and the location and concentration of their interests,
\textit{International Affairs}, 635; Gerd Nonneman, ‘Analyzing the Foreign Policies of the Middle East and
North Africa: A Conceptual Framework’, \textit{Analyzing Middle East Foreign Policies – and the
Relationship with Europe}, 16
\textsuperscript{44} Gregory Gause III, ‘Theory – System in Understanding Middle East International Politics: Rereading
Paul Noble’s “The Arab System: Pressures, Constraints and Opportunities”’, in L Bassel and F
Salloukh, (eds.), \textit{Persistent Permeability? Regionalism, Localism, and Globalisation in the Middle
East}, 23
\textsuperscript{45} Gerd Nonneman, ‘Saudi-European Relations 1902-2001 – a Pragmatic Quest for Relative
Autonomy’, \textit{International Affairs}, 633 - 4
they become distorted or misaligned based on matters of interpretation, principle and aspiration. Hill recognises this distinction in labelling states as ‘anti-core’ or ‘counter-dependent’.46

Nonneman defines the most appropriate conceptual framework for the study of Middle East foreign policies as one which takes into account ‘multi-level’, ‘multi-causal’ and ‘contextual’ in order to account for all possible influences on foreign policy.47 In recognition of the reality of the domestic, regional and international environments that are sources of threats, resources and opportunities, the concept ‘omni-balancing’ proposed by David and promoted by Nonneman, takes a contextual approach to a constantly changing dynamic between the three environments (domestic, regional and international).48 It also takes into account the large number of factors which make foreign policies a series of decision making ‘outcomes’ in addition to other environmental factors.49 By reflecting the multi-dimensional aspects of many of the earlier works of FPA, ‘omni-balancing’ also creates space within the different levels of foreign policy to account for influences attributed to all the major IR theories.

Nonneman states that the following dimensions should be included: the external environment (international and regional), transnational identity or ideology, the domestic environment, economic and political policies and interests, state structures and the decision making process, and role conceptions of the leadership.50 He argues it is necessary to integrate the domestic, regional and international environments into the same conceptual framework, in a necessarily ‘complex model of international politics’ in order to identify all the potential factors, drivers and determinants in foreign policies.51 The overall balance may involve: ‘economic needs, geopolitical

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48 Stephen David in ibid, 19
49 ibid, 10
50 ibid, 7 - 11
51 ibid, 9
imperatives, domestic opinion, and state capabilities’. Omni-balancing is more interested in the intensity of a threat, not where it comes from, and emphasises the decision making elite which is expected to perceive the environments in their entirety.

In what Hinnebusch describes as a ‘Janus-faced’ outlook, foreign policy making elites simultaneously perceive and reconcile domestic demands with external threats and constraints. It is this recurrent factor of perception which when coupled with threat intensity is expected to focus attention on the most important factors in foreign policy. This leads to the logical emphasis of both social constructivism and ‘omni-balancing’ in this thesis, in much the same vein as ‘neotraditional realism’ combines neorealism with the role of leaders’ perceptions. The primary difference is that the conceptual model in this thesis, which could be called ‘constructive-balancing’, also takes into account the full range of sub-state factors. This approach is expected to be especially useful in its application to Saudi Arabia, with a strong Islamic identity, domestic vulnerability along sectarian lines and a changing perspective on its most vital regional and international relations. It is useful for the study of Iran as a state with both a strong civilisation-based identity and an emphasis on the perceptions of its leadership as its justification for maintaining an anti-systemic/Western stance.

1.3 RESEARCH METHODS

My methodology is based on analysing the national economies of the states in the study, between 2000 and 2011, to identify the main economic factors in their foreign policies. By concentrating on a specific set of potential linkages between economic factors and these policy areas, it should be possible to begin constructing an answer to the research questions about the extent, nature and relative importance of economic factors in their foreign policies.

53 Bassel F Salloukh, ‘Regime Autonomy and Regional Foreign Policy Choices in the Middle East: A Theoretical Exploration’, Persistent Permeability? Regionalism, Localism, and Globalisation in the Middle East, 84
On the economic side of the equation, the focus will be on trade, aid and investments (both outward and inward), access to markets, and major investment vehicles, which are split into international reserves, public pension funds, state-owned enterprises (which may have their own investments) and SWFs. The major economic factors of foreign policy are expected to be easily identifiable and quantify (excluding some SWFs which do not release information about their assets, liabilities or investment strategies). Their overall impact as a foreign policy determinant may be more complex, but nevertheless the role of the leading economic factors should not be underestimated. Other factors will be included where they relate to economic factors that could have a significant impact on foreign relations.

This work takes a broadly defined approach to foreign policy, analysing the domestic, regional and international environments for evidence of economic drivers and determinants in foreign policy. The case studies will be Saudi Arabia and Iran, for the reasons already mentioned above. Both ‘positive’, non-zero-sum economic factors of foreign policy (trade, investment) and ‘negative’, zero-sum (sanctions, boycotts) will be analysed. I will focus firstly on identifying major foreign policies through acts (e.g. war), decisions (e.g. treaties, speeches, communiqués) or outcomes (e.g. negotiations, expressions of interest, deals), and changes over time, which best illustrate bandwagoning or balancing in the leading bilateral relationships. The next stage will be to reverse-engineer the foreign policy, deconstructing the process into its component parts as far as possible and isolating the economic factor(s). Once the bilateral relationships have been analysed and compared, it will be possible to cross reference each one to determine the role that economic factors play within the overall foreign policy dynamic over a period of time.

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59 The US expression of interest in Saudi Arabia as conveyed by President Roosevelt to the Saudi King during a meeting onboard the USS Quincy in February 1945 is a particularly strong precedent for the transition between low level and high level politics.
The aim of the empirical investigation will be to identify economic factors that are both prominent (observable) and form part of an established and coherent foreign policy throughout the specified time frame. Foreign policies that relate to national security will be given precedence in the research, since these are policies which are expected to be immediate, targeted and vital to state interests (including a concert of resources, including economic, in order to ensure its success). At the end of the research process, there should be a limited number of key foreign policies under review which will then be studied as to their economic dimensions.

I will take a multi-method approach which incorporates primary and secondary research of foreign, oil and economic policies since these are likely to be often interlinked. Discourse analysis will lay the foundation of understanding and provide the background behind many of the contemporary issues which these states face. It could initially include texts outlining the history, conflicts and signed treaties. Policy papers and speeches, military expenditure, as well as conference and academic papers on the subject will also be examined. Figures and analysis covering Middle East economic affairs can be found from a range of online resources such as Business Source Complete, Middle East Economic Survey (MEES), Middle East Economic Digest (MEED), Gulf States Newsletter (GSN), Economist Intelligence Unit (EIU), Columbia International Affairs Online (CIAO), Index Islamicus and publications from international chambers of commerce. This is in addition to journal resources found through the electronic library such as JSTOR and EBSCO EJS.

For primary research, I intend to utilize the Middle East Newswire, Foreign Broadcast Information Service (FBIS), and the BBC Summary of World Broadcasts through Nexis UK for media reports from the Middle East. For government issued foreign policy information on most of the period in question – within the last 30 years – many details are still unknown due to the Official Secrets Act or foreign variations thereof. Therefore the combination and reliance on previous research, official interviews with the press, and information provided during interviews will be of paramount importance to verifying the top foreign policy priorities. A British Library research visit or inter-library loan (ILL) could be used to supplement as and when required.

60 Information regarding these areas should be found largely at the Arab World Documentation Unit, IAIS, University of Exeter
Additional reports and statistics shall be found through the IMF, World Bank, UN and OPEC websites and organisations dedicated to researching energy topics such as the Centre for Global Energy Studies in London.

The primary research will be supplemented by semi-structured face to face interviews with pre-selected representatives such as diplomats, ambassadors, high profile academics, and other government representatives. Most are likely to be working in embassies, missions or foreign ministries in Saudi Arabia, Iran, in Europe (London, Paris, and Berlin in particular), the U.S. (Washington D.C.), and China (Beijing). The benefit of these high profile individuals is that they are uniquely placed to comment on bilateral relations and with a policy perspective that is likely to be both pragmatic and rooted in the priorities of their home governments. A number of drivers (both economic and political) can be discussed since ambassadors and diplomats are privy to the bigger picture and different strands in bilateral relations, and are also in a position to refer questions to other experts where they see fit. Often, ambassadors have been in situ for some years which cover the period which is under study, and it is these individuals I will give preference to interviewing. Others may have retired or have moved on to work in other fields such as at think tanks or academia, and these individuals will also be identified (possibly through informal networks such as the Gulf2000 project at Columbia University) and contacted. In a limited set of circumstances, broader opinion will be sought from academics and analysts who operate in an area of important foreign policy debate. This will be particularly the case where there are known ties between a foreign ministry and think tank and in the U.S., where there is recognized to be a broader inclusion of think tanks and academic in the formulation of foreign policy. Face to face interviews will be recorded by Dictaphone wherever possible, and transcribed at a later date, subject to consent.

Alternatively, interviews by email or phone will also be considered where time, funding or accessibility is an issue.61 The benefit of this direct approach is that the interviews are expert-led and should be more efficient at exploring the crux of the thesis rather than skirting or entirely missing important research questions through a poorly informed structured interview. It also gives more control to the interviewee

who is more likely to be happy with the interview and accept follow up questions, whilst still making room for the interviewer to ‘zero in’ on issues which are important or require further clarification. The semi-structured approach is particularly suited to high level individuals who are unlikely to be able to devote much time to the interview. Therefore a limited set of critical research questions can be expanded as time allows, but gives enough time for a short interview to be enough in the first instance. I will try to make each interview as probing and in-depth as possible without appearing rude, aggressive or disingenuous.

1.4 STRUCTURE OF THE THESIS

Chapter 2 provides a background to the pre-9/11 foreign policies of Saudi Arabia and Iran and the events and trends which continue to shape them. It places their respective international relations in historical context, covering events from the oil crisis in 1973, Nasser’s attempt at pan-Arabism in the 1970s, the Iran – Iraq War in the 1980s, the collapse of the Soviet Union and the Gulf War in 1991, regional security developments, oil revenue spikes, the emergence of reform and democratisation concepts, globalisation and increasing interdependence, economic diversification and terrorism.

Chapters 3 and 4 begin with 9/11 and discuss the implementation of U.S. neo-conservative policies towards Saudi Arabia and Iran, and their policies in response. The chapters introduce the foreign policies of Saudi Arabia and Iran respectively, analysing the determinants, decision making, and behaviour at the domestic, regional and international levels. The chapter introduces the leading economic, security and geo-political strands of the foreign policies, attributing relative weight to them and highlighting reasons for the dominance of any single strand. The research ends with Saudi Arabia’s responses to the Arab Uprisings and Iran’s response to renewed UN Security Council (UNSC) sanctions in 2011.

Chapter 5 discusses the foreign policies of the U.S., most notably in the context of China and Russia as members of the BRICS bloc and the UNSC. The foreign policies of other non-aligned states such as India and relatively dependent states such as Japan are also included, showing the extent that the U.S. can continue to leverage its
resources to achieve its foreign policy aims and objectives in the Middle East. The chapter concludes with recommendations for U.S. foreign policy on the Middle East.

Chapter 6, the final chapter of the thesis, is split into two sections. The first compares and contrasts the economic factors of foreign policies across the two states, concluding the role of economic factors versus non-economic factors in Middle East foreign policies and alliances. The second places the findings within the context of an emerging Middle East, one where sanctions are becoming more common and where the diplomatic paradigm is under threat.
2. The Shaping Factors of Regional Insecurity and Conflict in the Formulation of Contemporary Saudi and Iranian Foreign Policy

2.1 INTRODUCTION

This chapter focuses on the 1973 - 2001 period to establish what the dynamics were in Iranian and Saudi foreign policy. In so doing, the chapter sets out the main economic, political and military events or issues between Saudi Arabia and Iran and their respective relations with the wider international community. Attention is drawn to the 1973 oil crisis which set the tone for the use of oil in the international affairs of major oil exporters; the 1979 Islamic revolution in Iran which laid the foundations for its anti-systemic ideology; and the 1980 – 1988 Iran – Iraq War which confirmed the ideology in a militarised mindset. The chapter then goes on to analyse the 1991 Gulf War which triggered the projection of U.S. influence in the Middle East as a ‘local power’ and the U.S. policies of a two-state solution, ‘dual containment’ and sanctions in the 1990s which Iran has been resisting and countering. The rapprochement between Iran and the West under President’s Rafsanjani and Khatami form a precursor to contemporary Iranian foreign policy covered in chapter 4. Finally, Saudi – U.S. relations in the lead up to 9/11 are included at the end of this chapter so as to give context to their shifting policies outlined in chapter 3.

2.2 THE 1973 WAR, THE OIL WEAPON AND ITS AFFECTS ON REGIONAL POLITICS

The Ramadan War or Yom Kippur War between 6\textsuperscript{th} and 22\textsuperscript{nd} October 1973 and its aftermath were both turning points in the relationship between the Middle East oil exporters and the West (i.e. the U.S. and Europe). Firstly, the Organisation of Arab Petroleum Exporting Countries (OAPEC) boycott aimed at the U.S. in retaliation for its support of Israel with military hardware was a watershed in the use of oil as a weapon. Secondly, having wrestled pricing away from the major oil companies, OPEC gave greater pricing control to the major oil producing states. At the time, this was perceived as the greatest economic threat to Europe since the Second World
The embargo followed repeated warnings by Saudi Arabia, directly to the U.S. administration and through ARAMCO, the Saudi state owned national oil company, that the U.S. must modify its position to take a more even-handed approach towards Israel. Since Saudi Arabia had committed itself to a leadership role after the 1967 war, it was no longer in a position to be a passive actor. This episode sets the tone for contemporary Saudi–U.S. relations in chapter 3 and the role of oil, especially during periods of crisis, over the following decades.

The circumstances leading to an embargo were initiated by Kuwait when it called for a meeting of the six Gulf producing states (Kuwait, Saudi Arabia, Qatar, Abu Dhabi, Iraq and Iran) on 16th October 1973 without the attendance of the International Oil Companies (IOCs). The embargo commenced the following day and involved a 5% cut in production and a further 5% per month planned cut in production until Israel withdrew from occupied Arab territories. The ‘posted prices’ of oil by which revenues were paid to the producing countries were moved much higher than previous negotiations with the IOCs would have suggested, and resulted in a near one hundred per cent revenue increase almost overnight. ‘…The oil rent suddenly increased for approximately a decade, from 1973 to 1983, and flooded the entire region, engulfing everybody in the process of rent circulation.’ As a result, the Middle East split into rentier states and non-rentier states.

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63 ibid
64 Hans Mathias Kepplinger and Herbert Roth, Creating a Crisis: German Mass Media and Oil Supply in 1973-4, The Public Opinion Quarterly, 43/3, Autumn 1979, 286
65 Nicholas Fallon, ‘Background to the 1973/74 Oil Crisis’, Middle East Oil Money and Its Future Expenditure, 3
67 ibid
68 Giacomo Luciani, ‘Oil and Political Economy in the International Relations of the Middle East’, International Relations of the Middle East, L Fawcett, (Oxford: Oxford University Press, 2005), 92
69 As defined by a series of concepts including: no taxation and political bargaining or representation, a dependence on external resources, the large role that the state plays in the national economy, the disconnect between state and citizen, and the importance of Ministry “fiefdoms” and the role their “executives” play in the management of state policy, and the inability of rentier theory to distinguish between enabling and disabling factors of oil income. Steffen Hertog, ‘Comparing the Case Studies: Comparing Saudi Arabia’, Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia, (Ithaca: Cornell University Press, 2010), 264-275
The oil embargo was an important event in the global economic system, but it was even more important to the international relations between the primary oil exporters and the primary oil importers. The oil embargo could have been used anytime after the formation of OPEC in 1959, and would have been more effective in 1980 when U.S. dependency on Arab oil was at its peak. The U.S. had lost its status as ‘swing producer’ for the first time in the early 1970s, partly as a result of previous boycotts, and had become a net importer of oil by 1973 which itself added upward pressure to oil prices. Therefore the boycott’s effectiveness at causing the crisis was as much to do with changing distribution channels as it was to surging demand in the West. Political events and military strategy dictated the terms of oil being used as a weapon. Still, the oil weapon was not the most effective means of getting the U.S. to compromise on its foreign policy, since all economic weapons take time to take effect. The U.S. through its high economic development “…would be the last to get hurt…” However, it did reinforce the efforts of the U.S. Secretary of State, Henry Kissinger, to undertake ‘Shuttle Diplomacy’ in order to bring about a timely and effective political solution to the Arab – Israeli war.

On 18th of October, Saudi Arabia announced a 10% cut in production. When King Faisal found out that the U.S. Congress was planning to approve a further $2.2 billion in emergency security assistance to Israel, he cut all oil supplies to the U.S. effective from 20th of October. In total, OPEC production was reduced by almost 25% between September and November 1973 and fell from a peak of 3.3 million barrels per day (b/d) in 1972 to 1 million b/d by 1981. By doing this, OPEC countries (Algeria, Bahrain, Egypt, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, Syria, Tunisia and...

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70 The US had alleviated other Arab-European oil boycotts in 1956 and 1967 by putting more of its oil onto the market. Rachel Bronson, ‘Understanding US – Saudi Relations’, 


72 King Faisal and Prince Saud al-Faisal in Sheikh Rustum Ali, 

73 Gerd Nonneman, ‘Saudi-European Relations 1902-2001 – a Pragmatic Quest for Relative Autonomy’, 

the UAE\textsuperscript{75}) continued to exert pressure on the West even after the Arab– Israeli War had ended. On 11\textsuperscript{th} November the European Community issued a joint declaration on Palestine which recognised the rights of the Palestinians.\textsuperscript{76} This helped alleviate the additional 5% cut in supply which had affected European states, but would not include the Netherlands or Denmark which were considered as friendly to Israel.\textsuperscript{77} Oil was distributed according to Arab definitions of ‘friendly’ states which included the UK and France, the Arab states and most of Africa, and ‘neutral’ states, including Japan, Portugal and the Netherlands.\textsuperscript{78} The difference was meaningful in that ‘friendly’ states were given assurances that their essential oil requirements would be met, whilst ‘neutrals’ would be left to pick up the remaining allowances.\textsuperscript{79} The differences in oil allocations led to considerable friction between the two groups of states as well as global economic uncertainty, falling stock market prices and rapidly rising international oil prices in the 1970s.

Since there was no real coordinated energy policy within the European Community until after the embargo\textsuperscript{80} and a lack of a coherent energy strategy between Europe and the U.S., each state was left to pursue its own bilateral negotiations with Arab states. The effect of this was a further breakdown of cohesion within the North Atlantic Treaty Organisation (NATO).\textsuperscript{81} The UK and France made their bilateral agreements in order to maintain their ‘friendly’ status within OAPEC and continue to buy oil at the inflated rates. These new agreements had the effect of strengthening the oil policies of the oil producing states. Oil was set to cost the Organisation for Economic Cooperation and Development (OECD) countries an extra $72 billion a year after 1973.\textsuperscript{82} Although the extra cost was partially off-set by increased exports to the

\begin{flushleft}
\textsuperscript{76} Gerd Nonneman, ‘Saudi-European Relations 1902-2001’, International Affairs, 648 \\
\textsuperscript{77} ibid \textsuperscript{78}
\textsuperscript{78} Nicholas Fallon, ‘Background to the 1973/74 Oil Crisis’, Middle East Oil Money and Its Future Expenditure, 4 \\
\textsuperscript{79} ibid \\
\textsuperscript{82} ibid, 52
\end{flushleft}
region, the figure was too large an increase for OECD states to maintain, particularly if the revenue accruals continued unchecked.\(^83\)

The concept of putting pressure on the U.S. through an oil embargo was a novel attempt at applying economic pressure to a political issue. The policy led to a quadrupling of the price of oil just three months after the start of the conflict\(^84\) and to inflation and monetary instability which were against the interests of both the oil producing and consuming states.\(^85\) The embargo, which ended on 18\(^{th}\) March 1974, succeeded in drawing global attention to the Arab - Israeli conflict as well as the central role of oil producers in the global economy. Higher international oil prices directly contributed to the budgets of oil exporters and their production and depletion policies. The latter required each state to achieve the highest sustainable economic development before the oil ran out.\(^86\)

The response of the U.S. to high international oil prices was to place greater emphasis on ‘recycling’ of OPEC capital back into the West, and in particular into the U.S. The policy was negotiated between U.S. Secretary of State Henry Kissinger, Secretary of the Treasury William Simon and Crown Prince Fahd of Saudi Arabia.\(^87\) The discussions led to the establishment of the Joint Economic Commission which would oversee capital flows back to the U.S. through and implement the various incentives and rules needed to facilitate such flows.\(^88\) The system worked and established an arrangement that continues to operate. In 1974 when the U.S. paid $1.7 billion for Saudi oil, Saudi Arabia invested $8.5 billion in the U.S., much of it in U.S. military hardware.\(^89\) The arrangement was particularly useful in the late 1970s because Saudi Arabia needed to purchase U.S. arms in order to match Iranian conventional arms proliferation.\(^90\) Furthermore, Saudi Arabia and the U.S. continued to cooperate on a

\(^{83}\) ibid
\(^{84}\) ibid, 5
\(^{85}\) King Faisal and Prince Saud al-Faisal in Sheikh Rustum Ali, *Saudi Arabia and Oil Diplomacy*, 108
\(^{88}\) ibid
\(^{89}\) ibid
\(^{90}\) Andrew Scott Cooper, ‘Showdown at Doha: The Secret Oil Deal That Helped Sink the Shah of Iran’, *The Middle East Journal*, 62/4, Autumn 2008, 570-572
number of foreign aid programmes designed to secure pro-Western allies during the height of the Cold War. These will be discussed in the following section.

2.2.1 ‘Riyal Politik’ in the Saudi – U.S. Partnership against Soviet Expansionism, Post-1973

The 1973 oil crisis and the subsequent increase in oil revenues led to more active diplomacy from Saudi Arabia. Due to the perceived intensity and nature of the Cold War with the USSR, Saudi Arabia maintained a close political relationship with the U.S. and managed aid programmes with the U.S. in a very complementary way. These joint aid programmes tended to be focused in the developing world, in the Middle East, Africa and Asia, where Saudi Arabia was able to leverage greater ideological and economic influence than in other regions.

In the post 1973 era, working in tandem with the U.S. was the main Saudi foreign policy modus operandi. Saudi Arabia had used financial assistance as part of its foreign policy since the late 1960s, and the Kingdom was able to use some of its new oil windfall on strategic foreign investments, loans and grants. This Saudi policy was implemented to simultaneously finance anti-Soviet operations, the non-alignment movement in Africa, and boost Saudi standing in the Islamic world. Saudi Arabia established a development fund of $2.8 billion for loans to developing nations in 1974 and pledged $400 million along with Kuwait and Abu Dhabi to the Islamic Development Bank. Saudi aid has gone to seventy different states, mainly in Africa and Asia, but over 80% of the aid was to Islamic states. Non-Arab states were eligible for low interest loans but only for specific projects rather than to cover the costs of oil sales. These generous aid programmes reached $64 billion (around 5% of average Saudi GDP) in technical assistance between 1973 and 1990.

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91 Higher oil prices would again lead to more active Saudi diplomacy in 2002 as discussed in chapter 3.
92 Shireen Hunter, ‘Channels of OPEC Aid’, OPEC and the Third World: the Politics of Aid, (Beckenham: Croom Helm, 1984), 253
93 Sheikh Rustum Ali, Saudi Arabia and Oil Diplomacy, 90 - 98
94 ibid
96 Sheikh Rustum Ali, Saudi Arabia and Oil Diplomacy, 90 - 98
97 $47.7 billion went to multilateral institutions and approximately $750 million went to Arab and Islamic institutions, whilst $424 million went to African institutions. Assa Abdulrahman Hussein,
Bilateral aid was also given on the basis of population size and the available economic resources of the recipient state.\textsuperscript{98} Except for Syria, with which Saudi Arabia aimed to minimize any political threat and confrontation, such aid has been of strategic value to the West.\textsuperscript{99} Saudi Arabia has also paid about a third of the total size of the IMF’s Special Oil Facility, which over fifty states have used, including six western developed states.\textsuperscript{100} This, and other aid channeled through the IMF, has directly served U.S. interests.\textsuperscript{101} There were limits to Saudi economic aid, and these are illustrated through cases such as: improved Egyptian relations with the U.S. following the 1967 war; Sadat’s peace accord with Israel\textsuperscript{102}; and South Yemen, which remained ideologically averse to Saudi overtures to cut ties with the USSR.\textsuperscript{103}

The Communist advance in the Horn of Africa was of great concern to the White House in the late 1970s and early 1980s because of its geo-strategic location near the Persian Gulf and Southwest Asian region.\textsuperscript{104} The U.S. and Saudi Arabia sent up to $500 million a year to Sudan throughout the 1970s and 1980s.\textsuperscript{105} This aid, along with that sent to the opposition in Ethiopia, was thought to be important by both the U.S. and Saudi Arabia in challenging the Marxist government in Ethiopia as well as the Libyan regime.\textsuperscript{106} Saudi Arabia also distributed cash and equipment covertly to Somalia and used its close bilateral relationship with the government to try to break the Somali link with the USSR and to launch an attack against Ethiopia.\textsuperscript{107} In other cases, such as Pakistan, riyal-politik was simply expected to induce a better relationship than the one that had existed before.\textsuperscript{108} Saudi aid to the Philippines also

\textsuperscript{98} Syria topped the donor list, receiving $12.3 billion, followed by Egypt and Jordan receiving $9.4 billion and $8.4 billion respectively, between 1973 and 1990. \textit{ibid}, 105
\textsuperscript{99} Anthony H. Cordesman, ‘The Impact of Saudi Aid and Capital’, \textit{Western Strategic Interests in Saudi Arabia, 39}
\textsuperscript{100} \textit{ibid}
\textsuperscript{101} \textit{ibid}
\textsuperscript{102} \textit{ibid}, 143
\textsuperscript{103} Rachel Bronson, ‘We Support Some, They Support Some’, \textit{Thicker Than Oil: America’s Uneasy Partnership with Saudi Arabia} (Oxford: Oxford University Press, 2006), 180
\textsuperscript{104} \textit{ibid}
\textsuperscript{105} \textit{ibid}
\textsuperscript{106} Saudi Arabia was also concerned about Sudan’s inability to prevent Libyan forces crossing its territory during the Libyan war with Chad. \textit{ibid}
\textsuperscript{107} \textit{ibid}
fell into this category, whereby Saudi Arabia was attempting to influence the authoritarian regime of President Ferdinand Marcos into treating the Pilipino Muslim minority in a more lenient way.109

The U.S. actively engaged Saudi Arabia on a number of overseas operations where their interests overlapped and in cases which the U.S. Congress was not willing to fund. These notably included the U.S. and Saudi policies of countering Communism in Central America with Saudi funding for the Nicaraguan Contras.110 As the oil price dropped in the 1980s, and with growing domestic budgetary concerns, Saudi Arabia was in a less favourable position viz-à-viz increasing aid packages. However, Saudi Arabia and the U.S. remained committed to a range of joint foreign policy initiatives against limiting the expansion and influence of their common Soviet adversary. No joint operation was larger than the $3 billion the U.S. and Saudi Arabia spent on arming the majahideen to repel Soviet forces in Afghanistan in the 1980s, by matching each others spending dollar for dollar. After this operation, the U.S. trend of ‘tin cupping’ went on to last throughout the 1990s with often unfocused requests being made to Saudi Arabia by the U.S. These U.S. requests culminated in Saudi Arabia underwriting a large portion of the ‘Desert Storm’ operation in Iraq in 1991.111

2.3 THE 1979 IRANIAN ISLAMIC REVOLUTION: THE BIRTH OF RESISTANCE POLITICS

The Islamic revolution in Iran constitutes a vital period for the study of contemporary Iranian foreign policy because it marks the beginning of an independent republic, a non-aligned Islamic state and shortly thereafter severed diplomatic relations with the U.S. However, the Iranian economy did not undergo any such revolutionary redefinition and recalibration. The Iranian economy therefore remained exposed to the international system and to the prospect of international sanctions.

109 ibid
Khomeini, the leader of the post-revolutionary Iran, did not consider Iran or its foreign policy to be east or west but simply Islamic.\textsuperscript{112} During the beginning of the Iranian revolution he called for ‘independence, freedom and the Islamic Republic’ which are still the bedrock of foreign policy decision making to this day, as provided for by the constitution.\textsuperscript{113} Independence was a particularly relevant term given the recent history of Iran’s oil industry having been controlled by the British and Russians throughout the 1970s.\textsuperscript{114} The theocratic concept came from a reaction against the Pahlavi monarchs which were both authoritarian and secular.\textsuperscript{115} In order to promote itself as a ‘hub of Islamism’, Iran needed to create the ‘enemies of Islam and Iran’, epitomised by the U.S. and its support for the overthrow of the nationalist Prime Minister Muhammad Musaddiq.\textsuperscript{116} The fast moving events of the immediate post-revolutionary period, including ‘internal power struggles, suspicion of American plots, and clerical opportunism’ made the U.S. embassy crisis almost inevitable.\textsuperscript{117}

Contemporary U.S. – Iranian relations are in large part a function of the early days of the Iranian Revolution, and in particular the hostage crisis that started on 4\textsuperscript{th} November 1979 inside the U.S. embassy in Tehran. The Barzagan government was not in favour of breaking relations with the U.S. but hoped to reformulate ties based on greater respect. Clerical radicals were the ones in control of the embassy and they sought to undermine the provisional government. Therefore, the situation was ultimately in the hands of Khomeini to decide whether Iran would choose to bring the situation to a rapid close as he had done in February 1979, or cut diplomatic relations and continue the siege.\textsuperscript{118} Instead of having the students who took U.S. personnel hostage arrested, Khomeini gave them a public endorsement. By doing so, he added credibility to their belief that they were involved in a pre-emptive strike against a U.S. that was bent on destroying the Islamic revolution. Ultimately, the events were simply

\textsuperscript{112} Anoushiravan Ehteshami and Mahjoob Zweiri, ‘Preface’, in Anoushiravan Ehteshami and Mahjoob Zweiri (eds.), \textit{Iran’s Foreign Policy: From Khatami to Ahmadinejad}, (Reading: Ithaca Press, 2008), vii
\textsuperscript{113} R. K. Ramazani, ‘Iran’s Foreign Policy: Independence, Freedom and the Islamic Republic’, \textit{Iran’s Foreign Policy From Khatami to Ahmadinejad}, 1
\textsuperscript{114} Anoushiravan Ehteshami, ‘Iran’, \textit{Economic and Political Liberalization in the Middle East}, 216
\textsuperscript{115} R. K. Ramazani, ‘Iran’s Foreign Policy: Independence, Freedom and the Islamic Republic’, \textit{Iran’s Foreign Policy: From Khatami to Ahmadinejad}, 7
\textsuperscript{116} \textit{ibid}, xiii
\textsuperscript{117} Ray Takeyh, ‘Relations with the “Great Satan”’, \textit{Guardians of the Revolution: Iran and the World in the Age of the Ayatollahs}, (Oxford: Oxford University Press, 2009), 35
\textsuperscript{118} \textit{ibid}, 39
a reflection of the domestic political climate and shifting power centres, from the provisional government to a revolutionary one.

The communications and trust issues from this incident, seen from the U.S., have been outlined by Gary Sick, a former Carter Administration National Security Council (NSC) staff member. He suggests that Iran continues to negotiate in bad faith and attention is paid only to the domestic environment instead of a balance with its international relations, especially with the U.S. The U.S. lacked understanding about how long the crisis would continue (fifty two hostages were held for 444 days), and had a deficient in-depth understanding of Khomeini. The U.S. government was therefore unable to influence Iranian decision making through ‘…sanctions, pleas, intermediaries and threats…’ Perceptions therefore hardened in the U.S. administration, and across the wider public, believing that Iran was both irrational and that it hated the U.S. The eventual success that the U.S. had in conducting negotiations through German and Algerian counterparts had no effect on the Iranian perception of the event as a victory against the U.S.

The additional U.S. shock of losing eight servicemen during the hostage rescue mission, named Eagle Claw, plays a large part in the continued U.S. assessment of Iran as both “evil” and antagonistic. Events throughout the 1980s continued to reinforce this view and cast a long shadow on U.S. – Iranian relations. These are discussed in more detail with regard to the Iran – Iraq War below. The result of the hostage crisis and the sanctions imposed on Iran by President Carter in November

120 David Patrick Houghton, ‘The Waiting Game’, U.S. Foreign Policy and the Iran Hostage Crisis, (Cambridge: Cambridge University Press, 2001), 75
121 Ray Takeyh, ‘Relations with the “Great Satan”’, Guardians of the Revolution: Iran and the World in the Age of the Ayatollahs, 35
124 Ray Takeyh, ‘Relations with the “Great Satan”’, Guardians of the Revolution: Iran and the World in the Age of the Ayatollahs, 35
126 Congressional Record: Proceedings and Debates of the 109th Congress, First Session, United States of America Senate, June 20 2005, Vol. 151, Pt 10, 13412
1979 continue to inform interactions between the two states, which are covered in greater detail in chapter 4.

2.3.1 The Islamic Revolution and the Iranian Economy

Although there was no definition as to what form an Islamic revolutionary economy should take, the revolution affected the structure of the Iranian economy since the state bourgeoisie was removed and exiled. A smaller, more modern, bourgeoisie filled the gap but was still subservient to the state. Nationalization took place under circumstances where properties had been owned and left vacant by the elite or where any firm owed more than 50% of its assets to the banks.\textsuperscript{127} Given the circumstances, these options were restrained and the latter was an attempt to assist struggling firms. The Islamic Republic did not form a coherent strategy on the redistribution of wealth, land reform or the control of foreign trade.\textsuperscript{128} The political economy dynamic had still not been established, and political instability added more confusion to questions about the economy.

Liberalism in Iran ended in 1981 and the clergy and its allies took over in the form of the Moussavi government in February 1982.\textsuperscript{129} The emphasis focused more on economic self-sufficiency and self-reliance and a reduction of dependency on the international capital markets. There were also disagreements within the regime, represented largely by the Council of Guardians, as to how revolutionary the revolution should be in economic terms.\textsuperscript{130} Post-revolution Iran had two extreme competing factions. One could be classified as free-marketeers who opposed statist policies and advocated a more ‘Islamic’ approach.\textsuperscript{131}

The other faction included followers of the Imam, focused on the poor and therefore a requirement for higher taxes, redistribution of land ownership and central planning.\textsuperscript{132}

\textsuperscript{127} Anoushiravan Ehteshami, ‘Iran’, \textit{Economic and Political Liberalization in the Middle East}, 219
\textsuperscript{128} \textit{ibid}, 222
\textsuperscript{129} \textit{ibid}
\textsuperscript{130} The Council of Guardians was mainly representing the bazaar and landowners and therefore their objectives can best be seen in the light of protecting their interests. Anoushiravan Ehteshami, ‘Iran’, \textit{Economic and Political Liberalization in the Middle East}, 222
\textsuperscript{131} Anoushiravan Ehteshami, ‘Iran’, \textit{Economic and Political Liberalization in the Middle East}, 224
\textsuperscript{132} \textit{ibid}
To overcome the latter approach required the combination of a pragmatic government policy and intervention from the Guardian Council.\(^{133}\) It was also difficult to contend with Khomeini’s pronouncement that: ‘…as long as there is Islam there will be free enterprise also.’\(^{134}\) The government was committed to this process of free enterprise but after committing $2.5 billion to industrial investment in 1983\(^{135}\), it made losses of $3.5 billion, and meant the government was effectively a net subsidiser of poor economic decision making.\(^{136}\)

The contradiction of free enterprise which required integration and cooperation in the international system, and an ideology which spurned partnership with the West could not be made sustainable over the long term. Ironically, only the international markets could provide the capital necessary for Iran to continue with its revolutionary objectives. In the mean time, the Iran – Iraq War forced the new Iranian political elites to re-orientate the economy to serve the war. The war is discussed below but the economic effects of the war are discussed in greater detail in chapter 4.


The Iran – Iraq War or the so-called ‘imposed war’ in Iran, since it was Saddam Hussein who was the belligerent of war, was one of the early theatres in which Iran experienced the geo-strategic drawbacks of its revolutionary zeal. Instead of supporting Iran, the U.S. first tried to balance the power of Iran and Iraq. When Iran failed to respond to a peace treaty in 1982, Western policy subscribed to the idea of an Iraqi bulwark against the possible exportation of the Islamic revolution to the Gulf monarchies. The war thus confirmed Iran’s fear of encirclement, its sense of isolation and containment due to the disproportionate GCC State and Western support given to Iraq against Iran. However, even with a new revolutionary government in situ,
western support for Iraq in the war was in no way assured. Before the invasion of Iran by Saddam Hussein’s Iraq, and even for a while after the invasion had taken place, the U.S. had no relations with Iraq and viewed it as a radical, pro-Soviet regime with hostile intent towards other U.S. allies in the region (the Gulf States and Egypt).\textsuperscript{138}

In contrast, France had relatively normalised relations with Baghdad.\textsuperscript{139} These relations were based on deep commercial connections which led France to provide 25\% of the total military aid to Iraq and trade some arms illegally.\textsuperscript{140} Egypt, Brazil, Spain and the UK also supported Iraq based on perceived commercial opportunities in the region.\textsuperscript{141} Although the European states called for a ceasefire at the 1985 Brussels Summit, it was not enough to persuade Iran that Europe was actively searching for a solution to end the war.\textsuperscript{142} The UK observed the weapons ban but still exported dual use components and machine tools to Iraq that could have been used to produce weapons. Iraq received $17.6 billion in aid between 1979 and 1983 whilst Iran only received $5.4 billion ($2 billion was from before the 1979 revolution).\textsuperscript{143} This discrepancy meant that Iran did not have the military capability to close the Strait of Hormuz, and could only manage to interdict shipping there (including western vessels transporting oil).

Meanwhile, Iraq was able to bomb Iranian cities and attack Iran’s oil industry, including its tankers. Iran’s lack of military assets led to its reliance on the courage of fighting men to make waves of assaults against Iraq. It is through this approach to warfare and Iran’s subsequent defeat in the war (180,000 Iraqi dead, 213,000 Iranian dead\textsuperscript{144}) that Iran developed or strengthened its concept and sense of martyrdom and sacrifice. Iran was backed by other ‘pariah’ states such as North Korea, Libya and Syria.\textsuperscript{145} However, many other states sold arms to Iran including: Russia, China, India, Brazil, Iran, and China.

\textsuperscript{138} Wayne White, Middle East Institute, ‘Re: Mousavian: A Package to Resolve the Nuclear Impasse with Iran’, email sent to the Gulf2000 List, 2 April 2011
\textsuperscript{139} Kenneth M. Pollack, ‘At War with the World’, \textit{The Persian Puzzle}, (New York: Random House, 2004), 184
\textsuperscript{141} \textit{ibid}, 179
\textsuperscript{142} \textit{ibid}, 189
\textsuperscript{143} \textit{ibid}, 185
\textsuperscript{144} Lawrence G. Potter and Gary G. Sick, ‘Introduction’ in Lawrence G. Potter and Gary G. Sick (eds.) \textit{Iran, Iraq, and the Legacies of War}, (New York: Palgrave Macmillan, 2004), 8
\textsuperscript{145} Rob Johnson, ‘The Iran – Iraq War in Retrospect’, \textit{The Iran – Iraq War}, 179
Taiwan, Argentina, South Africa, Pakistan, Switzerland and Israel.\textsuperscript{147} China played an important role in the exportation of cruise missiles to Iran during the Iran - Iraq War and chemical and nuclear technologies which assisted Iran in the development of its nuclear programme.\textsuperscript{148} Israel sold arms to ensure that both sides were weakened through a continued war of attrition and therefore less of a national security threat to Israel. At the point when Iraq entered Iranian territory, Moshe Dayan, the former Israeli Defence Minister, asked the U.S. to help Iran reinforce its defences.\textsuperscript{149}

The covert Iran – Israel relationship, which comprised mainly of an exchange of Iranian oil for weapons, was relatively close for a brief period in the early 1980s, simply based on Iran pushing aside ideological considerations in favour of national security. The arms trade between Iran and Israel continued until 1982/3 when Khomeini decided Iranian forces should enter Iraqi territory after the Iranian victory in the battle at Khoramshar.\textsuperscript{150} Like the U.S., Israel wanted two weak states and division rather than any outright strong victor in the war.\textsuperscript{151} Western positions on the war were confirmed at an early point in the conflict, when Iran did not consider a peace deal in 1982. In the summer of 1982 the U.S. joined the USSR\textsuperscript{152} in its backing of Iraq, and provided intelligence to Iraq, as well as removing it from the State Department’s list of ‘state sponsors of terrorism’.\textsuperscript{153} By doing this, the U.S. was able to facilitate covert, diplomatic and economic support to Iraq.\textsuperscript{154} Western support for Iraq was therefore born from its inability to countenance a victorious Iran, since its foreign policy toward the West had already been confirmed by the U.S. hostage crisis and its stated desire to overthrow regional governments allied to the West.\textsuperscript{155}

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\textsuperscript{147} ibid

\textsuperscript{148} Richard L. Russell, ‘China’s Strategic Prongs: Saudi Arabia, Iran and Pakistan), \textit{Weapons Proliferation and War in the Greater Middle East}, (Abingdon: Routledge, 2005), 130

\textsuperscript{149} Trita Parsi, \textit{Treacherous Alliance: The Secret Dealings of Israel, Iran, and the US}, (New Haven & London: Yale University Press, 2007), 105


\textsuperscript{151} Rob Johnson, ‘The Iran – Iraq War in Retrospect’, \textit{The Iran – Iraq War}, 182

\textsuperscript{152} Iran could not engage with overtures from USSR since it supported al-Mujahideen against Soviet troops in Afghanistan during the 1980s.

\textsuperscript{153} Arshin Adib-Moghaddam, SOAS, ‘The United States and Saddam (Adib-Moghaddam)’, email sent 5 April 2011 to the Gulf2000 List

\textsuperscript{154} ibid

\textsuperscript{155} ibid
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Furthermore, supporting Iraq was a way of implementing the Carter Doctrine which provided a political agenda (the protection of ‘vital interests’ including oil) for U.S. involvement in the Middle East. This was fundamentally about securing energy supplies but also about maintaining manageable oil prices after a period of particular difficulty under the oil embargo only a decade before. That was not to say that U.S. policy during the war was consistent. The Iran-Contra Affair of 1985 aimed to improve U.S. – Iran relations, advance U.S. interests in Lebanon, and secure the release of seven hostages from Hezbollah (which had connections to Khomeini). Even though 2004 TOW missiles and 200 parts for Hawk missile batteries were shipped to Iran in the so called ‘arms-for-hostages’ deal, only three U.S. hostages were released and these were quickly replaced by three more.\footnote{\textsuperscript{156} Arms sales to Iran were only for the purpose of facilitating the release of U.S. hostages and offering a strategic opening in U.S. – Iran relations, and not an attempt to determine the outcome of the Iran – Iraq War in Iran’s favour.\textsuperscript{157} The Iran – Contra report found that failure was based on ‘too many drivers – and never the right ones - steering in too many different directions’.\textsuperscript{158}}

Iran finally sought a peaceful solution to the war in 1988 after the Iranian economy was significantly weakened, following U.S. navy operations in the Gulf, and once Iraq began to regain the advantage on the battlefield.\footnote{\textsuperscript{159} By the end of the war, both Iran and Iraq were economically crippled. It took until 1992 for Iran to recover. Robert Gates, Director of the CIA, stated in a Hearing of the House Armed Services Committee’s Defence Policy Panel, that: ‘While Iraq struggles to recover from the Gulf War, Iran is determined to regain its former stature as the pre-eminent power in the Persian Gulf…’\textsuperscript{160} To achieve these goals, Iran undertook diplomatic measures to end its international isolation and purchased weapons from a variety of foreign suppliers.}
Iran also pursued a policy of nuclear proliferation to counter reports of an Iraqi nuclear programme. Until the Iranian nuclear programme could be realised, Khomeini had to accept that ‘liberating Jerusalem via Baghdad’ would have to be suspended. Mending fences in the international community, with the Gulf States, and then with the U.S., was deemed necessary under the Rafsanjani presidency. The U.S. in turn, tried to use the period to renew goodwill by ensuring that the World Bank was able to extend its first loan to Iran since 1987. For Iraq, the circumstances provided an economic incentive for the invasion of Kuwait three years later, and may have provided an unlikely partnership for Iran to be involved too.

U.S. – Iran relations soured again in 1988 due to an Iranian mine attack against a U.S. frigate, the USS Samuel B. Roberts. The U.S. retaliation consisted of the sinking of an Iranian frigate and the shelling of two oil platforms near the Strait of Hormuz. The U.S. also accidentally shot down an Iranian commercial jet but failed to apologize for the incident.

Such unfortunate incidents have been the hallmark of Iran – U.S. relations and remain so. The reason for this is partly related to the main candidates in the 2005 presidential election coming from the “war generation”, having held significant posts during the Iran – Iraq War. Therefore the conflict has a direct bearing on contemporary Iranian foreign policy: Mahmoud Ahmadinejad occupied a position in covert operations and now draws support from the “war generation”; Mehdi Karroubi was head of Imam Khomeini Relief Committee and Martyr’s Foundation, and then Chairman of Parliament after the war; and Rafsanjani oversaw the reconstruction and resumption of regional ties in the post-war era.


162 Ziba Moshaver, ‘Revolution, Theocratic Leadership and Iran’s Foreign Policy: Implications for Iran – EU Relations’, Analyzing Middle East Foreign Policies, 180


164 Saddam Hussein sent Rafsanjani a letter requesting Iranian participation in the invasion of Kuwait. Interview with Ali Biniaz, Director, Centre for Energy and International Economy, Institute for Political and International Studies (IPIS), Tehran, 27 February 2011


166 Ibid
The Iran – Iraq War informed Iranian political and military strategy significantly and sowed the seeds for an Iranian militarised mindset and nationalist struggle against external domination. These were implemented in the development of Iran’s nuclear programme, position and policies in the ‘resistance axis’¹⁶⁷, and relations with Sunni states in the GCC. When President Rafsanjani took over in 1989, the same year Khomeini died, the West thought negotiating with a pragmatic conservative would be easier. That did not prove to be the case. Furthermore, as time progressed and the individuals from the “war generation” moved up the Iranian political ranks, politicians such as Ahmadinejad were able to draw support from the “war generation” in the 2005 and 2009 elections. They were also better placed to work with the IRGC and other entities which developed after the war, in their struggle against the West.

2.5 THE FIRST GULF WAR: THE U.S. AS A LOCAL POWER AND THE SUBSEQUENT COMPLEXITIES OF ESTABLISHING A PAN-REGIONAL SECURITY ARCHITECTURE

The Gulf War was a seminal event in the evolving relationship between the U.S., the GCC and Iran, particularly as it coincided with the demise of the USSR as an opposing force to the U.S. in the Gulf. The first Gulf War marked the start of increased and direct U.S. influence in the Middle East through new base agreements in the Gulf and as a security guarantor to its GCC allies. The U.S. through becoming a ‘local power’ in the Gulf also generated renewed Iranian resistance and countering strategies. Provocative Iranian actions to the West included: the kidnapping of several Western hostages from the mid-1980s, a fatwa against Salman Rushdie (author of the ‘Satanic Verses’) and the assassination of Shapour Bakhtiar, a former Iranian Prime Minister, in August 1991 in Paris. Therefore, it was Iran which was perceived to be the greater threat when compared to Iraq, before the invasion of Kuwait in 1991.¹⁶⁸

Prior to the Gulf War, President Rafsanjani had met with King Fahd in Saudi Arabia and re-established diplomatic ties, the first since 1988, which paved the way for better

Iran – GCC relations. These relations were still hampered due to the unresolved territorial dispute regarding the Tunb islands and Abu Musa. Dialogue nevertheless enabled Kuwait to repair its relationship with Iran immediately after the end of the Iran – Iraq War by apologising for its support for Saddam Hussein. There was also some hope in the GCC that Oman might be able to bring Iran into a regional security framework to avoid the instabilities of the Gulf War from occurring again. Oman was particularly important since Saudi Arabia, Kuwait and the UAE had lost all credibility with Iran by supporting Iraq in the Iran – Iraq War with $30 billion in grants and loans.

The effects of the war, notably the dissimilar regional policies of the U.S. and Iran, precluded the re-orientation of GCC collective security to include Iran in a broader regional security framework. Saudi Arabia took a similar view to the U.S. although the government feared the consequences of a build up of arms after the Gulf War. The Saudis did not support Iran in any regional security framework since the sources of threat (i.e. sectarian, revolutionary, rhetorical and militaristic) had not been resolved. Indeed, the sources of threat only worsened, as Iran continued to support terrorism and developed its nuclear programme. Defence was nonetheless discussed at a GCC meeting held in Damascus in 1991 and the subsequent U.S. brokered “Damascus Declaration” was expected to ally Egypt and Syria with the GCC to form the “GCC+2”. The agreement was to include “friends” but fundamentally, it did not provide the inclusive pan-regional agenda Sultan Qaboos, the Sultan of Oman, had hoped for. The Damascus Declaration was shelved in 1992 because it was too expensive ($20 billion over 5 years), the GCC perceived Syria as untrustworthy (due

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170 ibid
173 Joseph A. Kechichian Oman and the World: The Emergence of an Independent Foreign Policy, 90
to its ‘resistance axis’ with Iran), and the same applied to Syrian perceptions of the West in the Persian Gulf.\textsuperscript{174}

The Gulf War also led to the Madrid Peace Conference. The U.S. was aware that the Arab - Israeli conflict was divisive and used by Saddam to split Arab opinion before the Gulf War.\textsuperscript{175} In response to this and due to Arab cooperation with the U.S. during the war, the Madrid Peace Process was launched by the U.S. in 1991.\textsuperscript{176} Since Syria and Lebanon were participants in the conference, they could have, at an early stage, undermined the entire ‘resistance axis’ by each signing a peace treaty with Israel. This did not happen, and given Iran’s ability to shake peace with its support of asymmetric warfare, Iran has been relatively free to pursue resistance policies in the Levant. Europe, and particularly France under President Chirac, led a new wave of engagement on the Middle East Peace Process (MEPP) in 1998, in effectively taking the Arab stance. Such moves were criticized by the UK and U.S., and led to the UK launching the British Initiative in March 1998.\textsuperscript{177} The post-war environment failed to deliver the political will or multilateralism that was needed to bridge the inadequacies of regional security and deliver a comprehensive peace in the Middle East. Therefore, rather than directly address the root causes of the ‘resistance axis’ in the Levant, the U.S. was left to implement a series of policies that directly targeted an economically weakened Iran.

\textbf{2.5.1 The U.S. Policy of Dual Containment and Sanctions against Iran in the 1990s}

The U.S. was concerned that the rivalry between Iraq and Iran for regional dominance could destabilise regional security, and used their respective economic weaknesses after the Gulf War to implement a policy of ‘dual containment’ from 1993. The combination of a weakened Iranian economy following conflict and mismanagement in the 1990s, and ongoing Iranian revolutionary rhetoric and terrorist activities led to the tightening of U.S. sanctions in 1996. Iran has looked upon this policy as

\textsuperscript{175} ‘Centrepiece: Europe and the Middle East’, \textit{GSN}, 23/582, 23 March 1998, 8
\textsuperscript{176} \textit{ibid}
\textsuperscript{177} \textit{ibid}
provocative and directly linked to Western domination and a U.S. agenda of regime change.

Iran’s economy was severely weakened by the legacies of internal and external conflict from the 1970s and 1980s. In the 1990s a sustained fall in the international oil price adversely affected the economy. So by the time Khatami took over as president in 1997, the Majlis was largely open to Khatami’s reformist policies, but its members were the ones taking the initiative on economic decision making even though they were not qualified to do so.\textsuperscript{178} The poor state of the economy, even in a period of high oil prices, was indicative that mistakes were being made and led Khatami to describe the economy before the 2000 Presidential election as “sick”.\textsuperscript{179} Questions over how far Khatami was willing to go to “…liberalise politics, open up the country to the outside world and restructure the economy” pointed to the possible need to slow the pace of change in order to maintain unity and stability across all the factions.\textsuperscript{180}

At the same time, Iran – U.S. relations hit a series of new low points during this period. This included a number of incidents: the 1992 restaurant bombing in Berlin in which four Iranian Kurdish dissidents died later found to be officially sanctioned by the Iranian regime in 1997\textsuperscript{181}; the 1994 attack against the Israeli-Argentinean Mutual Association (AMIA) building in Buenos Aires; Iranian deployment of anti-aircraft missiles, submarine docking stations, chemical weapon artillery and 6,000 - 8,000 troops placed on Abu Musa and the Greater and Less Tunb islands, military exercises in the Gulf, and the Iranian nuclear programme\textsuperscript{182}; as well as an Iranian sponsored direct attack against the U.S. in 1996 when it bombed the Khobar Towers in Riyadh which was housing U.S. troops.\textsuperscript{183} However, the latter incident has since been blamed on al-Qaeda.\textsuperscript{184}

\textsuperscript{178} \textit{ibid, 5}
\textsuperscript{179} Vahe Petrossian, ‘Reformers Set for Victory’, \textit{MEED}, 18 February 2000, 2
\textsuperscript{180} \textit{ibid}
\textsuperscript{181} Michael Axworthy, ‘Diplomatic Relations Between Iran and the United Kingdom in the Early Reform Period, 1997 - 2000’, \textit{Iran’s Foreign Policy}, 105
\textsuperscript{183} Kenneth Pollack and Ray Takeyh, ‘Taking on Tehran’, \textit{Foreign Affairs}, 20
The U.S. responded to this trend of Iranian aggression firstly through a ‘dual containment’ strategy against Iran and Iraq, promoted by Anthony Lake and Martin Indyk, from May 1993. In 1996 the U.S. used Iran’s economic weakness as political leverage and tightened sanctions through implementing the Iran – Libya Sanctions Act (ILSA). The ILSA increased pressure on Iran by attempting to prevent non-American companies from investing more than $20 million in Iran’s oil and gas sector due to its nuclear programme and support for terrorist organisations. This seriously reduced IOC interest in Iran’s oil and gas sector. In addition to ILSA, President Clinton issued two executive orders, one which barred subsidiaries of U.S. Companies from taking part in projects related to Iran’s oil and gas resources. The other barred U.S. individuals from trading, financing or facilitating goods or technology that could benefit the Iranian petroleum sector. In addressing the Iranian nuclear issue, the U.S. tried, but failed, to thwart the $800 million sale of several nuclear reactors to Iran. In this regard, the U.S. Secretary of Defence, William Perry, pledged a $100 million to the Russian Foreign Minister Andrei Kozyrev if Russia did not complete this contract.

Whether ILSA was coordinated with Saudi Arabia or whether Saudi Arabia used the opportunity of an economically weakened Iran (struggling with debt repayments and a weak oil sector) to raise its production quotas in OPEC is debatable. However, the effect of the Saudi initiative resulted in a collapse in crude oil prices at the end of 1997. Tehran was infuriated with Riyadh over this policy. The importance therefore of Hashemi Rafsanjani’s (head of the Iranian Expediency Council) visit to Saudi Arabia in February 1998 with other senior Iranian Ministers, including the oil minister, could not have been more important for the future of Iranian - Saudi bilateral

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187 Anoushiravan Ehteshami, 'The Foreign Policy of Iran', The Foreign Policies of Middle East States, 291
190 Gawdat Bahgat, American Oil Diplomacy in the Persian Gulf and the Caspian Sea, 119
191 ibid
193 ibid
relations. It led to the stabilization of the oil market and an improvement in prices which would benefit Iran and lead the way for improved regional relations and coordination on regional security.194

The Clinton Administration kept pressure on the Iranian regime, insisting the country modify its international behaviour before it be admitted to the ‘community of nations’. By April 1995, U.S. policy was suggested by some observers to be moving to the overthrow of the Iranian regime since it was creating regional instability.195 As early as September 1998 U.S. sanctions were being questioned since Iranian policy was recognized to be changing under President Khatami.196 The U.S. was also urged by the EU and RAND to take a more pragmatic approach of engagement.197 ‘Officials have however refused [to reform dual containment and engage in dialogue with Iran], afraid of being seen to be soft on Iran by Congressional opponents and also motivated by classified intelligence that allegedly points to Iranian weapons programmes and support for terrorism.’198 U.S. sanctions and unilateral actions would come to form the backdrop of its relations with Iran which are outlined in chapter 4.

2.6 THE CRITICAL, COMPREHENSIVE AND CIVILIZATIONAL DIALOGUES WITH IRAN

The various dialogues between Iran and the West, during the presidencies of Rafsanjani and Khatami, illustrated the potential for Iran and the West to address the most fundamental questions about the nature of Iranian foreign policy going back to the Islamic revolution. Their ultimate failure to secure a lasting diplomatic solution to the Iranian nuclear programme and other contentious Iranian foreign policies, however, suggests a more comprehensive effort will be required than those steps already taken.

194 *ibid*
197 *ibid*
Iran’s Islamic revolution, anti-western stance, and push for a change in the status quo in the region, have all impacted on its relations with the EU.\textsuperscript{199} It has been moving steadily in the wrong direction in the perceptions of the EU and U.S., and remained a pariah state during the Clinton administration. The EU did not wholly subscribe to the view that Iran was a pariah state and sought to engage Iran over its most contentious policies in a ‘critical dialogue’ which was initiated at the Edinburgh Summit in 1992.\textsuperscript{200} A year after taking office in 1997, Khatami’s call for a ‘dialogue of civilisations’ was a signal for a gradual normalisation of U.S. - Iranian relations. It represented a golden opportunity for the U.S. to engage Iran. Khatami reached out to the U.S. at the Islamic Organisation Conference Summit in Tehran in 1998, calling for “thoughtful dialogue” and a “détente in diplomatic policy”\textsuperscript{201}. In a further rapprochement, Khatami sent a Christmas message to the U.S. in which he said “I wish for a new chapter in relations between peoples”. To appear strong and allied to the national interest in order to preserve his power and autonomy, he had nonetheless, to illustrate his lack of ‘interest’ in negotiating with America by stating that “…we can reach our objectives without American assistance”, showing how closely allied his words must be to the national consciousness in order to preserve his power and autonomy.\textsuperscript{202}

However, Khatami made all the right indications on all the subjects of U.S. contention with Iranian foreign policy: Khatami stated that Iran was not a nuclear power and that it did “…not intend to become one”.\textsuperscript{203} Although Khamenei clarified this in 2004 by stating that: ‘There is a difference between nuclear technology and nuclear weapons…We do not have the motivation to pursue nuclear weapons. We have not and will not go after them. We do not need a nuclear bomb.’\textsuperscript{204} In addressing terrorism, Khatami stated that “It [terrorism] must be condemned, and we, in turn, condemn every form of it in the world” and that “the ugliest form of terrorism in our world is state terrorism”.\textsuperscript{205} In addressing the Peace Process, Khatami stated that it

\textsuperscript{199} Abdullah Baabood, ‘EU Relations with Iran’, \textit{EU-Gulf Political and Economic Relations: Assessment and Policy Recommendations}, (Dubai: Gulf Research Center, 2006), 12
\textsuperscript{200} \textit{ibid}, 13
\textsuperscript{201} ‘Politics and Defence: America and Iran’, \textit{GSN}, 23/577, 12 January 1998, 2
\textsuperscript{202} ‘Centre Piece: Khatami 1, Clinton 0’, \textit{GSN}, 23/578, 26 January 1998, 8
\textsuperscript{203} \textit{ibid}, 9
\textsuperscript{205} \textit{ibid}
“will not succeed because it is not just” but also said that Iran will not interfere in the peace process.  

White House Officials only saw Khatami’s statements as part of the continual ‘declaratory policy’ which only warranted a ‘declaratory policy’ in response. If Khatami shifted from rhetoric to action, he would have forced the U.S. to respond in kind which could have created a significant momentum towards the normalization of relations. In any area such as terrorism, the nuclear programme or the Middle East Peace Process, Iranian action would have most likely been welcomed and supported in a number of concessions and successive steps taken by the U.S. in response. Instead, U.S. intelligence services stated that Iran’s ballistic missile programme had the potential to reach Israel, Turkey and Saudi Arabia by 1999. Intelligence also pointed out that Iranian agents were monitoring U.S. facilities in the Gulf which could have led to attacks on them. Therefore, even if Khatami was sincere about a rapprochement with the U.S., elements in the Iranian political and military system were undermining Khatami’s rhetoric with their actions.

Khatami tried to reach out to the U.S. at the Islamic Organisation Conference Summit in Tehran, calling for “thoughtful dialogue” and a “détente in diplomatic policy”. Madelaine Albright’s response was measured; it referred to the Islamic Republic of Iran, as opposed to ‘rogue state’ and also suggested willingness to “explore further ways to build mutual confidence”. President Clinton also responded positively, stating that Iran “is changing in a positive way and we want to support that”. Consequently, the U.S. lifted a ban on some non-oil imports, although this was largely cosmetic as most of Iran’s exports are oil based.

Iran and EU heads of department of foreign ministries met in Brussels in May 1998 in a new era of “constructive engagement”, building on some structural changes in the
Iranian regime produced by the “critical dialogue” which had preceded it.\textsuperscript{215} The EU called the new process, the ‘comprehensive dialogue’, which was expected to further engage with President Khatami’s reform agenda along cultural, economic and political lines.\textsuperscript{216} The issues this covered at the undersecretary of state level included: the Middle East peace process, WMD, human rights and terrorism in addition to talks around energy, trade, investment, refugees and drugs control.\textsuperscript{217} Indeed, the ‘comprehensive dialogue’, of which trade and energy issues were most prominent, led to an almost doubling of EU imports from Iran between 1999 and 2000 to €8.4 billion.\textsuperscript{218} The EU – Iran trade deficit simultaneously decreased six-fold between 1998 and 2000.\textsuperscript{219}

Closer relations were planned between the EU and Iran after the 2000 Iranian parliamentary elections which were based partly on the conclusion of a Trade and Cooperation Agreement (TCA) in 2001.\textsuperscript{220} Khatami’s re-election in 2001 and his public diplomacy success with some EU states paved the way in 2002 for the EU to start negotiations on political as well as economic TCA issues.\textsuperscript{221} However, so long as political issues were bound to the TCA, trade would only flow as long as political talks continued.\textsuperscript{222} The continuation of high level engagement between Iran and Europe could have paid high economic dividends, which in political terms would have translated into a tangible foreign policy success for Iran.\textsuperscript{223}

The combination of Iran distancing itself from the Fatwa and £1.5 million bounty on Salman Rushdie’s head, and the good working relationship between British Foreign Secretary Robin Cook and Iran’s Foreign Minister Kamal Kharrazi, led to verbal agreement at the UN General Assembly in New York. This resulted in the upgrading

\textsuperscript{215} ‘Politics and Defence: Iran – EU Meeting’, GSN, 23/587, 1 June 1998, 6
\textsuperscript{216} Abdullah Baabood, ‘EU Relations with Iran’, EU-Gulf Political and Economic Relations, 14
\textsuperscript{217} \textit{ibid}
\textsuperscript{218} \textit{Ziba Moshaver, ‘Revolution, Theocratic Leadership and Iran’s Foreign Policy: Implications for Iran – EU Relations’, Analyzing Middle East Foreign Policies, 187}
\textsuperscript{219} \textit{ibid}
\textsuperscript{220} \textit{ibid}
\textsuperscript{221} \textit{ibid}, 15
\textsuperscript{222} \textit{ibid}
of their respective missions to embassies after they had been downgraded in 1997.\textsuperscript{224} Such changes in rhetoric did lead European states to recognize an opportunity. Helped by Kamal Kharazi’s good relationship with Jack Straw, the UK managed a fresh start for Iranian – UK relations in 2001, particularly after 9/11, ending Iranian isolation and increasing trade and investment between the two states.\textsuperscript{225}

A fresh start, however, did not emerge in the Iran – U.S. relationship. It took until 2000 for the U.S to admit complicity in the 1953 coup and its support of the Pahlavi Shah for 25 years before the revolution.\textsuperscript{226} Instead of creating a blank sheet on which to advance reconciliation and a new era of cooperative relations, Madeline Albright’s speech was received by Khamenei with contempt and skepticism about the role the U.S. continues to play with regard to Iran.\textsuperscript{227} Closer relations were planned between the EU and Iran after the 2000 Iranian parliamentary elections which were based partly on the conclusion of a Trade and Cooperation Agreement (TCA) in 2002.\textsuperscript{228} Iran’s Fire Year plan from 2000 – 2005 laid its priorities as: removing trade barriers, reforming the economic structure and streamlining rules for production and investment which had the TCA in mind.\textsuperscript{229}

Interrupting Iranian progress with the EU was 9/11 which translated into an opportunity to bring Iran and the West together to address vital global and regional issues such as terrorism and the Taliban regime. President Khatami condemned 9/11 on national television but others such as Ayatollah Emami-Kashani and Presidential advisor Mohammad Rez Tajik, were more circumspect about 9/11, preferring to define it in terms related to Israeli state terrorism.\textsuperscript{230} This was in contrast to civil society which defined the event simply as terrorism, and the Deputy Chief of Tehran

\textsuperscript{225} ‘Iran and UK Debate Investment Framework as UK Oil Firms Wait on Contracts Awards’, MEES, XLIII/3, 17 January 2000
\textsuperscript{227} Kenneth M. Pollack, The Persian Puzzle, xxvi
\textsuperscript{229} Ziba Moshaver, ‘Revolution, Theocratic Leadership and Iran’s Foreign Policy: Implications for Iran – EU Relations’, Analyzing Middle East Foreign Policies, 188
\textsuperscript{230} Anoushiravan Ehteshami, ‘Iran’s Assessment of the Iraq Crisis and the Post-9/11 International Order’, The Iraq Crisis and World Order, 139
Fire Department publicly declared support for his U.S. counterparts and offered his help in New York.\textsuperscript{231} What could have helped thaw relations with the U.S. was quickly rebuffed by the U.S. Congress as it renewed ILSA again for another five years, although it did allow for the President to review it again after two years.\textsuperscript{232}

2.7 SAUDI – U.S. RELATIONS IN THE LEAD UP TO 9/11

Before 9/11, there were apparent rifts in Saudi – U.S. relations which were growing and could no longer be finessed in the way they had been during the Cold War. The increased U.S. visibility in the Middle East directly affected the regional security dynamic which had led to a growing domestic criticism and threats from violent Islamists, particularly in Saudi Arabia. These had been made all the more real following attacks on U.S. and Saudi targets in the region, including a car bomb at the Saudi National Guard offices in Riyadh in 1995, the Khobar Towers bombing in 1996, and an attack on the USS Cole in 2000. Saudi Arabia was therefore under mounting pressure to legitimise its foreign policies in terms which would appeal to the Ulama and in terms which would secure its vital national security interests.

There were many irritants in the Saudi – U.S. relationship between the mid-1990s and early 2000s, including Saudi authorities refusing to allow the FBI access to the Kingdom in May 1995 to detain a suspected Hizbollah operative called Imad Mughniya.\textsuperscript{233} This individual was accused of the 1983 Beirut Marine barracks bombing.\textsuperscript{234} However, more important was the massive U.S. presence in Saudi Arabia coinciding with the return of jihadis from Afghanistan. Once Saddam Hussein moved Iraqi forces towards the Kuwaiti border again in 1994, after having sparked the Gulf War in 1991 the same way, the U.S. responded with ‘Operation Vigilant Warrior’.\textsuperscript{235} This operation left a legacy of U.S. force growth in its Saudi military bases and confirmed the U.S. as a local power in the Middle East.\textsuperscript{236} There were limits to U.S.

\begin{itemize}
\item \textsuperscript{231} ibid, 140
\item \textsuperscript{232} David Butter, ‘Iran: a Force for Stability’, \textit{MEED}, 5 October 2001, 5
\item \textsuperscript{233} ‘Politics and Defence: Saudi Arabia – Tiff with Washington’, GSN, 20/510, 8 May 1995, 5
\item \textsuperscript{234} ibid
\item \textsuperscript{235} Joseph S. Nye, ‘Conflicts After the Cold War’, \textit{Power in the Global Information Age: From Realism to Globalisation}, (Abingdon: Routledge, 2005), 43
\item \textsuperscript{236} 5,000 US troops were stationed in the Kingdom as of 2001. Gerd Nonneman, ‘Saudi-European Relations 1902-2001’, \textit{International Affairs}, 653
\end{itemize}
operations and the continuation of Clinton’s dual containment policy, and Saudi Arabia set these by not granting U.S. forces its territory for use in the lead up to ‘Operation Desert Fox’ in 1998 to destroy Iraq’s ‘weapons of mass destruction’.237 Saudi Arabia was left with constructing a new regional order, absent Iraq and Iran, and formed relations with the Taliban in Afghanistan. Saudi Arabia also continued to be involved in other Muslim states such as Bosnia and Chechnya along the lines of jihad (struggle, although in this sense it is interpreted as fighting) and zakat (charitable giving). However, the Cold War was over and these were no longer Communist states but independent, neutral or pro-Western states with domestic sovereign disputes or challenges.

Furthermore, the degree to which Saudi Arabia could be relied upon by the U.S. as a staunch supporter was being tested238, as was Saudi Arabia’s interest in continually underwriting U.S. led conflicts. The Gulf War has been estimated to cost Saudi Arabia anywhere between $55 billion, or 56% of its GDP in 1991, and $65 billion.239 The true figure would have covered a whole host of ‘emergency expenditures’ including: ‘… army mobilisation costs, the local costs of allied forces on Saudi territory, much of the overall cost of U.S., UK and French involvement, and loans, grants and debt forgiveness to some other countries to gain their support for the war240). This was in addition to Saudi Arabia continually being associated with pro-Israeli U.S. foreign policy. There were also irritants between Saudi Arabia/GCC and the EU since the latter proposed a ‘carbon tax’ in the 1990s as part of its Energy Charter. Saudi Arabia, amongst others in the GCC, lobbied to have this shelved since it would adversely affect supply and represented a doubled standard since European states already subsidised their coal industries.241 The dispute did highlight the different supply – demand priorities of each actor, especially the EU requirement for using oil in a more intelligent and sustainable way. What has been more serious is the ongoing GCC-EU dispute over access to markets, with Saudi Arabia in particular

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237 ibid
238 The U.S. first broached the subject of financial support to violent Islamist groups operating in Afghanistan and elsewhere during a 1999 White House meeting between Vice President Al Gore and Crown Prince Abdullah. ibid, 388
240 ibid
241 Gerd Nonneman, ‘Saudi-European Relations 1902-2001’, International Affairs, 655
feeling that not enough is being done to open the EU petrochemical market to Gulf competition. This is the single biggest trade barrier in front of a free trade area between the GCC and EU.

The main strain in the U.S. relationship prior to 2001 was political, and followed the al-Aqsa Intifada in 2000 which the new Bush administration left for regional actors to solve rather than take a direct stake in. There was therefore space for the EU to take a more active approach but with fundamental constraints on any progress since the U.S. led security dynamic would always take precedent. The fighting was so intense and U.S. interest so little, that Saudi Arabia for the first time, issued the U.S. with a threat of independence should the situation continue.242 A meeting to discuss the situation was scheduled for 13th September 2001.243

2.8 CONCLUSION

The last thirty years of Middle East history highlights a number of factors that have become pre- eminent in the foreign policies of Saudi Arabia and Iran. The oil producers have become increasingly important in the global economy after 1973. Saudi Arabia in particular, has used its economic ‘structural power’ and alliance with the U.S. to limit the strength of adversaries in the developing world. The chapter has analysed the contentious nature of GCC and Western involvement on the side of Iraq in the Iran – Iraq war, which has left a legacy of heightened mistrust in Iran and facilitated Iran’s foray into a nuclear programme. After the Gulf War, the Damascus Conference and Madrid Peace Conference were two opportunities for the U.S. to draw Iran and Iraq back into a comprehensive regional security framework. The MEPP and containment still remain lenses through which other U.S. foreign policies in the region are perceived by Iran. In the lead up to 9/11, many GCC States were attempting to balance their domestic interests with the requirement for U.S. security guarantees. In the case of Saudi Arabia, the way this balance tipped into a renewed emphasis on domestic policy, including dialogue with the Ulama, political consolidation, and maintaining security, will be discussed in the following chapter.

243 ibid
3. Saudi Foreign Policy: Oil, Wahabism and ‘Riyal Politik’

3.1 INTRODUCTION

In this chapter I will argue that Saudi Arabia uses economic means to support and enhance its bilateral foreign policies, especially those which relate to its traditional security and stability concerns in the region. Saudi foreign policy is strengthened through a combination of intense diplomatic engagement buttressed by targeted economic or ‘aid’ transfers to states or militant groups. When interactions are deemed to be ineffective, such as relations between Saudi Arabia and members of the ‘resistance axis’, Saudi Arabia becomes more reliant on global actors with proven military capabilities to effect change.

Vital regional issues such as the MEPP, Iran and counter-terrorism serve as opportunities to advance Saudi foreign policies because they tend to be more closely aligned with those of the global powers. At the same time, Saudi foreign policies are being challenged by the implementation of Western foreign policies in the region, particularly during the Arab Uprisings. This is pushing Saudi Arabia to develop close relations with other Sunni States to support its counter-revolutionary agenda (inclusive of its “Iran Initiative” and perceived Shi’a threat) and strategic relations with emergent global powers with which it could choose to balance in future.

The following research shows evidence of Saudi Arabia attempting to use its swing status in OPEC to put pressure on the revenues of adversarial oil exporters seeking to maximise oil income, such as Iran. Saudi Arabia also manages its partnerships with major oil importers such as the U.S., China and India to assuage their fears about the security and price of their oil supplies, especially during periods of conflict. Maintaining the size of its oil reserves and production is therefore at the heart of its regional and OPEC leadership and its position in a pro-Western alliance, one which is under threat from South American states such as Venezuela.

The author would like to thank HRH Prince Alwaleed for the travel scholarship to Riyadh and HRH Prince Turki Al-Faisal for his kind invitation to be a Research Fellow at the King Faisal Center for Research and Islamic Studies that made possible some of the research contained in this chapter.
Finally, the domestic environment is identified as a small but important foreign policy driver. This is due to a change in Saudi economic policy decision making which tolerated high financial deficits to a period when increased surpluses contributed to its transition from a passive to assertive foreign policy posture. Furthermore, the overlapping domestic concerns of securing its oil facilities, its national borders, and the status of the regime, continue to inform Saudi foreign policies. These have received more attention in the 2000s in response to the economic and political reforms demanded during the ‘Riyadh Spring’ and the Arab Uprisings.

3.2 THE DOMESTIC ENVIRONMENT AND POLITICAL ECONOMY OF SAUDI ARABIA

The domestic environment and political economy of Saudi Arabia has played a small but important role in the development of Saudi foreign policy, notably in moving it from a passive stance during an extended period of public deficit in the 1980s and 1990s to a more assertive stance after it had paid off most of the deficits and reined in public expenditures in 2000. At the same time pressures remain in the national economy that continues to cast doubt over its continued ability to leverage existing and potential economic resources. The following problems have occurred in the Saudi economy which could constrain its foreign policies should the oil price fall significantly:

- The inability to repatriate funds from the foreign holdings of a small number of wealthy Saudi families, forcing the government to look elsewhere for FDI
- The failure of the Saudi Gas Initiative (SGI) and the resulting requirement for large scale FDI into industrial and economic cities
- Increasing levels of unemployment in the Kingdom which have led to calls for economic and political reforms²⁴⁵

The 1970s oil boom led to 40% of the national budget being used on expenditures such as infrastructure.\(^{246}\) However, once oil revenue peaked in 1980 - 82, 1985 - 2000 remained a turbulent revenue period and could no longer be counted on to fuel a growing economy. Resource based constraints in Saudi Arabia’s economic development became more apparent as the government deficit increased, as did all the downsides of the rentier model: a lack of domestic taxation, costs of subsidising public services, and a high defence and policy related expenditure.\(^{247}\) One Saudi banker stated the situation simply: ‘If the government cut back on its defence spending and all the payoffs that go with it, and sold its basic services even at cost – never mind the profit – its deficits would disappear overnight.’\(^{1248}\) These actions resulted in a government deficit of 25% of GDP in 1987 and more than 14% of GDP well into the 1990s, partly due to Saudi Arabia spending billions of dollars on helping to finance the cost of the first Gulf War.\(^{249}\) This action represented a necessary delay to increasing Saudi relative autonomy and independence from the U.S. Saudi – U.S. strategic relations were still intact and it enhanced another more important foreign policy aim, tying in the U.S. to increase its national security and ultimately helping Saudi Arabia to punch above its weight in regional affairs after the conflict.

Between 1995 and 1998 state subsidies were beginning to be addressed, with some small increases to expenses such as airfares, illustrating that the Saudi government was heeding advice from the World Bank and IMF to remove subsidies from everyday life. As oil revenues were unpredictable, and price rises sudden, wider reform aimed at diversifying the economy has been muted. The status quo was also maintained due to the widely held perception by the business elite that their companies could not withstand foreign competition. Therefore, between 1986 and


\(^{247}\) A ‘Rentier economy’ is defined as one ‘where rent situations predominate’, ‘relies on substantial external rent’ and in the ‘Rentier State’, ‘only few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilisation of it’ which translates into the government being the principal recipient of the rent. Hazem Beblawi, ‘The Rentier State in the Arab World’ in Giacomo Luciani (ed.) The Arab State, (Berkeley: University of California Press, 1990), 87-88


\(^{249}\) The GCC absorbed $36 billion out of the total cost of $61 billion for the Gulf War, along with around 50% of cost for the U.S. forward presence in the Gulf. ‘U.S. Strategy’, GSN, 29/755, 15 April 2005, 9
2000, oil revenue still accounted for 70% of all income. The effect on Saudi foreign policy is that it remains closely tied to oil politics, the international oil price and Saudi economic policy, with few other vested interests being generated by broadening out the sources of GDP. By maintaining its status as a rentier state, Saudi Arabia is forced to continually align with other states that share the same characteristics in OPEC because they have the same pricing requirements. This therefore strengthens its political alliance with other members of the GCC and narrows the common ground with other oil exporters that have different oil and economic policies.

3.2.1 The Forays and Failures to Attract FDI to the Kingdom

The pressure to institute economic reforms started with the oil price crash of 1998 which impacted negatively on the Saudi balance of payments. It also continued in the lead up to Saudi WTO accession in 2005. The Saudi government originally tried to avoid privatisation since Saudi holdings abroad stood at $500 billion by the late 1990s, so all that was needed to boost the Saudi economy was a substantial reorientation of investments to the domestic sphere. However, the conditions to facilitate long term domestic investment were not there between 1985 and 2000 and therefore this idea did not lead to the reorientation of the national economy which was necessary to drive growth. This has been especially disappointing since the wealth of high net worth individuals has only grown, with some Dubai based bankers putting the total amount at up to $3 trillion as of 2002. It is precisely the size of these funds that made them more likely to be invested in international markets, since repatriating large amounts from a small number of wealthy families would inevitably lead to difficult political questions being asked.

However, by 2000 the situation had eased temporarily due to constraint in public spending, higher oil revenues, a reduction in remittances by restricting the use of

foreign labour which makes up 80% of the workforce, and promoting a new policy of ‘Saudisation’: the process of increasing the number of Saudi nationals in the workforce.\textsuperscript{254} This in turn meant that arrears which had been allowed to accumulate over a seventeen year period to 115% of GDP could be settled.\textsuperscript{255} However, the policy hit a stumbling block soon after it was implemented due to its preference of some Saudis over others for the best jobs, whether due to existing ties or under the table inducements, thereby creating artificial divisions in the labour force and adding pressure to reforms sought by the less well off in society.

Even with lower deficits and new employment policies, Saudi Arabia still needed FDI to address all of its economic issues simultaneously, in particular diversification from oil and gas into the downstream sectors to provide jobs. Therefore what started as Crown Prince Abdullah’s meeting with IOCs in Washington in 1998 to discuss upstream investments ideas, turned into the SGI in the early 2000s.\textsuperscript{256} In return for upstream investment, but only in non-associated gas production, investors would also have to invest in downstream projects such as power stations, desalination units and petrochemical plants. The difficulties of the plan emerged immediately as many IOCs were not interested in gas and were not prepared to diversify from their core competencies. Although the opportunity was potentially big, the Saudi authorities made sure to limit access to proven gas reserves and concentrate foreign investment in areas which contained very little gas. Had the deal included oil, the situation may have been very different, but since Saudi Arabia already had spare oil production, the emphasis was in developing new projects in under developed industries. The combination of unattractive terms of business and political antipathy in the U.S. post 9/11 both contributed to the demise and scaling back of the original SGI. In 2001, Saudi Arabia’s proven gas reserves were estimated at 204.5 trillion cubic feet, the fourth largest in the world after Russia, Iran and Qatar.\textsuperscript{257} The SGI would have realised some of these reserves and boosted the Master Gas System (MGS) which feeds plants in Yanbu on the Red Sea and Jubail on the Persian Gulf. These two plants

\textsuperscript{255} ‘Oil Price Brings Budget Surplus’, \textit{MEED}, 15 September 2000, 28
\textsuperscript{256} Edmund O’Sullivan, ‘The Rise and Fall of Saudi Arabia’s Great Gas Initiative’, \textit{MEED}, 27 June 2003, 4
\textsuperscript{257} EIA, \textit{Country Profile: Saudi Arabia}
combined, provide 10% of the world’s petrochemical production.\textsuperscript{258} In 1999, Saudi Aramco invested $45 billion over 25 years in upstream gas development and processing facilities but required further investment and a foreign investment strategy to go with it.\textsuperscript{259} The SGI was designed to facilitate that foreign investment, but not only were the proposed acreages and terms unfavourable, IOC shareholders included public institutional investors in the U.S., and ExxonMobil has many of its top executives based in New York City. It would have been hard to justify in public relations terms their involvement with Saudi Arabia, tainted in the U.S. so soon after 9/11.

When the SGI failed, it wasn’t held against other Western governments such as the UK since Shell remained involved through a consortium, but it was disappointing to the Saudis and it did mean that they had to turn to the Russians and Chinese.\textsuperscript{260} The demise of the SGI has taken away some of the momentum from gas which was expected to build up to supplement the central role of the oil industry. The pace of development and the one million expected jobs from $100 billion in combined oil and gas projects over ten years from 2000 has dissipated into much smaller and diverse industrial projects.\textsuperscript{261} The ‘mini’ gas initiative signed in 2004 which only included exploration contracts, rather than production arrangements, was so limited and small scale that it has been called ‘cosmetic’ by Prince Alwaleed.\textsuperscript{262} Instead of facilitating a rapid expansion of downstream industries such as petrochemicals and help upgrade power and water infrastructure, the SGI failure has meant that Saudi Arabia must concentrate on other industries to fill these requirements. This has started to be realised as a Malaysian/Saudi group signed contracts for Shoiba Phase 3 independent water and power project (IWPP) to supply Makkah, Jeddah, Taif and Al-Baha regions, the first IWPP approved by the SEC and valued at $2.4 billion in 2005.\textsuperscript{263} In the mean time, the scaling back of large scale projects is contributing to a shortage of

\textsuperscript{258} Gawdat Bahgat, \textit{American Oil Diplomacy in the Persian Gulf and the Caspian Sea}, (Gainesville: University Press Florida, 2003), 64
\textsuperscript{259} \textit{ibid}
\textsuperscript{260} Interview with Sir Sherard Cowper-Coles, former British Ambassador to Saudi Arabia, London, 4 June 2010
\textsuperscript{262} ‘Cover Story: Prince Alwaleed’, \textit{MEED}, 23-29 April 2004, 6
employment opportunities, short-term internal investments to spark job creation, and the ongoing search for large scale FDI.

Up to 2020, King Abdullah is looking for $624 billion inward investment across all sectors of the economy, including 23% in infrastructure development. However, FDI is highly contingent on being able to attract people to the Kingdom which is being affected by Saudi Arabia’s overriding and largely self-generated security-centric problem. Saudi Arabia believes that it cannot, or does not need to, facilitate business (because of its combination of oil, money and the two holy sites) and ensure internal security at the same time. This has only exacerbated the issue of unemployment and efforts aimed at increasing the number of commercial and financial interests of foreign governments.

As well as debates over pro-business policies, slow government decision-making has also been noticeable with regard to the implementation of SWFs. In 2008, Saudi Arabia launched its first Sovereign Wealth Fund (SWF), delayed by these largely internal investments. The new fund was set up with $5.3 billion at launch and will operate in a similar vein to Norway’s General Pension Fund (GPF) which is worth $500 billion and Singapore’s Government Investment Corporation (GIC) which is worth $100 billion. Two more SWFs came online in 2009: the Hassana Investment Company owned by the largest state-run pension fund, with a budget of SR 8.9 billion for 2009, and around 10% of its total investments in the stock market. The other is Sanabil al-Saudia, with an initial capitalisation of $5.3 billion. Although both funds have a broad mandate across global asset classes, decision-making appears to have slowed the realisation of investments from both investment vehicles. This has mirrored the problems in attracting FDI into Saudi Arabia following the SGI and Economic Cities initiatives, despite the optimism from Western and Saudi sources.

that they would succeed.\textsuperscript{269} The situation is complicated by the Shura Council going through a transformation of its own, whereby it is expected that it will eventually comprise elected representatives, and by 2015 be partly elected by and inclusive of women.\textsuperscript{270} The dynamic and growing challenge is to make major decisions rapidly, push through government departmental reforms and develop new government agencies whilst simultaneously attempting to address the underlying needs of society.

\textbf{3.2.2 Unemployment and the Pressures to Reform}

The scale of the unemployment problem is captured by the figures: the high unemployment rate which stood at 15.3\% of a total labour force of 3.3 million in 2001\textsuperscript{271}; GDP per capita which fell from $28,600 in 1981 to $7000 in 2000\textsuperscript{272}; the continued dependence of the private sector on oil and the small size of exports compared to imports (for example, Saudi exports to the U.S. shrank by 21\% between 1999 and 2000, whilst imports from the U.S. increased by 72\% over the same period\textsuperscript{273}); and the growing population which has meant that large numbers of young people are entering the workforce every year. The oil industry is not labour intensive enough to absorb successive waves of job seekers and so diversification holds the key to employment in the Kingdom. The two biggest companies in Saudi Arabia, Aramco and Sabic, only employ 54,000 people and 16,000 people respectively (of which 2000 are Europeans).\textsuperscript{274} This demand for a small number of highly qualified Saudis may reduce a brain drain effect from Saudi Arabia, but will not lead to mass employment. In contrast, the number of personnel in the mechanised and infantry brigades and other militia of the Saudi Arabian National Guard (SANG) amount to 75,000, and the network also provides income for an additional one million Saudis.\textsuperscript{275} This is because SANG is a security force that also represents a network of tribal leaders with close

\textsuperscript{269} Angus McDowall, ‘Seizing the Initiative’, \textit{MEED}, 15 February 2002, 4


\textsuperscript{271} Anthony H. Cordesman, \textit{Saudi Arabia Enters the Twenty-First Century}, (Westport: Center for Strategic and International Studies, 2003), 278

\textsuperscript{272} Angus McDowall, ‘Cover Story: Saudi Arabia’, \textit{MEED}, 1 March 2002


\textsuperscript{275} ‘Politics and Security: Saudi Arabia’, \textit{GSN}, 29/759, 10 June 2005, 4
historical ties (as descendants of the Ikhwan) to King Abdelaziz Ibn Saud, the founder of the Kingdom.\textsuperscript{276} Such ties ensure that employment and other benefits will always be available to them so long as they remain loyal to the King.\textsuperscript{277} That is not to say that Aramco and Sabic don’t play a role in increasing opportunities for Saudi citizens. The next stage of Saudi economic growth is expected to come from the growth of state owned enterprises such as Saudi Aramco,\textsuperscript{278} Sabic and Maaden (the Saudi Arabian Mining Company) or what Abdullah Dabbagh, President of Maaden in 2002, classified as the three legs of the Saudi stool.\textsuperscript{279}

\textbf{3.2.3 Reacting to the ‘Riyadh Spring’: National Dialogue, Ulama Disapproval and International Deference}

The fundamental barrier to political reform has not only been the government’s slow response to domestic pressure, but also the lack of backing for it from the Wahabi Ulama. To address this, the Saudi political establishment has forced change in areas such as girl’s education reform and the advancement of women to ministerial rank (not cabinet) only after tragedies such as the Mecca fire in 2002.\textsuperscript{280} The Riyadh compound bombings in 2003 highlighted again that oil money couldn’t address the root causes of violent extremism alone. Instead, an emergent civil society put forward a number of reformist minded manifestos, actions that were collectively dubbed the ‘Riyadh Spring’.\textsuperscript{281} In response to political grievances from Salafis-Wahabis, Shi’ites, Ismailis and Sufis, Crown Prince Abdullah launched the “National Dialogue” in 2003.\textsuperscript{282} However, because it was not supported by Wahabis, the government was unable to push through its reform. It was also cut short the same year when 11 petition

\textsuperscript{276} ibid
\textsuperscript{277} This is a form of \textit{Wasta}, an Arabic word that is associated with favouritism through connections and influence, mainly with Royal connections in the case of Saudi Arabia, rather than merit. Pascal Menoret, \textit{The Saudi Enigma: A History}, (Beirut: World Book Publishing, 2005), 86
\textsuperscript{278} Saudi Aramco, as of December 2004, had 299 billion barrels of oil (or equivalent) reserves and produces 10% of the world’s oil. Daniel Yergin, ‘Epilogue’, \textit{The Prize: The Epic Quest for Oil, Money and Power}, (New York: Free Press, 2008), 770
\textsuperscript{279} Digby Lidstone, ‘Digging Deep’, \textit{MEED}, 6 December 2002, 7
\textsuperscript{280} ibid, 4
figureheads (from the Islamist and liberal intellectuals) were arrested and imprisoned by Prince Naif, the Interior Minister, later to be freed by King Abdullah in 2005.  

Private concerns about human rights from the U.S. was likely to have been a factor in this decision, as it was in the release of three prominent intellectual dissidents who were given six to nine year prison terms in 2005 for petitioning the government on constitutional reform. Either way, the issue was not deemed a vital enough issue to stand in the way of rebuilding Saudi – U.S. relations after 9/11 and was not taken up by European states either. This has effectively given Saudi Arabia a free hand to deal with internal issues, including human rights, on its own terms. This enables Saudi Arabia to shore up support from the Ulama and armed forces in a way which may not have otherwise been possible. Thus, there is a very limited foreign policy linkage between the internal politics of Saudi Arabia and external pressure as there is between the EU and Iran for example. As such the EU is accused of “double standards” for focusing on human rights with regard to Iran and then taking a “realist” approach when dealing with Saudi Arabia.  

3.2.4 The Arab Uprisings: Securing the Homeland  

In 2011, the Arab Uprisings for Saudi Arabia represent one of the most comprehensive “tsunamis” and possibly one the most enduring changes seen in the Middle East since World War Two and Arab Socialism. As a conservative state, led by a Sunni monarchy, the Al-Saud are theoretically at great risk from the challenges posed by the political reforms being demanded by Arab Uprising revolutionaries. Domestically, Saudi Arabia has been shoring up support for the regime through a variety of different methods which have become more important in the face of greater pressure for reform in the Arab Uprisings: through increasing employment, through direct payments to Saudis (an extra two months salary was paid in 2011 as part of

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283 Mai Yamani, “The Two Faces of Saudi Arabia”, *Survival*, 50/1, February-March 2008, 145
285 *ibid*
286 Email interview with Roberto Toscani, Former Italian Ambassador to Iran, 13 August 2011
287 Remarks from Prince Turki Al-Faisal Address at the Gulf Research Meeting Opening Ceremony, University of Cambridge, 6 July 2011
King Abdullah’s cash injection into the national economy\textsuperscript{288}) and extending public services. After King Abdullah returned from medical treatment abroad, approximately $40 billion was distributed to Saudis as a range of benefits, including housing, social benefits and small business loans.\textsuperscript{289}

The budget surplus enabled the economic package, which functions like an informal stability fund, recognising that some Saudis still need support.\textsuperscript{290} Much of the funds have only partially been distributed as parts of it are long-term measures which will follow the needs of youth as they grow up. In response to western criticism that these are “handouts” or “bribes”, Prince Turki Al-Faisal said that Saudi Arabia has promised a better life and a decrease in the poverty rate and delivered them.\textsuperscript{291} However, the money doesn’t address the remaining political issues such as rights of women, including the Women2Drive protests.\textsuperscript{292} It is the concept of al-Bai’ah (contract or pledge of allegiance) which maintains the position of ruler (and 22,000 members of the Royal family) so long as they act in accordance to the will of God and of the people.\textsuperscript{293} 9/11 challenged this contract, and the Arab Uprisings have underscored the need for its reinterpretation, particularly in instituting rapid educational and judicial reforms to ensure the Ulama is in sync with the expanding spheres of influence of politics as well as the shifting or evolving will of the people.

The Arab Uprisings have also enhanced anxieties that the Kingdom will suffer from another terrorist attack, possibly cross-border, which is rooted in the analysis of western observers that still believe that the Royal Saudi Land Forces (RSLF) and the Royal Saudi Navy (RSN) are not able to defend the country’s vast borders fully.\textsuperscript{294} This was an issue right up to 2005 as the U.S. was putting pressure on the GCC States

\textsuperscript{289} Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
\textsuperscript{290} ibid
\textsuperscript{291} Remarks from Prince Turki Al-Faisal Address at the Gulf Research Meeting Opening Ceremony, University of Cambridge, 6 July 2011
\textsuperscript{293} Remarks from Prince Turki Al-Faisal Address at the Gulf Research Meeting Opening Ceremony, University of Cambridge, 6 July 2011
to take responsibility for their borders. Given the importance of Saudi Arabia to global energy markets, an attack on its installations resulting from the Arab Uprisings could be costly for Saudi relations in terms of undermining its promises of secure energy flows. Some security experts believe that key oil installations could be at risk since the 2003 Riyadh bombings, particularly the larger more strategic ones including Ras Tanoura and Abqaiq which handle two thirds of the Kingdom’s oil output in the Persian Gulf. The huge territory of Saudi Arabia, long coastlines, porous borders (especially with Yemen and Iraq), exposed oil facilities, and Shi’a grievances in the east of the Kingdom have all been cited as vulnerabilities. The extent to which Shi’a in the east of the Kingdom have grievances that could threaten the Kingdom are said to be exaggerated since King Abdullah has worked to improve their conditions since 2005. However, security crackdowns including shootings in the governorate of Qatif are becoming more common. It is also widely known that there are tensions between Saudis, especially the Ulama, who see the Shi’a minority as not only a sect of Islam but also deviants from it. If a fifth-column or latent separatist tendencies does exist in the Shi’a population, then the longer term survival of the state is likely to require deeper reforms beyond the short term measures that high oil revenues are able to supply. This has been of particular concern since trouble flared up amongst the Shi’a community in October 2011 which was followed quickly by Saudi promises to crack down with an “iron fist” on further trouble. Since Saudi Arabia suspects Iran is key to Shia unrest, security concerns are only likely to be heightened by the foiled Iranian attempt to kill the Saudi Ambassador to the U.S.

In the meantime, the domestic security budget has risen by about $1.2 billion since 2002 to $8 billion in 2004, so the Saudi authorities can be seen to be acting to protect

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296 ibid, 54
297 Nawaf Obaid, ‘The Day of Saudi Collapse is Not Near’, Foreign Policy
299 Epitomised by the derogatory term ‘rawafid’ or ‘rafidi’, meaning ‘rejectionists’. Email remarks from Henry Precht, former Chief of Iran Desk in U.S. State Department 1978-1980, G2000 Project, 6 October 2011
key sites.\textsuperscript{302} This is especially the case with Abqaiq’s energy security, which has received $10 billion in investment since the 2006 Al-Qaeda attack against it.\textsuperscript{303} A 35,000 strong “Facilities Security Force” which is trained by the U.S. and guards against internal and external threats, along with Saudi Arabia’s Foreign Reserve Initiative, protect against interrupted oil supplies from the Kingdom.\textsuperscript{304} These are supported by air surveillance from helicopters and F15 patrols.\textsuperscript{305} Any pipeline incident is expected to be under control within 36 hours, and whilst tankers could be vulnerable while docked at installations, typically there are just a few giant tankers which transport most of the oil.\textsuperscript{306}

3.3 SAUDI FOREIGN POLICIES IN THE LEVANT AND GULF

The way Saudi Arabia utilises economic assets and resources in its bilateral foreign policies illustrates the circumstances and extent to which they can be advanced to build relations and contain threats. This section outlines Saudi foreign policy in its immediate neighbourhood, in the Levant and the Gulf, where a large number of threats and opportunities are located. It charts the new independent foreign policy course that the Al-Saud has plotted after the second Palestinian intifada and the extent to which it is willing to support a two state solution. The section goes on to examine how Saudi Arabia underwrites aid to states such as Yemen which could pose a significant economic and political risk should they be allowed to become failed states. Finally, the Saudi – Iranian Cold War is discussed and assessed in terms of the strategies employed by Saudi Arabia to limit Iran’s multifarious influences in the MEPP and across the Gulf. Saudi oil policy and aid, the growth and economic development of the GCC, and the strength of the Saudi – U.S. relationship can all be contextualised on this basis and within the wider dynamics and developments taking place in the Arab Uprisings, ‘Shi‘a Crescent’ and ‘resistance axis’.

\textsuperscript{302} ‘Guarding the Lifelines’, \textit{MEED}, 31 March – 6 April 2006, 5
\textsuperscript{304} \textit{ibid}
\textsuperscript{305} \textit{ibid}
\textsuperscript{306} ‘Guarding the Lifelines’, \textit{MEED}, 31 March – 6 April 2006, 5
3.3.1 Saudi Policy in the MEPP: Supporting Regional Allies and Humanitarianism Whilst Dividing the ‘Resistance Axis’

Saudi policy towards regional actors involved in the MEPP highlights the extent to which economic factors are able to influence facts on the ground in Lebanon, Gaza and the West Bank, limit the role of Iran in the peace process and facilitate a lasting two state solution. The Israel - Palestine conflict has sparked a number of Saudi foreign policy endeavours due to its manifestation as one of the last few remaining pan-Arab causes, the spill over effects of the conflict on regional security and economic development, as well as the Islamic significance of the Dome of the Rock and al-Aqsa Mosque being located in the Haram al-Sharif in Jerusalem (the third most important city for Muslims). By taking active measures to secure a fair settlement for the Palestinians, particularly during a period of low interest from the White House throughout the second intifada, Saudi Arabia has been better able to leverage its influence and secure some domestic, regional and international political credit.

Ending the Israel-Palestine conflict is vital to Saudi Arabia for four major reasons: Firstly, it will be a victory for the War on Terror, help make up for the Saudi role in 9/11 and reduce part of the rationale (and therefore threat) from violent Islamism in the Kingdom and elsewhere. Secondly, it will reduce the political, humanitarian and/or armed resistance roles that Iran and Hezbollah have been able to play. Thirdly, absent direct regional threats, Saudi Arabia could cut back on defence spending which has prolonged its dependence on the West and drained its national budget. Fourthly, the west could regain stature and deal with related problems in the Middle East, such as the Iranian nuclear programme and address it in a more robust or proactive way. As an added bonus, the implementation of a two state solution would contribute positively to Saudi state building, political consolidation and international image.


308 Although some European states such as the UK thought it a step back from existing Israeli – Palestinian negotiations and placed more emphasis on Jordan and Egypt which have borders with Israel. Interview with a UK government analyst who asked not to be named, London, 13 May 2010
Saudi Arabia has not only used economics but also political tools to leverage its interests in the MEPP, signifying its importance in Saudi foreign policy terms. However, unlike the U.S., Saudi Arabia is far more limited in how it can leverage its economic and political assets to influence the behaviour of other states or produce new alliances. Saudi Arabia is all too aware of this, with an official stating that “only the U.S. can use aid to gain allies.” In political terms too, influencing states suggests that Saudi Arabia is able to change facts on the ground such as returning the Golan Heights to Syria or a cessation of Israeli settlements which again, only the U.S. is capable of at best. Saudi Arabia has emphasised positive political engagement as a facilitating factor to a final settlement in the MEPP. The Arab Peace Initiative in 2002 was a positive message about a final agreement and normalisation of relations with Israel from a major regional power, but did not lead to negotiations with Israel. It also served to mitigate against some of the pressure the U.S. was putting on Saudi Arabia post 9/11.

As part of its wider policy in the MEPP, Saudi Arabia has sought to coordinate with Iran between the late 1990s and mid 2000s in efforts to promote stability in Lebanon. However, after the war in Lebanon in 2006, Iran galvanised Arab public opinion in support of Hezbollah that had managed to take on the Israeli Defence Forces and emerged relatively unscathed. This reflected Saudi policy as being weak, portraying the Al-Saud as being out of touch with the Shi’a community which supported the action along with broader public opinion. As relations broke down between Saudi Arabia and Iran, it has been Hezbollah (and to an extent the Palestine Islamic Jihad, a smaller IRGC proxy), not Hamas, which has been most cause for concern in Saudi circles. Saudi fears have already been realised since the non-resolution of the Israel-Palestine conflict has meant Hezbollah has been able to supplant the role of legitimate government and advance its own (and Iran’s) agenda. The stakes were very high during this period since Hezbollah could have dragged Lebanon into a war against

309 Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
310 Frederic Wehrey et al., ‘Sectarianism and Ideology in the Saudi – Iranian Relationship’, Saudi – Iranian Relations Since the Fall of Saddam, (Santa Monica: RAND, 2009), 24-25
Israel against the will of the Lebanese government. The pressure on Saudi Arabia to prevent another invasion of Lebanon as seen in 2006, a third intifada in Palestine, and keeping the MEPP on track, dictated its proactive policy to resolve the situation.

The Saudi response was firstly to deposit $1.5 billion in the Banque du Liban (Lebanon’s central bank) through the Saudi Fund for Development (SFD) in order to support Lebanon’s reconstruction after the 2006 invasion by the Israeli Defence Force. Then, through the 2007 Makkah Accords, and by advocating and supporting the unification of Fatah and Hamas in the PNA, Saudi Arabia managed to focus on the Islamic concepts of unity, consensus and conflict resolution as a legitimate way to push out Iran and Hezbollah. As the threat remained, Saudi Arabia became increasingly worried about Hezbollah wresting control of the Fouad Siniora administration in Lebanon so Saud Al-Faisal proposed an Arab force, backed by NATO and the U.S., to intervene in Lebanon and destroy Hezbollah in 2008. This was the only option left to Saudi Arabia, since unlike Hamas, Hezbollah is a Shi’a force and therefore has no links to Saudi funding but plenty of funding and resources from Iran and Syria.

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In the same vein, King Abdullah was quick to fill the PNA funding void left by the EU after Hamas won electoral victory in Gaza, leading to indications that Saudi Arabia has spent more on Hamas than Iran has.\textsuperscript{316} In more sensitive financial aid transfers to groups such as Hamas, it has been given in coordination and consultation with third parties, such as Egypt, with the simple motive of relieving the consequences of conflict in which Hamas also has experience (e.g. through building schools and hospitals).\textsuperscript{317} Thus, Saudi Arabia is said to differentiate between a political stance and humanitarian aid.\textsuperscript{318} Saudi Arabia was also one of the few states to go against U.S. demands to cut links with the PNA when Hamas won an electoral victory in Gaza. It was able to do this by using diplomatic engagement with the U.S. to ensure that its policy of “waging peace on Israel” could succeed and that supporting the PNA could be maintained.\textsuperscript{319}

Saudi policy in the case of Lebanon reflected the need to firstly stabilise and support the task of the Lebanese government, avoiding further conflict and avoidable humanitarian disaster, and then to implement a comprehensive campaign to remove Hezbollah once it became clear the Makkah Accords would fail. Although Saudi policy towards Hamas is the same as far as humanitarian relief is concerned, it was also easier on two counts: Hamas is a Sunni group and it had existing ties to Saudi Arabia. The implication is that rather than contain or remove Hamas, Saudi Arabia was able to engage with it through intermediaries to contribute to its declaratory Peace Initiative which would align the interests of all regional actors.

There are doubts as to whether the Saudi policy of engagement will continue since some believe King Abdullah is disillusioned after negotiations with Hamas and Fatah failed and Saudi Arabia intervened in Lebanon.\textsuperscript{320} However, during the G. W. Bush administration Saudi Arabia was one of the few states to actively pursue a peace

\textsuperscript{317} Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011; ‘Hamas Funding’, Global Security.org, available at http://www.globalsecurity.org/military/world/para/hamas-funds.htm
\textsuperscript{318} \textit{Ibid}
\textsuperscript{319} Remarks from Prince Turki Al Faisal, University of Exeter, 16 March 2011
\textsuperscript{320} Telephone interview with Martin Indyk, former U.S. Ambassador to Israel and Special Assistant to President Bill Clinton for Near East and South Asian Affairs at the National Security Council, 1 November 2011
treaty with a normalisation of relations with Israel on offer. Furthermore, Saudi Arabia put an offer on the table in 2000 to help establish a Palestinian state. The offer, which would become the 2002 Arab Peace Initiative, was renewed again in 2007 (since Bush wanted a Palestinian state established by the end of his presidency in 2009). The plan included the transfer equivalent to $10 billion ($5 billion after the acceptance of the initiative and $5 billion paid over the following three years) from the GCC states to Israel. The evidence therefore suggests that Saudi Arabia does remain committed, based on the support from the White House and the ability of Egypt to remain able to act as an interlocutor. Since the threat from violent Islamists and the Muslim Brotherhood has risen significantly since 2001, Saudi support may tend to be more behind the scenes than any more overt initiatives that may tempt attacks or undermine the legitimacy of the al-Saud.

3.3.2 Dominance, Integration and Instability in the Arabian Peninsula

Saudi Arabia is the first state amongst the GCC states, dominating what is theoretically an even platform for consultative decision making between heads of state. The GCC not only has its headquarters in Riyadh but due to its sheer geographical size, the fact it has the largest economy in the GCC, borders every other GCC member, has the largest oil reserves and ‘swing’ status in OPEC, close relationship with the U.S., and custodianship of the two holy places, makes it unrivalled. In response, smaller GCC States have concluded bilateral FTAs with the U.S. in the 2000s even though the Middle East and North African (MENA) states combined amount to less than 3% of all U.S. trade. This signifies the political nature of the agreements and the friction that GCC States have felt over Saudi dominance. The UAE government, empowered by high oil revenues, published the online UAE Yearbook 2006 in which it indicated it wanted to renegotiate its border with Saudi Arabia. Tensions have been apparent with other GCC States such as Qatar, following Qatar’s energy minister accusing Saudi Arabia of providing “no clearance” for a

322 Yemen currently has observer status in the GCC and could potentially join the GCC which would mean turning the GCC into the Arab Peninsula Cooperation Council. Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
323 ‘Free Trade – with Strings Attached’, MEED, 29 August 2003, 22
multibillion dollar project to supply Qatari gas to Kuwait in 2006.\(^1\) Saudi dominance in the GCC therefore includes issues related to intra-GCC trade and investment which requires Saudi consent to go ahead.

Borders are largely at the heart of mixed diplomatic relations, but other irritants such Qatar’s relationship with Syria, an Israeli trade office in Doha, and comments made by both sides in different Arabic newspapers and internet posts have also caused consternation. Such comments include Qatar’s public comments on dividing Saudi Arabia from Al-Qatif to Al-Sharqiya.\(^1\) More serious are Saudi fears of possible future Qatari attempts (“…at the service of the Zionist entity”) to give the Palestinians part of North East Saudi Arabia which could be merged with the Palestinian refugee camps in Jordan to create a new Palestinian state.\(^1\) This would simultaneously serve to help shrink the Saudi state back to the Hijaz region, equalise influence between the GCC members, and give a much needed boost to Shi’a attempts at succession in the Eastern province. However, it should be noted that incendiary statements by the King’s brother do not necessarily represent the official view of the Qatari government. Nevertheless, Saudi Arabia and Qatar have had a particularly difficult relationship during the Arab Uprisings because Qatar is home to Sheikh Yusuf Qaradawi, an influential Egyptian Muslim Brother and critic of Saudi Arabia’s salafi concepts.\(^1\)

In the period leading up to expected monetary union in 2010, the smaller Gulf States felt it was one of their last few chances to assert their sovereignty and punch above their weight in regional affairs. Whilst monetary union has been delayed, relations have improved, particularly since Iranian influence in the region is perceived to go

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against the interests of many of the Sunni monarchies. The Arab Uprisings have further tied the interests of the GCC monarchies together as they try to maintain their domestic security and regime legitimacy, and establish a popular counter-revolution.

3.3.3 Redefining Alliances & Removing Resistance

The Arab Uprisings have highlighted that the Yemeni tribes and political apparatus were loyal to Saudi aid rather than the Saudis per se.\(^1\) Although perceived to be a major force in Yemen by external actors, the actual influence of Saudi Arabia amongst competing interests of Yemeni political leaders is limited.\(^1\) Saudi Arabia has no interest defining the course of events in Yemen, but it does have an interest in the preservation of its internal security, which could be severely threatened by a change of leadership. Whilst few options remain, ‘dollar diplomacy’ is likely to continue.\(^1\) Yemen is by far the biggest immediate foreign policy concern because of its border with Saudi Arabia. If a civil war erupts and it becomes a failed state, then migration of refugees across the border, poverty and security implications, are all potential threats.\(^1\) Saudi engagement is primarily focused on trying to ensure an ordinary transition of power.\(^1\) This would therefore avoid the ‘Egyptian model’ of uprisings, uncertain transition and bloodshed.

Beyond the Arabian Peninsula, if there was a successful conclusion to the MEPP, political change could theoretically be possible between the GCC and Israel, and with Iran, which would have significant consequences for regional peace. By facilitating GCC investments beyond its borders, and increasing the number of economic linkages therein, particularly in utilities and infrastructure, economics could form the basis for improved relations and stability as longer term interests are generated.\(^1\) The foundations for broadening out economic cooperation across the Middle East have


\(^{330}\) ibid

\(^{331}\) ibid

\(^{332}\) Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011

\(^{333}\) Nawaf Obaid, ‘A Saudi Perspective on the Arab Uprisings’, 22 November 2009
already been formulated in the embryonic monetary union plans currently under study in the GCC.¹ Not only is there a trend of the GCC moving towards coordination and integration, with eventual unification, but given U.S. policy during the Arab Uprisings it is now viewed as the only forum in which Saudi interests will not be compromised.¹

U.S. and western interference has had the effect of facilitating internal GCC discussions about a unified military command in the GCC and a rationalisation of arms purchases or an indigenous arms manufacturing capability.¹ However, the U.S. arms deals such as the F-35 programme still represent incentives for the GCC States not to go ahead with this through advantages such as offset and co-production deals.¹ The Arab Uprisings have served as a wake up call for the Saudi government in that it can no longer rely on the U.S. for its survival and must therefore show greater independence and a greater dexterity of economic resources beyond “throwing money at the problem”.¹ This has led it to try to establish a new alliance of Sunni monarchies, dubbed Saudi Arabia’s “Iran Initiative”, in order to promote a semblance of stability in the Middle East.¹ This culminated in the proposal for Jordan (to which Saudi Arabia has given $400 million and is likely to give more¹) and Morocco to join the GCC.¹ The plan for enlargement is still being seriously discussed by the respective foreign ministers and could lead to a five year economic development plan being implemented before their accession.¹ There is no reason why Saudi Arabia wouldn’t

³³⁴ Further discussion about Arab-Israeli trade can be found in Robert Mason, ‘Arab-Israeli Trade: A Distant, Yet Transformative, Prospect’, Instituto de Empresa International Relations Blog, 10 February 2010, available at http://ir.blogs.ie.edu/2011/02/10/arab%E2%80%93israeli-trade-a-distant-yet-transformative-prospect/
³³⁶ Remarks of Prince Turki Al-Faisal, University of Exeter, 16 March 2011
³³⁷ ibid
³³⁹ Kristian Coates Ulrichsen, Global Affairs, 24 September 2011
³⁴⁰ Carole A. O’Leary and Nicholas A. Heras, ‘Saudi Arabia’s “Iran Initiative” and Arab Tribalism: Emerging Forces Converge in the Arab World’, The Jamestown Foundation, 21 October 2011, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=38555&tx_ttnews%5Bbca kPid%5D=7&cHash=80812bf625d6ca0316fc61874c4ab6961
want to include Egypt in this plan as well, once it becomes more stable (perhaps after presidential elections) since this too would support regional stability, boost Egyptian economic development and deprive Iran of a much needed regional ally. It is already encouraging Salafis in Egypt who oppose the idea of a closer alliance with Iran as promoted by the Muslim Brotherhood.\(^1\) In addition, it has also given approximately $4 billion in economic aid to Egypt without strings attached\(^1\), unlike the conditions set by the U.S. and IMF to adopt democratic principles.\(^1\) Even without an explicit alliance, this action still includes goodwill and the accumulation of political capital for future use, as part of a counter revolutionary agenda.

The Arab Uprisings encompasses a number of top 10 Saudi foreign policy concerns. It undermines orderly transition in Yemen and encourages Iran to support protestors in Kuwait and Bahrain under its interpretation as an ‘Islamic Awakening’.\(^1\) The Saudi response to the crisis in Bahrain has been atypical of Saudi foreign policy reinforced by negative U.S. foreign policies in the region, in particular its action in Iraq.\(^1\) It was one of the most independent and rapid deployments of Saudi troops, sent under GCC auspices to encourage stability, contrary to U.S. pressure to “remain on the sidelines”.\(^1\) Its mission was to restore law and order and facilitate dialogue with ‘mainstream’ political parties.\(^1\) Saudi Arabia has also been active with regard to the NATO attacks on Libyan targets, having secured Arab support for the operations, but without taking a real stake in the outcome of events on the Libyan streets.\(^1\)

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\(^{345}\) Although as of January 2012, only between $500 million - $1.5 billion has been disbursed with indications that the U.S. may be putting pressure on Saudi Arabia to withhold funding in order to get Egypt to talk to the IMF first. Emails from Philip McCrum, Editorial Director of the Economist and Issandr El Amrani, Arabist Research, to the G2K List, 18 January 2012


\(^{347}\) ‘Islamic Awakening’ was a common expression used by the media in Iran, discovered by this author during field research in Tehran, March 2011; ‘Bahrain Expels Iranian Diplomat Over ‘Spy Ring’’, BBC News, 26 April 2011, available at [http://www.bbc.co.uk/news/world-middle-east-13195541](http://www.bbc.co.uk/news/world-middle-east-13195541)


\(^{349}\) ibid

\(^{350}\) Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
Iranian influence and traditional alliances with groups in Iraq and Lebanon, as well as with the government in Syria, have new meaning in the Arab Uprisings and at a critical juncture in the MEPP. This makes the regional situation particularly unstable and is less suited to the traditional Saudi approach of engagement and containment. Bashar Al Assad’s reaction to the Arab Uprising in Syria has grown to become unacceptable to Saudi Arabia, which has gone so far as to take the unprecedented step of recalling its ambassador to Syria for ‘consultation’. The Saudis expect Syria to stop the bloodshed and institute fast and comprehensive reforms. Saudi Arabia has even explicitly joined a common U.S. – UK – Saudi alliance against Bashar al-Assad’s crackdown on Syrian protests in 2011 which, along with UN pressure, seems to have at least temporarily led him to call a halt to the use of military force. Longer term Saudi influence may become more apparent if one of its citizens successfully makes the transition from a leading position in the Syrian uprising to take on a position in a new Syrian government. Nofel Marouf Al Dawlibi is the son of a well known Syrian figure who worked for King Faisal and died in Saudi Arabia. His son is a businessman but is working with the backing of the Saudi authorities to overthrow the regime, and is expected to receive a further boost from the anticipated defection of Syrian ambassadors. It is particularly important for Saudi Arabia to be involved in Syria since any power vacuum left by the sudden removal of President Assad could quickly lead to a de-facto victory for the Muslim Brotherhood which would reinforce Syria’s close ties with Iran.

3.3.4 The Saudi – Iranian Cold War

353 ibid
355 Ali Al-Ahmad, Director, Gulf Institute, Washington D.C., ‘Saudi Arabia Throws its Weight Behind Syrian Opposition’, Email sent to the G2K List, 25 August 2011
356 ibid
The number and range of threats in the immediate neighbourhood of Saudi Arabia have led to different foreign policies in each case. They often reflect the multidimensional, interrelated and oscillating intensity of the foreign policy challenges posed by a small number of adversaries. Saudi – Iranian relations have moved from ideological differences after the Islamic revolution and the divisive alliances created by the Iran – Iraq War, to the relatively cordial relations established during the rapprochement of the Rafsanjani presidency, to the Khatami presidency in the late 1990s in the lead up to the UN “Year of Dialogue Among Civilisations” in 2001.\(^1\) Iran has now risen again to become a central concern and existential threat to Saudi Arabia on a number of fronts since the removal of Saddam Hussein in Iraq. The rivalry is most clearly illustrated by Saudi Arabia’s definition of the “Gulf” and Iran’s definition of the “Persian Gulf” for the same region, semantics which have led on more than one occasion to diplomatic fallout.\(^1\) Iran’s nuclear programme, leverage of the ‘Resistance Axis’, ‘Shi’a Triangle’ (including Iraq and a Pakistan led by President Zardari, whom the Saudis fear is Shi’ite),\(^1\) ‘Shia Crescent’ in the GCC and Levant, and its search for regional dominance are of primary concern.

The continuing tensions between Iran and the UAE (and the GCC) over sovereignty of the Greater Tunb, Lesser Tunb, and Abu Musa Islands remains a barrier to improved relations with Saudi Arabia\(^1\); relations which could have developed according to Saudi Arabia’s role as leading energy producer\(^1\) and Iran’s great economic potential.\(^1\) Instead relations have worsened, based on Iran’s contribution to smuggling, sectarian strife and involvement with al-Qaeda operations in Iraq which have been perceived by the U.S. and Saudi Arabia to only get worse over time.\(^1\) The

\(^{357}\) Farid Mirbagheri, ‘Narrowing the Gap or Camouflaging the Divide: An Analysis of Mohammad Khatami’s ‘Dialogue of Civilisations’, *British Journal of Middle Eastern Studies*, 34/3, December 2007, 305


\(^{360}\) Saudi Arabia will not improve economic relations with Iran until this issue is resolved. Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011

\(^{361}\) In addition to holding 25% of the world’s oil capacity and 70% of spare capacity, Saudi Arabia is also planning to invest $100 billion in 16 nuclear power plants and also in solar energy which is expected to boost short term domestic needs. Nawaf Obaid, ‘A Saudi Perspective on the Arab Uprisings’, 22 November 2009

Saudi position on Iran is formed on the basis of its role in Iraq in addition to its nuclear programme.\(^1\) King Abdullah has been circumspect about Saudi relations with Iraq since the Maliki government is regarded as being a tool of Tehran.\(^1\) Prince Saud has emphasised national reconciliation between the Shi’a, Sunnis and Kurds in Iraq, including Saudi impartiality in this process whilst urging Iran to take the same stance.\(^1\) The Saudi Arabian government would have directly intervened in Iraq to protect Sunnis and reduce the Iranian influence had it not been for U.S. pressure and concerns about inflaming sectarian violence.\(^1\) Riyadh is limited as to what it can do since a clampdown on border security was rendered less effective because the border remains open on the Iraqi side due to steps not being taken by the Iraqis, British and American forces there.\(^1\) Greater intelligence sharing was expected to have tangible benefits in this case, particularly since Saudi Arabia caught 2500 smugglers on the Iraqi border in 2005.\(^1\)

The multifarious WMD related security dilemmas of Iranian nuclear proliferation was said to be Saudi Arabia’s biggest foreign policy concern in 2007\(^1\) even though Prince Saud said that “Saudi Arabia is not under any circumstances going to enter into this [nuclear arms] race.”\(^1\) Saudi foreign policy in this area remains unclear and is highly dependent on the actions of other actors in the region. Before any decisions are taken about proliferation, Saudi remains bound to a Western defence umbrella which aims

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\(^{364}\) Interview with a foreign government representative who asked not to be named, 3 June 2010, London


\(^{366}\) ‘Cover Story: Prince Saud al-Faisal’, MEED, 9-15 November 2007, 6


\(^{368}\) Richard Thompson, ‘Returning to Form’, MEED, 27 January – 2 February 2006, 5

\(^{369}\) ‘Manning the Borders’, MEED, 31 March – 6 April 2006, 4

\(^{370}\) As stated by Bandar al-Aiban, former chairman of the foreign affairs committee of the Majlis al-Shura. ‘Cover Story: Prince Saud al-Faisal’, MEED, 9-15 November 2007, 6

\(^{371}\) Ibid
to reduce tensions in this sphere. It signed NATO’s Istanbul Cooperation Initiative (ICI) in 2005 even though there were reservations about Israel’s role in NATO’s Mediterranean Partnership and perceptions that NATO is dominated by the U.S. The nuclear programme has led Saudi Arabia to take its most hawkish stance in advocating a U.S. led pre-emptive strike against Iranian installations, which has led to increased diplomatic tensions between Saudi Arabia and the U.S. Although such tensions should be put into perspective, since the prospect of a nuclear armed Iran is one of the Saudi interests that dovetail with U.S. interests, keeping them close. Failing a pre-emptive strike by the U.S., Saudi Arabia has considered alternative measures and is now against military force against Iran. These have included squeezing Tehran’s finances by increasing production to lower global oil prices, (although support from Algeria, Angola, Iraq and Venezuela, meant that Iran defeated Saudi Arabia’s motion in OPEC against what could be seen to be a pro-western alliance of Saudi Arabia, UAE, Kuwait, and Qatar which voted for an increase in production). Since then Saudi Arabia has been forced to go it alone in its efforts to use its swing status to unilaterally increase production. This is a prime example of ‘resource nationalism’ through which state owned enterprises such as Saudi Aramco are forced to conform to political pressures. These include those associated with ‘…national pride, competitive inter-OPEC issues [including leadership: the quota system is based on the size of oil reserves, so Saudi Arabia is able to pump more oil than any other state], and a desire to please and reassure customers.’

374 This is confirmed by the 2005 National Defence Strategy which was expected to be the “strategy” part of the U.S. Quadrennial Defence Review. It focuses on Islamic extremism, states armed with nuclear weapons, and managing the disruptive capabilities of potential adversary states. ‘New U.S. National Defence Strategy Signals Shift to Lighter ‘Footprint’ in the Gulf States’, GSN, 29/755, 15 April 2005, 8  
375 Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011  
This move had already been classified by leading economists as a non-starter since Saudi Arabia needs $75 per barrel to pay for its own expenditures,\textsuperscript{1} including capital expenditures and reserves of about $5 billion.\textsuperscript{1} Since Saudi Arabia earns a bit less than the OPEC average it needs OPEC prices above $80 on average.\textsuperscript{1} Saudi Arabia therefore can’t afford to reduce the oil price for very long, and coupled with a potential Iranian backlash and Iran being able to adapt to economic pressure with sophistication, its impact would not necessarily be as effective as Saudi Arabia may wish it to be. The only result from the “worst” OPEC meeting and the failure of its unilateral measures will be to question not only Saudi pre-eminent leadership over oil production quotas, but the raison d’être of OPEC, since it has been unable to stabilise oil prices or increase production.\textsuperscript{1} Since Saudi oil policy needs to simultaneously address its politico-economic needs, its position in the global economy, its relationship with (Western) allies and regional adversaries, it is not surprising that it was left to undertake unilateral measures against a competing oil exporter.

This is especially the case since Saudi Arabia has tried to avoid shaking oil markets in which it has mutual interests with other states\textsuperscript{1}, but due to reasons outside of its control they are shaken anyway. If a targeted oil weapon won’t work against Iran, these measures could ultimately lead to Saudi Arabia seeking a nuclear deterrence of its own.\textsuperscript{1} This is a reflection that Saudi Arabia not only has the most to lose from a nuclear armed Iranian, but is not generally happy with the effectiveness of the E3 negotiations with Iran.\textsuperscript{1}

\begin{thebibliography}{99}
\bibitem{379} Matthew R. Simmons, \textit{Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy}, (New Jersey: John Wiley and Sons, 2005), 269
\bibitem{380} Downstream refining capacity is becoming a bottleneck which is adding to pressure on pricing, so Saudi Arabia has to invest in both upstream and downstream projects whilst maintaining manageable prices.
\bibitem{381} Interview with Dr Leo Drollas, Chief Economist, Center for Global Energy Studies, 26 January 2011, London
\bibitem{382} \textit{ibid}
\bibitem{383} Amena Bakr and Emma Farge, ‘OPEC Oil Talks Collapse, No Output Deal’, Reuters, 8 June 2011, available at \url{http://www.reuters.com/article/2011/06/08/us-opec-idUSTRE75715L20110608}
\bibitem{384} Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
\end{thebibliography}
Alleged Iranian plots such as those to assassinate the Saudi Ambassador to the United States are unlikely to make Saudi Arabia less hawkish on Iran. Prince Turki Al-Faisal has said that Iran must “pay the price” for its involvement even though Iran denies any involvement. Such a firm response will no doubt be informed by the seizure of Mecca in 1979, Iran’s successful plots to assassinate Saudi diplomats in 1988 and 1989, the al-Khobar Towers bombing against U.S. military personnel in 1996 claimed by ‘Saudi Hezbollah’ (Saudi Shiites); and the murder of five American soldiers in Kerbala, Iraq, in 2007. However, there are some academics and diplomats who still question the Modus Operandi of the plot.

3.3.5 Interpreting Saudi Arabia’s Regional Environment

Saudi Arabia’s regional environment should not only be interpreted as the Middle East and North Africa, but as straddling the rest of the Islamic World, defined by loose interconnections with other member states of the Organisation of the Islamic Conference (OIC). This alliance tends to include broader issues such as Islamophobia and capacity building rather than just trade, so there is potential for members to select partnerships that work best for them. However, Saudi relations with most members of the OIC are immediately disadvantaged because many members are ‘small states’ such as Malaysia which don’t cooperate exclusively with Islamic states but all states.

386 Dealing with Iran started out on the wrong foot through the E3 of France, Germany and the UK which made public its use of both the stick and carrot approach to negotiations. Remarks by Prince Turki Al-Faisal, University of Exeter, 16 March 2011
390 Joshua Teitelbaum, ‘Saudi Arabia’s Shi’i Opposition: Background and Analysis’, 14 November 1996
392 A full list is available at http://www.oic-oci.org/member_states.asp
Therefore, relations are necessarily rooted in upgrading and helping poor Muslim communities to develop. This might be in Saudi Arabia supporting tourism to Malaysia where families feel "at home" due to the same Islamic way of life, as well as promoting more trade and investment.\textsuperscript{1} Saudi aid and support helps countries such as Malaysia to afford more imports and so it is in its interest to develop this relationship through whatever means are most appropriate. The long term benefits of growing the internal markets of friendly states can only be a good thing and will eventually lead to a point where Saudi Arabia "gives and takes" more to ensure it keeps its growing customer base.\textsuperscript{1} There is also potential for Saudi Arabia to extend counter-terrorism training to Malaysia which has experience of guerrilla warfare but requires preparation to counter the front line of violent extremism in South East Asia. This, along with the traditional leadership qualities of Saudi Arabia puts it in a dominant position \textit{viz a viz} other OIC members in South East Asia.

Saudi aid has been the highest in the world per capita, at $49 billion over the past three decades.\textsuperscript{1} There are generally no catches to its aid; the only stipulation is that recipient states are friendly states that are undergoing a crisis of some kind, making them deserving of cash or material aid.\textsuperscript{1} This was the case with Indonesia, which Saudi Arabia pledged $30 million to following the Asian tsunami in 2004.\textsuperscript{1} The SFD has also invested in Africa and Asia, mainly in long term projects across developing states.\textsuperscript{1} The Islamic Development Bank (IDB), of which Saudi Arabia is just one shareholder, takes a similar view but also supports Muslim minorities in non-Muslim states, again mainly in Africa and Asia.\textsuperscript{1}

\begin{itemize}
\item\textsuperscript{393} Evidence of this can be found in Petronas, the Malaysian NOC, which operates in 32 countries outside of Malaysia. Daniel Yergin, ‘Epilogue’, \textit{The Prize: The Epic Quest for Oil, Money and Power}, (New York: Free Press, 2008), 770
\item\textsuperscript{394} Interview with HE Professor Dato' Syed Omar Al Saggaf, Malaysian Ambassador to Saudi Arabia, 5 June 2011, Riyadh
\item\textsuperscript{395} \textit{ibid}
\item\textsuperscript{396} \textit{ibid}
\item\textsuperscript{397} Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
\item\textsuperscript{398} ‘Saudis Boost Aid to Wave Victims’, BBC News, 7 January 2005, available at http://news.bbc.co.uk/1/hi/world/middle_east/4151241.stm
\item\textsuperscript{399} See projects in Africa and Asia, \textit{Annual Report}, The Saudi Fund for Development, available at http://www.sfd.gov.sa/, 8-9
\end{itemize}
Pakistan represents an aid anomaly which incorporates a very strong bilateral strategic relationship and an important defence thread of Saudi foreign policy. There is the possibility that Saudi interests underwrote up to 60% of the Pakistan nuclear programme as well as some defence (e.g. missile) purchases from the 1970s on the understanding that Pakistan would provide a nuclear deterrent for Saudi Arabia. At a minimum, Saudi – Pakistan relations have extended to include a bilateral security umbrella, starting with Pakistani Air Force pilots flying RSAF Lightnings to repulse a South Yemeni incursion across the Kingdom’s border in 1969. Up to 15,000 Pakistani troops were stationed in the Kingdom up until the 1980s and cooperation continues to this day. Saudi Arabia discounts and defers payment for oil exports to Pakistan, but this is conditional upon Pakistan implementing bilateral trade agreements in return. This reflects the fact that Pakistan is a major oil customer, importing $2 billion of oil each year, and supplies the Kingdom with one million expatriate workers. However, instead of sovereign loans which Saudi Arabia extends to other major oil customers, Riyadh prefers to focus on building bilateral relations with Pakistan through a joint donor framework. Pakistan remains a major potential market, one in which the Saudi Al-Tuwairqi Group acquired a 75% stake in Pakistan Steel Mills Corporation in 2006. Therefore Saudi Arabia maintains a close bilateral relationship with Pakistan based on a number of important strands in addition to the more common aid transfers which have included a $573 million pledge for reconstruction following the October 2005 earthquake. The strength of the relationship could therefore extend to giving Saudi Arabia an option to buy a small nuclear arsenal off the shelf should it chose to. In a period dominated by Saudi – Iranian rivalry in global energy markets, and (nuclear) antagonism, and influence in the Levant, such a relationship becomes highly sensitive to Saudi Arabia. This is particularly the case as Saudi Arabia fears from ‘Shi’a Triangle’ between Iran, Iraq

400 Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
403 ibid
404 ‘Saudi Arabia and Bahrain’, GSN, 32/840, 10 November 2008, 4
406 ‘Politics’, GSN, 32/840, 10 November 2008, 4
408 ibid
409 Oliver Bloom, ‘Saudi Arabia’s Nuclear Program’, 17 May 2010
and Pakistan under President Zardari.\(^{1}\) Even if such allegations prove to be baseless, it still diminishes Pakistani standing and facilitates Saudi leadership of a Sunni bloc to counter another metamorphosis of the Iranian threat.\(^{1}\)

### 3.4 THE GLOBAL RELATIONS OF SAUDI ARABIA

This section examines the seemingly disparate themes of Saudi foreign policy post 9/11, from Saudi dissatisfaction with the U.S. over its unwillingness to intervene during the second intifada to 9/11 itself and the popular, as well as limited political, backlash against the Saudi regime. The combination of a string of contentions, combined with economic factors such as a high oil price, has forced the hand of the Saudi regime into becoming more pragmatic and persuasive. It outlines the circumstances under which Saudi Arabia has been able to rebuild its relations with the U.S. only to see them crumble due to their widely divergent national interests during the Arab Uprisings. A clear pattern emerges which captures the number and nature of the foreign policy contentions and of foreign policy doctrine itself which is identified as being incompatible. For Saudi ‘second-tier’ relations, i.e. those below its still predominant relationship with the U.S., economic factors are clearly leading Saudi thought towards bilateral consolidation and institutionalisation but again with regionalisation as a clear solution to incompatibilities concerning the development of its defence systems. Strategic relations with emerging states in Asia, and with particular reference to China, are found to suffer from China’s simultaneous relations with members of the ‘resistance axis’ albeit on much more preferential terms of non-aligned principles through its ‘Five Principles of Peaceful Co-existence’. Therefore Saudi foreign policy towards international actors is often a function of their own policies towards regional competitors and adversaries.

#### 3.4.1 Saudi – U.S. Relations Post 9/11

On 27\(^{th}\) August 2001, a message was communicated by Prince Bandar to Condoleezza Rice, the then national security advisor, to express Saudi dismay at President Bush’s

\(^{410}\) ‘U.S. Embassy Cables: Saudis Fear ‘Shia Triangle’ of Iran, Iraq and Pakistan’, *Guardian*, 3 December 2010

\(^{411}\) ibid
unwillingness to intervene in renewed fighting between the Israelis and Palestinians.\textsuperscript{1}

It also expressed Saudi Arabia’s willingness to disaggregate itself publicly from U.S. foreign policy with the underlying potential for a new oil embargo or reduced funding for U.S. pet projects.\textsuperscript{1} The U.S. President responded with a high level meeting proposed to take place on 13\textsuperscript{th} September 2001.\textsuperscript{1} In the intervening period, 9/11 highlighted the sometimes paradoxical and incendiary nature of U.S. – Saudi bilateral relations, particularly with regard to U.S. support for Israel\textsuperscript{1} and U.S. military bases on Saudi territory.\textsuperscript{1} It would come to dominate the international relations of almost every state, but particularly those in the West and Islamic World, and those who had suffered, or were about to suffer from terrorism. As an immediate gesture, Saudi Arabia supplied an additional 500,000 barrels of oil a day to the U.S. to help stabilise the economy and allowed the use of Saudi bases for U.S. intelligence gathering for the war in Afghanistan.\textsuperscript{1}

Nevertheless there was uncharacteristic pressure on Saudi Arabia from U.S. media interested in drawing lines between the Al-Saud and Islamist terror networks such as Al-Qaeda. Crown Prince Abdullah, in an interview with Time Magazine, expressed his dismay at the negative stories stating: “how can a relationship that has been strong and solid for over six decades be questioned like this?...There is some resentment about the relationship and of the Kingdom that I frankly don’t understand.”\textsuperscript{1} This confusion reflected the mixed signals sent to the Kingdom due to the internal differences between the stance taken by Congress (and in particular the U.S. Congressional report on terrorism financing) and that taken by the White House.\textsuperscript{1} Whilst relations at governmental level remained relatively amicable and accommodating, this did not reflect the increasing gulf between the two societies, and the ‘emerging fundamentalism’ Prince Saud al-Faisal observed in the U.S. in the lead up to the Iraq War.\textsuperscript{1}

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\textsuperscript{413} ibid
\textsuperscript{414} ibid
\textsuperscript{415} Israel received more than $2 billion in military aid alone in 2002. ‘Pax Americana’, MEED, 28 February 2003, 22
\textsuperscript{416} ‘Backgrounder: Profile Osama bin Laden’, Council on Foreign Relations, September 2007, available at \url{http://www.cfr.org/terrorist-leaders/profile-osama-bin-laden/p9951#p11}
\textsuperscript{417} ‘Special Report: Saudi Arabia’, MEED, 22 March 2002, 26
\textsuperscript{418} ibid
\textsuperscript{419} ‘Special Report U.S.’, MEED, 29 August 2003, 24
The subsequent GWOT would come to dominate U.S. relations with most other states, becoming a new international paradigm reflected in politics, diplomacy, commerce and oil, as well as driving new conflicts in Afghanistan and Iraq. The change in U.S. energy policy was of a particular and immediate concern to Saudi Arabia since the Kingdom relies on the long term viability of large and stable markets such as the U.S. Reducing U.S. demand for Middle East oil would not only reduce Saudi Arabia’s global market share and primary position in the U.S. market from 2002, but also put at risk the close political relationship which has been fundamental to Saudi influence and to some extent security in the West. Surprisingly, considering the political climate, Middle East oil producers generally invested $18 billion to $25 billion per year in a mix of U.S. securities, banking products, and in U.S. corporations. There were no wholesale withdrawals and reinvestment of Saudi funds as might have been predicted, since a portfolio approach was already in effect and dictating a broad investment strategy. Although investments have tended to mirror Saudi international relations, there is no overt causal relationship because Saudi wealth is in the hands of private investors which although tend to be Royals, invest according to the terms of the deal and with no stated political agenda.

Ironically, the political shock of 9/11 may have only pre-empted by a short period an oil shock which would have had a similarly massive impact on Saudi – U.S. relations. There is an argument which puts a question mark over Saudi and other OPEC members oil reserves, partly due to ‘data transparency’ which covers a multitude of reserve issues. Furthermore, Saudi Aramco and the Saudi Petroleum Ministry

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420 ‘Pax Americana’, MEED, 28 February 2003, 22
421 Although Citigroup said the sale of its 20% stake in Samba Financial Group was conducted on business grounds, many analysts feel that post 9/11 issues such as the Patriot Act and threats of future class actions were part of the equation. ‘Others Go In Where Citigroup Has Been’, GSV, 28/736, 11 June 2004, 12
423 ‘Losing the Sense of Balance’, MEED, 28 February 2003, 25
425 Sam Hakim, ‘Gulf Cooperation Council Stock Markets Since September 11’, Middle East Policy, 15, 1 (Spring 2008), 73
claimed in 2004 that installing extra capacity would lead to production gains that have
not been proven in Saudi oil exports to the OECD states.\textsuperscript{1} In December 2004 Saudi
Aramco brought on stream another 800,000 barrels per day (bpd) from the Qatif and
Abu Safah fields in the Eastern province.\textsuperscript{1} Other major projects are the Abu Hadriyah,
Fadhili and Khursaniyah (AFK) onshore oil fields which will add another 500,000
bpd.\textsuperscript{1} The Khurais field near Riyadh will add another 1.2 million bpd.\textsuperscript{1} All this goes
some way to alleviating fears about Saudi Arabia’s ability to meet rising oil demand,
although much of the new production is from aging fields at a time when there is
increasing competition from states such as Brazil. Petrobas, for example is
establishing itself at the cutting edge of offshore exploration, with significant new
finds such as Tupi in 2006.\textsuperscript{1} In addition, a senior Saudi government oil executive
stated in 2007 that Saudi crude oil reserves may have been overstated by as much as
300 billion barrels or 40% of its total reserves.\textsuperscript{1} If true, this figure could challenge
Saudi pre-eminence in OPEC and to a lesser extent, in the GCC. It could give Iran
confidence in the international oil market and unhinge the hitherto close alliance
between the world’s largest oil producer and its main customers.

For Saudi Arabia, 9/11 meant a very public persecution and potential prosecution of
high profile Saudis ranging from the so called “trillion dollar lawsuit” brought by the
families of 9/11 victims\textsuperscript{1}, to anti-Saudi political campaigns from presidential
contenders such as John Kerry.\textsuperscript{1} However, the U.S. response could have been more
extreme had the briefing given by Laurent Murawiec of the government funded RAND
think tank to the Defence Policy Board been more widely accepted.\textsuperscript{1} It
suggested the targeting of Saudi oil resources, financial assets and holy places in

\begin{itemize}
  \item Adam Porter, ‘How Much Oil Do We Really Have?’, BBC News, 15 July 2005, available at
  \url{http://news.bbc.co.uk/1/hi/business/4681935.stm}
  \item Matthew R. Simmons, \textit{Twilight in the Desert}, 285
  \item \textit{ibid}
  \item \textit{ibid}
  \item \textit{ibid}
  \item Daniel Yergin, ‘Epilogue’, \textit{The Prize: The Epic Quest for Oil, Money and Power}, (New York: Free
  Press, 2008), 770
  \item John Vidal, ‘Wikileaks Cables: Saudi Arabia Cannot Pump Enough Oil to Keep a Lid on Prices’,
  \textit{Guardian}, 8 February 2011, available at \url{http://www.guardian.co.uk/business/2011/feb/08/saudi-oil-
  reserves-overstated-wikileaks}
  \item Julian Borger, ‘Saudi Royals Face Trillion-Dollar Lawsuit Over September 11’, \textit{The Guardian}, 16
  August 2002, available at \url{http://www.guardian.co.uk/world/2002/aug/16/saudiarabia.usa}
  \item Flynt Leverett, ‘Reengaging Riyadh’, in Flynt Leverett and Martin Indyk (eds.), \textit{The Road Ahead:}
  \textit{Middle East Policy in the Bush Administration’s Second Term}, (Washington D.C.: Brookings
  Institution, 2005), 97
\end{itemize}
response to 9/11.\textsuperscript{1} Political measures were taken against Saudi citizens, such as tighter visa restrictions imposed by the Department of Homeland Security, often without specified reasons, which contributed to an 80\% drop in Saudi students entering the U.S. after 9/11.\textsuperscript{1} As a counter-terrorist measure, it not only reduced Saudi exposure to post 9/11 U.S. society thereby removing expatriate communities that form vested political interests but also cultural exchange and grass roots dialogue. There was also intense financial scrutiny against both banks and transactions involving, primarily, Saudi charities. This involved Riggs Bank, used by the Saudi Arabian embassy in Washington, and the New York branch of Arab Bank, which was the subject of other lawsuits.\textsuperscript{1} There were also instances of Saudis with the ‘wrong’ name having their assets frozen in the U.S., and although there was not a massive financial exodus out of the U.S., Saudi – U.S. bank relationships were certainly more strained.\textsuperscript{1} The official charity of the Saudi royal family, al-Haramain, responsible for the distribution of up to $50 million a year, was pressured and forced to close.\textsuperscript{1} Before 9/11 Saudi aid had been free from scrutiny, but after 9/11 there was much more international pressure (mainly from the U.S.) to curb charitable donations that could end up with militant groups. This “pressure of evaluation” has served to reign in funding, with much of the financial apparatus dismantled and new regulations introduced by 2004.\textsuperscript{1} The U.S. continued to apply wider pressure on Saudi Arabia into 2003 with an explicit agenda called the Middle East Partnership Initiative (MEPI) which included economic reform, political reform towards democracy, education reform and women’s rights.\textsuperscript{1} Along with the Middle East Free Trade Initiative, it was subsumed into the Greater Middle East Initiative (GMEI) in 2004.\textsuperscript{1} Apart from it mainly being a rehash of existing policies, the momentum to push the agenda came not from regional specialists at the State Department but from U.S. policy makers, and remained unrealistic due to the conflict between idealism and realism in dealing with existing allies that are undemocratic.\textsuperscript{1} Mistakenly, the GMEI was also expected to be the

\begin{thebibliography}{9}
\bibitem{bronson} Rachel Bronson, \textit{Thicker Than Oil}, 235-238
\bibitem{ibid} ibid
\bibitem{ibid} ibid
\bibitem{ibid} ibid
\bibitem{bronson2} Rachel Bronson, \textit{Thicker Than Oil}, 235-238
\bibitem{interview} Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
\bibitem{osullivan} Edmund O’Sullivan, ‘Pushing a New Agenda’, \textit{MEED}, 19 September 2003, 5
\end{thebibliography}
Helsinki Process of the South, in the same way that the Helsinki Process helped get Warsaw Pact states security based on a political and economic reform agenda.¹

Such policy failures have meant that bilateral pressure had to be kept up in the Middle East especially during the Arab Uprisings, with the exception of Saudi Arabia.¹ However, the extent to which U.S. concerns about domestic threats in Saudi Arabia had been addressed was outlined in July 2004 when Saudi Arabia was held to be compliant with anti-money laundering standards from the Financial Action Task Force within the Organisation of Economic Cooperation and Development (OECD).¹

Even after the meeting and high level “strategic dialogue” launched by then Crown Prince Abdullah and President Bush, the U.S. has continued to accuse Riyadh of its “unwillingness” to tackle terrorist financing.¹ But Riyadh continues to point to the fact that U.S. intelligence about financial transfers and Saudi support for Madrasas in Pakistan are classified, and therefore questions how Saudi Arabia can fight terrorism without the U.S. intelligence being referred to in its complaints.¹ U.S. pressure and criticism after 9/11 has led to a number of Saudi initiatives in counter-terrorism, from Prince Saud attending the second RUSI conference on transnational terrorism, whilst King Abdullah headed east to put terrorism on the foreign policy agenda and get allies to sign the Riyadh Declaration.¹ This agreement calls for an international anti-terrorism centre which would help make counter-terrorism efforts international.¹

Progress in tackling the unintended financing of terrorist cells through charity was underpinned by persuading Saudis to give more to local (Saudi) causes where financial flows could be more easily monitored and controlled.¹ A number of steps were also taken by the government to clamp down on radical clerics in mosques and institute a re-education programme for others. This has been vital, since a large part of Saudi aid is channelled through Mosques or clergy, so they were a big part the problem.¹

⁴⁴⁴ ibid
⁴⁴⁵ ibid
⁴⁴⁷ Rachel Bronson, Thicker Than Oil, 238
⁴⁴⁹ Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
⁴⁵⁰ Richard Thompson, ‘Returning to Form’, MEED, 27 January – 2 February 2006, 4
⁴⁵¹ ibid
⁴⁵² Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
Saudi frustration with U.S. foreign policy started in 2002 with the Arab Peace Initiative\(^1\) after Crown Prince Abdullah had spent significant political capital on trying to persuade President Bush to take a more balanced position on Israel and Palestine.\(^1\) Because it was seen to detract from the main concerns of the U.S. post 9/11 it was not taken up by the U.S., but it was nevertheless generally welcomed even in parts of the Israeli political establishment precisely because it had come from Saudi Arabia.\(^1\) The MEPP is therefore no longer likely to be a critical element in U.S. – Saudi relations in future as Saudi Arabia.\(^1\) The initiative was not a total loss though and did lead to some agreement on measures to address the Israel – Palestinian conflict from both Saudi Arabia and the U.S.\(^1\) The negative response was from Saudis citizens whose largely ineffective boycott of American goods did damage the short term profitability of a number of U.S. based companies including Proctor and Gamble.\(^1\)

### 3.4.2 The Political Imperative for Rapprochement

After the U.S. led invasion of Iraq, the U.S. needed Saudi Arabia’s relationship with Hamas to at least stabilise the Israeli-Palestinian conflict as another theatre of conflict opened up. At the beginning of the Iraq War, the Saudi oil minister, Ali Naimi, reiterated to the U.S. and the international markets that oil would not be used as a weapon and emphasised that there would be enough oil to deliver no matter what happened in the war.\(^1\) This was a sentiment that echoed Saud Al Faisal’s position before the war had begun.\(^1\) This was despite the fact that Saudi Arabia was against the invasion, along with many other states in the Middle East.\(^1\) Keeping oil flowing

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\(^{453}\) *ibid*

\(^{454}\) The plan echoed the 1981 King Fahd plan based loosely on UNR 242 and 338, offering a complete peace to Israel in return for a total withdrawal to its pre-1967 borders and the establishment of a Palestinian state. Angus McDowall, ‘The Power of Speech’, *MEED*, 22 March 2002, 25

\(^{455}\) *ibid*

\(^{456}\) ‘Special Report: Saudi Arabia’, *MEED*, 22 March 2002, 26

\(^{457}\) Telephone interview with Martin Indyk, 1 November 2011

\(^{458}\) *ibid*, 239

\(^{459}\) *ibid*, 237

\(^{460}\) ‘Special Report: Saudi Arabia’, *MEED*, 28 March 2003, 22

\(^{461}\) On 20\(^{th}\) April 2002 Iran and Iraq proposed a Muslim oil embargo against the U.S. which Prince Saud al-Faisal, the Saudi Foreign Minister, promised he would not support. ‘Special Report: Saudi Arabia’, *MEED*, 21 June 2002, 25
throughout the war was confirmed again by Adel Jubeir after the meeting between President Bush and Crown Prince Abdullah at Crawford on 25th April 2005. The Iraq War did impact the Saudi economy negatively, through uncertainty. It delayed reforms and legislation and reduced foreign and domestic investments at a time when the economy was gearing up for a more outward looking era. Investments have been made; $1 billion out of a total of $2.6 billion in 2002, but the rate was much lower than expected.

The accommodation of Saudi foreign policy to assure the U.S. that it would continue to pump in difficult conditions reflected its own fear of falling energy demand in the same way that the U.S. fears security of energy supply. It is just as vital to Saudi interests that consumers remain dependent on oil, at least until its contribution to GDP and exports drops further. ‘The petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings’, so any downturn in oil demand would have significant consequences for the Saudi economy. On the other hand, on the back of high oil prices, an extra month’s salary was paid to Saudis in 2002. Saudi GDP rose by 6.5% in real terms in 2005 leading to the biggest ever budget surplus, which was channelled back into paying off domestic debt, since many Saudis question why the country is amassing such surpluses while still being in debt.

The final temporary measure of rapprochement between Saudi Arabia and the U.S. wasn’t economic but followed the political fallout from the 2003 terror attacks in Riyadh. The Saudis started to cooperate more with the FBI although this only exacerbated anti-U.S. feelings and boosted the cause of the jihadis in their recruitment of would-be bombers. Having managed to destroy the home grown militant campaign, and instituted a late but effective campaign against terrorist financing and religious extremism, Saudi Arabia was able to show the U.S. and the wider world that it was addressing the issue of terrorism. On 16th October 2005, former Ambassador to

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the United States, Prince Bandar Bin Sultan Bin Abdelaziz, was appointed as the inaugural head (with rank of Minister) of the Saudi National Security Council.\footnote{89} Bringing his experience of international diplomacy and extensive contacts with him, it was an indication to the U.S. of how serious the Kingdom was about tackling violent extremism.\footnote{470} It also meant that King Abdullah could personally take charge of Saudi foreign policy, especially Saudi – U.S. relations, with support from his long serving and trusted Foreign Minister Prince Saud Al-Faisal.\footnote{471}

### 3.4.3 The Incompatibility of National Interests and International Alliances

It was not just economic policy but the way the GWOT was implemented by the U.S. that meant it had “lost the moral high ground” after 9/11 because of its “negligence, ignorance and arrogance” which served to facilitate the revision of a special relationship to a more normalised relationship.\footnote{472} Such arrogance is perceived to be inherent in Saudi fears that the U.S. will use Saudi Arabia as a “spearhead of the European-American-Israeli aggression against Iran”.\footnote{473} At the heart of a more normalised relationship was Prince Saud’s suggestion that the U.S. should not be a formal guarantor of Gulf security but that it should be handled by the UN Security Council, thereby downgrading the role for the U.S. in regional affairs.\footnote{474} This has major implications for U.S. action in the region in future. Previously, in actions against Saddam Hussein, the Clinton Administration had relied on King Fahd’s reliance on the U.S. for Saudi security and his predisposition to allow the U.S. to use of its bases because the U.S. was working to bring Syria into the peace process.\footnote{475}

Now these Saudi policies have changed based on U.S. policy initiatives or lack thereof, which means that the U.S. should be seen to be a non-aligned guarantor of the

\footnote{469} ‘Busy Times for Saudi Kremlinologists as King Abdullah Consolidates’, GSN, 5/768, 28 October 2005
\footnote{470} ibid
\footnote{471} ‘Imposing Discipline Abroad, King Sets Foreign Policy Line’, GSN, 32/823, 18 February 2008, 1
\footnote{472} Michel Cousins, ‘Turki al-Faisal Calls on Obama to Push for Middle East Settlement’, Arab News, 15 May 2010, available at \url{http://arabnews.com/saudiarabia/article54062.ece}
\footnote{473} ‘Prince Talal bin Abdul Aziz, the Brother of the King of Saudi Arabia Warns of Qatar’s Scheme to Divide Saudi Arabia and to Hit Syria, as a Service to the Zionist Entity’, Arab Revolutions, 4 December 2011
\footnote{474} ‘Focus’, GSN, 28/748, 22 December 2004, 2
\footnote{475} Martin Indyk, Innocent Abroad, 155
multilateral structures and treaties in place.476 During the Arab Uprisings, U.S. support for democratisation and its unwillingness to take direct action again the growing threat from Iran, including its ability to fuel sectarian divides and instability in states such as Bahrain, Iraq, Lebanon and Yemen, has made the U.S. alliance less relevant to the Saudis.477 By going it alone, Saudi Arabia could be put in the driving seat of any new security architecture because it can afford to be more independent and innovative in the foreign policies it needs to pursue to create greater stability. This is still likely to be conceptualised in a wider GCC which may bring Yemen in from the cold but certainly Shi’a Iran and Iraq.

Saudi Arabia and the U.S. have continued to disagree over many U.S. foreign policies concerning the Middle East, which has contributed to diverging foreign policy trajectories. Areas of contention have included the Israel – Palestine conflict, comprising the second intifada and potentially the U.S. non-recognition of a new Palestinian state478, Afghanistan in the early stages of the conflict479, over Iraq480, the lack of U.S. support for President Mubarak at the beginning of the Arab Uprisings481, and how best to tackle the perceived Iranian nuclear threat.482 Greater tensions are likely to become apparent between Saudi Arabia and the U.S. as well as European powers due to the speed with which they have recognised and supported rebel uprisings in the Middle East. This is particularly damaging since it not only creates greater instability but harks back to the colonial era of recognition and representation of minority religious and ethnic groups in the security forces and governments across the region. Strong divergence and irritants are also visible in Saudi – Russian relations which range from Chechnya to post 9/11 Russian complaints about violent Islamist

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476 Interview with Sherard Cowper-Coles, London, 4 June 2010
groups which prohibit either side from advancing towards an exclusive partnership. Although buoyed since Crown Prince Abdullah’s visit to Moscow in 2003, higher oil prices, and strains with the U.S., (and therefore avenues for joint cooperation in areas of mutual interest) Saudi Arabia is very anxious about Russia’s involvement in Iran’s nuclear energy programme, its treatment of Muslims in Chechnya, as well as its status as a military supplier to Hamas. Russia does not therefore represent an obvious alternative for Saudi Arabia to balance with against the U.S. during the Arab Uprisings and accounts for its choice of the GCC to play a leading role in the future orientation of its foreign policy.

The U.S. has trained and armed SANG (for example with anti-tank weaponry) over a thirty year period and with combat experience in oil fields threatened by civil disturbances in 1988 and Saudi borders in 1990\footnote{‘Politics and Security’, GSN, 29/759, 10 June 2005, 5\textsuperscript{483}}, against Iraqi mechanised forces at Khafji in 1991 and brigade level operations to secure the Hajj each year.\footnote{ibid \textsuperscript{484}} The announcement of a $20 billion arms package which included the Boeing Company’s new satellite guided smart bomb was also an indication that the Bush Administration was comfortable with a strategic relationship with Saudi Arabia.\footnote{‘Focus: Saudi Foreign Policy’, GSN, 32/823, 18 February 2008, 3\textsuperscript{485}} To advance the U.S. – Saudi relationship, maintain a strong alliance against Iran, and secure up to 75,000 jobs, the U.S. announced a $60 billion arms deal with Saudi Arabia in 2010.\footnote{Adam Entous, ‘Saudi Arms Deal Advances’, \textit{Wall Street Journal}, 12 September 2010, available at http://online.wsj.com/article/SB10001424052748704621204575488361149625050.html\textsuperscript{486}} Although complex, subject to change and implemented over up to a decade, the deal is the largest arms sale deal ever.\footnote{ibid \textsuperscript{487}} Whilst Saudi Arabia and the U.S. will continue to have shared strategic energy and security interests, some argue that any Saudi threat to turn away from its alliance with the U.S. is simply ‘blustering’.\footnote{Joshua Teitelbaum, ‘Empty Words: Saudi Blustering and U.S. – Saudi Realities’, \textit{Perspectives Papers on Current Affairs 147}, The Begin-Sadat Center for Strategic Studies, 17 July 2011, available at http://www.biu.ac.il/Besa/perspectives147.html\textsuperscript{488}} However, there is evidence that Saudi Arabia will soon have more options to form new political alliances, particularly once the EU adopts a more active foreign policy system following the launch of its External Action Service provided for by the Lisbon Treaty. There is also potential to develop a new alliance with the major energy consumers in
Asia, especially China\(^{489}\), which overtook the U.S. as the world’s largest energy consumer in 2009.\(^{490}\) It is in the interests of both the U.S. and Saudi Arabia to contain and deter Iran, which has had ample opportunity to take advantage of instabilities in the Sunni monarchies in the GCC and beyond.\(^{491}\) This is the rubric around which post 9/11 U.S. – Saudi relations have been conducted.

Saudi – U.S. relations have been hampered foremost by Saudi Arabia not toeing the line on the GWOT and especially in it not being able to support the use of Saudi military bases for U.S. action in Iraq. Many in the Saudi establishment, including Abdulrahman al-Zamil, a member of the Majlis al-Shura and former deputy commerce minister, said that the U.S. and UK were pursuing “imperialism” with regard to any invasion of Iraq.\(^{492}\) Prince Alwaleed said that “…the U.S. had imposed its will on Saddam, why should it not impose its will on Sharon.”\(^{493}\) Crown Prince Abdullah spoke about a united Arab stance against “illegitimate” foreign aggression regarding Iraq, but may have been persuaded for the cause if there had been a UN resolution or a WMD ‘smoking gun’.\(^{494}\) The fundamentals of Saudi – U.S. relations are to a large extent housed in the vehicles of U.S. foreign policies concerning Israel, the MEPP, Iraq and Iran, through which they can advance through multilateralism. Oil is literally the lubricant in the relationship as the states shift down gears towards what could potentially become a neutral position in a post-oil era.

### 3.4.4 Saudi – European Relations Post 9/11

When considering Saudi Arabian bilateral relations with the major European powers, such as the UK, France and Germany, it is important to differentiate these relationships from the EU - GCC relationship which was established through a


\(^{493}\) ‘The View from the Top’, MEED, 2 May 2003, 5

\(^{494}\) ‘Special Report: Saudi Arabia’, MEED, 31 January 2003, 30
Cooperation Agreement in 1988. Although this is aimed at strengthening stability and facilitating political and economic relations, and broadening cooperation in energy, industry, trade and services, agriculture, fisheries, investment, science, technology and the environment, it does not reflect the critical dimensions of Saudi foreign relations. These tend to be reflected in bilateral relations on the basis of oil, security and defence, or the MEPP. Furthermore, EU-GCC relations still lack institutionalisation, although an annual Joint Council/Ministerial Meeting between the EU and GCC foreign ministers as well as between senior officials at a Joint Cooperation Committee, are in the pipeline. Regular contact at the foreign ministerial level and close consultation would inevitably lead to common foreign policy statements regarding regional and international issues.

The main barrier to EU engagement with Saudi Arabia and the GCC has been due to a combination of factors, including: many of the core EU states having good bilateral relations with Saudi Arabia; the costs being particularly high should the EU take a harder, more even-handed and consistent approach with the Saudis and other GCC states (although at the moment the EU only imports 16% of its oil from the Middle East and only 6% or $13 billion from Saudi Arabia); and the EU lacking any significant capacity to change the political status quo in the GCC without the prior backing and close coordination with the U.S. The EU-GCC FTA is expected to be signed once disagreements over human rights issues have been resolved. Importantly, it could help redress the increasing trade disparities between Europe and Asia where Saudi Arabia exports increasing amounts of its oil.

### 3.4.5 Growing Bilateral “Strategic Relationships”

The oil based development boom in Saudi Arabia has led both the U.S. and European companies (led by the UK, Italy, Finland and Germany) to invest $1.2 billion and $7.8 billion respectively as of 1998, mainly in joint ventures with an accompanying small

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495 Email interview with a European diplomat who asked not to be named, 1 April 2011
496 ibid
497 ‘Registration of Crude Oil Imports and Deliveries into the European Union (EU27)’, European Commission Directorate-General for Energy, 1 December 2009, 1
499 Interview with a UK government analyst who asked not to be named, London, 13 May 2010
but significant expatriate labour force.\textsuperscript{500} For EU member states such as the UK, Saudi Arabia has a high profile in terms of its strategic priorities worldwide, including conflict prevention (Iraq, MEPP, Iran, Sudan, Somalia, Syria and Lebanon), climate change, human rights and energy security.\textsuperscript{501} Saudi Arabia is a donor, regional leader and political ally of the UK, but it is never engaged at the GCC level by the UK. Because most Muslims in the world pass through Saudi Arabia at some stage in their life, during the Hajj or the Umra, that relationship is of great importance to UK counter-terrorism operations. Indeed counter-terrorism after 9/11, particularly with regard to Yemen and al-Qaeda in the Arabian Peninsula (AQAP), has been a major pillar of UK foreign policy and cooperation with Saudi Arabia has been vital to its national interests.\textsuperscript{502} The strength and depth of UK – Saudi counter-terrorism cooperation is truly extraordinary and in large part this has been attributed to Prince Mohammed bin Nayef, the Counter-Terrorism Minister.\textsuperscript{503} The relationship has been so strong and vital that a UK Serious Fraud Office (SFO) investigation into BAE Systems (the UK defence industry’s largest supplier), amid allegations of bribery and corruption in the al-Yamamah contract, was dropped due to concerns over UK national security expressed by the then Prime Minister, Tony Blair.\textsuperscript{504} The anger caused by opening up the Swiss bank accounts of the Saudi royal family would have caused it to respond in such a strong way that it has been compared to the row over ‘The Death of a Princess’\textsuperscript{505} and the huge damage that was done to British economic interests then.\textsuperscript{506}

It should be noted that the scale of the al-Yamamah contract meant that there was also a vital UK jobs dimension to it. British defence related exports to Saudi Arabia have been largely based on the rolling al-Yamamah contract worth £20 billion when it was

\textsuperscript{501} Interview with a UK government analyst who asked not to be named, London, 13 May 2010
\textsuperscript{502} Interview with Sherard Cowper-Coles, London, 4 June 2010
\textsuperscript{503} \textit{Ibid}
\textsuperscript{504} David Robertson and Alex Spence, ‘Six Year BAE Investigation Ends with Minor Accountancy Charges’, \textit{The Times}, 6 February 2010, available at http://business.timesonline.co.uk/tol/business/industry_sectors/industrials/article7016732.ece
\textsuperscript{505} ‘Death of a Princess’ is a film about the great niece of the Saudi king who publicly confessed to adultery and was publicly executed in Saudi Arabia, along with her lover. The film was the first time Shari’a law had been examined by the West as it pertained to Saudi Arabia, but was nevertheless unwelcome attention of Saudi culture and the behaviour of the ruling regime. Thomas White and Gladys Ganley, ‘The ‘Death of a Princess’ Controversy’, PBS, available at http://www.pbs.org/wgbh/pages/frontline/shows/princess/reflect/harvard.html
\textsuperscript{506} Interview with Sherard Cowper-Coles, London, 4 June 2010
signed in 1985.\textsuperscript{507} In 1993, ‘al-Yamamah II’ was signed and at a total cost of £35 billion, became the world’s largest oil-for-arms programme, worth 30,000 jobs to the British economy and contributing to a positive balance of trade with the Middle East.\textsuperscript{508} It also helped the UK become the third largest exporter to Saudi Arabia in 1994 after the U.S. and Japan.\textsuperscript{509} The crash in oil revenues in 1997 led to a scaling back of new Saudi arms purchases although it would continue to benefit from past transactions. However, even without any additional investments in arms, Saudi defence spending was expected to remain at $15 billion per year until 2000 just to maintain and operate the military.\textsuperscript{510} This figure monetizes the extent to which Saudi Arabia remains bound into relations with Western governments and is happy in doing so otherwise such long running contracts could be exchanged for shorter more tactical ones.

The oil barter agreement that exists in the Al-Yamamah agreement between BAE Systems, and Saudi Arabia, includes BP and Royal Dutch/Shell and has generated revenues of over $40 billion.\textsuperscript{511} BAE has delivered 120 Tornadoes, 90 Hawk jet trainers and 50 PC-9 aircraft to the Saudi military.\textsuperscript{512} The programme has been rolling for almost twenty years, and has now moved into the next project phases, called As-Salaam. Although it is “not the be all and end all” of UK trade with Saudi Arabia as there is a “big push to other sectors” most notably the large opportunities in education and health, and for UK SMEs in project management, professional services and design, it nevertheless remains very important.\textsuperscript{513} Apart from investments in the non-oil sectors, there are further opportunities to increase bilateral ties through offering official secondments from the EU to ministries and new agencies in Saudi Arabia.\textsuperscript{514} Advisors are currently recruited directly to work discretely in Saudi ministries but

\begin{thebibliography}{9}
  \bibitem{508} Gerd Nonneman, \textit{International Affairs}, 650
  \bibitem{509} Gulf States Newsletter, ‘Economy and Trade: The United Kingdom and the Gulf’, 19 September 1994, 19/495, 7
  \bibitem{510} ‘Politics and Defence: Saudi Arabia’s Illusory Security’, GSN, 3 October 1994, 19/496, 3
  \bibitem{511} ‘Extending the Deal’, MEED, 28 January – 3 February 2005, 29
  \bibitem{512} \textit{ibid}
  \bibitem{513} Interview with Chris Innes-Hopkins, Director of UK Trade and Investment, British Embassy, 7 June 2011, Riyadh
  \bibitem{514} \textit{ibid}
\end{thebibliography}
there could be practitioner assistance rather than just consultancy. Through this process the EU could not only do more to professionalise the Saudi civil service but develop similar practices which may lead it to take on a similar mind set in policy making.

The As-Salaam phase involves a 72 Eurofighter Typhoon contract which is worth £20 billion to BAE Systems, but it is a complex and long term contract which will require expansion across four different production lines in Germany, Italy, Spain and the UK. The difference over a Typhoon contract with the UK as opposed to a parallel Rafale contract with France comes down to in-Kingdom presence for technical support, training and maintenance. In Kingdom presence is still a facet of UKTI’s message to encourage among other things, technology transfer and skills transfer to create jobs for Saudis. In 2003, the Saudi – UK relationship had hit a low point. Cabinet Ministers in the British government were pressing Riyadh for the release of six British businessmen that had been arrested in connection with a car bombing campaign. Irritation was reflected when Saudi Ministers accompanying a trade and parliamentary mission to the UK were refused meetings with their British counterparts. Sanctions were also considered against Saudi Arabia, at a time when BA flights stopped on commercial grounds, Saudi dissidents were allowed to continue their activities against the Saudi monarchy from the UK, and Cherie Blair lambasted the Kingdom publicly for its poor image abroad. Bilateral cooperation improved once a deal was worked out for the UK businessmen and on the security side after the attacks in Riyadh. It is this space for effective negotiation that remains a fundamental difference between the foreign relations of Saudi Arabia and Iran. Intense diplomatic activity paid very quick dividends: BA later reinstated its flights to the Kingdom, which is a very important strand in the relationship.

515 ibid
517 ibid
518 Interview with Chris Innes-Hopkins, 7 June 2011, Riyadh
519 Oliver Klaus, ‘Friends Reunited’, MEED, 21-27 October 2005, 4
520 ibid
521 ibid
522 Interview with Sherard Cowper-Coles, 4 June 2010, London
announced it was to set up an investment bank in Saudi Arabia in early 2005 and there were possibilities for BP and Saudi Aramco to become joint venture partners in a new project in Yanbu.\footnote{ibid} The UK government took the opportunity to use its presidency of the EU to improve its relations with Saudi Arabia through supporting its accession to the WTO in 2005.\footnote{ibid}

There was also short-term resistance to UK climate change policies. However, there was a gradual realisation in Saudi Arabia that climate change policies in the UK and elsewhere were actually in the interests of Saudi Arabia since it was about do using oil in a more intelligent and sustainable way over the long term.\footnote{Interview with Sherard Cowper-Coles, 4 June 2010, London} It could be argued therefore that the UK has been better able to conceptualise its foreign policies in a way which is conducive to the Saudi national interest, unlike the U.S. It is also to do with the UK being a smaller oil market and so its policies in this area do not impact Saudi Arabia as much as if they were adopted by the U.S. Saudi attitudes are also rooted in the realisation that oil was in its third decade of relative decline by the 1990s compared to other forms of energy, whilst the West sought diversification of its energy supplies.\footnote{J.E. Hartshorn, ‘Pause or Plateau’, \textit{Oil Trade, Politics and Prospects}, (Chris Hope and Jim Skea (eds)), (Cambridge: Cambridge University Press: 1993), p1} It therefore gave Saudi Arabia time to lead the transitional shift to renewable energy, particularly solar energy, before the globally green economy was finally made explicit by the G20 in April 2009.\footnote{Elisabeth Rosenthal, ‘Gulf Oil States Seeking a Lead in Clean Energy’, \textit{The New York Times}, 12 January 2009, available at http://www.nytimes.com/2009/01/13/world/middleeast/13greengulf.html?pagewanted=all; ‘Europe and the Gulf Region – Towards a New Horizon’, Discussion Paper Presented at the 12\textsuperscript{th} Kronberg Talks, Bertelsmann Stiftung, 11-12 May 2009, Riyadh, 24}

At the same time a much more important and strategic dialogue about investment has taken place at the highest levels, particularly after the global recession started to bite.\footnote{A visit by Gordon Brown to the Gulf in November 2008 was for precisely this reason. Richard Youngs, \textit{Impasse in Euro-Gulf Relations}, FRIDE Working Paper, April 2009, 1} Saudi Arabia had sought to link a UK-led IMF bail out with IMF reform and yet the G20 summit in April 2009 failed to address such reform. Without much else to tempt Saudi investment into the developed and relatively saturated economies of the West, further funding is unlikely. This represented a missed opportunity to draw
Saudi Arabia into the organisations of the global economic regimes dominated by developed states, and therefore such barriers are likely to remain. This was the case when the Gulf SWFs accounted for a third of all emergency funding that European governments put in place during the financial crisis in 2008, and yet the restrictions imposed after the cash injection targeted the very same Gulf donors.\textsuperscript{529} Global governance is therefore a key issue for Saudi Arabia as it tries to align more closely its existing economic clout with political clout. It is through such re-alignment across more institutions than just the G20 that could aid the resolution of some regional security issues and lead to greater regional economic integration and a stronger global economy.\textsuperscript{530}

France has had close relations with Saudi Arabia, illustrated by the French GIGN security force retaking the Grand Mosque after it was seized by 500 dissidents in 1979.\textsuperscript{531} Because part of the justification for the seizure was a mindless imitation of the West, it had a bearing on which security forces the Saudi state should rely on. France was seen to be the most neutral and capable of Western states to deal with the new threat of terrorism on Saudi soil and less closely linked to the sources of contention. France is the second largest trade partner with Saudi Arabia amongst European states, after Germany.\textsuperscript{532} French exports to Saudi Arabia reached SR 8 billion, whilst Saudi exports to France reached SR 15.24 billion in 2008, based largely on oil exports.\textsuperscript{533} The trading relationship experienced a fivefold increase between 2000 and 2008 based largely on greater investments in energy and infrastructure. The largest French investment in the Kingdom is the 400,000 bpd Jubail oil refinery which is a joint venture between Saudi Aramco and Total, and will have cost more than $12 billion once it comes online in 2013.\textsuperscript{534}

Crown Prince Abdullah visited President Chirac in Paris in mid-April 2005 on his way to meet with President Bush, and discussed defence cooperation, the Iranian

\textsuperscript{529} \textit{ibid}
\textsuperscript{530} ‘Europe and the Gulf Region – Towards a New Horizon’, Discussion Paper Presented at the 12\textsuperscript{th} Kronberg Talks, Bertelsmann Stiftung, 11-12 May 2009, Riyadh, 8
\textsuperscript{533} \textit{ibid}
\textsuperscript{534} \textit{ibid}
The two leaders reached an agreement on a range of economic and technical issues but did not commit to the Rafale contract, possible contracts with Alstom Transport, or TGV for a high speed rail network (linking Riyadh with the north), as they were still under consideration by the Saudi Ministry of Interior. However, in November 2009, EADS won its first contract to supply Saudi Arabian Airlines with 58 passenger aircraft and a further five year contract in July 2009 to enhance Saudi border security which had particularly focused on its border with Iraq. European states such as France have therefore benefitted from the trickle down effects of instability on the Kingdom’s doorstep. FREMM multi-mission frigates are also under discussion, but France hasn’t supplied any Rafale’s or other fighters since the late 1990s, although it has supplied SANG with 80 French self-propelled artillery systems in 2008. Both France and the UK have close historical, political and defence ties to the Kingdom, and flow when U.S. deals are constrained by the pro-Israeli lobby and congressional politics. Saudi Arabia’s own interests are in balancing relations in favour of other major military powers in Europe. The rolling al-Yamamah contract has also favoured the UK by tying Saudi Arabia into long term arms purchases.

In 2006, President Chirac visited Riyadh with most of his ministerial team and top business delegates which covered a range of topics including terrorism, science and technology, WTO accession and hopes that the EU - GCC dialogue would facilitate trade. This was especially important following a breakdown in the MEPP and the increasing acknowledgement by EU members that the Arab World represented the local neighbourhood as defined by the Euro-Mediterranean Partnership (EMP). The December 2003 European Council paper on strengthening EU relations with the Arab World called for increased bilateral activity which many of its member states, including France, have pushed ever since. In recognition of the increasingly cordial

536 ‘Saudi Defence: Will France Reap Rewards for Riyadh Connection?’, GSN, 29/756, 29 April 2005, 5
537 ibid
538 ‘With French Deal, Abdullah’s National Guard Strengthens its Status as the ‘Second Saudi Army’’, GSN, 32/829, 19 May 2008, 6
relations between King Abdullah and President Chirac, the latter was afforded the opportunity to become the first foreign leader to address the Majlis al-Shura. Nicolas Sarkozy got off to a good start in Franco - Saudi relations too following the start of his presidency in 2007, focusing French attention on the Middle East region as one of his four strategic foreign policy priorities based largely on energy considerations and France being able to punch above its weight in the region.540

Germany is the Kingdom’s largest trading partner in the EU, and third worldwide after the U.S. and China.541 Two hundred and twenty German companies are active in the Kingdom and there were approximately 120 joint ventures totalling $3.5 billion, with around two thirds with Saudi investors.542 Although German investment throughout the 1990s was level at around SR 1 billion ($266m), from 2000 - 2005, German investment exploded by 1200% in 2006 accompanied by record high exports of $5.4 billion.543 These are therefore strong conventional ties that bind the states together. However, Germany does not import as much oil from Saudi Arabia as many other states (it is more dependent on Russia), and as the Kingdom’s economy booms, a trade surplus favouring Germany is likely, although this is somewhat dependent on the oil price. At the time of writing, Germany is debating whether it should sell 200 tanks to the Saudis, which have caused concern amongst many of its parliamentarians.544 Since the tanks can be used for internal and external security operations, the case shows the paradox of different foreign policies in a polarised regional environment.

3.4.6 Saudi Arabia’s “Look East” Policy

A note of caution about Saudi Arabia’s “Look East” policy should be included here before its relations are conceptualised through this policy. All states, whether

540 ‘Focus’, GSN, 31/809, 6 July 2007, 2-3
542 ibid
543 ibid
544 Discussion on this topic will follow the next government report on arms exports which will also include reference to the Arab Uprisings, Israel and Yemen. Interview with Ruprecht Polenz, Member of the German Bundestag and Chairman of the Committee on Foreign Affairs, 22 September 2011, Berlin; Stephen Evans, ‘German Parliament to Debate Sale of 200 Tanks to Saudis’, BBC News, 6 July 2011, available at http://www.bbc.co.uk/news/world-europe-14043668
classified as hegemons or small states, tend to “look everywhere” since opportunities must first be identified before durable relationships can be established. In the case of isolated states or those which for various reasons, have been bypassed by globalisation, they must also first “go outside” as China did in the early 2000s with Xiang Zemin’s “zuo chuqu” policy.\(^5\) Only in areas or with states that represent strategic significance, can states adopt a specific policy which simply prioritises that relationship but nevertheless does not usually close the door on alternatives. China’s “Look Africa” policy and India’s “Look East” policy towards South East Asia during the 1990s reflected a content change in their respective relationships in response to the opportunities on offer, but none of these policies could be said to be fixed over the long term.

The Arabian Oil Company (AOC) concession highlights the fact that Japanese investment in areas such as infrastructure is critical in keeping bilateral relations on track. In response to the Saudis proposing a $2 billion Japanese investment in a railway project that linked phosphate mines in the north to city of Jubail, Japan has chosen a new independent path which could have severe consequences for other relationships with Saudi Arabia.\(^6\) Japan has chosen a new path of energy efficiency, i.e. buying oil on the international markets, over energy security, i.e. a strong relationship with key oil producers such as Saudi Arabia. This choice shows that there are becoming irreconcilable differences between the massive investment that Saudi Arabia needs to develop areas such as infrastructure, and potential investors such as Japan which perceive this as an unwise investment choice. In the short term Saudi Arabia being able to bind in developed economies to the FDI opportunities on offer in its own economy is unlikely to reflect the same dependent relationship it has with Western defence companies.

The extent to which Saudi Arabia has been found to balance with a range of suppliers can be seen through cases when the U.S. has not fulfilled its role as exclusive supplier to Saudi Arabia. Saudi Arabia defied the Reagan administration in the U.S. which would not sell it the ballistic missiles it wanted to counter Iran during the Iran – Iraq War. Instead, Saudi turned to China which sold Riyadh 36 CSS-2 intermediate

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\(^5\) Digby Lidstone, ‘Trade Routes’, *MEED*, 7-13 July 2006, 4

\(^6\) James Gavin, ‘The Sun Sets for Japan’, *MEED*, 25 February 2000, 4
(3000km) range ballistic missiles (IRBMs) that were nuclear-capable, but heavily modified to carry only conventional payloads.\textsuperscript{547} This deal was arranged between 1986 and 1988 by Prince Bandar Bin Sultan Bin Abdelaziz, then Ambassador to Washington and now National Security Council head, signifying the start of much closer Sino-Saudi strategic relations.\textsuperscript{548} The U.S. was rebuffed from inspecting them, and Riyadh instead chose to establish diplomatic relations with China in 1990. Chinese arms sales to the Kingdom have been limited, with the exception of a 2008 contract for China to provide one battalion of artillery pieces.\textsuperscript{549} The Saudis deliberately sought to re-insure with the Chinese. Part of that was the Chinese long range missiles deal but it is also about China wanting to secure for itself resources. It’s not just a function of Saudi Arabia; it’s also a function of Chinese priorities. Arms sales to the Kingdom are limited for China in the same way that they are for Russia; Saudi Arabia is already tied into long term U.S. and European arm sale agreements.

Saudi Arabia has been able to consolidate its relationships with the rapidly growing economies and leading oil importers of Asia, notably China\textsuperscript{550} and India\textsuperscript{551}, in the same way as it had done with Japan and South Korea. King Abdullah’s January 2006 royal tour of China, India, Malaysia and Pakistan all indicated potential for long term economic partnerships.\textsuperscript{552} The growth of relations between Saudi Arabia and China have raised anxiety in the U.S. which sees China’s view of geo-economics as being similar to Imperial Japan during the 1930s in securing its energy needs.\textsuperscript{553} Generally though, although there have been problems related to China’s anti-dumping

\textsuperscript{548} ‘USA Takes Fright, as China’s Vision Becomes Clearer in Relations with Iran and Saudi Arabia’, GSN, 30/786, 21 July 2006, 9
\textsuperscript{550} Contemporary Sino-Saudi relations only go back to Saudi recognition of the PRC in 1990, which is now the most important China-Arab or China-Gulf relationship. Tim Niblock, China and Saudi Arabia: the Shaping of the Relationship, paper delivered at the Gulf Research Meeting, University of Cambridge, 7 July 2010
\textsuperscript{551} India’s links to the GCC go back centuries and was primarily based on the old silk routes from Xian in China to the Mediterranean, which has turned into a new twenty first century silk route comprising the massive movements of energy products, goods, investments and peoples across Asia. HE Talmiz Ahmad, Indian Ambassador to the Kingdom of Saudi Arabia, Investments and Joint Ventures in India-GCC Economic Ties: Opportunities and Challenges, paper delivered at Gulf Research Meeting, University of Cambridge, 8 July 2011
\textsuperscript{552} ‘Friends in High Places’, MEED, 23-29 June 2006, 38
\textsuperscript{553} ‘USA Takes Fright, as China’s Vision Becomes Clearer in Relations with Iran and Saudi Arabia’, GSN, 30/786, 21 July 2006, 8
protectionist policy, Saudi Arabia is getting the access it requires in the Chinese market. This makes Saudi Arabia another Chinese conduit for technology transfer from the West since Chinese WTO accession in 2001.\textsuperscript{554} Bilateral trade moved from $290 million in 1990 to $40 billion in 2008,\textsuperscript{555} but what ties China and Saudi Arabia the most both economically and diplomatically is their combined search for refinery capacity, since most of the sweet crude that China could process is already accounted for by Western markets.\textsuperscript{556} Saudi Arabia is therefore helping China source more risky and marginal resources in order to avoid confrontation with other international players.\textsuperscript{557}

By 2009, Saudi Arabia exported more oil to China than it did to the U.S., which has been part of its dual strategy which is to use China as a trickle down oil hub for the Asian markets whilst reducing reliance on the U.S. Saud Al-Faisal stated the case for growing the relationship with China simply as “with China there is less baggage, there are easier routes to mutual benefit”.\textsuperscript{558} Saudi Arabia already exports 11.3% of its total to China, a near threefold increase since 2000\textsuperscript{559} and since China’s oil consumption is expected to grow from 3.5 million bpd in 2006 to 13.1 million bpd in 2030, the oil export-import relationship is only likely to grow stronger over the long term.\textsuperscript{560} Such growth could be characterised by more exchanges, such as high level visits between governments and exchanges of ideas on area specific as well as global issues.\textsuperscript{561} Chinese exports to Saudi Arabia include a $1.8 billion contract given in March 2009 to a Saudi-Sino consortium (which includes China Railway Construction) to build a high speed rail link between the holy cities of Mecca and Medina.\textsuperscript{562} China possesses the combined benefits of being an economic power with associated export and investment opportunities (without the associated human rights dialogue of the U.S. or

\textsuperscript{555} Henry Mayer, ‘China and Saudi Arabia Form Stronger Trade Ties’, New York Times
\textsuperscript{556} ibid
\textsuperscript{557} ibid
\textsuperscript{559} Ed Blanche, ‘The Insatiable Dragon’, The Middle East, Issue 422, May 2011, 14
\textsuperscript{561} Email interview with a Chinese Professor of Middle East Studies who asked not to be named, 8 October 2011
EU); a stable and rising military power as a counterbalance to the U.S. during its perceived withdrawal from the Middle East; and has the long term potential to supplant the U.S. as a local security guarantor. Chinese policy looks to remain pragmatic and cautious. Wen Jiabao, the Chinese Premier, toured the Gulf in January 2012 which has been linked with securing alternative oil supplies as well as establishing longer term ties with the region. Deep ties are also attractive to Saudi Arabia since a closer oil partnership, such as the deal with Sinopec to build a 400,000 barrel refinery in Saudi Arabia, will help to underpin a $100 billion civil nuclear partnership to secure its energy needs and provide a solid foundation of nuclear expertise.

China is also forming strong alliances with Iran, Syria and Turkey and possibly with Iraq, because they are neutral or anti-U.S. regional powers, some with significant oil reserves. This serves to illustrate that China has her own way of dealing with unstable situations in the Gulf, in addition to bilateral diplomatic engagement with Saudi Arabia. China’s independence, flexibility to form alliances and lack of political baggage could spell trouble for Saudi Arabia if China continues to tighten its grip on energy supplies, in a similar vein to Russian behaviour over gas supplies to the Ukraine. By working through its regional allies in the Middle East, Africa and South America, it could have access and ownership (through mechanisms such as joint ventures) to more reserves than Saudi Arabia. This would again facilitate Saudi Arabia’s demise in OPEC and internationally.

King Abdullah’s state visit to New Delhi in 2005 was quickly followed by the Delhi Declaration which provided for an economic partnership between Saudi Arabia and India, and the Riyadh Declaration which provided for a “strategic partnership” across

563 “Saudi Arabia and Iran Spar Over Oil Embargo”, IPS, 16 January 2012
564 Ibid
566 Email interview with a Chinese Professor of Middle Eastern Studies who asked not to be named, 8 October 2011
all areas from energy to security. The Riyadh Declaration in 2010 was a political agreement, but it is increased economic ties are crucial in realizing the partnership because they are based on vested interests and the continuing prosperity of the other side. The GCC is India's number one relationship, based on oil, trade and the expatriate community. Indo-Saudi trade increased three-fold over 5 years to 2010 and India is now the fourth largest trade partner of Saudi Arabia, with bilateral trade at $21 billion between 2009 and 2010. Should an India-GCC FTA be realised, it would create opportunities in a number of areas including: ‘…food products, pharmaceuticals, machinery and transport equipment, ceramic products, apparels and clothing, cotton and woven fabrics, plastic and rubber products, essential oils, perfumery and cosmetics besides iron and steel articles…’ The FTA issue nevertheless remains skewed in favour of the weight that the petrochemical industry carries in both states, notably India. India has engaged in ‘joint ventures, project export, consultancy services, turn-key projects, deferred payment and soft loans…’ at a low level but which formed new economic relations between Saudi Arabia and other Gulf States with India since 2000. The bilateral Saudi – India relationship is still important beyond oil, expatriate labour and trade, since it also encompasses a counter-terrorism strand aimed at reducing Saudi exposure to Pakistani terror plots in India (notably the Mumbai bombings in 2008).

3.5 CONCLUSION

With a reduction in state subsidies, measures aimed at reducing unemployment and structural transformation (ranging from the state’s capacity to provide electricity, water and health care services), some autonomy and time has been bought by the regime. However, there is little doubt that a deeper understanding of the domestic situation and a new Saudi social contract will be required in future. This will be at a

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568 For a discussion on the Indo-Saudi “strategic partnership” see Robert Mason, Realizing the Indo-Saudi “Strategic Partnership”: An Analysis of the Leading Drivers, presented at the Gulf Research Meeting, paper delivered at the Gulf Research Meeting, University of Cambridge, 8 July 2011
569 Interview with Talmiz Ahmad, 4 June 2011, Riyadh
573 ‘Cover Story: Saudi Arabia’, MEED, 1 March 2002, 1
point determined by the convergence between falling oil revenues, FDI continuing to fall below expectations, the government deficit increasing above sustainable levels, and the political demands made by the youth in social and decision making structures above the local level. Already the youth have become more visible than government agencies during the Jeddah floods of 2011 because they are better organised. By extending reforms more thoroughly, including limiting the role of government and making it more inclusive; facilitating structural change to speed up decision making; reducing exposure to princes who have mishandled their portfolios; and consolidating gains to increase the standard of living for all, Saudi Arabia may be in a better position to avoid overt political disruptions seen elsewhere in the Middle East. It may also avoid the kind of potential reorientation of international alliances that are now considered possible in states such as Egypt.

The Saudi policy of engagement in the MEPP illustrates the extent to which Saudi Arabia can influence various actors but only under a limited set of circumstances. This research shows that only when Saudi Arabia has the right combination of ideological influence, dependency and an absence of intervention in its sphere of influence from major powers can it then optimally leverage its foreign policies. At the point when economic factors and diplomatic engagement are ineffectual, Saudi Arabia has been quick to lobby the U.S. and NATO into supporting pre-emptive strikes against states that represent a direct threat to its national security. However, current trends show a rethinking of this approach. The Arab Uprisings and potential that from a ‘Shia Triangle’ that realigns Pakistan with Iran have served as a wakeup call to Saudi Arabia. Therefore, by working within the GCC and consolidating the institutionalisation of the inter-governmental arrangement, Saudi Arabia will have access to more resources from more reliable allies to defend itself. The $100 billion cost to develop a “Special Forces Command” to unify the Kingdom’s Special Forces and deploy abroad if necessary is part of that strategy which could be rolled out across the GCC. By promoting and continuing to dominate the sub-regionalisation of

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574 Interview with a former Saudi minister who asked not to be named, Cambridge, 8 July 2011
foreign policies through a more closely integrated GCC, Saudi Arabia could stand itself in good stead within global governance frameworks.

It is still oil that remains predominant in Saudi Arabia’s role in international affairs, in two ways. Firstly, through reassuring the U.S. that it remains the most reliable energy exporter no matter what the regional conditions or provocations happen to be. Secondly, since OPEC has grown and includes a number of competing economic and political interests and rivalries, the possibility of an oil weapon being used against multiple states as seen in 1973 becomes ever more remote. Manipulating the international oil price on the basis of a foreign policy rationale has been proven to be problematic even for a swing producer because of competing economic pressures. However, in using the oil weapon against Iran, Saudi Arabia recognises its balance of national interests and is willing to trade diminishing the oil revenues of a regional adversary against a small part of its national budget. This is particularly the case since the cumulative effect of its actions, with international sanctions, payment problems and withering export markets could be enough to push Iran over the edge and force a political change. Its actions viz a viz other adversaries remain rooted in a deep calculation of their political, economic and strategic strengths and weaknesses. For Western states such as the U.S. which remain independent of any economic pressure, particularly given its recent oil policies in South America, it is likely that any rhetoric about a Saudi oil weapon remains just rhetoric. That is not to say Saudi Arabia could not leverage other resources, particularly in the counter-terrorism domain.

The maintenance of Saudi Arabia’s position in a pro-Western alliance with a range of economic and Islamic credentials is at the heart of securing a successful conclusion to its key foreign policy issues such as the MEPP and a future for the two-state solution. These could transform its long term position and therefore requires a commitment to use all of its resources to influence the U.S. and support regional allies. The Arab Uprisings and the growth of the ‘resistance’ and Shi’a axes show what is at stake if Saudi Arabia fails to deliver.
4. Iranian Foreign Policy: The Politics of Civilization\textsuperscript{1}, Security and Economy\textsuperscript{2}

4.1 INTRODUCTION

This chapter shows that U.S. led sanctions against Iran have not affected its politics or foreign policy in a desirable way to the West such as bringing about an ideologically sympathetic grassroots democratic uprising or ushering a pro-Western regime into power. Instead, they have promoted sanctions avoidance measures, trade realignment and subsidy reforms. More importantly, sanctions have added to the assumption amongst Iran’s ruling elite that the U.S. is planning an attack, so Iran is constantly seeking to find ways to get the U.S. and its allies out of areas where they are a direct threat to Iran’s national security or strategic interests. Iran has done this through leveraging proxies, Shi’a communities and militia groups in the Levant and Gulf, in new theatres of conflict such as Iraq and Afghanistan and by building alliances with states which take a similar anti-Western view.

Iran has been under U.S. sanctions since the Iran – Libya Sanctions Act (ILSA) was passed in 1996. The effects of these sanctions have been somewhat counteracted by a period of globalization during which Iran has been able to find alternative markets and divert some exports, as well as circumvent the U.S. trade ban by re-exporting or re-importing through third parties such as the United Arab Emirates (UAE).\textsuperscript{3} The wider financial effects are difficult to gauge because a thorough and quantitative examination of its impact has yet to be carried out. The terms of the sanctions have nevertheless been quite stringent in preventing significant trade or investment in Iran by U.S. firms and those companies who wished to do business in the U.S. Lost foreign direct investment is particularly important to the Iranian energy sector at a time when it requires $100 billion to maintain and develop production.\textsuperscript{4} The

\textsuperscript{1} The broad and contested term (due to its pre-Islamic origins) used to describe Iran’s sense of identity, culture, purpose and place in the modern world.

\textsuperscript{2} The author would like to thank the British Institute of Persian Studies (BIPS) for the travel award to Iran which made possible some of the research contained in this chapter.


\textsuperscript{4} Remarks by U.S. National Security Advisor Tom Donilon, prepared by the Office of the Press Secretary, the White House, 22 November 2011, sent by email to the G2K List
withdrawal of Western companies from Iran’s petroleum sector which generates 20% of its GDP ($870 billion) and 80% of its exports has simply exacerbated poor relations.\footnote{Kenneth Katzman, ‘Iran Sanctions’, CRS Report for Congress, Congressional Research Service, 13 October 2011, 1, available at \url{http://www.fas.org/sgp/crs/mideast/RFS20871.pdf}}

Since 2005 when the conservative Mahmoud Ahmadinejad became president, Iran has become more encircled and ostracized by the Western-dominated international community and negotiation on a range of issues with the West has been increasingly difficult.\footnote{An impasse has been apparent in nuclear negotiations, a track which has been blocked and called “sterile”. Interview with Sir Richard Dalton, former British Ambassador to Iran, London, 26 January 2011. Human rights negotiations are said to be “going nowhere”. Interview with a European diplomat who asked not to be named, Tehran, 24 February 2011} UNSC sanctions in 2006 meant Iran had to search for alternative states to align with, which has led to a renewed emphasis on regionalism by Iran in the Gulf. However, due to a number of historic irritants between Iran and the GCC States, Iranian attempts at aligning with the GCC have been met with disinterest. Iran has gone on to develop bilateral relationships in Central Asia and with other states that maintain a similar anti-systemic ideological vision. Some states such as Venezuela hold significant oil resources which have contributed to Iran challenging Saudi policy and dominance in OPEC.

Russia and China straddle a number of significant international organisations that represent major threats or opportunities to Iran. Although Russia has fallen into line regarding UNSC sanctions against Iran after the IAEA referral in late 2009, there still remain a number of opportunities for Iran to develop relations with Russia. Iran and Russia share interests in oil, and the roll back of Western interference from their respective spheres of influence such as the former Soviet Republics in Central Asia and Syria. China is also putting pressure on Iran by showing preference for its political and economic relationship with the U.S. However, like Russia, China takes a much more independent view of Iran’s nuclear programme and does not favour sanctions. China and Russia continue to supply Iran’s energy sector through a U.S. national interest waiver and they could still facilitate Iran’s Central Asian regional economic strategy.
Given this context and the history of a failed U.S. containment policy towards Iran to influence its nuclear and foreign policies, this chapter promotes active engagement as an alternative UNSC strategy. Instead of the existing negative economic engagement through sanctions, it argues for the implementation of a structured agreement with a significant positive economic dimension to it. The agreement may require sizable economic resources allocated to the venture up front, but the advantages for all sides by broadening the dialogue beyond uranium enrichment could be disproportionate. Such advantages to the West might include establishing the grounds for increased regional and international stability and security. The disadvantages to the current policy approach are clear: whilst sanctions are in place, it is impossible for the West to build any kind of positive bilateral relationship with Iran and could facilitate war which will be costly for all sides.

4.2 THE DOMESTIC ENVIRONMENT AND POLITICAL ECONOMY

This section summarises the impact that the main domestic variables have had on the overall direction of Iranian foreign policy between 2001 and 2012. The main political changes are included, from the transition of power from the reformists to the conservatives, to the rise of the IRGC and Bonyads as semi-autonomous military and economic power centres with direct ties to the Supreme Leader. This section also discusses the failure of the ‘Green Revolution’ to deliver popular change in the face of conservative repression. Factionalism is studied as to how it impacts on foreign policy outcomes, which are found to largely be dependent on a complex web of interactions between factions and state organs. Finally in this section, the diverse interests of factions in the Iranian economy are analysed, including their respective roles in smuggling, terrorism and proliferation. These roles are relevant to the thesis because they underpin Western concerns about Iran and in particular the rationale for sanctions.

4.2.1 Factionalism in Iranian Politics

The Iranian political system is complex and based on factionalism. The decision making process is split between the state apparatus and a parallel, vertically integrated ‘shadow’ state system under the direct control of the Supreme Leader. Factionalism
has been a part of Iranian politics from the birth of the Islamic Republic of Iran (IRI) in 1979 when there was a provisional government faction headed by Mehdi Bazargan and the Revolutionary Council was dominated by the Islamic Republic Party (IRP). Factions were polarized and not for the first time, paralyzed\(^7\), by the U.S. hostage crisis\(^8\), although differences emerged between the factions on all the policy issues of substance, particularly the economy. This was the beginning of the split between the reformist and conservative blocs. The only factor that stopped the reformist faction from imploding after their near defeat at the IRP Congress in 1983 was Khomeini’s support for the Musavi Cabinet (Musavi was prime minister until 1989).\(^9\) After the U.S. hostage crisis, the Provisional Government was abolished and political power concentrated in the office of the President.

Towards the end of the Iran-Iraq War, factionalism became more prominent. Pragmatists had control of the Majlis (parliament) and the Cabinet, whilst the conservatives controlled the Guardian Council.\(^10\) Pragmatists had a more complex structure to their faction, and major personalities such as Rafsanjani were in open coalition with political competitors such as Mousavi.\(^11\) By 1988, conservative radicals were in control of the Cabinet, the judicial system, and derived power from the grass roots of various foundations and districts. These conservatives were in charge of foreign policy from 1981 to 1984 but their isolationist policies were not conducive to winning the Iran–Iraq War. The pragmatists were in charge of foreign policy from 1984 to 2005, and in contrast to the conservatives, were successful in negotiating a peace to the war. Pragmatism turned to a reformist agenda under President Khatmi between 1997 and 2005, when his power base included the Foreign Ministry, the Majlis and the leadership of the armed forces of the IRI.\(^12\) However, all the factions remained subordinate to the Leader: Khomeini’s decree on 6\(^{th}\) January 1988


\(^8\) Interview with Ali Biniaz, Director, Center for Energy and International Economy, Institute for Political and International Studies (IPIS), Tehran, 27 February 2011


\(^10\) ibid., 598

\(^11\) ibid., 599

\(^12\) ibid., 607
established valayat-e faqih, and in so doing, created the concept of an absolute ruler over state affairs and religious law (sharia).\textsuperscript{13}

The Ayatollah was supported in his aims and ambitions internationally and domestically by the IRGC and the Basij respectively. The Basij are a volunteer paramilitary organisation under the operation of the IRGC, totalling 500,000\textsuperscript{14}, with duties ranging from security and law enforcement to morals policing.\textsuperscript{15} The Leader and the conservatives used these security forces to implement their policies without relying on any other state security forces. The different and sometimes contradictory interests of the reformist and conservative factions resulted in complex strategies by which each faction protected and advanced its interests. The conflict between the reformists and conservatives reached its zenith during the Presidency of Sayyid Mohammad Khatami (1997-2005).

As a reformist cleric, Khatami did not wholeheartedly support the absolute powers of the supreme leader.\textsuperscript{16} Although Khatami paid basic respect to the Islamic Revolution, he also firmly established the legal authority attached to his office.\textsuperscript{17} Khatami’s bold political approach towards the question of political and economic reforms polarised the country along the lines of reformists and conservatives.\textsuperscript{18} Despite differences of opinion between the factions, Khatami incrementally established an overall majority of reformers in the Majlis which would help sustain stable relations between the President and the Supreme Leader.\textsuperscript{19} Towards the end of his presidency, many reformists blamed Khatami for his failures to advance reforms through the concept of mardumsalari\textsuperscript{20} (Iranian style democracy) and ‘dialogue among civilisations’ (including an accommodation and rapprochement with the West).\textsuperscript{21}

\textsuperscript{13}ibid, 604
\textsuperscript{14}‘Politics and Security – Faced by Strategic Encirclement, Iran Develops the full Spectrum of Deterrence’, \textit{GSN}, 7
\textsuperscript{16}ibid
\textsuperscript{17}‘Politics and Defence: Khatami’s Long Game’, \textit{GSN}, 23/585, 4 May 1998, 2
\textsuperscript{18}Vahe Petrossian, ‘Khatami’s Test’, \textit{MEED}, 24 November 2000, 5
\textsuperscript{20}Islamic \textit{Mardumsalari} (Democracy) is an evolving concept in Iranian political discourse, but can be generally defined as ‘government for the people’ which is inclusive and takes into account Islam, a constitution, values and principles. It is inconsistent with the principle of \textit{velayat-e faqih} (autocratic rule of God) and is less democratic than the principle ‘government by the people’. Shabnam Jane Holliday, ‘Islamist-Iranian Discourse of National Identity: Khatami’s State Counter-Discourse’,
Khatami was always going to be in a difficult political position with the conservative faction since his political and economic reform programme threatened the Supreme Leader’s position. By 2002, conservative attempts to defeat the reformist agenda and persecute reformists through ‘an intensified judicial campaign’, pushed Khatami, his party, and his followers to threaten to quit the government. In 2004, the conservatives went on to leverage the Guardian Council into handing a parliamentary election victory to them. Former IRGC members made up one third of the parliamentary seats after the election, and a Guard member was appointed Vice President. At the same time, the Basij continually used to break up civil society and reformist led demonstrations in cities across Iran.

In the 2005 election, the conservative factions were able to use the authority of the Supreme Leader’s office to institute another campaign against Khatami and his party for Presidency. The effect that an empowered and coordinated political bloc operating a parallel shadow government had on the election was devastating. By coordinating with the Interior Ministry (responsible for the elections), conservative factions were able to swing the 2005 election result in favour of Ahmadinejad; a feat which was repeated again in 2009. Sir Richard Dalton has since labelled this action as amounting to a ‘constitutional coup’. From the 2005 presidential election onwards, the conservative political factions have favoured sustaining and developing their respective economic and political advantages across the state. The conservative political elite have employed the IRGC and Basij against the reformists, their political rivals. However, the growing power of the IRGC coupled with the economic and

Discourses and Counter-Discourses of Iranian National Identity During Khatami’s Presidency (1997-2005), (PhD thesis), November 2007, 141


ibid

ibid, 175

ibid


political consolidation of the conservative elite has started to contribute to an internal conflict within the government.

The rise of the IRGC in the Iranian economic and political system is intricately linked to their close relationship with the Supreme Leader, their shared desire to maintain the status of the regime, and their roots in securing Iranian sovereignty during the Iran – Iraq War. Indeed, the Revolutionary Guard had engaged in direct competition with the regular Iranian armed forces during the war.\(^{29}\) The IRGC has remained relatively intact since the 1980s and largely independent due to its early defined command structure and a continued lack of civilian oversight or control.\(^{30}\) The complexity of the IRGC began with the Iran – Iraq War, when a cabinet level ministry oversaw its wartime expansion and another component oversaw exportation of the revolution activities.\(^{31}\) The IRGC considers ideological purity its main source of strength, for example its headquarters is the highly symbolic former U.S. embassy in Tehran. Any reformist policies which place pragmatism before ideological considerations (e.g. pro-Western policies, changes to domestic policies such as Islamic behaviour codes etc), will always fundamentally conflict with the IRGC perspective.\(^{32}\)

The IRGC’s budget is extra-governmental, drawing on financing from hundreds of companies and entities in Iran and the Persian Gulf.\(^{33}\) It has access to large religious endowments such as the Endowment of the Shrine of Imam Reza ($25 billion in net assets) and other umbrella organisations such as the Martyr’s Foundation ($20 billion in net assets).\(^{34}\) Its holdings also cut across a broad range of Iranian industries including: real estate, manufacturing, retail and infrastructure development.\(^{35}\) The IRGC has a number of contracting businesses, including Ghorb, which has a number of active IRGC senior commanders sitting on its board of directors, including Rostam

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\(^{30}\) Ali Gheissari and Vali Nasr, ‘The Conservative Consolidation in Iran’, *Survival*, 178


\(^{32}\) ibid

\(^{33}\) ibid

\(^{34}\) ibid

\(^{35}\) ibid, 181
Ghasemi, who became the Iranian Oil Minister in August 2011.\textsuperscript{36} The IRGC are in the public and private sector, through direct investments, contracts and joint ventures with various domestic and foreign companies including major names in the oil industry (such as Shell, BP and Total), banking (such as HSBC, Deutsche Bank and BNP Paribas) and consumer electronics (such as Mitsubishi, LG and Samsung).\textsuperscript{37} The ILSA has been targeting these IRGC interests which have been partly defined as IRGC interests simply by the large size of their revenues.\textsuperscript{38}

Having special status in Iran, IRGC members have been able to go onto privileged positions in the education system or in starting businesses under the IRGC aegis, but not initially in government.\textsuperscript{39} Under Ahmadinejad, the IRGC’s influence (partly through its construction arm; Khatam ul-Anbia) has grown within the NIOC and throughout the Iranian economy.\textsuperscript{40} In 2006, Khatam won a contract to develop South Pars phases 15-16 and took over Sadra Yard, a platform builder and submersible oil drilling-rig company operating in the Persian Gulf and Caspian Sea.\textsuperscript{41} IRGC investments in oil and gas ventures in South Pars have since been cut back. For example, Ghorb pulled out of a contract to develop a gas field citing sanctions and their effect on its ability to attract foreign partners.\textsuperscript{42} However, the IRGC maintain the capability to operate a covert infrastructure from ‘invisible’ piers in the Persian Gulf to control of airports in Iran which enable it to import everything Iran might need, from consumer goods to nuclear technology.\textsuperscript{43} The IRGC has the newest weapons systems and capabilities including intelligence, paramilitary and naval operations.\textsuperscript{44} Sanctions therefore empower the IRGC because it is able to profit from them, and this translates into greater political power.

\textsuperscript{37} \textit{ibid}, 181-182
\textsuperscript{38} Interview with a foreign government representative who asked not to be named, London, 3 June 2010
\textsuperscript{39} \textit{ibid}
\textsuperscript{40} Fareed Mohamedi, ‘The Oil and Gas Industry’, \textit{The Iran Primer}, United States Institute of Peace, available at http://iranprimer.usip.org/resource/oil-and-gas-industry
\textsuperscript{41} \textit{ibid}
\textsuperscript{43} \textit{ibid}; Remarks by Roberto Toscano at the University of Exeter, 23 November 2011
\textsuperscript{44} \textit{ibid}
Today, the IRGC is at the very centre of power in the Iranian regime. It is a sort of equivalent of the KGB in the former USSR or FSB in Russia, with the difference that it does not seem to be ready to abandon the present regime.\(^45\) It has now advanced so much, through being close to the Office of the Supreme Leader, and through shared political and economic interests and a common strategic outlook with the conservatives, that it receives the greatest support of all the military units.\(^46\) It is not a political party, but the combination of a praetorian guard of the regime with an economic corporation, or guild.\(^47\) The IRGC are so big and powerful now that they could potentially control the conservative bloc rather than vice versa. Factionalism may prove to be a major challenge or opportunity if it starts to draw elements of the IRGC apart from the Office of the President, in a similar vein to the President and Supreme Leader who are busy consolidating their separate but smaller domains.\(^48\)

Hilary Clinton, the U.S. Secretary of State, said that Iran was becoming a ‘military dictatorship’ in 2010.\(^49\) This suggests that the ideological and legitimizing forces of Islam that were on display during the Islamic revolution may no longer be required by the IRGC as it supplants the traditional role of the Iranian government.\(^50\)

Iran’s reformist opposition in the form of the Green Revolution was temporarily revitalised in the demonstrations and activities of the opposition Green Movement following electoral fraud in 2009.\(^51\) Although it emphasized the issue of ‘stolen votes’, its major shortcomings were a lack of proposals across the religious domain (i.e. not pursuing an alternative system to the velayat-e-faqih), the socio-economic system (‘crony capitalism’) and foreign policy.\(^52\) The post-election environment created new groups of reformists which interacted vertically from elites down to the street and in such an atmosphere of confusion that there were concerns that

\(^{45}\) Email interview with Roberto Toscano, former Italian Ambassador to Iran, 12 August 2011  
\(^{46}\) Ali Gheissari and Vali Nasr, ‘The Conservative Consolidation in Iran’, *Survival*, 178  
\(^{47}\) Email interview with Roberto Toscano, former Italian Ambassador to Iran, 12 August 2011  
\(^{50}\) Henner Fürtig, ‘Conflict and Cooperation in the Persian Gulf: The Interregional Order and US Policy’, *Middle East Journal*, 61/4, (Spring 2007), 629  
\(^{52}\) Remarks by Roberto Toscano at the University of Exeter, 23 November 2011
opportunities were being missed for a U.S. – Iranian rapprochement.\textsuperscript{53} Repression was the main response from the conservative factions, which has been used each time the reformist movement started to coalesce.\textsuperscript{54}

### 4.2.2 The Institutional Web in Iranian Foreign Policy Making

Factionalism explains Iranian foreign policy to a large degree, but additional linkages across formal and informal relationships between personalities, networks and state institutions also need to be factored into the Iranian foreign policy making equation. The Constitution of 1906 provides for the functioning of a modern state, and yet the principle of velayat-e faqih, continues to institutionalise the ideals of the 1979 revolution and the dominance of the Leader or emam.\textsuperscript{55} There are seven institutions involved in Iranian foreign policy decision making:

1. Office of the Supreme Leader: the Supreme Leader is commander in chief of the armed forces and with the power to dismiss the head of the IRGC
2. Office of the President
3. Foreign Ministry
4. Head of the Expediency Council
5. Supreme National Security Council (SNSC): all security forces report to the SNSC\textsuperscript{56} which is headed by Khamenei’s direct representative which is currently Saeed Jalili, who also doubles as Iran’s top nuclear negotiator
6. Parliament (through the National Security and Foreign Policy Commissions)
7. The newly created (since 2006) Strategic Council for Foreign Relations which oversees Ahmadinejad’s foreign policy performance\textsuperscript{57}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{54} ‘Still Sitting Pretty’, The Economist, 12 June 2010, 65
\item \textsuperscript{55} Eva Rakel, ‘Conglomerates in Iran: the Political Economy of Islamic Foundations’, in Alex. E Fernandez and Jilberto and Barbara Hogenboom (eds.), Big Business and Economic Development: Conglomerates and Economic Groups in Developing Countries and Transition Economies Under Globalisation, (Abingdon: Routledge, 2007), 111
\item \textsuperscript{56} Anthony H. Cordesman, ‘Paramilitary, Internal Security, and Intelligence Forces’, Iran’s Revolutionary Guards, the Al Quds Force, and Other Intelligence and Paramilitary Forces, Center for Strategic and International Studies, 16 August 2007, 12, available at \url{http://csis.org/files/media/csis/pubs/070816_cordesman_report.pdf}
\item \textsuperscript{57} Arshin Adib-Moghaddam, ‘Islamic Utopian Romanticism and the Foreign Policy Culture of Iran’, Iran in World Politics, (London: Hurst and Company, 2007), 71
\end{itemize}
\end{footnotesize}
The Majlis remains important because it approves all international agreements, contracts and treaties, and the Guardian Council also remains important because it has the power to veto decisions made by the Majlis.\textsuperscript{58} In cases where disputes arise, the Expediency Council arbitrates, which is currently under the direction of Rafsanjani.\textsuperscript{59} One of the biggest changes in the 2000s is the way that the SNSC has moved from facilitating decision making during the Iran – Iraq War to become the principle foreign policy decision making and policy implementation body.\textsuperscript{60} The SNSC includes representatives from the IRGC and senior clerics, and top officials from the ministries of foreign affairs, intelligence and interior.\textsuperscript{61} The council deals with issues surrounding the nuclear programme and regional and security policy in particular.\textsuperscript{62}

\textbf{4.2.3 Iran’s Economy: Division between Elites}

The Iranian economy, like the political system, has been split into two since 1979, along the lines of factions and business alliances between senior clerics. The reformists and conservatives have access to oil and gas revenues, taxes and fees, state enterprise income, and municipal income, which the conservatives are able to supplement with additional income from mosques, holy shrines, religious taxes and religious foundation income.\textsuperscript{63} It is not uncommon for senior clerics, such as Rafsanjani, to run several government bodies and profitable businesses concurrently. Should clerics and oligarchs use this wealth and aspire to be in threatening political positions they could find themselves denounced by Ahmadinejad.\textsuperscript{64} Such was the case between Rafsanjani, the former Iranian President, who was aspiring to be part of the “leadership council” that could succeed Khamenei, and Rafsanjani’s sworn enemy, Ahmadinejad.

\textsuperscript{58} Lionel Beehner, ‘Iran’s Multifaceted Foreign Policy’, Council on Foreign Relations, 7 April 2006, available at \url{http://www.cfr.org/iran/irans-multifaceted-foreign-policy/p10396/p2}
\textsuperscript{59} ibid
\textsuperscript{60} Ali Gheissari and Vali Nasr, ‘The Conservative Consolidation in Iran’, \textit{Survival}, 180
\textsuperscript{62} Eva Rakel, ‘Conglomerates in Iran: the Political Economy of Islamic Foundations’, in Alex. E Fernandez and Jilberto and Barbara Hogenboom (eds.), \textit{Big Business and Economic Development: Conglomerates and Economic Groups in Developing Countries and Transition Economies Under Globalisation}, 111
\textsuperscript{63} ibid., 115
\textsuperscript{64} ‘Still Sitting Pretty’, \textit{The Economist}, 12 June 2010, 65
The IRGC and the Bonyads are answerable only to the Supreme Leader, and their combined wealth could account for between 10% and 50% of the whole Iranian economy. Bonyads were created after the 1979 revolution, channelling the assets of the deposed Shah into foundations set up to harness a mass society through establishing parallel branches of revolutionary legitimacy. They are not subject to financial audits. The largest is the Foundation of the Oppressed and War Veterans from the Iran – Iraq War (Bonyad e-Mostazafan va Janbazan) with 200,000 employees and 350 subsidiaries, representing $3 billion and 10% of Iran’s GDP. Bonyads were able to enjoy deep discounts on foreign exchange compared with private enterprises in Iran before the reform of Iran’s exchange rate system and still benefit from better access and terms of credit at state owned banks. They also have excellent connections to politicians which some argue creates corruption and limits reform. Due to the diversity of their activities and geographical reach, some of the Bonyads have been implicated in sourcing dual-use products for Iran’s WMD programme.

The factional tensions and split between the political, and to a lesser extent, economic structures in Iran have great significance for the overall direction of Iranian foreign policy outcomes in the regional and international environments. The type of outcomes will be reviewed and analyzed in the following sections of this chapter.

4.3 IRAN’S ‘RESISTANCE AXIS’ AND COLD WAR WITH SAUDI ARABIA

Regionally, the legitimacy of the Iranian regime is closely connected to its ‘resistance’ policies that support the struggle against the Israeli occupation of Palestine and against a two state solution. In contrast, the pro-Western bloc that includes Saudi Arabia defines its regime legitimacy in terms of supporting a two state solution. A Saudi – Iranian Cold War has developed according to a number of historic

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65 Vahe Petrossian, ‘It’s the Economy”, MEED, 30 June 2000, 5
68 ibid
69 ibid
70 ibid
71 ‘Iran: Mostzafan va Janzaban Supports Veterans, Covert Activities’, Open Source Center Report, 2 May 2006
and emerging grievances, including between Iran and other members of the GCC. Tensions across the Persian Gulf make Iran – GCC cooperation unlikely and reinforce the negative effects of U.S.-led sanctions against Iran.

4.3.1 The ‘Resistance Axis’ in the Levant

Iran’s relationship with Shi’a resistance groups such as Hezbollah, Sunni resistance groups such as Hamas, and direct Iranian proxies such as PIJ, which along with Syria, make up the ‘resistance axis’. The central dynamic of the ‘resistance axis’ rests on subverting efforts towards a two state solution to the Israeli – Palestinian conflict and the abrogation of the peace treaties signed between Israel and Egypt and Israel and Jordan in order to boost its influence. Iran is an important player in the axis because it supports a range of non-state actors through the Qods (Jerusalem) forces, a unit of the IRGC numbering 15,000 in 2007, which works with Hezbollah in Lebanon and Hamas and PIJ in the Gaza Strip and West Bank. Iran openly challenges Saudi Arabia in a sectarian and ideological struggle over the MEPP since the consequences of solving the Israeli – Palestinian conflict have major implications for the legitimacy of both the Saudi and Iranian regimes. The U.S. is also concerned that Iran aims to end its historic vulnerability, boost its domination of the Persian Gulf, and transfer WMD to violent Islamist groups operating in the Gulf States and the Levant. Iran’s relationship with Hezbollah and Hamas is therefore part of the U.S. fears concerning Iranian nuclear proliferation.

Iran’s resistance policies in the Levant gain strength from them being one of the few points of convergence between Shi’a and Sunni public opinion. Atallah suggests that the wider ‘Arab public is not only not concerned about Iran's regional strength, but thinks it would be better for the region, probably in light of America's perceived weakness vis-à-vis Israel, for that regional strength to continue - unlike the

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72 The Qods forces also operate as 'corps’ in Iraq, Jordan, Afghanistan, Pakistan, India, Turkey, the Arabian Peninsula, Central Asia, Europe, North America, and North Africa including Egypt, Tunisia, Algeria, Sudan and Morocco. Anthony H. Cordesman, ‘The Quds (Qods, or Jerusalem) forces’, *Iran’s Revolutionary Guards, the Al Quds Force, and Other Intelligence and Paramilitary Forces*, Center for Strategic and International Studies, 16 August 2007, 8-9
74 ibid
assessment of their rulers. The rise of Iran can thus be attributed in large part to being the only available and willing bulwark against perceived Israeli aggression. More specifically, there is evidence to suggest that Iran’s policies towards Israel have hardened not only due to Israel’s response towards its nuclear programme and the plight of the Palestinians, but specifically regarding the Israeli blockade against Gaza.

Although it has been in Iran’s interests to continue to support resistance through proxy groups, questions remain over their shared geopolitical view. As noted in the previous chapter, Hamas is far more willing to consider support from Saudi Arabia and Egypt as two Sunni powers with substantial stakes in the MEPP. Hamas is moving into the Egyptian camp which would complicate Iran’s gains from further regional instability, particularly if Iran were to lose its close ties to al-Assad in Syria. Iran therefore wants to re-establish and shore its diplomatic relations with Egypt, and Egypt for its part is willing to re-establish diplomatic relations and see an Iranian role in the region, notwithstanding Saudi objections. The vague Iranian offer of its economic capabilities in case Egypt is pressured by the U.S. is part of that policy of improving bilateral relations. Diplomatic relations between Iran and Egypt have been severed since 1979 and deteriorated further since Iran treated the assassins of President Sadat as heroes (there is a mural and a street in Tehran dedicated to the assassins). Egypt is vital to Iran in a number of ways: Egypt plays an important role in the MEPP and a balancing role across the wider Middle East, it is the most

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77 In response to a query by Rabbi Hershel Gluck about a missing Israeli Defence Force (IDF) soldier believed to be held by Hamas to senior IRGC figure Ayatollah Syed Salman Safavi in London, the latter said: “there can be no agreement after Gaza”. ‘Iran/Israel: Regime Insider Reportedly Passes Tough Message on Israeli Hostages’, *Wikileaks*, 7 April 2009, available at [http://www.cablegatesearch.net/cable.php?id=09LONDON837&q=safavi%20safavi](http://www.cablegatesearch.net/cable.php?id=09LONDON837&q=safavi%20safavi)

78 Telephone interview with a foreign government representative who asked not to be named, London, 3 June 2010

79 Telephone interview with Martin Indyk, 1 November 2011

80 Ahmed Eleiba, ‘Revolution Warms Egyptian-Iranian Relations’, *Al-Ahram Online*, 5 April 2011, available at [http://english.ahram.org.eg/NewsContent/1/64/9243/Egypt/Politics/-Revolution-warms-Egyptian-Iranian-relations.aspx](http://english.ahram.org.eg/NewsContent/1/64/9243/Egypt/Politics/-Revolution-warms-Egyptian-Iranian-relations.aspx)


populated Arab state in the Middle East (with one of the largest armed forces in Africa and the Arab world\textsuperscript{83}) and has a strong sense of civilisation which Iran values.\textsuperscript{84} In this context, the Obama administration is pushing for unconditional aid from the U.S. Congress for Egypt to counter the attraction of an Egyptian alliance with Iran.\textsuperscript{85}

Until Iran can reinforce its ‘resistance axis’ with other members, and in particular state members, progress in the MEPP will continue to put pressure on Iran. Iran will therefore be more likely to use Hamas and Hezbollah to “strike out” and disrupt political progress in order to avoid isolation, which has already happened on multiple occasions.\textsuperscript{86} The differences in stances taken by Hamas and PIJ towards Israel can be linked back to Iran having its “back against the wall” regionally with specific reference to the ongoing internal conflict in Syria.\textsuperscript{87} If the al-Assad regime falls, Iran will lose the conduit through which it channels support to Hezbollah. Iran will also come under mounting U.S. pressure as the only remaining state in the ‘resistance axis’. To highlight Iran’s anxiety over losing Syria as an ally, Iran has tried to engage the Syrian Muslim Brotherhood through a Turkish intermediary and mediate in the uprisings against Bashar al-Assad, saying it would support the Brotherhood in government so long as al-Assad stayed on.\textsuperscript{88}

Russia also has a massive stake in maintaining al-Assad rule, since Syria is one of the last anti-Western states in the region and is a significant part of the Russian sphere of influence in the region. Therefore, there is the possibility that Iran and Russia will continue to support the al-Assad regime in order to avoid regime change in Syria and the possibility of a new government opting to join the NATO alliance. An Iranian alliance with Russia would be a fortuitous scenario for Iran, since without such a

\textsuperscript{84} Interview with Ali Biniaz, Tehran, 27 February 2011
\textsuperscript{86} \textit{ibid}
\textsuperscript{87} \textit{ibid}
strong incentive for Russia to ally itself with Iran, the Russian – U.S. relationship is most likely to predominate.

The situation in Syria has only facilitated the erosion of Iran’s soft power and credibility amongst Arabs which are disenchanted with the al-Assad regime, its killing of fellow Muslims, and disregard for the collective political will of the Arab League.\textsuperscript{89} Although unlikely, Iran could moderate its foreign policies on Syria and Lebanon “as part of a major deal” with the West.\textsuperscript{90} A change in policy of this magnitude would fulfil a large part of Iran’s responsibilities as an active member of the international community and contribute to the MEPP rather than detract from it. However, until the West offers the right package of incentives to the Iranian regime, Ahmadinejad will continue to undermine both Western positions and Arab governments.\textsuperscript{91}

4.3.2 Iran’s Cold War with Saudi Arabia: Causes and Consequences

Iran’s resistance policies in the Levant have been supplemented with a broader set of countering policies against threats emanating from the West, including the GCC. The Iran – Saudi acrimony is based on a plethora of antagonisms, but none more relevant than Iran’s sense of regional leadership, unresolved territorial claims, and nuclear proliferation.

Since the Islamic revolution, the GCC States have consistently developed a common stance against Iran, notably with Iraq during the Iran – Iraq War. However, throughout the mid to late 1990s, Khatami tried to signal to the GCC States and the West that the perceived threat from the Islamic revolution had subsided and that a new pragmatic approach could contribute to greater diplomatic engagement. For example, after two decades of cold relations between Iran and Saudi Arabia, a bilateral industrial accord was signed in May 1998 which reflected a desire to move towards a normalisation of relations.\textsuperscript{92} Saudi Arabia offered a series of potential advantages for Iran: a gateway towards normalised relations with the U.S.; cooperation on oil pricing and investment in its energy sectors; cooperation on

\textsuperscript{89} Telephone interview with Martin Indyk, 1 November 2011
\textsuperscript{90} Interview with Richard Dalton, London, 26 January 2011
\textsuperscript{91} ibid
\textsuperscript{92} ‘Economy and Trade: Iran Reaches Across the Gulf’, GSN, 23/591, 27 July 1998, 10
technical, industrial and engineering projects, especially in the copper industry and on the construction of power stations in Iran; and increasing exports to India. In return Iran could help Saudi Arabia access Central Asian markets, confirming Iran’s status as a ‘lynchpin’ between the Middle East and Asia.

By the late 1990s when Iran’s Defence Minister, Rear Admiral Ali Shamkhani promised its security strategy was based on “removing the causes of tension” and “building mutual trust”, Iran’s nuclear programme has only increased regional tensions. Iran has interests in the region which extend to GCC members that have significant Shi’a populations and which fall within Iran’s immediate sphere of economic, strategic and political interest. Small GCC members such as Bahrain and the UAE are perceived by Iran to be its potential sovereign satellites, which has led to Iran supporting Shiite dissidents there. The Iranian claim over Bahrain is due to it having been part of the Persian Empire, and the majority of Bahrainis being Shi’a. The Iranian claim over the UAE rests on its occupation and militarisation of three islands in the Persian Gulf: Abu Musa, and the Greater and Lesser Tunb islands.

As part of its anti-systemic stance and a continuation of its claims over Bahrain and the UAE, Iran’s “sabre rattling” and “threatening language” on the other side of the Gulf have led the way for the GCC States to choose a closer alliance with NATO.

There are also bilateral deals being pursued by the smaller Gulf States to enhance their security, such as the agreement between the UAE and France in 2008 to establish a permanent military base with up to 500 French troops. The potential nevertheless remains in a revised pan-Gulf security architecture in which the contentious issues such as Abu Musa, Greater and Lesser Tunb islands could be resolved. Confidence building measures are unlikely to be successful however, until the most basic struggles over regional leadership and identity are reconciled. Such

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93 ibid
94 Iran, Its Neighbours and the Regional Crises, Chatham House, 6
97 Interview with Ruprecht Polenz, Berlin, 22 September 2011
99 Interview with Ruprecht Polenz, Berlin, 22 September 2011
was the strength of feeling on the subject of whether the Gulf should be classified as “Persian” or “Arabian” before the Islamic Solidarity Games in 2010, that it was cancelled.¹⁰⁰

Iranian foreign policy in the Persian Gulf is to a large degree comprised of the ‘Saudi factor’, which reflects Saudi Arabia’s ‘posture and pursuits in the region’.¹⁰¹ Other factors, notably the U.S. factor, are also of central concern to Iran, particularly across its broader sphere of influence, including Afghanistan and Iraq.¹⁰² It is in areas where Saudi and U.S. interests converge such as: a sustainable international oil price, the MEPP, and the isolation of Iran that Iran must counter most effectively if it is to succeed in securing its interests. Iran constantly seeks to exploit any gaps in Saudi policy regarding the MEPP, and has done so again during the Arab Uprisings. For example, Ahmadinejad highlighted his perceived differences between Saudi Arabia’s robust policy approaches to internal conflicts such as Yemen and its less robust approach regarding Israel.¹⁰³

Although Iran considers Saudi Arabia a regional adversary, Iran needed to integrate with the GCC in order to avoid the worst impact of sanctions. Iran expected to use a monetary union to facilitate integration, starting with Iraq, followed by the smaller GCC States, and then expand to include Saudi Arabia and other states after that.¹⁰⁴ However, inflation in Iran was expected to exceed 20% in 2008, double that of most Middle East and Central Asian states.¹⁰⁵ More fundamentally than that are the choices that the GCC member states have made and continue to make in bandwagoning with the West against Iran.

¹⁰² ibid
¹⁰⁴ Interview with Ali Biniaz, Tehran, 27 February 2011
¹⁰⁵ ‘Regional Economic Outlook: Middle East and Central Asia’, World Economic and Financial Surveys, IMF, May 2008, 49
Such decisive behaviour by the GCC has prevented Hassan Rowhani’s, the Supreme Leader’s representative to the SNSC, suggestion for a Persian Gulf Security and Cooperation Organization to advance in 2007.\textsuperscript{106} The plan envisaged the inclusion of all the Gulf States, joint security arrangements, including a joint enrichment consortium for nuclear energy, a WMD Free Zone in the Middle East, and the removal of foreign troops, especially U.S. troops in Iraq.\textsuperscript{107} Iran’s foreign policies therefore preclude the building of a new alliance with the GCC through renewed cooperation. Until Iran’s claims over Abu Musa, the Greater and Lesser Tunb islands have been resolved, no cooperation will take place between Iran and the GCC.\textsuperscript{108} Nevertheless, Iran’s commitment to economic harmonization with the littoral states of the Persian Gulf was on show again during the Iran – Kuwait trade committee meeting in February 2011.\textsuperscript{109}

The contrary oil policies of Iran and Saudi Arabia are also proving to be a barrier to enhanced cooperation, especially as Iran seeks to maximize its returns on oil during sanctions. Iran managed to defeat Saudi Arabia’s unilateral oil weapon during the “worst” OPEC meeting, but it is becoming harder for Iran to compete with Saudi Arabia’s oil resources.\textsuperscript{110} Iran has oil and gas problems (Iranian capacity is 3.7m b/d which is a long way from the 6m b/d of the Shah’s days) and claims that its oil reserves are greater than Saudi Arabia’s are “exaggerated”.\textsuperscript{111} Although oil price rises help Iran, the number of customers has fallen because they are unable to pay in any other currencies apart from the U.S. dollar.\textsuperscript{112} Iran is concerned with Saudi economic dominance in the GCC but also the advantage that Qatar has in benefiting from FDI and foreign expertise to extract from the North Dome (6000km in Qatari territorial waters) at 77 million tonnes per annum.\textsuperscript{113} If Iran is able to extract on a similar level...
to Qatar, Iran could increase its standing in its proposed gas group[^114] which might rival Saudi dominated OPEC, and include Qatar and Russia which are known to be less pro-U.S. than other states in the region.[^115] Iran is also looking at the projected increase of EU dependence on gas from 50% to 80% by 2030 and sees an opportunity to regain a major export market through exporting via third party states.[^116]

A period in which there has been very little economic cooperation and regional integration between Iran and the GCC has coincided with the Arab Uprisings to increase tensions and instability in the Persian Gulf. The ‘Saudi factor’, particularly in OPEC, has created the pre-conditions in which any future Western sanctions or interventions will have a disproportionate impact on Iran, contributing to its sense of regional containment and encirclement. The Iranian countering policies against the perceived threats from the West will be discussed in the following section.

### 4.4 COUNTERING WESTERN INTERVENTIONS AND INTERNATIONAL SANCTIONS

Iran has felt forced to supplement its central status in the ‘resistance axis’ with a broader militant Shi’a countering posture against an infringing Western presence, starting with the war in Iraq in 2003. Since UNSC sanctions were introduced in 2006, and following an existential threat to the ‘resistance axis’ caused by the Arab Uprisings in Syria in 2012, Iran is stepping up its search for security. Barring any opportunities to balance with the GCC, Iran is recalibrating its internal economic policies, primary trading partnerships in Central Asia, and is attempting to internationalise the ‘resistance axis’. Iran has been successful at developing relationships with states that take a similar anti-U.S. perspective, are under sanctions, or are in dire need of economic cooperation. In so doing, Iran appears to be resisting the U.S. first and foremost through a strategic ‘axis of oil’ with Venezuela which can


also be used against regional adversaries such as Saudi Arabia in OPEC, to boost its oil revenues and attract the interest of major powers such as China and Russia.

**4.4.1 Iran and Iraq after Iraq**

After the U.S. led invasion of Iraq in 2003, Iran had the perfect opportunity to retaliate against the U.S. and increased the pressure on U.S. forces by supporting a rise in sectarian violence. Through this policy, Iran has been able to keep the U.S. occupied in Iraq to contain the threat of U.S.-led regime change in Iran. Iran has also ensured that by maintaining active links to the Shi’a militia in Iraq, Iran has the option to apply pressure to the new Iraqi government in the same way it has done to the U.S. if Iraqi policy becomes too closely aligned with the West.

The removal of Saddam Hussein was a good opportunity for a rapprochement between the U.S. and Iran and for better regional security. However, a rapprochement was not taken seriously by the U.S., so it did not end up as a positive development for Iran. Both the U.S. and Iran want a democratic and inclusive government in Iraq, but Iran would prefer it to be tied up with domestic concerns rather than becoming a regional threat once again. After the Iraq war sub-national identities have been increasing tensions in Iraq and regionally, between Kurds, Sunnis and Shi’a. Some of the tensions come from the preference that the international community has over its dealings with the Kurds. For example, there are now international negotiations with the Kurds which have led to increasing energy exports, a secure border, and foreign trade which are in stark contrast to the negotiations with Shi’a Iran over its nuclear programme.

The main Iranian concern about Iraq is the presence of U.S. troops and military bases and its longer term alliance with either the U.S. or Israel or both. It is this which reinforces Iran’s cooperation with Shi’a groups in Iraq. Furthermore, Iraq still hasn’t resolved issues related to the Iran – Iraq War. Iran is still expecting $149

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117 Interview with Ali Biniaz, Tehran, 27 February 2011
118 Kayhan Barzegar, ‘Iran’s Foreign Policy in Post-Invasion Iraq’, *Middle East Policy*
119 Interview with Ruprecht Polenz, Berlin, 22 September 2011
120 Kayhan Barzegar, ‘Iran’s Foreign Policy in Post-Invasion Iraq’, *Middle East Policy*, XV/4, Winter 2008, 51
billion - $1 trillion in war reparations from Iraq.\textsuperscript{121} Iraq ignored the 1975 Algiers Agreement and went to war with Iran less than six years after signing it, so the new Iraqi government needs to make its position clear on this agreement.\textsuperscript{122} Iran now views Iraq with mistrust after the removal of Saddam Hussein, based on disproportionate Sunni dominance over Iraq’s natural resources, economic strength and geo-strategic position.\textsuperscript{123} Despite troubled relations, Iran has also shown readiness to export oil and gas to Iraq as a sanctions avoidance measure and as a possible pathway that leads to increased Iran – Iraq - GCC cooperation over the long term.\textsuperscript{124}

4.4.2 UNSC Sanctions: Renewed Pressure on Iran after 2006

By 2006, more incremental and integrated sanctions were adopted by the UNSC to increase the pressure on Iran. The following section describes what the UNSC sanctions were and how Iran has responded against them with unprecedented counter measures.

The UN Security Council resolutions on the Iranian nuclear issue highlight the important role that Russia and China have played in moderating the hawkish stance of other Security Council members. UNSCR 1696 was passed but only under Article 40 which did not authorize military action as a logical next step.\textsuperscript{125} UNSCR 1737 centred again on the failure of the P5 + 1 to get Iran to suspend uranium enrichment and led to sanctions on technology that could assist the Iranian nuclear programme, Iranian nuclear and missile related corporations and individuals close to them.\textsuperscript{126} UNSCR 1747 extended the sanctions on Iran to include more military entities, extended to include IRGC entities and Bank Sepah, banned arms transfers by Iran (aimed at curtailing the trade to Hezbollah in Lebanon and Shi’ites in Iraq) and called for an arms embargo against Iran.\textsuperscript{127} UNSCR 1803 increased the pressure on Iran through banning dual-use items to Iran, authorized inspections of shipping to Iran, and called

\textsuperscript{121} ibid, 49
\textsuperscript{122} ibid, 50
\textsuperscript{123} Kayhan Barzegar, ‘Iran’s Foreign Policy in Post-Invasion Iraq’, \textit{Middle East Policy}, XV/4, Winter 2008, 48
\textsuperscript{124} “Iran Ready to Boost Iraq Oil Exports”, \textit{Iran News}, 24 February 2011, 2
\textsuperscript{125} Kenneth Katzman, \textit{Iran: U.S. Concerns and Policy Responses}, Congressional Research Service, 30
\textsuperscript{126} ibid
\textsuperscript{127} ibid, 31
for prohibition of financial transactions with Iran’s main banks (Bank Melli and Bank Saderat).\textsuperscript{128} UNSCR 1929 followed in May 2010 after the failure of the “Tehran Declaration”: a three way deal between Iran, Brazil and Turkey to send 2600 pounds of uranium to Turkey in exchange for medical isotopes.

The most recent sanctions are different to all the other sanctions because it includes China and Russia, thereby ratcheting up the pressure on the IRGC which could lead Iran to engage in the tactic of nuclear negotiations to relieve the economic pressure.\textsuperscript{129} The united will of the international community is a concern to Iran because its allies including Brazil, South Africa, China and Turkey voted for the sanctions.\textsuperscript{130}

There is still space for Iran to respond and the “door remains open” to further engagement.\textsuperscript{131} That is perhaps because the West knows that sanctions are long term tool, and given Iran’s ability to evade and smuggle, it is able to avoid the worst consequences from sanctions.\textsuperscript{132} The U.S. is the only actor capable of breaking the deadlock and has gone some way to more effectively cooperate with China and Russia to put pressure on Iran.\textsuperscript{133} Working with the Iranian regime has become more problematic as the Obama administration sent letters directly to Khamenei rather than Ahmadinejad. The U.S. took time to realise that the Iranian President is not in charge of the nuclear file, the Supreme Leader is in charge.\textsuperscript{134} By only addressing Khamenei, the U.S. embarrassed the Iranian president who not only secured a “heavy majority” in the 2009 elections but remains an integral part of the foreign policy process.\textsuperscript{135} Khamenei has also taken a tough stance against the West, refusing to rule out the use of oil as a weapon as of June 2006 and indicating that shipments of oil from the Persian Gulf could be at risk.\textsuperscript{136} Iran’s dependence on oil revenue makes this scenario

\textsuperscript{128} ibid
\textsuperscript{129} Telephone interview with Martin Indyk, 1 November 2011
\textsuperscript{130} ibid
\textsuperscript{131} ‘Statement by China, France, Germany, the Russian Federation, the United Kingdom, and the United States of America, United States of America Mission to the International Organizations in Vienna, 9 March 2011, available at \url{http://vienna.usmission.gov/110309p51.html}
\textsuperscript{133} ibid
\textsuperscript{134} Interview with Ruprecht Polenz, Berlin, 22 September 2011
\textsuperscript{136} \textit{Iran, Its Neighbours and the Regional Crises}, Chatham House, 13
highly unlikely, especially when oil production is down from 6 million b/d in 2002 to 1.6 million b/d in 2006.\textsuperscript{137} Instead, Iran has resorted to allegedly directing attacks against the U.S., firstly through a conspiracy to blow up fuel tanks at the John F. Kennedy airport in 2007, and then against Saudi Arabia in Washington D.C. in 2011.\textsuperscript{138}

Sanctions, with the possibility for ‘crippling sanctions’\textsuperscript{139}, and a lack of direct contact have continued to be U.S. policy in the lead up to a possible Iranian nuclear weapon by 2015.\textsuperscript{140} There were also requests for Germany to do more bilaterally. The German government knows that other companies will jump into the void after German companies withdraw from Iran, so they are not effective.\textsuperscript{141} Nevertheless, sanctions have proven to be more extensive as of November 2011, with France emphasising “unprecedented” sanctions that force Iran to the negotiating table, the U.S. focusing on Iran’s petrochemical sector, and the UK focusing its sanctions against dealings with the Central Bank of Iran.\textsuperscript{142} The UK’s actions have subsequently been met by the Iranian parliament with a vote to expel the British Ambassador and reduce further economic and trade links with the UK.\textsuperscript{143} It has also led to Basij forces storming the British Embassy in Tehran, the expulsion of Iranian diplomats from the London embassy and other retaliatory measures expected on the Iranian side.\textsuperscript{144} The U.S. soon

\textsuperscript{137} \textit{ibid}
\textsuperscript{139} The potential for fresh international sanctions after what has been called the ‘high water mark’ of sanctions in 2010 is debated by Suzanne Maloney, ‘Progress of the Obama Administration’s Policy Toward Iran’, \textit{Brookings}, 15 November 2011
\textsuperscript{140} Andrew Parasiliti, ‘Iran: Diplomacy and Deterrence’, \textit{Survival}, 51/5, October - November 2009, 7
\textsuperscript{141} Interview with Ruprecht Polenz, Berlin, 22 September 2011
followed the UK in sanctioning the Iranian Central Bank. In the lead up to the U.S. presidential elections in 2012, the U.S. has effectively declared an ‘economic war’ against Iran which could become another step down the slippery slope into a full war with Iran. The unprecedented move has had a particularly negative impact on the value of the Iranian rial which dropped to a new two decades low, hitting one of Iran’s symbols of nationalism and reinforcing its sense of international isolation.

By December 2011, Iran’s Vice President Mohammad-Reza Rahimi declared that Iran could close the Strait of Hormuz in retaliation for a possible EU oil embargo and U.S. measures to reduce Iran’s oil revenue. Such an action is highly unlikely since it would do more damage to Iran’s oil exports than other oil exporting states in the region, although it could lead to higher oil prices that benefits Iran in the near term. Furthermore, the European oil embargo is self-defeating since it would negatively affect the fragile economies of Greece, Italy and Spain. However, there is evidence that Ahmadinejad is letting sanctions impact negatively on the Iranian economy in order to put pressure on Khamenei to negotiate on the nuclear issue. There is no evidence that Khamenei is responding to this pressure and will most likely continue to bar serious negotiations on the nuclear issue. There is also the possibility that sanctions could have the positive effect of making Iran’s non-oil exports cheaper, therefore enabling Iran able to make up for some of its lost foreign earnings. Either way, this sequence of declarations, actions and events reinforces the neutral or negative influence that tighter sanctions are exerting on Iranian foreign policy. These

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145 The sanctions are expected to come into effect six months from January 2012, since this will allow the U.S. and foreign governments time to find alternative oil exporters to buy from or find workaround to continue paying for Iranian oil. Suzanne Maloney, ‘Obama’s Counterproductive New Iran Sanctions’, Foreign Affairs, 5 January 2012, available at http://www.foreignaffairs.com/ARTICLES/137011/suzanne-maloney/obamas-counterproductive-new-iran-sanctions?page=show


150 As argued by Farideh Farhi in an email to the G2K List, 25 January 2012 and in Kayhan News, an Iranian hardline news site, available at http://www.kayhannews.ir/901105/2.htm#other200

151 Richard Dalton, email to the G2K List, 25 January 2012
influences have generally been channelled into a number of countering strategies which Iran has pursued domestically, regionally and internationally. Each one will be discussed in the following sections.

4.4.3 Iran’s Domestic Countering Policies: Reducing Subsidies and Relieving the Pressure to Reform

One of the countering measures adopted by Iran after UNSC sanctions were imposed in 2006 has been a reduction in Iranian state subsidies. These were a quick and easy way for the regime to reduce the pressure from sanctions. The presidential struggle for control of the economic decision making apparatus followed, as did Khamenei’s policy of ‘economic jihad’ in 2011. Although sanctions have put unprecedented pressure on Iranians and Iranian businesses, domestic pressure to address the root causes of sanctions has yet to modify the politics and policies of the regime.

Whether Iran will survive through tighter multilateral sanctions is an ongoing debate in Iran, and the costs of the nuclear programme must be weighed up against the mounting cost of sanctions and state subsidies. Whilst some foreign diplomats believe that sanctions are biting in the Iranian economy,\textsuperscript{152} the effect of sanctions have been somewhat offset by strong economic growth (6\%) based on rising international oil prices in 2006 and 2007.\textsuperscript{153} Much therefore depends on the international oil price and the Iranian government’s ability to provide subsidies and investments in social structures from schools to hospitals. Sanctions are hard to counter and if the oil price drops to $80 a barrel and production keeps falling, it will create problems, but whilst oil is at $100 per barrel it will relieve pressure along with a reduction in subsidies.\textsuperscript{154} The reductions in subsidies are part of a strategy to counter sanctions, but these as yet have not gone far enough.\textsuperscript{155} In particular, Iran needs to be able to pay its import bill, cover the costs of social security, support the elite, and find markets for its oil.\textsuperscript{156}

\textsuperscript{152} Email interview with Roberto Toscano, 12 August 2011; Interview with a European diplomat who asked not to be named, Tehran, 24 February 2011
\textsuperscript{153} Shayerah Ilias, ‘Iran’s Economy’, \textit{CRS Report for Congress}, Congressional Research Service, 4
\textsuperscript{154} Telephone interview with Martin Indyk, 1 November 2011
\textsuperscript{155} Interview with Leo Drollas, London, 26 January 2011
\textsuperscript{156} Interview with Richard Dalton, London, 26 January 2011
The situation is deteriorating since Iran is dependent on oil for its budget but cannot attract the FDI required to convert more of its oil into a long term financial revenue stream. It is clear Iran’s ability to achieve 8.5 million b/d by 2015 at an investment cost of $50 billion is not realistic. In fact, Iran has falling oil capacity, from its current capacity at 3.7 million b/d. In the short term at least, OPEC and the Arab Uprisings have kept oil prices high and ensured that Iran receives adequate oil revenues. Khamenei has nevertheless called the Islamic year that corresponds with 2011, ‘the year of economic jihad’ in recognition that the economy is becoming a serious issue for most Iranians and Iranian businesses across different industries.

Attempts by Ahmadinejad and Khamenei to overcome the effects of sanctions, may prove to be an area in which Khamenei and Ahmadinejad come into conflict. Ahmadinejad has already tried to “maximize his freedom of action” during 2011. Ahmadinejad first tried to take over monetary policy making by firing his central bank governor who favoured tighter monetary policies. In contrast, Ahmadinejad favoured expansionary policies to support the poor, which is his base of political support. He then integrated the Management and Planning Organisation (MPO), the main organization responsible for economic planning, into the Office of the President. Ahmadinejad went on to fire his Foreign Minister in signs that he preferred a candidate without such close ties to Khamenei. Ahmadinejad also fired...

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158 Interview with Leo Drollas, London, 26 January 2011
161 ibid
164 ibid
his intelligence minister, only to reinstate him under pressure from Khamenei. Ahmadinejad even took temporary control of the oil ministry as caretaker oil minister just before an OPEC meeting in 2011; a decision that was again quickly reversed by the Supreme Leader.

The Fars News agency, which is close to the IRGC, also published an interview which denounced Ahmadinejad’s chief aide Esfandiar Rahim Mashaei for commenting on religion without any theological training. This was an unusual move by a conservative faction which is normally allied with Ahmadinejad. It gives some indication of the sensitivity and discord which comes as a result of the President stepping into the realm of the Supreme Leader. Ahmadinejad is also under political pressure due to corruption charges against some of his political allies. This has helped Khamenei in his bid to try and dissolve the position of the President and consolidate power under his own authority. Incidents such as speculation fuelled by the privatisation process which has led to a $2.8 billion (1% of Iranian GDP) fraud and corruption could cause a further loss of legitimacy to the presidency.

However, so far Ahmadinejad has been successful at continuing to implement his subsidy reforms and independent economic policies (iktisadi istiqqlal) from foreign powers, to limit the effect of sanctions. Iran has cut subsidies on most energy and food products since December 2010 in order to save the government up to $60 billion annually. The effect has been an increase in the amount of oil for export, to relieve pressure on state finances whilst trying to cushion the blow for poorer families with a

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169 Barbara Slavin, ‘The Incredible Shrinking Ahmadinejad’, Foreign Policy, 25 May 2011
170 Najmeh Bozorgmehr, ‘Amhadi-Nejad Drawn into Funds Scandal’, FT, 19 September 2011, available at http://www.ft.com/intl/cms/s/0/f0e00ce4d4f8d11e0845a800144fe0b0.html#ixzz1YWZuLBNW
small, yet symbolic, $40 per month government payment.\textsuperscript{174} This action was lauded by the IMF in a 2011 press release.\textsuperscript{175} However, the reforms are being viewed more circumspectly by Iranian businesses which are finding it harder to stay in business.\textsuperscript{176} Protests by Bazaaris in October 2008 (the first since 1979) were some of the first signs of discontent.\textsuperscript{177} Store owners in Esfahan, Mashad, Tabriz and Tehran all closed their businesses to protest against the new three percent VAT.\textsuperscript{178} Such protests notwithstanding, the initial success of reducing subsidies on flour, water and diesel has bolstered Ahmadinejad at a critical juncture of nuclear negotiations with the West in Istanbul in January 2011, making him and his team more assertive in talks.\textsuperscript{179} The move was particularly important for the regime because sanctions and high domestic consumption of petroleum were putting great pressure on the country’s finances.\textsuperscript{180} According to the CIA, the Iranian economy grew by 1.5\% in 2009 whilst unemployment was around 20\%.\textsuperscript{181} Therefore, as long as the Iranian economy is still growing and mismanagement can be contained, Iran should be able to over a financial crisis which would put significant pressure on the regime.

4.4.4 Iran’s Countering Strategy: Supporting and Broadening the ‘Resistance Axis’

The combination of Western interventions and Arab Uprisings have highlighted the fragile state of the traditional ‘resistance axis’. Iran’s resistance strategy post-2006 has thus focused on a close political relationship with some Latin American states which take an anti-U.S. view, and are therefore more likely to assist Iran with its sanctions avoidance measures. This is a prudent strategy which will provide Iran with some support in order to maintain, and if necessary possibly supplement, its ‘resistance axis’.

\begin{itemize}
\item \textsuperscript{174} \textit{ibid}
\item \textsuperscript{175} ‘Statement by IMF Article IV Mission to the Islamic Republic of Iran’, Press Release No. 11/228 International Monetary Fund, 13 June 2011, available at \url{http://www.imf.org/external/np/sec/pr/2011/pr11228.htm}
\item \textsuperscript{176} Jay Solomon and Farnaz Fassihi, ‘Iran Redistributes Wealth in a Bid to Fight Sanctions’, \textit{The Wall Street Journal}, 27 July 2011
\item \textsuperscript{177} Iran RPO Dubai, ‘Iran: Bazaari Protests Highlight Resistance to Economic Policies’, Wikileaks, 23 October 2008, available at \url{http://wikileaks.org/cable/2008/10/08IRANRPODUBAI50.html}
\item \textsuperscript{178} \textit{ibid}
\item \textsuperscript{179} William Yong, ‘Iran Embarks on Sweeping Changes in its Economy’, \textit{International Herald Tribune}, 17 January 2011, 1
\item \textsuperscript{180} \textit{ibid}, 21
\item \textsuperscript{181} \textit{ibid}
\end{itemize}
States in Latin America are particularly susceptible to Iranian diplomatic overtures because they have a similar history of imperialism, anti-U.S. sentiment or non-alignment. They may also lack strong legal systems which could block some Iranian influences. Bolivia could benefit from Iranian assistance to nationalise its oil industry although Brazil prefers to focus on economics rather than politics in its bilateral relations. Ecuador appears to be open to cooperation with Iran, since it needs investment following default on its national debt and has already concluded discussions with Iran on medical cooperation. Ecuador could also potentially launder Iranian money since its currency is the U.S. dollar. Iran’s relationship with Argentina is unlikely to advance rapidly after the 1992 bombing of the Argentine-Israel Mutual Association (AMIA) in Buenos Aires by Hezbollah in conjunction with the Quds forces and the Ministry of Information and Security (MOIS).

However, it is Venezuela and Cuba, both of which are considered to be pariah states by the U.S., and the latter of which is under U.S. sanctions, that gives Iran most cause for optimism about building a complimentary ‘resistance axis’ in Latin America. Venezuela and Cuba were the only states (along with Syria) that voted against the resolution to refer Iran to the UN Security Council. The most troubling development from a Western and Saudi perspective is that the Iranian and Venezuelan “axis of annoyance” is morphing into a much more threatening “axis of oil” which could help Iran to counter UNSC sanctions.

182 For example, Hezbollah’s activities include smuggling, extortion and narcotics trafficking amount to $20 million annually in the so-called ‘Tri-Border Region’ (the lawless area between Argentina, Paraguay and Brazil). Ilan Berman, *Hezbollah in the Western Hemisphere*, Statement before the U.S. House of Representatives Committee on Homeland Security/Subcommittee on Counterterrorism and Intelligence, American Foreign Policy Council, 7 July 2011.


186 Anthony H. Cordesman, ‘The Quds (Qods, or Jerusalem) forces’, *Iran’s Revolutionary Guards, the Al Quds Force, and Other Intelligence and Paramilitary Forces*, Center for Strategic and International Studies, 16 August 2007, 8.


Venezuela has grown exponentially from $1.5 million in 2001, to $20 billion in 2007, based on 181 trade agreements across industries such as steel and oil, auto and ammunition manufacturing. In 2007, Iran and Venezuela set up a $2 billion fund to counter U.S. influence in the developing world and has sought OPEC support for oil to be priced in Euros rather than the U.S. dollar. By taking such an anti-U.S. stance amid allegations of “U.S. military imperialism”, and threatening the pricing policies and dominance of Saudi Arabia in OPEC, the “axis of oil” has already led to U.S. warnings to Venezuela against becoming too closely involved with Iran. Such warnings may not be necessary if the hereto strong Ahmadinejad - Chavez bond is broken by electoral defeat or bad health, but for the time being it remains an important relationship in Iranian foreign policy.

Iran is also developing links with other non-western states. Whereas the rationale may appear to be buttressing the ‘resistance axis’ in a similar way to the Iranian – Venezuelan relationship, the timing of these trade and cooperation agreements after UNSC sanctions were passed in 2006 illustrates that this is not the case. The relationships are linked to Iran’s global search to reduce its isolation and boosting its non-oil trade revenue. Some relationships such as those with the Non-Aligned Movement (NAM) states serve to reduce international pressure. Iran is able to rely on some states which share similar political features or vulnerabilities (e.g. as non-signatories of the NPT), e.g. India, to appeal against the linkages created between IAEA language against Iran and the possible political or military implications contained therein. Iran has established mining and agricultural trade links with Zimbabwe (another anti-Western state and with which it cooperated during the

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190 ibid


struggle for liberation\textsuperscript{194}. Iran is also expanding trade ties with Japan. For example, the Japanese firm Jaika is engaged in a project to enrich forests in the Chaharmahal-Bakhtiari province of Iran.\textsuperscript{195} Japanese Ambassador Kinichi Komano asserts that additional scientific and cultural ties will continue to rise.\textsuperscript{196} There was also significant growth of more than 2000 per cent in two-way trade between Iran and Cote d’Ivoire, Niger and Senegal between 2000 and 2010.\textsuperscript{197} However, none of these trade relationships have been enough to offset the huge losses in the Iranian oil trade with the EU, so they still represent largely symbolic gestures rather than the alternative markets to the West.

\textbf{4.4.5 Trade Realignment: A New Policy of Regionalism in Central Asia}

In addition to developing ideological partnerships, Iran’s new trade partners also include neighbouring states which are able to deliver goods across borders associated with smuggling and states which boost Iranian influence regionally and internationally. Such trade realignment away from the West gives Iran room for manoeuvre and as much autonomy as possible in an increasingly hostile international environment.

Iran looks like the quintessential ‘small state’ as it is looking at all possible opportunities to develop trade ties and generate space in which it can be less dependent on the ‘core’ states. The permanent sector is energy, so by focusing on oil, gas and renewable energy, Iran can use its central geographical location to boost exports of both goods and technologies.\textsuperscript{198} Ironically some of the push factors towards greater regionalism are the same factors which are undermining it, such as: U.S. and UN sanctions, U.S. involvement in Iraq and Afghanistan and the subsequent border crossing closures, local corruption and poor infrastructure.\textsuperscript{199}

\textsuperscript{194}‘Trade Delegation Visits Zimbabwe’, \textit{Iran News}, 23 February, 2011, 12
\textsuperscript{196}ibid
\textsuperscript{197}Steven Heydemann, ‘Iran’s Alternative Allies’, \textit{Iran Primer}, United States Institute of Peace, available at \url{http://iranprimer.usip.org/resource/irans-alternative-allies}
\textsuperscript{198}ibid
\textsuperscript{199}ibid, 167-183
To confirm its commitment to regionalism, Iran hosted a trilateral summit in Tehran on 24th May 2009 with the rationale outlined by the Iranian Foreign Minister: in order to find “regional solutions to regional problems.” The result was a 24 point “Tehran Declaration” which provided for cooperation on terrorism, infrastructure development, and the creation of ‘pull factors’ in Afghanistan to encourage Afghans to return home from Iran. Iran, Afghanistan and Pakistan thereafter established a mechanism for regular meetings at either the ministerial or head of state level. It is perhaps no surprise that less than a year later Riyadh would launch its own Declaration with states such as India on the subjects of harnessing energy resources while combating counter-terrorism, drug trafficking and money laundering.

Iran has had three decades to avoid U.S. sanctions and realign its trade ties with states that are less susceptible to direct U.S. pressure. Alarm bells have already rung for Iran in the 1990s when a marked increase in population size met an increase in public expectations about employment etc. The new round of UN Sanctions involves Russia and China (and other UNSC members such as Brazil, South Africa, China and Turkey) so is different from U.S. led sanctions but designed by the same chief protagonist. So far, decreasing exports of oil can be offset by increases in the oil price and as long as Iran can pay its import bill, take care of social security and the elites then it should not have to worry in 2011. However, a renewed process of trade realignment is prudent since the international oil price may fall and unless Iran spends on hedging against this fall, its revenues could be at risk. In addition, trade avenues need to be continually developed in anticipation that some will be constrained or closed due to U.S. pressure, thereby making trade realignment a continuous process which makes Iran a moving target at which sanctions are aimed. Much of the Iranian economic emphasis is on trade realignment away from the U.S. and Europe to other

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201 ibid
202 ibid
204 Interview with Richard Dalton, London, 26 January 2011
205 ibid
markets such as Iraq, Afghanistan, China, Azerbaijan, Turkmenistan, Armenia and Turkey.\textsuperscript{206}

However, the most important trade ties are with Iran’s immediate neighbours such as the UAE, Qatar, Oman and Turkey.\textsuperscript{207} There is approximately $14 billion trade between Iran and the UAE, but this is suppressed by the Office of Foreign Assets Control (OFAC) restrictions which Iran wants removed.\textsuperscript{208} Traders and businesspeople in Dubai take the perspective that it is better to ease sanctions through conventional ways than to take any other course of action.\textsuperscript{209} This is in contrast to the U.S. policy of putting pressure on the Gulf States, especially the UAE to implement the sanctions.\textsuperscript{210} This has had the effect of displacing trade from the UAE to Turkey which wants to increase trade with Iran as much as possible within the sanctions regime.\textsuperscript{211} Cooperation is likely to be of interest to Turkey, which not only presented an alternative plan to UN sanctions with Brazil, but received one million Iranian tourists in 2008 and through such tourism is listed as one of the possible ways to put modify the behaviour of the Iranian regime through supporting Iranian society hopes for better relations with Turkey and the West.\textsuperscript{212}

That was unlikely to be the case since in a Transatlantic Poll on Iran Nukes sponsored by the German Marshall Fund, respondents in a plurality of respondents, 25%, in Turkey said they preferred living with a nuclear Iran.\textsuperscript{213} However, this position is unlikely to be reflected in the Turkish government since the Kurdish attack on the Turkish military\textsuperscript{214} can be seen to be a shot across the Turkish bows on its policies regarding Syria and missile defence.\textsuperscript{215} The NATO/Turkish anti-ballistic missile system in Eastern Anatolia (on the Turkey-Iran border region) is needed to mitigate not only against the Iranian nuclear programme but also the growing Pakistan

\textsuperscript{206} Interview with Abbas Maleki, Director of the International Institute for Caspian Studies and former Iranian Deputy Foreign Minister, Tehran, 23 February 2011
\textsuperscript{207} ibid
\textsuperscript{208} Interview with Professor Abbas Maleki, Tehran, 23 February 2011
\textsuperscript{209} ibid
\textsuperscript{210} Interview with a European diplomat who asked not to be named, Tehran, 24 February 2011
\textsuperscript{211} ibid
\textsuperscript{212} The Economist, ‘A Step Away from the Bomb’, 12 – 18 June 2010, 17
\textsuperscript{213} ibid
\textsuperscript{215} Telephone interview with Martin Indyk, 1 November 2011
Therefore, Iran is losing allies locally for reasons related to its nuclear programme but missile defence could be eliminated across Europe if Iran walks away from its nuclear programme.\textsuperscript{217}

On the Iranian side, The Iran Khodro Company (IKCO), Iran’s second biggest company by profitability, signed a Memo of Understanding with Turkey to produce a car that will be manufactured in Turkey and therefore give it easy access to European export markets.\textsuperscript{218} Iran also wants a new banking relationship with Turkey, which would help it receive oil payments but Turkey has not yet agreed to this.\textsuperscript{219} The additional concern with Turkey is the long border between Iran and Turkey which has a tradition of smuggling across it, so there is certainly more activity happening than is known about.\textsuperscript{220} Part of such concerns includes Iran’s neighbouring countries trading with Iran in strategic goods such as arms and goods for the nuclear programme.\textsuperscript{221} For example, Armenia was part of a three-way deal which managed to put an Airbus on Iranian tarmac which breached Airbus’ commitment to the sanctions regime.\textsuperscript{222} Iran already sources gas from neighbouring Turkmenistan which is becoming increasingly expensive as China is also importing much of this gas.\textsuperscript{223} Iranian Commerce minister Mehdi Ghazanfari and Turkmenistan’s President Gurbanguly Berdymukhammedov have stressed accelerating the establishment of the Turkmenistan-Kazakhstan railway which would facilitate regional trade and relations between Iran, Oman, Turkmenistan and Uzbekistan.\textsuperscript{224}

\textbf{4.4.6 A Case Study of the Opportunities and Difficulties in the New Iranian Countering Policy: The Iran – Pakistan – India (IPI) Pipeline}

\textsuperscript{216} Interview with Ruprecht Polenz, Berlin, 22 September 2011
\textsuperscript{217} ‘Remarks by the President at the New Economic School Graduation’, Moscow, 7 July 2009, available at \url{http://www.whitehouse.gov/the_press_office/Remarks-By-The-President-At-The-New-Economic-School-Graduation/}
\textsuperscript{218} Iran News, “IKCO, Turkish Firm to Manufacture New Brand of Car”, 23 February, 2011, 12
\textsuperscript{219} Interview with a European diplomat who asked not to be named, Tehran, 24 February 2011
\textsuperscript{220} \textit{ibid}
\textsuperscript{221} \textit{ibid}
\textsuperscript{222} \textit{ibid}
\textsuperscript{223} Fareed Mohamedi, ‘The Oil and Gas Industry’, \textit{The Iran Primer}, United States Institute of Peace, available at \url{http://iranprimer.usip.org/resource/oil-and-gas-industry}
\textsuperscript{224} ‘Further Ties With Turkmenistan Sought’, \textit{Iran News}, 23 February, 2011, 12
The IPI is a good case study in Iran’s difficulties in exporting gas and payment problems, primarily due to sanctions, and complications arising from the local security environment. The case study also highlights the triangulation that Iran’s trade partners need to perform in order to determine whether their interests lie with Iran or the Western alliance of the GCC, EU and U.S. The result of such calculations will prove whether Iran’s countering policies against sanctions is sustainable over the long term.

In May 2009, Iran and Pakistan agreed on a natural gas pipeline that would link the two Muslim majority states during a trilateral summit hosted by Iran. The $7.6 billion agreement for a natural gas pipeline will link the South Fars gas field with Pakistan’s Balochistan and Sindh provinces. The so-called ‘peace pipeline’ was then expected to traverse into India, thereby becoming the Iran – Pakistan – India pipeline (IPI). Since the agreement was formalised, the pipeline has experienced a number of setbacks. Firstly, Australia’s BHP withdrew from a $3 billion contract under the threat of U.S. sanctions. Secondly, the pipeline was suspended due to suspicion and doubt that India had regarding the security of pipeline viz-à-viz its relations with Pakistan, although it is a good example of framing a tense relationship in bilateral relations through a new issue. The poor relations between India and Pakistan has put Iran in a quandary because it wants to engage India on the IPI but understands that it is not necessarily the best way to interact with India and Pakistan simultaneously. Thirdly, the IPI is dependent on U.S. foreign policy in the region, which was not the case in the 1990s, when the U.S. was still a silent player regarding Iran. There remains a real possibility to extend the pipeline to Pakistan since Russia’s Gazprom has shown interest in financing it, and there is certainly an incentive for China to link to it since it is keen to avoid U.S. dominance of shipping lanes.

225 ‘Iran Regional Presence Office Dubai: Window on Iran’, Wikileaks, 28 May 2009
227 ibid
228 Gawdat Bahgat, American Oil Diplomacy in the Persian Gulf and the Caspian Sea, 119
229 Remarks from a foreign diplomat who asked not to be named, 8 July 2011, Cambridge
230 Interview with Ali Biniaz, Tehran, 27 February 2011
231 ibid
232 ibid
Keeping such pipelines on track will help Iran maintain and increase its revenues from oil and gas sales, and make sure that Iran continues to receive a good price for its exports no matter how much pressure it is under by sanctions. The extent to which Iran is sensitive to pricing is found in Ahmadinejad’s removal of the then oil minister Kazem Vaziri-Hamaneh in 2007 because he had allegedly sold gas to Pakistan and India too cheaply. He then took temporary control of oil ministry as caretaker oil minister just before an OPEC meeting in 2011, a decision that was quickly reversed by the Supreme Leader.

Russian and Indian oil companies such as Indian Oil Corp. are also becoming increasingly important customers for Iran, as IOCs such as Repsol, Shell and Total are divesting from Iran’s natural gas sector. However, it is becoming increasingly difficult for India to pay for Iranian oil since Iran has been cut out of the Asian Clearing Union (ACU) which is used to settle regional commercial debts that have been amassed between members. The U.S. is constraining Iranian trade with companies and states through stopping the recycling of U.S. dollars through its financial system and is blocking its oil trade “company by company”. This problem is affecting Iranian oil trades with top importers both regionally and internationally, with the most recent case affecting $5 billion worth of oil revenues which has been ‘trapped’ in South Korean state-owned banks by the sanctions. Chinese companies are “filling some gaps”, Iran – Chinese trade reached $28 billion in 2010, but cannot be counted on to fill them all.

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236 Interview with Richard Dalton, London, 26 January 2011
237 ibid
Trade and revenue routes still exist between India and Iran. India has paid $100 million out of the $5 billion it owes Iran from its refineries through a state owned Indian bank and another Turkish bank (EIH, an Iranian bank based in Hamburg, has also been ‘blacklisted’ by the U.S.\textsuperscript{240}) into the account of the National Iranian Oil Company.\textsuperscript{241} Whatever happens, India has three months credit with Iran and both states are confident that a payment solution can be found to maintain the export of oil to India and payments back to Iran.\textsuperscript{242} In the mean time, Iran is pursing other pipeline projects, one dubbed the ‘Persian pipeline’ which is potentially able to run to Turkey, Greece and Italy into Western Europe.\textsuperscript{243} The same difficulties as oil exports are likely to arise, as the end of pipeline is susceptible to political pressure from the U.S. and the UN sanctions that the core Western European states have signed up to. This would not make exports difficult, but payments made to Iranian banks. In early 2011, Iran announced another pipeline that would link Iran with Syria and Iraq.\textsuperscript{244} This is possibly going to take the longest to come to fruition since it would involve a number of issues including uprisings in Syria, possible instabilities in Iraq and Iranian sanctions.\textsuperscript{245}

Regional energy dialogue is especially important to Iran due to the upward pressure on prices resulting from the Arab Uprisings and the increasing demand of many states for nuclear energy as an alternative option to burning fossil fuels.\textsuperscript{246} Increasing the number of ties across the region on the basis of important economic considerations such as this increases the amount of social capital which can more easily be turned into serious geopolitical discussions which makes disputes easier to resolve.\textsuperscript{247} Unfortunately, the GCC/Iran divide is a stumbling block that forces states such as India to choose between the GCC and Iran when it would prefer not to.\textsuperscript{248} It throws into relief the different issues, whereby the GCC represents good economic

\textsuperscript{240} Interview with Richard Dalton, London, 26 January 2011
\textsuperscript{242} Remarks from a foreign diplomat who asked not to be named, 8 July 2011, Cambridge
\textsuperscript{244} Fareed Mohamedi, ‘Rising Oil Prices Create Political Cushion for Iran’, \textit{Iran Primer}, United States Institute of Peace, 7 March 2011, available at \url{http://iranprimer.usip.org/blog/2011/mar/07/rising-oil-prices-create-political-cushion-iran}
\textsuperscript{245} \textit{ibid}
\textsuperscript{246} Interview with Ali Biniaz, Tehran, 27 February 2011
\textsuperscript{247} \textit{ibid}
\textsuperscript{248} Interview with Talmiz Ahmad, Riyadh, 4 June 2011
interaction, Iran represents political challenges and Iraq is an unknown.\textsuperscript{249} The effect is that Iran and India are “working as islands”, so Iran wants the future to include more cultural and economic cooperation.\textsuperscript{250} By boosting bilateralism and cooperation in this way, Iran can secure a position within more established multilateral organisations and perhaps even leverage that position into a more permanent alliance.

\textbf{4.4.7 The Prospects for Iranian Participation in Regional Economic Organisations}

Although Iran has a preference for bilateralism, there are two multilateral organisations in Iran’s immediate environment that Iran is trying to develop or join.\textsuperscript{251} They are the Economic Cooperation Organisation (ECO) and the Shanghai Cooperation Organisation (SCO). The ECO is based in Tehran and its members include: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan.\textsuperscript{252} It is not economically strong but has lasted fifty years.\textsuperscript{253} Iran also wants to push tourism cooperation with members of ECO and the Developing 8 (Bangladesh, Egypt, Indonesia, Malaysia, Nigeria and Pakistan) as a way to ease its international isolation and boost economic growth.\textsuperscript{254} An alternative trading and ideological bloc certainly helps Iran, but it is not enough to counter its multifarious problems of Western firms dropping out of its oil market, insurance agents stopping insuring its shipping, and the next round of sanctions.\textsuperscript{255} Instead, it has also been suggested that ECO serve as the foundation for a future regional security mechanism.\textsuperscript{256}

Because Iran has difficulty paying for goods, some states also function as conduits for goods which are put through the ‘back door’ which could potentially involve South Africa or Malaysia.\textsuperscript{257} This leads to an increased cost of doing business (as front companies might be involved) as well as time delays which is acceptable to Iran for

\textsuperscript{249} ibid
\textsuperscript{250} Interview with Ali Biniaz, Tehran, 27 February 2011
\textsuperscript{251} Interview with an Iranian diplomat who asked not to be named, Tehran, 27 February 2011
\textsuperscript{252} For details, see \url{http://www.ecosecretariat.org/}
\textsuperscript{253} Interview with an Iranian diplomat who asked not to be named, Tehran, 27 February 2011
\textsuperscript{255} Telephone interview with Martin Indyk, 1 November 2011
\textsuperscript{256} Abbas Maleki, ‘Iran’, Central Asia-Caucasus Institute, 167, available at \url{http://www.silkroadstudies.org/new/docs/publications/GCA/GCAPUB-06.pdf}
\textsuperscript{257} Interview with Richard Dalton, London, 26 January 2011
key goods as long as Iran can still get hold of them.\textsuperscript{258} This is not concerning in itself, but is when coupled with evidence of a broader black market trade in nuclear fuel cycle technology from Pakistani nuclear expert A Q Khan beginning in 1987, with a greater focus in March 1999, admitted by the former secretary of Iran’s National Security Council and cleric Hassan Rohani through the Expediency Council in 2006.\textsuperscript{259}

Iran also wants to join the Shanghai Cooperation Organization (SCO) at which they currently have observer status, but it is unable to join as a full member since it is under UN sanctions.\textsuperscript{260} Like the delays to the Bushehr reactor which has given it leverage over Iran in getting it to sign up to the various UN Security Council Resolutions\textsuperscript{261}, Russia again seems to be responsible for this delay.\textsuperscript{262} However, Russia is not beholden to the U.S. The U.S. had tried to thwart the $800 million sale of several nuclear reactors to Iran, but not even a $100 million incentive to not complete its contract was enough to stop Russia from fulfilling its obligations to Iran.\textsuperscript{263} Russia also plans to sell Iran an S-300 air defence system.\textsuperscript{264} More worrying to the U.S. is the accusation that Russia has inadvertently aided the Iranian nuclear programme, through allowing nuclear scientists such as Vyacheslav Danilenko to work in Iran from 1996 to 2002.\textsuperscript{265} Iranian – Russian relations have also been boosted by Tehran’s cooperation during the Tajik civil war in 1997, its restrained position on Chechnya and their common opposition to the Taliban in Afghanistan, although this is subject to change.\textsuperscript{266}

\textsuperscript{258} ibid
\textsuperscript{259} Olivia Bosch, ‘Iran and the Traffickers’, \textit{The World Today}, Chatham House, May 2006, 7
\textsuperscript{262} ‘Still Sitting Pretty’, \textit{The Economist}, 12 June 2010, 66
\textsuperscript{266} Mark N. Katz, ‘The Russia and China Factors in Sanctions’, \textit{The Iran Primer}, United States Institute of Peace, 28 November 2011
Russia looks to serving both Iran and the U.S., as long as it is in its economic and overarching national interests. Russian and Chinese control of the SCO, which includes many states with which Iran wants to trade including: Russia, China, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan, is a grouping could put extra pressure on Iran to modify its nuclear stance in favour of good trade, investment and market opportunities. As UNSC members they hold the keys to the effectiveness of sanctions against Iran, particularly in its energy sector. The U.S. Congress therefore wants to increase pressure on the Obama administration to clarify its national interest waiver that permits China and Russia to continue supplying Iran’s energy sector. Through their respective demand and supply sides of an “axis of oil” and their ability to roll back U.S. influence in Central Asia (through Russia’s influence over its former Soviet Republics and switching its bilateral oil trades with Iran from the U.S. dollar to Russian Ruble), Iran is given a chance to ally itself with a credible and long term alternative to the U.S. The U.S. is already asking China to limit its oil supply from Iran and is working with Saudi Arabia to step up its oil exports to China to substitute those of Iran. This has so far been met with resistance from China which doesn’t agree in sanctions against Iran and particularly in linking sanctions with trade.  

4.5 THE DYSFUNCTIONAL INTERNATIONAL RELATIONSHIP OF IRAN AND THE P5 + 1  

The relationship between Iran and the West is the multiplied effect of loaded (i.e. historically informed) perceptions of policymakers in Iran and the West. The current nuclear deadlock is also a function of all the past relations, including missed opportunities and miscalculations, which is hard to break by any members of the P5 + 1 or Iran.

4.5.1 Loaded Perceptions in Iran – EU3 Relations

An analysis of the observations from former ministers, diplomats and academics in Iran and the EU3 form an important pre-requisite to the broader analysis of Iran – West negotiations and relations. Iran’s resistance and countering strategies have led to western anxieties over regional events, nuclear proliferation and international security. At the same time, Iranian interpretations and anxieties over a lack of cultural and Islamic sensitivity from the EU are a fundamental obstacle to advancing bilateral dialogues along the diplomatic track.

There are some considerable differences of opinion within the EU3 (Germany, France and the UK) on the most fundamental principle of Iran’s rationality regarding international issues. Some Europeans believe that the Iranian government is irrational, that it has no clear strategy and anyone who says “yes” during a negotiation with the West is always going to be in jeopardy with other factions.\textsuperscript{272} Likewise, Blair alludes to Iran’s irrationality by widely promoting regime change in Iran.\textsuperscript{273} However, other European policy makers contend that Iran’s regime is “not irrational” or reckless.\textsuperscript{274} Iran has always been able to show restraint and an ability to pull back in its resistance activities, making Iran deterrable.\textsuperscript{275} There is still some concern as to the language that Iran employs when discussing the West. To say that the negative language employed by Iran against the UK is “only for public consumption”, as suggested by various Iranian foreign ministers, goes against “what they [government officials] learned in their revolutionary studies.”\textsuperscript{276} However, this must be put into the perspective of Iran – UK historical relations.

\textsuperscript{272} Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
\textsuperscript{274} Interview with Ruprecht Polenz, 22 September 2011, Berlin
\textsuperscript{275} Kenneth Pollack and Ray Takeyh, ‘Taking on Tehran’, \textit{Foreign Affairs}, 84/2, March – April 2005,
\textsuperscript{276} Interview with Richard Dalton, 26 January 2011, London
The cumulative effect that past Iran – UK relations have had on contemporary bilateral and Iran - EU3 relations remains poor. From the Anglo-Iranian Oil Company taking a disproportionate share of Iran’s oil revenues, and British support of the Shah and his anti-Islamic policies, to the role of British Intelligence, along with the CIA supporting the overthrow of Prime Minister Mossadegh, relations have still not improved. Indeed, it was the British promise that the U.S. would receive a share in Anglo-Iranian Oil Company (AIOC) interests once it had helped to depose the nationalist Iranian Prime Minister Mohammad Mossadegh which facilitated U.S. interference.277

The French policy regarding Iran has varied under President Chirac and Nicholas Sarkozy. The former came out against sanctioning Iran in 2006.278 However, this policy was quickly reversed under President Sarkozy the following year when he made remarks about Iran which meant that France and the UK were once again bracketed together. European states were generally unwilling to lose Arab support during the Iran – Iraq War by overtly backing Iran.279 However, France in particular sees its support of Iraq during the war as a contributing factor in its poor relations with Iran under Ahmadinejad.280 The impact this has had on the opinions and foreign policies of successive political generations in Iran has been illustrated by the presidents Rafsanjani and Ahmadinejad having had strong links to the Iran – Iraq War.281 The war cost Iran 213,000 lives282 and has therefore been “burned into [Iran’s] memory”, and should inform Western foreign policies towards Iran.283

278 ‘USA Edges Towards a More Pragmatic Iran Policy’, GSN, 30/790, 29 September 2006, 4
279 Ziba Moshaver, ‘Revolution, Theocratic Leadership and Iran’s Foreign Policy: Implications for Iran – EU Relations, Analyzing Middle East Foreign Policies and the Relationship with Europe, 183
280 Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
281 Mahmoud Ahmadinejad was involved in covert operations; Akbar Hashemi Rafsanjani was responsible for post-war reconstruction and regional ties throughout his Presidency; Mir Hossein Mousavi was still praised for his handling of the wartime economy despite his position of Prime Minister having been abolished; Mehdi Karroubi who was head of the Imam Khomeini Relief Committee and Martyr’s Foundation and Chairman of the Parliament after the war; and Mohsen Rezaei who was a top commander in the IRGC during the war. ‘Profiles of Iran’s Presidential Candidates’, 4 June 2009, FT, available at http://www.ft.com/intl/cms/s/0/99fb422a-5050-11de-9530-00144feabdc0.html#axzz1X5XvDwDH; Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
282 Lawrence G. Potter and Gary G. Sick, ‘Introduction’ in Lawrence G. Potter and Gary G. Sick (eds.) Iran, Iraq, and the Legacies of War, 8
283 Interview with a foreign government representative who asked not to be named, 3 June 2010, London
Iran also has qualms with the EU on a number of other fronts; most recently based on the UK and France trying to shape the Arab Uprisings.284 As Suzanne Maloney notes, ‘no state that watches the international community bombard Libya will ever concede its nuclear advantage in exchange for rapprochement and trade ties.’285 It is clear that such interventions are again perceived to be encirclement and contrary to Islam.286 Iran’s relationships with the EU3 has been hamstrung by the institutional mismatch of three states (Germany and France having had better relations historic with Iran than the UK), but also “values lobbies” operating in both the European Council and European Commission.287 These bilateral relations (embodied in the 3+3 framework with the U.S., China and Russia) represent the best and only option for improved U.S. relations with Iran.288 Problems with the Iran – EU dialogue have also been attributed to:

- The EU accusing Iran of not respecting human rights and nuclear conventions
- The EU wanting to waive issues of Islamic significance
- The EU not having a deep image of Iran
- The EU thinking that it is easy to change the values and culture of a nation – perhaps due to the diversification in the EU289

The counter argument is that no one understands the culture of a foreign country as much as those living there. The EU believes in the universality of human rights and that these are not culturally specific.290 Yet there are accepted double standards in EU foreign policy towards Iran and its human rights, one which is known not to strengthen its credibility.291 However, the general argument that “you don’t understand what is going on in our [authoritarian] country” amounts to a “firewall against questioning” and is therefore not accepted.292

284 Interview with Ali Biniaz, 27 February 2011, Tehran
286 Interview with Ali Biniaz, 27 February 2011, Tehran
287 Interview with Abbas Maleki, 23 February 2011, Tehran
288 Interview with Ruprecht Polenz, 22 September 2011, Berlin
289 Interview with Abbas Maleki, 23 February 2011, Tehran
290 Interview with Ruprecht Polenz, 22 September 2011, Berlin
291 Email interview with Roberto Toscano, 12 August 2011
292 ibid
4.5.2 Missed Opportunities for Iran – U.S. Engagement: 2001 - 2003

A key finding of this research emphasises the missed opportunities that Afghanistan represented in terms of drawing Iran and the U.S. closer together through a revised regional security agreement. It highlights the short-termism of U.S. foreign policy, the detrimental effect that the neo-conservative approach had in inadvertently supporting Iranian hardliners, and the lack of U.S. interest in a broad based engagement with Iran.

Khatami’s election and reform policies validated the EU’s Critical Dialogue which was in turn followed by Khatami’s ‘Dialogue of Civilisations’.293 This soon became UN’s Year of Dialogue Amongst Civilisations in 2001.294 The U.S. responded with disappointment that Iran would not go beyond dialogue between peoples, to government negotiations which would still include areas of concern to the U.S. However, a potential high water mark of U.S. – Iranian cooperation was about to present itself immediately after the beginning of the U.S. led Afghanistan invasion. Some U.S. objectives against the Taliban and Al-Qaeda could not be achieved without cooperation with Iran, particularly with regard to intelligence.295 Iranian cooperation during Operation Enduring Freedom in Afghanistan was staggering, based on its sympathy for the U.S. after the 9/11 attacks. Through the ‘Geneva Group’296, Tehran:

- Offered the use of its bases in eastern Iran for U.S. transport aircraft
- Agreed to perform search and rescue missions in Iran for U.S. airmen who bailed out over Iran
- Allowed an American freighter to off-load its cargo of humanitarian supplies at the port of Chah Bahar

293 Ziba Moshaver, ‘Revolution, Theocratic Leadership and Iran’s Foreign Policy: Implications for Iran – EU Relations’, Analyzing Middle East Foreign Policies, 186
294 Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
296 The ‘Geneva Group’ was one of the non-U.N. initiatives formed in 2000 with a membership of Italy, Germany, Iran and the U.S. which failed to mediate a political transition in Afghanistan. ‘Kenneth Katzman, Afghanistan: Post Taliban Governance, and U.S. Policy, CRS Report for Congress, Congressional Research Service, 18 June 2009, 9
• Supported U.S. engagement with the ethnic Tajiks\textsuperscript{297} that made up the Northern Alliance while pushing for engagement with the Pashtun groups to make the effort against the Taliban and Al-Qaeda a pan-Afghan one.\textsuperscript{298}

The U.S. could have been more constructive in its dealings with Iran regarding Afghanistan but Iran received no reward for its early cooperation in the GWOT.\textsuperscript{299} Iran has big economic investments in western Afghanistan: Iran is building a railway, supports the bond settlement, supports President Karzai, and also supports Shi’a clients through the Second Belt and the Persian speakers of the north, which amount to some quite substantial interests.\textsuperscript{300} Iran should therefore have been taken seriously in Afghanistan, and the U.S. could have facilitated a closer relationship.\textsuperscript{301} Instead, opportunities were also missed by the U.S. such as not rigorously pursuing the Iranian proposal for training 20,000 members of a new Afghan army after the U.S. invasion.\textsuperscript{302} The opportunity for bilateral engagement was soon dashed after the Afghan government was set up.\textsuperscript{303}

U.S. foreign policy was much more dominated by the hostage crisis and a different world view after 9/11. The U.S. attitude in the post-9/11 era was best illustrated by President Bush’s 2002 State of the Union address when he labeled Iran part of the ‘axis of evil’.\textsuperscript{304} Such language has tried to sway the perceptions of the international community to believing that Iran represents a much more dangerous threat to world peace even though other states such as Japan, Brazil, Argentina and Canada are far more advanced in their civilian nuclear programmes.\textsuperscript{305} It was also at this time that

\textsuperscript{297} Apart from being close geographically, Iranians and Tajiks share the same religion and ethnicity and the Tajik language is part of the Persian/Farsi family. ‘Central Asia: Fault Lines in the New Security Map’, International Crisis Group, 2001, 209


\textsuperscript{299} Interview with Ruprecht Polenz, 22 September 2011, Berlin

\textsuperscript{300} Interview with a senior British diplomat who asked not to be named, 4 June 2011, London

\textsuperscript{301} Interview with Ali Biniaz, 27 February 2011, Tehran


\textsuperscript{304} Christopher Rundle, ‘Iran – United Kingdom Relations Since the Revolution: Opening Doors’, in Iran’s Foreign Policy, 99

\textsuperscript{305} Email from Bill Beeman, University of Minnesota, to the G2K List, 14 November 2011
Iran was proscribed by the U.S. State Department as ‘the most active state sponsor of terrorism’.  

Since 2003, not only were specific political initiatives removed, but space in the media for debate has also been removed, leaving nothing but caricature of political figures, extreme op-eds in major publications and a marginalisation of the real issues.  

To counter the negative media commentary, the Iranian Mission to the UN in New York took out an advertisement in the New York Times on 18th November 2005. This was designed to outline the allegations against the Iranian nuclear programme and provide a series of justifications for it:

- The programme is for electricity generation only, given pressures from population which is expected to rise to 105 million by 2050, and oil saving (an estimated 190 million barrels of cruder per year)
- Iran has the right to enrich uranium under the provisions of the 1968 Nuclear Non-Proliferation Treaty (NPT) - The EU3 has never recognized Iran’s right to enrich under the NPT
- Iran’s leaders, including Khomeini, have issued fatwas stating that nuclear weapons are un-Islamic
- Over the past 250 years Iran has not waged a war of aggression
- Iran’s technological development and military capabilities do not support a nuclear deterrence against its adversaries internationally (some Iranian strategists agree with U.S. analysts that a nuclear weapon would facilitate a pre-emptive strike against Iran and additional sanctions and containment)

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308 ‘An Unnecessary Crisis: Setting the Record Straight about Iran’s Nuclear Programme’, Iran’s Permanent Mission to the UN, 18 November 2005
309 ibid
310 These can be altered or reversed depending on circumstances and are only as strong as the leader who issues them, Khomeini being drastically weakened since the late-2000s. Michael Eisenstadt and Mehdi Khalaji, ‘Nuclear Fatwa: Religion and Politics in Iran’s Proliferation Strategy’, Policy Focus #115, The Washington Institute for Near East Policy, September 2011, 10; Kenneth Katzman, Iran: U.S. Concerns and Policy Responses, Congressional Research Service, 27
311 ibid
• EU3 confidence building measures, including those on nuclear cooperation and regional security have never materialized since 2003

The U.S. has been charged with “malevolent neglect” by the Brookings Institution during the same period because there was no support for the EU3 agenda from the European contact in Washington, John Bolton.\(^{312}\) This was not as serious as it might have been for Iran – West relations because Iran still looked on EU3 negotiations favourably during 2003 – 2005 with a view to it leading to the inclusion of the U.S. later on.\(^ {313}\)

The challenge for the EU3 was coming up with the right combination of incentives without substantial U.S. support. There was some U.S. support for the EU3 position to drop its veto of Iranian WTO membership and allowing Iran to buy spare parts for its U.S. fleet of aircraft, but Bush’s statements and his ‘regime change’ State of the Union address in 2005 cancelled out all these economic incentives.\(^ {314}\) A $66 million budget for U.S. broadcasting into Iran was another provocative move which did nothing to strengthen the hand of reformists inside Iran.\(^ {315}\) It is therefore surprising to note that Iran and the U.S. have tried to communicate at least nine times since the end of the hostage crisis in 1981, starting with the Iran – Contra Affair during the Iran – Iraq War up to direct talks offered by Condoleeza Rice in 2006.\(^ {316}\)

The narrow parameters within which the U.S. was willing to engage is confusing since the U.S. 2006 National Security Strategy stated that the U.S. “may face no greater challenge from a single country than from Iran.”\(^ {317}\) The U.S. and Iran should therefore have plenty to discuss and across a broad range of issues. Instead of diplomatic engagement, 2006 was the year Iran was referred to the UNSC by the IAEA and sanctions were strengthened.

\(^{312}\) Barbara Slavin, *Bitter Friends, Bosom Enemies*, 212

\(^{313}\) *ibid*

\(^{314}\) *ibid*

\(^{315}\) *ibid*


No other opportunity on the scale of Afghanistan has presented itself since and although the Obama administration has tried to be constructive in engaging Iran, the allegations of a rigged 2009 election in Iran has closed the temporary window of opportunity. Iran has been quick to assert its interests in Afghanistan which have led to accusations of corruption regarding its aid transfers. Iran is “not their back yard to play games in”, but without U.S. engagement on the subject, there is little incentive for Iran to do anything else. As long as the U.S. remains in Afghanistan Iran is likely to pursue a dual strategy: contributing to get the U.S. preoccupied in Eastern Afghanistan by supplying arms to the Taliban, but limit the destabilising effects of terrorism.

The neo-conservative policies of the U.S. coupled with the negative Afghanistan experience gave Iran a ready made template for its countering policies against the U.S. and its Western allies in Iraq in 2003. These will be discussed further in the following section.

4.5.3 **The Iranian Reaction to the U.S. in Afghanistan: Iran's Role in Iraq, 2003**

The U.S. led invasion of Iraq provided another opportunity for a rapprochement between Iran and the UK, as an interlocutor to the U.S. and its ability to shape a new Iraqi government. Following an Iranian offer to cooperate with the U.S. on Iraq which was subsequently ignored by the U.S., Iran has been adept at using Shi’a militia groups for two main reasons: Firstly, to ensure that the U.S. was preoccupied with sectarian conflict and was unable to continue with its regime change policy in Iran. Secondly, Iranian connections to Shi’a militia could maintain leverage vis-à-vis the Iraqi government if Iraq once again threatened Iranian national security interests.

The 2003 Iraq War changed Iran – West relations, especially Iranian – Anglo relations profoundly. Iran initially took the UK more seriously because of its actions in Iraq.

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318 Matthew Green, ‘Karzai Says Iran Gave ‘Bags’ of Cash as Aid’, *FT*, 25 October 2010, available at [http://www.ft.com/intl/cms/s/0/73d83fa0-e058-11df-99a3-00144fecd0.html#axzz1lb1z0XnL](http://www.ft.com/intl/cms/s/0/73d83fa0-e058-11df-99a3-00144fecd0.html#axzz1lb1z0XnL)

319 Interview with Ruprecht Polenz, 22 September 2011, Berlin


321 Telephone interview with Martin Indyk, 1 November 2011
the UK’s position as an interlocutor to the U.S., and the UK’s ability to help shape the new government in Iraq.\textsuperscript{322} The Iranian - Anglo relationship then soured mainly because the U.S. and UK were not going to leave Iraq quickly or advance Iranian interests.\textsuperscript{323} Iran therefore put pressure on the UK in Iraq and started its own embargo against UK exports that lasted four months.\textsuperscript{324} In 2004 Iran intensified its campaign of negative media stories against the British Embassy in Tehran, including an accusation that the UK constructed a tunnel underneath the embassy through which it was delivering spies and prostitutes.\textsuperscript{325}

The U.S. should have been engaging Iran on issues that concerned its national security particularly from 9/11 onwards and yet there are limited political interests and official channels to do so. Furthermore, Riyadh proved to be an obstacle to diplomatic engagement between Washington and Tehran over Iraq.\textsuperscript{326} The main leverage that Saudi held was in the sale of $20 billion worth of U.S. arms to the Kingdom, and the projected sales to Arab monarchies between 2011 and 2015 set to reach $122.8 billion.\textsuperscript{327} Nevertheless, there is evidence that there was an Iranian offer on the table to cooperate with the U.S. regarding Iraq.\textsuperscript{328} However, there was no apparent response to the offer and because the U.S. designated the IRGC a terrorist organization. Iran has therefore felt no compunctions in increasing its support for insurgencies in Iraq.\textsuperscript{329}

The Qods force allegedly smuggled arms to Shi’a militia such as the Mahdi Army and Badr Brigade.\textsuperscript{330} Iran has allegedly supported acts of terrorism against U.S. and Sunni

\begin{flushright}
\textsuperscript{322} Interview with Richard Dalton, 26 January 2011, London \\
\textsuperscript{323} ibid \\
\textsuperscript{324} ibid \\
\textsuperscript{325} ibid \\
\textsuperscript{327} ibid \\
\textsuperscript{329} Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran \\
\textsuperscript{330} Anthony H. Cordesman, ‘The Quds (Qods, or Jerusalem) forces’, \textit{Iran’s Revolutionary Guards, the Al Quds Force, and Other Intelligence and Paramilitary Forces}, Center for Strategic and International Studies, 16 August 2007, 9
\end{flushright}
targets through hosting operatives such as al-Qaeda (AQ).331 Although blaming Iran for such incidents may simply be a diplomatic ploy to get other regional states such as Saudi Arabia to engage in Iraq to help contain Iran.332 The IRGC has also been able to enter Iraq through the hundreds of miles of ill-defended border with Iraq, contrary to what Richard Armitage, then Deputy Secretary of State, said about the U.S. using Iraqi bases to “pressurize Iran”.333 Iran has done this because the regime perceives yet another U.S. attempt to use Iraq as a regional counter-weight, building and supporting regional alliances against Iran and establishing military bases next to Iran’s borders.334

U.S. foreign policy favoured the continuation of containment policies to a broad based dialogue that could make progress on the range of issues that the U.S. points to in documents such as the National Security Strategy.335 The main issue that Condoleeza Rice, then Secretary of State, had about negotiations with Iran from 2003 was that Iran “wanted a big delegation” and broad based dialogue which “was not intended” or planned for by the U.S.336 Meanwhile, Iran and the EU3 negotiated the Paris Agreement in 2004 which was designed to provide objective guarantees that the Iranian nuclear programme was benign and therefore allow dialogue to advance between Iran and the West.337 In return for full disclosure of all past nuclear activities, the ratification of the NPT’s “Additional Protocol” which relates to inspections, and temporary uranium suspension, Iran was promised peaceful nuclear technology.338 The Agreement also offered an “energy partnership” to assist Iran in its modernization

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331 Iran could have delivered AQ operatives to the West or any Muslim state to show positive intentions towards, and its position on, counter-terrorism. However, in a conversation between Roberto Toscano and an Iranian foreign ministry official, the issue of reciprocity came up because Iran would expect MEK operatives to be delivered to Iran in turn. There was also the possibility that AQ would retaliate in Iran, most likely against Western embassies. The AQ issue in Iran is thus divided into a bargaining chip with the West and its concern about terrorism which keeps Iranian policy ambiguous. Roberto Toscano email to the G2K List, 29 July 2011; Gvosdev, R. T. N. K. (2004). “Pragmatism in the Midst of Iranian Turmoil.”, The Washington Quarterly, 27, 39
332 Kayhan Barzegar, ‘Iran’s Foreign Policy in Post-Invasion Iraq’, Middle East Policy, XV/4, Winter 2008, 56
333 Barbara Slavin, Bitter Friends, Bosom Enemies, 211
334 Kayhan Barzegar, ‘Iran’s Foreign Policy in Post-Invasion Iraq’, Middle East Policy, XV/4, Winter 2008, 47
336 Barbara Slavin, Bitter Friends, Bosom Enemies, 216
338 Kenneth Katzman, Iran: U.S. Concerns and Policy Responses, Congressional Research Service, 28
of its oil and gas sector, and the inclusion of Iran into a regional security architecture and support for a WMD FZ in the Middle East.\textsuperscript{339}

The U.S. was not interested in pursuing this nor were Iran’s Gulf neighbours which is surprising given that Iranian involvement in Gulf security could be a “potential game changer”, especially if it was offering security at a low level of arms.\textsuperscript{340} Instead, the U.S. appears intent on staying as a “local power” which has been made clear from its recent arms sales to the UAE and Saudi Arabia.\textsuperscript{341} This has left the U.S. free to extend its sphere of influence unchecked and ‘freeze’ Iran out of regional issues, thereby undermining Iran’s vital interests.\textsuperscript{342} The U.S. does however recognise the importance of regional stability and therefore accepts that an increase in Iranian influence is not against U.S. interests.\textsuperscript{343} U.S. engagement with Iran would therefore be as beneficial to promoting U.S. interests in the region, if not more so, than promoting Iranian interests. U.S. strategic and security interests have grown to the MEPP, the GWOT, and sectarian violence. In each area, Iran could play a decisive role.

An oxymoron has existed for some time in U.S. foreign and energy policy; at a time when the U.S. promised a diversification of oil supplies, securing them and minimizing the risk of flow disruptions, the U.S. has also implemented foreign policies towards Iran, Iraq and Libya in a way which does the opposite, thereby reducing supply and increasing costs.\textsuperscript{344} It was the deep divisions within the Bush administration, between the hawkish neo-conservatives in the Department of Defense and the Office of the Vice-President who wanted regime change (but did not want to dedicate too many resources to the policy) and the more liberal approach taken by the State Department that led to the continuation of previous U.S. policy on Iran.\textsuperscript{345}

\textbf{4.5.4 The Nuclear Deadlock: 2005 Onwards}

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\textsuperscript{339} ibid \\
\textsuperscript{340} Interview with Richard Dalton, 26 January 2011, London \\
\textsuperscript{341} ibid \\
\textsuperscript{342} Anoushiravan Ehteshami, ‘Iran’s Assessment of the Iraq Crisis and the Post-9/11 International Order’, \textit{The Iraq Crisis and World Order}, 138 \\
\textsuperscript{343} Interview with a foreign government representative who asked not to be named, 3 June 2010, London \\
\textsuperscript{345} ibid, 344
\end{flushright}
Ahmadinejad’s election facilitated the demise of nuclear negotiations between Iran and the West. His decision to remove the seals and start conversion of uranium at an enrichment facility in Isfahan coupled with a lack of nuclear transparency, a diplomatic deadlock and anti-European rhetoric following the 2009 election, provided a new prism through which sanctions have tightened further. These policies appear to be miscalculations by both Ahmadinejad and Khamenei since alternative powers and oil markets such as China ultimately prefer their relationships with the U.S. over Iran.

After Ahmadinejad won the 2005 Iranian presidential election, Iran accused the EU3 of prolonging the process laid out in the Paris Agreement due to pressure from the U.S. Iran suggested that the IAEA develop the technical, legal and monitoring processes required to solve the deadlock. The EU3 was split in this case and none of the incentives proposed to Iran were enough to dissuade it from its continuing with its enrichment plans. Iran thereafter took a fork in the road and away from the platform of accommodation with the West. Iran started conversion (a step before enrichment) again in August 2005 when it broke IAEA seals at the Isfahan facility.

In response to the new Iranian nuclear policy, the EU suspended the Trade and Cooperation Agreement (TCA) and energy charter (overland gas regulation).

The IAEA board then referred the case to the UN Security Council in February 2006, after initial fears expressed by ElBaradei that Iran could face the same kind of U.S.-led intervention that Iraq experienced in 2003. In 2003, EU foreign ministers from France, Germany and the UK made a historic visit to Iran to resolve the issues of nuclear transparency viz the IAEA, for Iran to sign the Additional Protocol and to suspend enrichment. Iran did suspend enrichment but was expecting EU3 support.

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346 Anoushiravan Ehteshami, 'Iran’s Assessment of the Iraq Crisis and the Post-9/11 International Order', *The Iraq Crisis and World Order*, 138
350 Mark Hibbs and Andreas Persbo, *The ElBaradei legacy*, Bulletin of the Atomic Scientists, 14
351 Shahrriar Sabet-Saeidi, ‘Iranian – European Relations: A Strategic Partnership’, *Iran’s Foreign Policy*, 65
for its negotiations at the IAEA which did not happen.\textsuperscript{352} This disappointment led the way for the Majlis to stop the implementation of the Additional Protocol after refer of Iran to the IAEA in 2006.\textsuperscript{353}

It then became clear that it would be hard to make progress with Iran under the EU3 remit which meant that Iran could exploit gaps between the U.S., EU and Japan over regional and economic issues, especially regarding U.S. sanctions.\textsuperscript{354} The nuclear issue was a block and human rights were off the agenda, both of which cast a shadow on the bilateral Iran – UK relationship.\textsuperscript{355} There was simultaneously an increase in the number of negative opportunities exploited in the UK – Iran relationship which included the British Institute of Persian Studies director being expelled in 2005; refused a visa for the British Council director in 2006; and threatening British Council staff, in effect closing it down, in 2007.\textsuperscript{356} This was accompanied with an increase in the intensity of fighting in Iraq, and an increase in Iranian support for the Shi’a.\textsuperscript{357} After the re-election of Ahmadinejad, 2009 was a watershed only in the degree of negative actions taken by Iran: The UK was labelled as the “ring leader” against Iran, and from 2009, there was a thorough deterioration in the UK – Iran relationship.\textsuperscript{358}

The foreign policies of the U.S. – the “Great Satan” – continue to form the foundations of Iranian foreign policy towards the West in general.\textsuperscript{359} For the U.S. which has gone the longest without contact with Iran; thirty years with sporadic contact on Afghanistan and the nuclear file, it has no feel for Iranian diplomacy or the factors which influence its responses.\textsuperscript{360} This has made it far more susceptible to rely on the strategic assessments of Israel which has lobbied the U.S. according to its own

\textsuperscript{352} \textit{ibid}
\textsuperscript{353} ‘Iran Provides 20 Answers to Clarify Ambiguities About its Nuclear Program’,\textit{ Tehran Times}, 9 November 2011, available at \url{http://tehrantimes.com/politics/4362-iran-provides-20-answers-to-clarify-ambiguities-about-its-nuclear-program}
\textsuperscript{354} ‘USA Edges Towards a More Pragmatic Iran Policy’,\textit{ GSN}, 30/790, 29 September 2006, 4
\textsuperscript{355} Interview with Richard Dalton, 26 January 2011, London
\textsuperscript{356} \textit{ibid}
\textsuperscript{357} \textit{ibid}
\textsuperscript{358} \textit{ibid}
\textsuperscript{359} “Great Satan” is normally used to describe the United States whilst “Little Satan” is used to describe Israel. However, the “Great Satan” has also been used to refer to the UK after violent clashes following the disputed 2009 presidential election. William O. Beeman, \textit{The “Great Satan vs. the ”Mad Mullahs”}, (Chicago: The University of Chicago Press, 2005), 130; Adam Smith, ‘Has Britain Replaced the U.S. as Iran’s Little Satan’, \textit{Time}, 26 June 2009, available at: \url{http://www.time.com/time/world/article/0,8599,1907066,00.html}
\textsuperscript{360} \textit{ibid}
agents impersonating CIA agents in order to recruit MEK operatives against Iran.\textsuperscript{368} This Iranian response has also been apparent through attempted Iranian assassinations of Israeli diplomats in Bangkok.\textsuperscript{369}

Iranian relations with other actors such as China are therefore a function of these very poor relationships as Iran seeks to find alternative powers with which to balance. As of 2008, Iran’s LNG remains under U.S. control since exporting it requires the participation of the IOCs.\textsuperscript{370} Japan imported 18\% of Iran’s 2.47 m b/d in 2007, with 42\% going to the rest of Asia (total Asia is 60\%).\textsuperscript{371} Most of the rest goes to China which leaves “China calling the shots”.\textsuperscript{372} Some of that business includes Sinopec retooling an idled crude distillation plant in its Tianjin refinery and turning it into a condensate splitter to process Iran’s South Pars condensate.\textsuperscript{373} The plant will take 50,000 b/d crude or 23,500 b/d condensate and was expected to be online by April 2011.\textsuperscript{374}

China is spending $2.5 billion in developing the South Azadegan oil field that straddles the border with Iraq. Output could reach 600,000 b/d which would be a major boost to Iran’s energy sector. China’s CNOOC has already signed a $1.76 billion deal in 2009 to develop the North Azadegan field which has reserves estimated at 42 billion barrels.\textsuperscript{375} The Iranian - Sino relationship is a function of the regional and international political environment that has led to the alignment of interests between the two states.\textsuperscript{376} Iran is seeking new trade partners, and in particular oil markets (Iran was responsible for 23\% of China’s oil imports in 2009, second only to Saudi Arabia\textsuperscript{377}), to counter the sanctions regime, whilst China is exploring new trade


\textsuperscript{370} Richard Dalton et al, ‘Iran: Breaking the Nuclear Deadlock’, Chatham House, 13

\textsuperscript{371} \textit{ibid}, 15

\textsuperscript{372} Interview with Richard Dalton, 26 January 2011, London

\textsuperscript{373} ‘China to Import 23,500bpd Iran Gas’, \textit{Iran News}, 24 February 2011, 4

\textsuperscript{374} \textit{ibid}

\textsuperscript{375} \textit{ibid}

\textsuperscript{376} \textit{ibid}


\textsuperscript{377} \textit{ibid}
opportunities in the Middle East (in everything from shoes to prayer mats). Gas has also been a major linkage between the two states and a $20 billion deal over 25 years was signed in 2004 between Chinese state-owned Zhuhai Zhenrong Corporation and Iran. China will try to forge close links with Iran within the bounds of the international sanctions which it doesn’t support, but does so under the pressure of the U.S.

Although the U.S. cannot trade on good relations with China and others to begin another dialogue with Iran, China has appeased Washington and avoided sanctions on its big energy firms by reducing oil and gas related investment in Iran. This trend confirms that “China is not ready to lose too many feathers for Iran” because China still has other options to import oil from suppliers such as Saudi Arabia. China was considered by many leading figures in the Iran government (including Khamenei, Rafsanjani and Ahmedinejad) to be a more reliable partner for Iran than a rapprochement with the West, but this choice will show them to be wrong and pressure on Iran will increase further.

In May 2008, the original 2006 ‘energy partnership’ presented to Iran by the P5+1 was enhanced by the Bush administration to include political cooperation and enhanced energy cooperation. In response, Iran was interested in a six week sanctions freeze in return for a six weeks enrichment freeze but it did not go anywhere in Geneva in August 2008. Therefore a new confidence building measure was required in 2009, which was developed by the U.S., France and Russia for the Tehran Research Reactor (TRR). The French had built the Tehran reactor during the Shah’s era (who incidentally spent $1 billion on his nuclear programme), allowing Iran to

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378 ibid, 11
379 ibid, 12
380 Interview with Leo Drollas, 26 January 2011, London
381 Interview with Richard Dalton, 26 January 2011, London
383 Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
384 Anoushiravan Ehteshami and Mahjoob Zweiri, ‘Introduction’, Iran’s Foreign Policy, xiv
386 Kenneth Katzman, Iran: U.S. Concerns and Policy Responses, Congressional Research Service, 27
387 ibid
388 Interview with Ali Biniaz, 27 February 2011, Tehran
develop Isotopes for medical research, but now Iran is now running out of nuclear fuel for this reactor.\textsuperscript{388}

The offer made was for Iran to accept the exportation of 80\% of its Low Enriched Uranium (LEU) – 1200 kg at the time – in exchange for fuel for Iran’s research reactor.\textsuperscript{389} The intention was to re-create dialogue between the U.S. and Iran, not to replace dialogue on the nuclear programme. The Obama administration opposed the deal even though Iran was more willing to sign the Additional Protocol after the proposal in 2009 than at any time before.\textsuperscript{390} Instead, the U.S. opted for wider ranging and rigorous terms of sanctions, would raise the price of the nuclear programme and put Iran in the dock of the world (at the UNSC) once again.

Following the Iranian election, the prospect of crippling sanctions brought the Iranian nuclear negotiator Sayed Jallili to meet privately with Under Secretary of State William Burns in Geneva in October 2009.\textsuperscript{391} The tentative agreement reached focused on a number of key areas of contention: IAEA inspections at Qom, reprocessing of 75\% of Iran’s LEU for medical use (less because Iran had continued to enrich), and further talks.\textsuperscript{392} Although Ahmadinejad “did not have a problem” with the P5 + 1 and IAEA proposal, hardliners inside Iran managed to thwart the shipment of enriched uranium and sent counter proposals.\textsuperscript{393} In the end, Iran refused because the offer was too high an amount of LEU.\textsuperscript{394}

In February 2010, Iran (through a meeting between the former Austrian Ambassador to Tehran, Michael Postl, and Ahmadinejad’s chief of cabinet, Esfandiar Mashaie, who is acknowledged to have the confidence and backing of the president) allegedly accepted the Tehran Research Reactor (TRR) proposal to export 1200kg of its LEU.\textsuperscript{395} This was because loosing 1200kg was less of a worry than it was and because the agreement would be tantamount to international acceptance of the Iranian right to

\begin{footnotes}
\item[388] Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
\item[389] ibid
\item[390] Interview with Ruprecht Polenz, 22 September 2011, Berlin
\item[392] ibid
\item[393] ibid, 28
\item[394] ibid
\end{footnotes}
enrich. In addition, the Iranian regime’s attitude toward the nuclear issue was said to have changed between the proposal on 1\textsuperscript{st} October 2010 at the UN in Geneva and the IAEA Vienna talks which started on 19\textsuperscript{th} October 2010. The reasons were stated as being due to political friction domestically in Iran over the programme and due to changes to the potential agreement that had been added between the meetings, particularly over where the exchange of LEU would take place (Austria, Switzerland and Turkey were all possibilities) and the transfer of it in a single ‘tranche’, which caused Iran to question the motives of those involved.

The TRR deal was rejected by “spoilers” involved in the nuclear negotiations including: former Foreign Minister Kamal Kharazi, National Security Secretaries and former nuclear negotiators Ali Larijani\textsuperscript{399} and Hasan Ruhani.\textsuperscript{400} Mashaie, Ahmadinejad’s chief advisor, was quoted as saying that it was the UK that was the “spoiler” of the P5 + 1 after the 2009 elections and that Iran would prefer to negotiate directly with the U.S. rather than France and Russia over the TRR.\textsuperscript{401} The U.S. was sceptical of the accepted proposal and believed it was merely a rouse to confuse or delay sanctions and Iran would be unlikely to go ahead with the proposal if sanctions proceeded.\textsuperscript{402} Although Iran’s negative stances may be changing as it is running out of the 20% enriched uranium it needs to keep the TRR going and is therefore showing a greater willingness to compromise on this aspect of the nuclear programme.\textsuperscript{403}

The deal remained on the table at negotiations in Istanbul in January 2011 (taking into account new enrichment figures) and remains the only confidence building measure available.\textsuperscript{404} An Iranian delegation has been invited to the International Conference on Afghanistan in Bonn conference so there is room for constructive engagement, notwithstanding tensions over the Washington terror plot, particularly on a regional

\textsuperscript{396} ibid
\textsuperscript{397} ibid
\textsuperscript{398} ibid
\textsuperscript{399} It is important to note different stances regarding different issues. For example Larijani is actually more internationalist than his peers, stating that “We should not have what I would call an obstinate policy towards the world.” Kenneth Pollack and Ray Takeyh, ‘Taking on Tehran’, \textit{Foreign Affairs}, 22
\textsuperscript{400} ibid
\textsuperscript{401} ibid
\textsuperscript{402} ibid
\textsuperscript{404} Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
trade agreement, counter-terrorism, narcotics and the drug traffickers who kill Iranian law enforcement officials. However, it is the IRGC that the West will need to negotiate directly with, since they control the ballistic missile programme, anti-drug trafficking efforts, border control in sensitive areas such as the border with Kurdistan and cooperation with militias and Basij. The incentive of the TRR proposal for Iran to negotiate with the West and give any concessions on its nuclear programme have also been removed as Russia has shown its readiness to sign a radioactive isotope contract with Tehran.

A nuclear deal such as the “Tehran Declaration” to send enriched uranium to Turkey, Austria or Switzerland, would be “seen as significant” and could have been successful if it was over a longer period than just the five years, since it would make it a long term commitment to the NPT. The West’s reward would have been Iran finding it harder to explain enrichment in future but it was too big a step for Iran. This combination of enrichment suspension, an on-shore enrichment joint venture with safeguards, and specific made to measure IAEA monitoring are still seen as the best way to resolve the Iranian nuclear programme. Although ‘full supervision’ in exchange for lifting sanctions is still not expected to include ‘snap checks’ provided for in the Additional Protocol.

The deadlock thus comes down to Iran resolving internal tensions within the elite and reconciling its starting point of uranium enrichment with the West. The EU3’s starting point is an open and honest dialogue and a halt to the enrichment. Iran is said to be in ‘heavy’ violation of its international obligations primarily because there is no civilian justification for its programme and no plant (including Bushehr) can use the

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405 Interview with Richard Dalton, 26 January 2011, London
407 Ibid
408 ‘Moscow Ready to Sign Radioactive Isotope Contract with Tehran’, Iran News, 24 February 2011, 15
409 Interview with Ruprecht Polenz, 22 September 2011, Berlin
410 Between 2000 and 2005 there was cooperation on drugs between Iran and the UK. Interview with Richard Dalton, 26 January 2011, London
413 Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
more highly enriched fuel. However, there is actually no formal procedure for determining whether Iran has violated its obligations under the NPT. Its referral to the UNSC was due to non-compliance of the NPT Comprehensive Safeguards Agreement in 2006. Furthermore, Iran’s 164 centrifuges in 2006 were far less than the fifty thousand required to enrich uranium to 90% required for weapons grade material. Therefore, rather than proscribing Iran as being in violation of the NPT, the EU3 could have continued to provide credible security assurances, ensured the programme was as transparent as possible and assisted Iran with a civilian nuclear programme without pre-conditions, thereby contributing to a positive partnership. Bushehr is not as much of a concern to the P5 +1 since the $800 million plant has been under Russian control from the period of the contract in 1995 to the point it became operational in August 2011. It was the concealment of the Iranian programme first at Natanz (2002) and then at Qom (2009) that led the UNSC to support the tightening of sanctions against Iran in 2010. The same year the U.S. updated the Iran Sanctions Act (ISA) with the Comprehensive Iran Sanctions and Divestment Act (CISADA) which rescinded the exemption of Iranian caviar, carpets and pistachios from the ISA.

The Bush administration could have done a deal with Iran in 2003-4 if it had taken the current ‘open hand’ policy of the Obama administration. Iranians say that Obama’s rapprochement with Iran was immature, since his ‘open hand’ was quickly taken back after the Iranian election. It is more difficult now because of the highly polarised views of the Democrats and Republicans and the U.S. Senate which wants a “stick” policy towards Iran. In effect the Senate is continuing the ‘Bush Doctrine’ of

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414 ibid
417 Kenneth Katzman, Iran: U.S. Concerns and Policy Responses, Congressional Research Service, 28
418 Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
419 Suzanne Maloney, ‘Progress of the Obama Administration’s Policy Toward Iran’, Brookings, 15 November 2011
420 Interview with Ruprecht Polenz, 22 September 2011, Berlin
421 Interview with Ali Biniaz, 27 February 2011, Tehran
422 ibid
exporting democracy (through support for the Arab Uprisings) which could, and has, lead to further tensions with Iran.423

Finally, Saudi Arabia believed that Western engagement with Iran started out on the wrong foot through the EU3 and its explicit communication of carrots and sticks which no self respecting state would accept.424 Germany was responsible for trying to keep this format together in negotiations with Iran as a political solution is only possible through this format (in conjunction with the U.S., China and Russia: the 3 + 3); this is because Iran possibly trusts Germany more.425 There are no alternatives to this negotiation set-up and without full-fledged war, “we [the EU3] cannot force our will upon Iran”.426 The same criticism of the 3 + 3 being the right institutional framework to negotiate with Iran has also been made, but there is no alternative grouping to lead negotiations, nor is there a new package on the table which could have included different or more creative inspections or monitoring regimes.427

4.6 THE POSSIBILITY OF ALTERNATIVE STRATEGIES: ATTEMPTING TO RECONCILE THE RESISTANCE AND PRO-WESTERN ALLIANCES

The following two sub-sections lay the foundations for a re-thinking on the current nuclear negotiations deadlock and pro-sanctions regime. The first details a WMDFZ in the Middle East and the difficulty in bringing all the necessary actors on board in order to achieve its ultimate success. The second proposes a new policy of active engagement which could easily be made operational. It tackles the rationale for the ‘resistance axis’ head on by questioning the assumptions of sanctions and containment versus the benefits of literally investing in engagement and dialogue.

4.6.1 A WMDFZ in the Middle East: Redefining Alliances

The WMDFZ in the Middle East is based on the extending the 1995 NPT review to include chemical, biological, nuclear and their delivery systems, which itself was an

424 Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
425 Interview with Ruprecht Polenz, 22 September 2011, Berlin
426 ibid
427 Interview with Richard Dalton, 26 January 2011, London
initiative put forward by Egypt in 1990 after calls as far back as 1974 from both Iran and Egypt to avoid WMD in the Middle East. The proposal is important because it could be a way out of the nuclear impasse with Iran. In order for the proposal to work, it must:

1. Be guaranteed by the UNSC (enforceable)
2. Have a sanctions regime (economic, political and military) and rewards regime (economic and technical aid to encourage states to join) – then states will not feel threatened by those who try to develop WMD

There are a number of challenges which need to be overcome before a new WMDFZ in the Middle East can be established. The main one is the Cold War that exists between Iran and Israel. Expecting Iran to give up its enrichment programme and Israel to reduce its arsenal would require counter-intuitive thinking and faith in the UNSC during a period of increasing conflict and uncertainty. Much of that uncertainty stems from the Israel-Palestine conflict. Therefore, although there is a potential positive effect of Palestinian statehood so long as it is done in a way that reduces tensions with Israel, a WMDFZ agreement is unlikely to be reached in the near term. Secondly and on a related point, the WMDFZ would require all actors to cease their respective programmes and/or commit to a phased draw down of nuclear weapons according to an agreed upon timetable. A WMDFZ across the Middle East would have to include an existing nuclear power, Israel, which does not seem, by any stretch of imagination, willing to give up its nuclear weapons. The lag time required by Israel before it could give up its nuclear weapons is not likely to match the expectations of other actors in the Middle East. Without a WMDFZ agreement as a solution to the Iranian enrichment programme, other solutions must be considered. The future of the Israeli and Palestinian conflict is also at stake since both

429 Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
431 Interview with Ruprecht Polenz, 22 September 2011, Berlin
432 Email interview with Roberto Toscano, 12 August 2011
433 Interview with Ruprecht Polenz, 22 September 2011, Berlin
Israel and the PNA will fail to respect outside pressure if Iran is able to obtain nuclear weapons.\textsuperscript{434}

What is encouraging for a WMDFZ in the Middle East is the rationale for an Iranian nuclear programme appears to be limited. It will take Iran many years for Iran to approach the 75-200 nuclear warheads that Israel has and would therefore not be enough to tilt the balance of power across the Middle East in Iran’s favour.\textsuperscript{435} Furthermore, it is “not plausible” for Iran to give nuclear weapons to Hezbollah and Hamas because Iran would suffer from retaliation from Israel without having the responsibility for when or why a weapon was used.\textsuperscript{436} Although a nuclear Iran might embolden certain groups such as Hamas, if they function under an Iranian nuclear umbrella it will have no use because Israel has a second strike capability.\textsuperscript{437} Iran already has a second strike capability in Hezbollah.\textsuperscript{438} Therefore, the Iranian nuclear programme could be categorised in terms related to respect and its sense of place in the international community. Reaching a nuclear agreement should be far easier based on cooperation on these terms and through the exploration of universal themes such as non-proliferation than through sanctions.

4.6.2 The Argument for Active Engagement to Remove Resistance

The belief in the West that tightening sanctions will change Iranian foreign policy is the single greatest barrier to adopting a revised Western foreign policy that includes constructive engagement with the Iranian regime. Sanctions may raise the costs of Iran’s nuclear programme in order for it to be no longer in its national interests but these costs will be offset by the Iranian ‘economic jihad’.\textsuperscript{439} The costs could also be transferred from the regime to opposition groups of the government, some of which

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\textsuperscript{434} Remarks from Prince Turki Al-Faisal, University of Exeter, 16 March 2011
\textsuperscript{436} Interview with Ruprecht Polenz, 22 September 2011, Berlin
\textsuperscript{437} ibid
\textsuperscript{439} Interview with Ruprecht Polenz, 22 September 2011, Berlin
could be most in favour of a rapprochement with the West.\textsuperscript{440} Sanctions have not led to improvements in bilateral dialogue, quite the opposite.\textsuperscript{441} They may boost the relative standing of the U.S.\textsuperscript{442} and the UNSC, but they simultaneously depresses the standing of Iran and therefore makes it less likely that vital nuclear negotiations will take place.\textsuperscript{443} More fundamentally, since the UNSC did not come to a formal conclusion as to whether the Iranian nuclear programme was a ‘threat to peace’ under Article 39, there are doubts as to whether the use of Chapter 8 to impose ‘international obligations on Iran’ or sanctions is just.\textsuperscript{444} Furthermore, “Sanctions made no difference to [Iran’s foreign] policy”.\textsuperscript{445} Since the UNSC imposed sanctions on Iran in 2006, the number of centrifuges has grown in sophistication and increased by a factor of eight.\textsuperscript{446} Iran is now enriching uranium to two levels (3.5\% and 20\%) and developed a second enrichment facility, so sanctions have led to greater resistance against the West not less.\textsuperscript{447}

This has been consistent with the case of Libya. ‘As for promoting values and conditions that create a more stable environment, there is no evidence that sanctions did so.’\textsuperscript{448} In the case of Sudan, lighter sanctions had more success by showing international disapproval whilst allowing for the possibility for a shift in the regime’s

\begin{itemize}
\item \textsuperscript{440} Alireza Nader, ‘Is Regime Change in Iran the Only Solution?’, \textit{Foreign Policy}, 26 January 2012, available at http://mideast.foreignpolicy.com/posts/2012/01/26/is_regime_change_in_iran_the_only_solution
\item \textsuperscript{441} Admiral Mullen, Chairman of the Joint Chiefs of Staff in the U.S., said he had concerns that the lack of direct contact between the U.S. and Iran is troubling, noting that even in the Cold War the U.S. could still talk to the Soviet Union. Jim Garamore, ‘Chairman Concerned Over Lack of U.S. – Iran Contact’, U.S. Department of Defence, 14 September 2011, available at http://www.defense.gov/news/newsarticle.aspx?id=65334
\item \textsuperscript{442} During containment against the Soviet threat, it was deemed necessary for the U.S. to negotiate from strength. Melvyn P. Leffler, ‘Remembering George Kennan: Lessons for Today’, \textit{USIP}, available at http://www.usip.org/files/resources/SRdec06.pdf
\item \textsuperscript{444} Shirin Shafaie, ‘Diplomatic Miscalculations and the Threat of War: Part 1’, \textit{Fair Observer}, 22 February 2012
\item \textsuperscript{445} Telephone interview with Martin Indyk, 1 November 2011; confirmed in an email interview with Roberto Toscano, 12 August 2011
\item \textsuperscript{446} Although far less than the stated objective of 50,000 centrifuges. Ali Vaez, ‘Seyed Hossein Mousavian: The West is Pushing Iran in the Wrong Direction’, \textit{Bulletin of the Atomic Scientists}, 18 November 2011, available at http://thebulletin.org/web-edition/features/seyyed-hossein-mousavian-the-west-pushing-iran-the-wrong-direction
\item \textsuperscript{447} ibid
\item \textsuperscript{448} Tim Niblock, ‘Conclusion’, \textit{“Pariah States” & Sanctions in the Middle East: Iraq, Libya, Sudan}, (Boulder: Lynne Rienner, 2001), 93
\end{itemize}
policies. Although U.S. policy and UN sanctions have shown disapproval, they have also been heavy sanctions which have reduced the likelihood for a shift in the Iranian regime’s foreign policies. As long as Hillary Clinton and the U.S. takes the policy that: ‘We’re not going to keep the window [of diplomacy with Iran on the nuclear issue] open forever’, Israel maintains a hawkish stance, and IAEA reports escalate civil society buzz around military strikes it is imperative to facilitate dialogue at the earliest opportunity.

Ambassador Indyk believes that given where Iran is in its nuclear programme, its history, and the possibility of an Israeli pre-emptive strike, the issue is complicated for the U.S. In 2012, there was a greater coordinated approach between the U.S. and EU for increased sanctions that might avoid such an Israeli strike. Longer term, the only way Iran and the U.S. can engage is through a Road Map of reciprocal moves leading to more constructive relations. Reaching a point of ‘high equilibrium’ or positive balancing between Iran and the UK, Russia and U.S. based on mutual strategic value and no fear on all sides is the ultimate aim. However, the U.S. needs to know what Iran will do if and when the U.S. lifts sanctions and not just pocket concessions as it did during the Khatami era. Iran therefore needs to understand that it must be ready and willing to reciprocate in a timely manner in order to advance relations.

So far what Iran is being offered is not a compromise, but rather the surrender of what it considers (and is) the right to enrich. Insisting on Iran giving up enrichment is

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449 ibid, 213
453 Andrew Parasiliti, ‘Iran: Diplomacy and Deterrence’, Survival, 5
455 Telephone interview with Martin Indyk, 1 November 2011
456 Interview with Ali Biniaz, 27 February 2011, Tehran
457 ibid
458 Email interview with Roberto Toscano, 12 August 2011
legally weak and politically ineffective.\textsuperscript{459} The Iranian argument to Brazil that “today Iran has been denied its rights to enrich under the NPT, tomorrow it will be you” is also getting traction; the non-nuclear states are not so convinced that Iran requires special treatment because it is technically in accordance with the NPT.\textsuperscript{460} Iran has to be submitted to IAEA controls, and given the doubts and the ambiguities; it has to be submitted to special controls which should be the object of negotiations.\textsuperscript{461} Instead of singling out Iran, an improved IAEA framework could simultaneously tackle nuclear related and proliferation issues of all the nuclear programmes inside and outside of the NPT, including North Korea, Pakistan, India and Israel. Making the NPT more robust or supplementing it with a mandatory Additional Protocol is especially important since part of the Iranian nuclear programme, through ‘nuclear-related activities’, already falls outside of the provisions contained in the NPT.\textsuperscript{462}

Negotiating only on the nuclear issue with Iran and, worse than that, only on enrichment, is bad strategy. The EU3 should increase the number of issues, and sometimes common interests, on which it negotiates if it wants to reach a deal.\textsuperscript{463} Iran still needs technology transfer from the West/Japan to Iran: Iran needs $100 billion to develop its oil and gas industry, which could be a major factor in normalising its international relations in future.\textsuperscript{464} Hojjat al-Eslam Mesbahi-Moqaddam, head of the parliamentary Economic Development Scheme Commission, says the Iranian Central Bank has “more than $100 billion”.\textsuperscript{465} Iran is known to have huge reserves which would be best to exploit now, tax and encourage high production; Iran could then invest in industries inside Iran and develop its economy more effectively.\textsuperscript{466} The pressure from sanctions may not be as great as the West would like it to be, but there

\textsuperscript{459} ibid
\textsuperscript{460} Interview with Ruprecht Polenz, 22 September 2011, Berlin
\textsuperscript{461} Email interview with Roberto Toscano, 12 August 2011
\textsuperscript{463} Email interview with Roberto Toscano, 12 August 2011; confirmed by Richard Dalton, ‘Relations Will Only Improve When it Benefits Tehran’, \textit{The Independent}, 30 December 2009
\textsuperscript{464} Interview with a European diplomat who asked not to be named, 24 February 2011, Tehran
\textsuperscript{465} Richard Dalton, Email to the G2K List, 25 January 2012
\textsuperscript{466} Interview with Leo Drollas, 26 January 2011, London
is still great potential in renewing energy cooperation\footnote{467}, nuclear power cooperation, a regional security framework inclusive of Iran and a U.S. security guarantee.\footnote{468}

It is hard to have a regional security agreement that includes Iran if it continues to project more influence regionally and in South West Asia to undercut the U.S. presence there.\footnote{469} Khamenei has also called U.S. and EU presence in the Persian Gulf as “detrimental and unwarranted”.\footnote{470} Therefore some moderation of Western intervention will be required. Finding common ground should start with Afghanistan. One senior British diplomat stated that: “I think Iran should be included in a regional security framework, and I think the way to start is to engage them over a regional framework over Afghanistan and then building out from there”.\footnote{471} Any political agreement with Iran will require the support of the IAEA, the UN, Iran’s main trading partners and the U.S.\footnote{472} The goals of the P5 + 1 including the U.S., Russia, Germany, France, China and the UK, will always be to have high levels of assurance that Iran is not diverting nuclear material for military purposes and that it will contribute to regional security.\footnote{473} However, these relationships cannot be dominated by the nuclear issue alone, since distrust on the Iranian side will continue to build if communications and negotiations remain sterile.\footnote{474}

\section*{4.7 CONCLUSION}

Iran has pointed to greater regionalism in Central Asia and the development of bilateral relations with a variety of other non-aligned actors from Ecuador to Turkmenistan to Zimbabwe in order to counter U.S. and UNSC imposed sanctions. However, none of these relationships will be able to fill the gap lost from contracts with IOCs and FDI from the West. This is particularly the case as major oil and gas

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\item \footnote{467}{Iran is trying to export gas to Western Europe through the Nabucco pipeline project which includes negotiations between Iran, Turkey and Austria. Kenneth Katzman, ‘European Gas Pipeline Routes’, \textit{Iran Sanctions}, Congressional Research Service, 9 November 2010, 8}
\item \footnote{468}{Interview with Ruprecht Polenz, 22 September 2011, Berlin; Email interview with Roberto Toscano, 12 August 2011}
\item \footnote{469}{‘Iran’s Naval-Gazing More Political Than Military’, \textit{Radio Free Europe}, 29 September 2011, available at \url{http://www.rferl.org/content/iran_navy_/24334129.html}}
\item \footnote{470}{\textit{ibid}}
\item \footnote{471}{Interview with a senior British diplomat who asked not to be named, 4 June 2011, London}
\item \footnote{473}{\textit{ibid}}
\item \footnote{474}{\textit{ibid}}
\end{itemize}
investment is needed to modernize South Pars LNG fields 1-11 to boost production and revenues.\(^475\) Iran’s “axis of oil” with Venezuela is also in question which makes its options for balancing against Israel, the U.S. and other European powers almost redundant.

Instead of sanctions and a possible military strike against Iran by the U.S. or Israel, the West should be able to not only illustrate, but demonstrate, to Khamenei, Ahmadinejad and the IRGC that it is in their interests to re-align with the West. This would mean Iran turns a page in its support of PIJ and Hezbollah, put its enrichment programme into full compliance with the NPT or a revised treaty, and limit its involvement in the Arab Uprisings. For the West, it would mean the U.S. coming to terms with the 1979 embassy hostage crisis and make up for the common stance taken against Iran during the Iran – Iraq War. The best way to do this is by replicating Kennedy’s policy with the Soviet Union using some moderated Helsinki Process, or Kissinger’s policy of rapprochement with China, (with some moderations since the U.S. and China were already nuclear powers).\(^476\)

A new ‘critical dialogue’ involving many of the binding commitments in the Helsinki Process, across politico-military, environmental, economic and human aspects of security is required. A new TCA would fulfil the economic dimension of the process which could include: facilitating oil payments and re-establishing trade links, renewing FDI, and opening markets. This would serve to undermine the black markets controlled by the IRGC, their profits and the security threats from smuggled nuclear and dual-use goods. A TCA would also serve to broaden dialogue on a number of levels whereby each issue could promote modified foreign policy behaviour because it would be in Iran’s national interest to do so.

Beyond a nuclear based deal, Afghanistan holds part of the key to reintegrating Iran with the international community through a revised regional security agreement which could extend to include the GCC States. The U.S. has found Iranian overtures of a broad dialogue hard to reconcile with its own preference for a narrow dialogue and has reservations about dialogue in general. The lack of serious commitment from the

\(^{475}\) Interview with Leo Drollas, Centre for Global Energy Studies, 26 January 2011, London

\(^{476}\) Barbara Slavin, *Bitter Friends, Bosom Enemies*, 226
U.S. has had a serious knock on effect in negotiations with the EU3 and yet such contact with full U.S. support is increasingly the only positive option available as the U.S. tries to assuage Israeli national security fears, draws down forces in Afghanistan and Iraq, and endeavours to promote a successful conclusion to the MEPP and GWOT.
5. The Triangulation of U.S. Foreign Policy towards the Middle East

5.1 INTRODUCTION

This chapter argues that the international community, notably the non-western states of the UNSC, Russia and China, as well as non-aligned BRICS members such as India, all impinge on U.S. foreign policy in the Middle East. Non-western states will continue to gain strength from the relative decline in U.S. hegemony, facilitated partly through the lack of a two-state solution, sectarian strife after the U.S. led invasion of Iraq, and in the case of Afghanistan, from early troop disengagement. However, the U.S. will continue to leverage its policies towards the Middle East through more dependent states such as Japan, which still require U.S. security guarantees, and by impinging on the policies of its partners such as the EU3. The respective motivations and roles of the leading actors in the international community outlined in this chapter are increasingly important to the foreign policy calculations of the EU3 and U.S. The chapter concludes with foreign policy recommendations for the U.S. based on its existing foreign policy objectives and strategies, relative to the foreign policy performance of emerging powers.

5.2 RUSSIA

The willingness of Russia to impinge on U.S. foreign policies in the Middle East is a function of Russia’s historical relationship with the U.S., Russia’s status as a former great power, and the spheres of influence created during the Cold War. Russian relations with the Middle East have continued to rest on Syria, which is a bulkhead against perceived western domination in the Middle East. Russian relations with Iran have also been important, but have tended to follow a more ad hoc pattern based on the convergence of their respective strategic national interests. Post 9/11, Russia has viewed increasing U.S. and NATO operations in the Middle East, Caucasus and Central Asia with unease since large parts of these regions remain in Russia’s sphere of influence. Russia and Iran therefore share the same strategic interests in pushing out third powers, such as the U.S., from the region. Russia does have a basic framework of cooperation with Iran, laid out in the Treaty of Basic Principles of
Cooperation, signed in 2001.\textsuperscript{1} However, the combination of Russia’s economy still being based on the exportation of raw materials and hydrocarbons, and the effect of sanctions against Iran, have limited bilateral trade and investment. Therefore, Russo-Iranian cooperation cannot expect to rival Russian relations with the U.S., EU and CIS.

The Russo-Iranian bilateral relationship has been compromised mainly by the Iranian nuclear programme and Russia’s diplomatic response to it. In particular, from 2000, the main barrier to improving Russia’s relations with Iran was due to the Gore-Chernomyrdin Protocol. This negotiation between the U.S. and Russia was based on the U.S. trying to learn more about the conventional arms sales between Russia and Iran, and to circumscribe it. In exchange for cooperation, the U.S. did not seek to impose penalties (sanctions) against Russia for supplying arms to a U.S. State Department designated State Sponsor of Terrorism.\textsuperscript{2} Russia did not end the arms transfers according to the Gore-Chernomyrdin timetable, and the agreement therefore became non-functioning. However, there has been cooperation from Russia, on a more ad hoc basis, regarding Russia’s involvement in constructing the Bushehr nuclear facility in Iran. Russia was quite willing to delay development of the Bushehr nuclear reactor in pursuit of its wider interests with the U.S. and UNSC. As Katzman observed in chapter 4, by delaying the development of the Bushehr reactor, Russia was able to allay U.S. fears about uranium enrichment at the site and wider fears about the Iranian nuclear programme. In general, Russia appears to be against an Iranian nuclear weapons capability, primarily because it would change the balance of power in the region and lead to more assertive Iranian policies in Russia’s traditional sphere of influence.

Putin, during his second term as President of Russia in 2007, labelled Iran as Russia’s “greatest national security threat” when speaking to the then U.S. Defence Secretary,


Robert Gates. However, labels have not stopped Russia from supplying 70% of Iranian arms, justifying them as defensive weapons. The TOR-M1 short range surface-to-air missile system deal (useful to Iran in countering U.S. or Israeli airstrikes), was signed between Russia and Iran in December 2005 and completed in early 2007. However, the more recent S-300 missile defence deal has been suspended by Dmitry Medvedev in an attempt to improve Russian relations with the U.S. This move is particularly significant because a missile defence system such as the S-300 could reduce the ability for Israel or the U.S. to conduct a pre-emptive aerial campaign to destroy Iran’s underground nuclear facilities at Natanz and Fordo, near Qom. Whether the incumbent President, Vladimir Putin, chooses to maintain, withdraw, or expand Russian economic interests in Iran remains to be seen. The Russian Chief of the General Staff, Army General Nikolai Makarov, said in 2012 that based on Russian-American analysis and in the context of joint missile defence, Iran does represent a threat. Iran could therefore give Russia and the U.S. a useful pretext for expanding military and missile defence cooperation, a persistent irritant in their bilateral relationship.

However, Russian – U.S. cooperation may not be sustainable and there is evidence from Russia that penalties can be employed if it feels the U.S. is interfering in its sphere of influence. Russia began work again at the $1 billion Bushehr reactor in 2009 in response to U.S. support of Georgia in its 2008 conflict with Russia. The

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reactor was made operational in 2011.\textsuperscript{10} The Russian rationale appears to be based on its view that Iranian rhetoric about its nuclear programme is simply bravado. Russian support of the Iranian civilian nuclear programme can also be attributed to the Russian elite wishing to increase their business interests in Iran with the support of the Kremlin. From 2009, Medvedev and Obama have worked in closer cooperation to sanction Iran as Russia was more willing to compromise with the U.S. in order to further Russian global interests. Russia is also conscious that better relations between the U.S. and Iran must be limited by better relations between Russia and Iran if Russia is to maintain its dominant regional position. Russian foreign policy towards Iran will continue to be a function of its competing and converging national and international interests, and the Kremlin’s choice to participate in UNSC resolutions as one of the easiest ways to pursue its global interests. For example, Russia is unlikely to support the strengthening of the U.S. – EU oil embargo against Iran because, as an energy exporter, Russia wants to disassociate political motivations from energy exports.\textsuperscript{11}

President Obama established a “reset” policy with Russia in 2010, and although this has quickly been complicated by NATO missile defence, the renaissance in relations continues to be responsible for limiting some of Russia’s relations with Iran.\textsuperscript{12} Russia has always taken the view that unilateral sanctions against Iran were not justified and pushed for cooperation with Iran across various sectors including energy, high technology and culture. Russia’s relations with Iran are based on pragmatism and opportunity, exploiting the withdrawal of western investment and capital from the Iranian market within the confines of simultaneously pursuing a better Russian-U.S. partnership. The Russian policy towards Iran has sometimes sent mixed signals because it has competing foreign policy objectives towards the U.S. and Iran.

Russian foreign policy objectives towards the U.S. include elements of cooperation as outlined by the Survey of the Foreign Policy of the Russian Federation, a 2007 report.

\textsuperscript{11} Paul Stevens, An Embargo on Iranian Crude Oil Exports: How Likely and With What Impact?, Chatham House EEDP Programme Paper, January 2012, 4
issued by the Russian Ministry of Foreign Affairs. Good relations with the U.S. were determined in the report to be vital in containing transnational threats such as terrorism and proliferation. Advancing cooperation with the U.S. was also balanced with concerns against western led interference in Russian affairs, wider western interests and military interventions. Leading western interests included NATO missile defence in Eastern Europe and Turkey, NATO operations in Afghanistan, western penetration in the Caucasus and Central Asia, and trans-Caspian pipelines to Europe.

Meanwhile, Russia has been offering Iran substantial relief from international sanctions through cooperation with companies such as Rosneft, Gazprom and Tatneft exporting petrol, selling equipment to Iran’s oil and gas industry, and establishing new transport infrastructure projects. The proposed Neka-Jask pipeline which would involve Gazprom and NIOC and link the Kazakh oil fields and those in the Caspian region with Oman is one potential joint venture. There are also energy swap deals taking place between Russia, Iran and Turkmenistan so that Russia can continue to control competing oil and gas supplies to Europe. The failure of the Nabucco pipeline to link the EU to oil and gas producing states beyond Turkey can also be seen to be part of this Russian strategy of energy cooperation and control. Talks between Russia and OPEC to coordinate production levels to keep prices high also confirm this policy, but also underscore the missing supply and demand sides of energy cooperation that could contribute to a closer bilateral relationship.

Russian banks may no longer be able to process payments from Iran, and other trade may be low level, but Iran could utilise what could be termed the India Model,

14 ibid, 83
15 ibid, 85
16 Nikolay A. Kozhanov, Possible Changes in Russo-Iranian Relations after the Presidential Elections of 2012 in Russia, BRISMES Annual Conference 2012 paper, London School of Economics, 26-28 March 2012
paying for trade in a local currency such as Russian roubles. This change could facilitate Iranian investments in the Russian market. The Russo-Iranian bilateral relationship remains a pragmatic one, built on the triangulation of decision making expected from Russia by the U.S. Triangulation is likely to be easier for Russia to do than China, since Russian diplomats are more experienced in negotiating with their U.S. counterparts, especially during crises such as the Cold War. Keeping unnecessary irritants and aggravations between Russia and the West to a minimum are the principle attributes of Russian foreign policy in its dealings with Iran and other Middle East states. The Russian case shows the following factors to be important in Russian – U.S. relations, with significant consequences for the Middle East. Firstly, compromise is possible over non-vital Russian and U.S. interests. Conversely, Russia and the U.S. have clashed over their perceived vital interests in the Middle East, notably in Syria.

Whether or not the Syrian uprising will be successful at toppling al-Assad regime, a Russian ally, and whether or not the Free Syrian Army receives western assistance, will determine whether Russia chooses to ally itself with the West in the UNSC. Russian policy post-Assad could impact on its existing alliance with the U.S., and it could have great consequences for future western foreign policy in the Middle East. Russia has already lost its economic and political ties to Egypt, Iraq and Libya, and therefore supporting further western interventions in the Middle East would be foolhardy, bordering on counterproductive. The only exemption to this would be if Russia could establish a quid pro quo with the West in a similar way to the alleged deal between Saudi Arabia and NATO regarding actions towards Libya and Bahrain outlined in chapter 3.

Secondly, Russia has leverage against the U.S., more than almost any other state. Russian WMD programmes and stocks of conventional weapons, membership in major multilateral organisations such as the UNSC, and its status as a regional hegemon, make it less susceptible to U.S. pressure. The U.S. will need Russia in the pursuit of other foreign policies and particularly on issues of geo-strategic and
security significance. For example, Russia can leverage its primary interests with the U.S. through progressing or stalling on the ratification of the new START treaty.²⁰

Russia is relatively free to conduct trade and investment with Iran under a U.S. presidential waiver and pursue the most favourable terms of trade.²¹ The Kremlin enjoys the kinds of benefits from its active dialogue with Iran that is recommended to the West in chapter 4. There is bilateral cooperation on drug trafficking and in building economic ties, implementing measures against terrorism and attempting to stave off the commonly perceived threats from the ‘colour’ revolutions in the CIS and Balkan states.²² However, Russian cooperation with Iran on arms sales and nuclear expertise has attracted alleged Saudi attempts to counter them through closer Saudi – Russian trade links and the offer of lucrative Saudi contracts.²³ Saudi Arabia relations with Russia will likely suffer from close Iranian – Russian relations, as illustrated by the $800 million cancelled Russian Railways contract in Saudi Arabia in 2008 due to its other business interests in Libya at the time, a state with which Saudi Arabia had difficult relations.²⁴ Saudi Arabia is also alleged to have directly interfered in the case of the Bushehr plant and handed out generous payments to Russian workers if they decided to quit and go home.²⁵ Generally though, Saudi – Russian relations will remain dominated by their respective stance on oil, whereby Saudi Arabia is pushing for lower prices and Russia and Iran are pushing for higher oil prices. As long as Russia continues to benefit from OPEC oil production cuts without cutting production itself, increasing friction will be apparent between Riyadh and Moscow until the Kremlin decides to join OPEC. The lack of coordination on oil policy has already extended to a lack of consultation on Syria before Russia employed its veto in the

²² Anna Newby, ‘Russia Continued Relevance in U.S. Policy, World Affairs’, Center for Strategic and International Studies, 20 August 2010
²⁴ ibid
²⁵ ibid
UNSC. As a consequence, Saudi Arabia has been forced to support the idea of helping to arm the Syrian Free Army.  

Russia holds the keys for Iranian expansion of economic ties into the CIS region and continues to block Iranian accession to non-western regional economic organisations such as the SCO (a potential energy axis). This is despite Iranian rhetoric supporting Russian policies towards Georgia, Abkazia and South Ossetia. Russia understands that it must assert its interests with the U.S. but only on the points that the U.S. is willing to compromise. If Russia does go through another period of resurgent nationalism, and this is translated into tougher negotiations with the U.S., the Obama administration could find that its “reset” policy towards Russia was premature. Even more damaging to the U.S. and EU3 would be if Russia were to renege on important security treaties or resist cooperation in the UNSC or G20 in response to changes in the Middle East dynamic.

5.3 CHINA

Since China experienced its first oil deficit in 1993, it has pursued a policy of putting its economic relationship with the Gulf States ahead of politics. China has also increased its oil imports from the Gulf dramatically, leading to an oil-based partnership since 1999 between Sinopec and Saudi Aramco, with the participation of ExxonMobil. A rise in oil prices in the early 2000s has given Saudi Arabia the financial resources to invest in China at a time when China was opening up to Gulf investment after WTO accession. The bilateral relationship was also facilitated by 9/11 as Saudi Arabia felt it necessary to establish better relations with China as an alternative partner to the U.S. In contrast, China’s relations with Iran have been less strategic than those with Saudi Arabia and more transactional, particularly since a deal between Sinopec and NIOC has dwindled from a $100 billion long-term contract

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26 Al Arabiya, ‘Saudi Arabia Urges Russia to ‘Advise’ Syria to End Bloodshed Ahead of Medvedev Meeting’, 5 March 2012, available at http://english.alarabiya.net/articles/2012/03/05/198625.html
27 Anna Newby, ‘Russia Continued Relevance in U.S. Policy, World Affairs’, Center for Strategic and International Studies, 20 August 2010
29 ibid
in 2004 to a $2 billion contract by the time it was implemented in 2007. In the Saudi and Iranian relationship with China, differences stem from Iran not being part of the WTO and coming under increasing pressure from international sanctions. China is cutting oil imports from Iran which may be testament to Chinese cooperation with U.S. sanctions and an unwillingness to accept U.S. punitive measures, an opportunity to command a lower oil price from Iran or simply differences over the terms of supply agreements that can easily be rectified.

The Chinese approach to relations with Saudi Arabia, Iran and the wider Middle East has formed part its calculations of its international relations with the U.S., including: China’s emerging great power status, China’s fears of U.S. interference in its domestic politics (a point echoed by Russia) and the knock-on effects that the Arab Uprisings might have in Beijing. China’s policy towards the Middle East and U.S. is therefore not always explicitly stated, but signalled through its primary security, energy and economic policies. Energy policy is at the heart of current Chinese foreign policy because of its massive internal energy demands. China is also dependent on the U.S. for protection of much of the 7,000 mile sea lanes between the Strait of Hormuz and the Strait of Malacca into the South China Sea. Energy policy has led China to build relations with states such as Syria, Iran and Iraq, which are less pro-western and have significant oil reserves ready to export. However, this Chinese policy must be put into the broader context of the symbiotic relationship that now exists between China and the U.S. in the global economy. China remains economically dependent on the U.S. as an export market and the U.S. remains exposed to China through Beijing’s ownership of U.S. treasury bonds. Neither side is at the point of wanting to compromise its primary objectives over Middle East politics which have yet to be played out in full. Nevertheless, strategically and militarily, there are many irritants in the China-U.S. relationship, including: U.S. arms sales to Taiwan, U.S. military

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30 Ibid
surveillance close to Chinese borders and strengthened U.S. security ties with China’s neighbours such as India, Vietnam and further afield, Australia.33

Politically, China is becoming a leading example of an alternative economic model which does not require democracy to thrive. China therefore undermines western assertions that democracy provides a framework for economic reform which could lead every state to prosperity. China proves that what is important is integration into the world economy, not the importation of political systems from the West. China’s unique political economy hybrid (a one party state and market economy) could therefore be its biggest asset in the post-Arab Uprisings environment. China is also an attractive model versus the western one because of its peaceful development and harmonious approach to international relations. This is known as China’s Multidimensional Diplomacy which was promoted by Jiang Zemin at the 16th Chinese People’s Political Consultative Conference in 2002 and pursued under Hu Jintao.34 China continues to veto UNSC resolutions that deal with the internal affairs of sovereign states in the Middle East. These non-intervention principles tend to hold unless there are circumstances which make intervention preferable, based on international security concerns or the possibility that China becomes unnecessarily isolated in the UNSC.35

China’s position on the Middle East has been facilitated less by avoiding confrontation with the U.S., than by Saudi Arabia and Iran seeking a strategic counterweight to the U.S. post 9/11. In response, Beijing has promoted multilateralism and the UN as the crucial actor with regard to reconstruction in Iraq.

China has also favoured explicit end dates for U.S. occupation there.\(^{36}\) In 2002, Beijing dispatched its first Middle East peace envoy, Wang Shijie, to the region as an indication of China’s more involved approach.\(^{37}\) China, like Russia, has gained from active diplomatic engagement in the Middle East, but from a much lower starting point. China’s rationale is largely based on signing new trade and investment deals which will secure its energy needs into the future. The challenge for China will be to garner new or deeper relationships in the Middle East that have been dominated by increasing inter-regionalism with the West (e.g. between the EU and GCC) and long term arms deals. Although China’s economic growth has been meteoric, what would be the implications to its trade deals with the Middle East states should that growth slow? Many Middle East states are very cautious about developing exclusive relationships, and therefore tend to focus on developing links with a number of powers in case such a situation arises.

Growing Sino – Saudi relations are met by western fears of China securing access to energy supplies in the Middle East and beyond at the expense of the West. This could be particularly worrying for the West if China views its relationship with the U.S. as a ‘long-term zero-sum game’.\(^{38}\) The Brookings Institution cites Chinese policies on, or attitudes to, intellectual property theft, its RMB currency, constraints on FDI and rare earth metals to support its ‘zero-sum’ theory.\(^{39}\) China has growing hard power options with the development of its blue water capability (including at the Pakistani deep water port of Gwadar, close the Straits of Hormuz).\(^{40}\) Consequently, China has a growing capability to counter the growing U.S. presence in the Gulf and its bases in Central, South and West Asia.

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\(^{36}\) Chunlong Lu and Jie Chen, ‘China’s Middle East Policy Since the Post-Mao Reform’, in Jack Covarrubias and Tom Lansford (eds.), *Strategic Interests in the Middle East: Opposition or Support for U.S. Foreign Policy*, (Aldershot: Ashgate, 2007), 93

\(^{37}\) ibid


\(^{39}\) ibid

\(^{40}\) Tarique Niazi, ‘Gwadar: China’s Naval Outpost in the Indian Ocean’, China Brief 5/4, *The Jamestown Foundation*, available at [http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=3718&tx_ttnews%5BbackPid%5D=195&no_cache=1](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=3718&tx_ttnews%5BbackPid%5D=195&no_cache=1)
China’s foreign policy towards the Middle East will remain one which addresses possible causes of confrontation between China and the U.S. China can also afford to take a more relaxed approach to the Middle East, as opposed to Russia for example, since it already has good relations with many Gulf States. China can afford to wait for the U.S. to continue to make missteps and facilitate its own departure from the region to become once again an ‘over the horizon’ power. However, multilaterally, China is tied into the P5 + 1 grouping which aims to exert pressure on Iran to abandon its uranium enrichment programme. Therefore, through membership of global organisations, China will increasingly be tied into global norms which have been at least partly developed or determined by U.S. interests. For the time being China may have to tow the multilateral line, but increasingly China is acquiring the financial resources and influence which the U.S. is currently leveraging against its adversaries, such as freezing assets, cancelling commercial contracts and implementing sanctions. Should the U.S. continue to withdraw from its oil related interests from the Middle East, China could be left to fill the void.

In the meantime, Russia and China will continue to monitor the Arab Uprisings for signs of U.S. support for domestic opposition groups through its “Freedom Agenda” in spreading U.S. influence and for signs that the contagion of the uprisings has spread to their own capitals. Russia and China have experience of domestic unrest, from the period of transition from Communism to Capitalism in Moscow in 1991, and the Tiananmen Square protests in Beijing in 1989. There have already been uprisings in the Russian sphere of influence of Eastern Europe, dubbed ‘colour’ revolutions, between 2003 and 2005. Like the Arab Uprisings, these have been attributed not to spontaneous revolutions but to the U.S., through the ‘democracy assistance’ work of the United States Agency for International Development (USAID), the National Endowment for Democracy, the Open Society Institute, Freedom House and the International Center on Nonviolent Conflict.41

The mistrust therefore, between Russia, China and the U.S., could lead Russia and China to adopt a countering strategy disproportionate to any U.S. influence in the

uprisings. Russia and China have already responded robustly against western led intervention in Syria. However, their respective positions may quickly be moderated by their exposure to the Gulf monarchies. For example, King Abdullah of Saudi Arabia spoke candidly on Saudi national television about his concerns regarding the sectarian nature of the conflict in Syria following the UNSC vote.

5.4 INDIA

India is a vital U.S. partner in the Asian region because it is an emerging market and perceived bulkhead against Chinese expansionism. India is also a beacon of democracy and open society that the U.S. is trying to replicate in the wider Middle East. However, India cannot be described as pro-western. India has a long history and leading role in the NAM movement and has more policy options apart from directly aligning with the West by being part of the BRICS group. Furthermore, India is not caving into U.S. pressure to sanction Iran. India is one of Iran’s top trade partners and unlike western states, Iran has managed to work out a flexible solution for its payment problems with India. The solution, which involves Indian rupees to pay for 45% of Iran’s oil, could lead to increased trade ties with Iran and the opportunity for India to increase its influence across the Middle East as U.S. foreign policy falters. There are already signs that India has been able to use the BRICS alliance to promote its more independent foreign policies. For example, at the end of the fourth summit of the BRICS states in New Delhi in March 2012, the Indian Prime Minister, Manmohan Singh said that: “We agreed that a lasting solution in Syria and Iran can only be found through dialogue.” This statement puts the emphasis of active engagement with Iran and Syria very much back on the foreign policy agenda of the EU3 and U.S.

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5.5 JAPAN

Japan is an example of a state that is the least likely to impinge on the foreign policy interests of the EU3 and U.S. in the Middle East. This is due to a number of reasons: Japan has been dependent on U.S. security guarantees since the end of the Second World War; Japan has no political stake in the Middle East and there are conflicting debates about what future role Japan should play abroad; and Japan has suffered from a series of domestic crises (earthquake, tsunami and civilian nuclear crisis) which have made it difficult for the state to engage in an active foreign policy.

Japan continues to lack a military profile of its own due to its post-war constitution, and this is becoming a source of tension in Japanese domestic politics. Japan therefore remains dependent on the U.S. for its security in the same way that it remains dependent on the Middle East for its energy needs. Energy dependency ensures a consistent level of Japanese political solidarity with the oil exporters, even if its direct intervention during periods of conflict has been confined to helping finance the Gulf War.47 As a leading economy, Japan can offer more than solidarity to the Middle East. In the post Arab Uprisings environment Japanese economic assistance, planning and expertise in political transition could be vital to sustaining democratic projections. These are complimentary to U.S. policy in support of the uprisings.

Japan is already trying to generate goodwill in the Middle East, mainly through large scale development grants and loans to states such as Egypt.48 Japan continues to build on these ties with training programmes for graduates in Tunisia and Egypt.49 The paradox for future Japanese foreign policy makers is the split approach between trying to fulfil Japanese energy needs through investing in energy projects from Iran through

Central Asia, and keeping its commitment to the U.S. to maintain pressure on Iran.\textsuperscript{50}

Which course Japanese policy makers choose in the future could have a dramatic bearing on Japanese engagement in the Middle East and its relations with the U.S. Unfortunately for Japan, apart from the G20, its influence through multilateral organisations which could boost its engagement in the Middle East remain limited.

Without a major political stake in the Middle East, economic relations are far more important in maintaining Japanese foreign relations than they are for many of the other states in this chapter, except perhaps India. The Japanese policy of putting energy security before bilateral relations has further eroded Japan’s relationship with major oil exporters. Although Japan is a major oil customer and a significant source of commercial opportunities and expertise for many Middle East states, including Iran, these linkages have been negatively impacted by Japan’s dependence on the U.S. The U.S. has therefore easily been able to convert Japan’s military weakness into political concessions regarding its policies on the Middle East, and especially in cutting back Iranian oil imports.\textsuperscript{51} The growing size of China and India as major oil customers with more independent bilateral and collect foreign policies is also likely to skew future Middle East relations in their favour.

5.6 THE CONVERGENCE OF WESTERN FOREIGN POLICIES IN THE MIDDLE EAST

The “Strategic Triangle” between the U.S., EU and pro-western Middle East states such as Saudi Arabia was functioning long before 9/11, most notably against Iran during the Iran – Iraq War and against Iraq during the first Gulf War. However, the GWOT facilitated their closer cooperation and the EU has preferred to harmonise its positions with the U.S. (and in the case of the Quartet, Russia and the UN) than pursue a more independent foreign policy.\textsuperscript{52} Therefore, what started out as an ideologically compatible War on Terror has given way to a new western agenda of


\textsuperscript{51} Al Arabiya, ‘U.S. Wins Japan’s Consent to Cut Iran’s Oil Imports but India Stays in as an Importer’, 12 January 2012, available at \url{http://www.alarabiya.net/articles/2012/01/12/187852.html}

\textsuperscript{52} Rosemary Hollis, ‘No Friend of Democratization: Europe’s Role in the Genesis of the “Arab Spring”’, \textit{International Affairs}, 88/1, 2012, 94
democratic and economic reform which has been met with resistance both in the Middle East and increasingly, from permanent members of the UNSC.  

There are a number of systemic issues with the EU which has led to dependence on the U.S. taking a policy lead in the Middle East. Firstly, the EU and U.S. share a similar ideological outlook which makes cooperation on democracy and reform in the Middle East relatively easy. U.S. and EU policy has been compromised by its double standards regarding democracy promotion, which was apparent in their withdrawal of economic support following the electoral win of Hamas in Gaza in 2006. EU policy on economic reform has also been compromised through a lack of credibility after the global financial crisis in 2008 and Euro crisis in 2012.  

Secondly, the EU, having being conceived as a European Economic Community, has been predominantly concerned with economic policy as opposed to security policy, which makes it highly dependent on U.S. hard power. The disintegration of the Balkans required U.S. support through NATO and the EU must consult closely with the U.S. on the Iranian nuclear dossier through the P5 + 1 arrangement. The EU continues to invest in soft power; €12 billion through the European Neighbourhood Policy (ENP) to spread EU values. However, it is hard power which is likely to count more in addressing a range of conventional and unconventional threats in the Middle East. EU NATO member defence spending of $270 billion is expected to be overtaken by the Asian states in 2012, marking a further erosion of relative European power. Furthermore, whilst some European states have well developed policies on the Middle East, others, such as Germany have none beyond Israel and Iran.  

53 ibid  
54 Rosemary Hollis, ‘No Friend of Democratization: Europe’s Role in the Genesis of the ‘Arab Spring’’ *International Affairs*, 88/1, 2012, 94  
56 FT, ‘Asia Defence Spending to Overtake Europe’, 7 March 2012, available at [http://www.ft.com/cms/s/0/0aab435c-6846-11e1-a6cc-00144feabdc0.html#axzz1v8aiR5Dq](http://www.ft.com/cms/s/0/0aab435c-6846-11e1-a6cc-00144feabdc0.html#axzz1v8aiR5Dq)  
Given the shifting global balance of power against U.S. and EU interests, their overlapping memberships in international organisations such as the UNSC, and their long term commitments to existing policies, the de-coupling of the U.S. and EU is unlikely to happen soon.

5.7 U.S. POLICY IN THE MIDDLE EAST AND POLICY PRESCRIPTIONS

The U.S. needs to re-evaluate its policies on the Middle East since many of them have impinged on its own national interests. Obama tried to herald a ‘new beginning’ in his Cairo speech despite maintaining focus on a democratisation and reform agenda.\(^\text{58}\)

However, before the GMEI is adopted, more concrete evidence of U.S. intentions in the Middle East needs to follow, such as a two-state solution to the Israel-Palestine conflict and the implementation of long term economic measures outlined in the Barcelona Process.\(^\text{59}\)

An integral part of fulfilling these pre-requisites is active engagement, with the Middle East governments and peoples, and with allies and adversaries. The U.S. should re-calibrate its policies towards the Middle East during the Arab Uprisings and allow Middle East states to define their own future, instead of contributing to the perception that the U.S. is pursuing its own interests through a “Freedom Agenda”.\(^\text{60}\) If uprisings fail based on popular support for the existing government or type of governance, then the U.S. should be more willing to work with governments which do not necessarily share its core values. The solution in that case is highlighted in chapter 4 as being based on a robust and comprehensive diplomatic framework, focusing on state and regional issues, and the inclusion of associated actors or issues that are particularly challenging.

U.S. engagement in the Gulf continues to form a big part of the challenge to activating a pan-regional security framework that would safeguard a new regional


\(^{60}\) This position is supported in the U.S. by Greg Gause who advocates that the U.S. government do nothing since there is no immediate threat to any American vital national interest. By following an interventionist policy, the exact opposite effect may be achieved. Greg Gause, ‘Don’t Just do Something, Stand There!’, Foreign Policy, 21 December 2011, available at http://www.foreignpolicy.com/articles/2011/12/21/america_arab_spring_do_nothing

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order, stability and peace. The U.S. is attempting to salvage its relationship with the GCC based on engagement mainly against the common threats of Iran and Syria, through the newly dubbed GCC – U.S. Strategic Cooperation Forum.\(^\text{61}\) However, Iran and Syria could be coupled with the Central Asian region for western policy purposes because Central Asia is where the U.S., EU3, Russia, China, India, Pakistan and the Middle East states have similar aims and objectives. The continuity of policy from Central Asia into the Middle East therefore represents a greater opportunity for extended cooperation. By engaging in foreign policy issues related to the wider region, western governments could establish a Helsinki Process with relatively stable states (at least states which are far less geo-politically sensitive). This would give the rest of the Middle East states time to make the critical decisions about their own futures.

In trying to shape the Middle East, the U.S. could learn from Saudi policy outlined in chapter 3, because when it matters most, during periods of conflict and uprisings, Saudi policy has targeted the “hearts and minds” of the local population. That is not a euphemism for an ideological struggle or military intervention advocated by a Republican presidential candidate\(^\text{62}\) or the American Israel Public Affairs Committee (AIPAC).\(^\text{63}\) It literally advocates investing in the hearts and minds of the population through massive investments in healthcare and education. The U.S., through the implementation of more humanitarian, trade and investment programmes could be more likely to succeed in achieving its democratisation objectives through the better communication of a positive image of democracy that directly addresses local priorities.

\(^{61}\) SUSRIS, ‘U.S., Saudi, GCC Leaders to Talk on Iran, Syria Crisis’, 29 March 2012


\(^{63}\) ibid
6. Conclusions: Economic Factors in Middle East Foreign Policies

This final chapter compares Saudi and Iranian foreign policy, and assesses the relative weight of economic as against non-economic factors in Middle East FPA. A number of conclusions are drawn about economic factors in alliance building and alliance deconstruction in and between the pro-Western and ‘resistance’ alliances. The conclusions in this research are also applied to Syria, another member of the ‘resistance axis’ which is about to experience the same kind of Western-imposed sanctions as Iran. Indicative factors in the thesis are also applied to hypothesising about the future of Middle East foreign policy making, the future of FPA and possible directions of future research. The Saudi and Iranian cases illustrate the extent to which a combination of ideological, geo-strategic and economic resources have insulated the regimes against internal and external pressures and resulted in their dominance in the regional system.

6.1 THE RELATIVE WEIGHT OF ECONOMIC AND NON-ECONOMIC FACTORS

This thesis covers a range of factors in foreign policy, such as ideology, geo-strategic concerns and objectives, and economic issues. In practice, in the Saudi and Iranian cases, these have tended to galvanise around regional rivalries. The ideological factors which have been shown to be paramount in Saudi and Iranian foreign policies are:

- The ideological rationales that underpin their foreign policy orientations and participation in the pro-Western alliance versus anti-systemic or anti-Western alliance
- Sectarianism as a source of conflict, alliance and legitimacy between and within states
- An emphasis on ideational resources in Iran such as civilisation which helps it to compete against the stronger Islamic and pan-Arab credentials of Saudi Arabia
- Increasing nationalism in Iran as part of a reflex against perceived Western domination and interference in domestic affairs
The continued relevance of the occupied Palestinian territories as a pan-Arab cause from which the Iranian regime is able to draw support for its ‘resistance’ policies against Israel

The geo-strategic factors which have been shown to be paramount in their foreign policies are:

- Increasing U.S. interventionist policies from the first Gulf War and its renewed influence across the wider Middle East: in Afghanistan, Iraq and in support of the Arab Uprisings
- The domestic and international security imperatives of Saudi Arabia through the GCC, notably in Bahrain
- The Iranian nuclear programme which has led to tightening sanctions by the West and negative foreign policy responses by Iran in turn, such as threats to close the Straits of Hormuz

The economic factors which have been shown to be paramount in their foreign policies are:

- Oil revenues in contributing to the national budget and foreign reserves
- The use of oil pricing (within OPEC) and unilateral supply policies as a weapon used between major exporters, notably by Saudi Arabia
- Stable and secure energy markets (including deepening bilateral relations such as new strategic partnerships, based on energy supply and cooperation)
- The short term effectiveness of ‘riyal politik’ to encourage bandwagoning from ideologically compatible ‘small states’ or non-state actors without adequate access to economic resources during periods of crisis
- The multiple, and ultimately symbolic rather than material, trade and cooperation agreements signed between Iran and non-aligned or anti-Western members of the international community

The continuation and emergence of new geo-strategic factors such as the Arab Uprisings have simply aggravated the decades old regional rivalry dynamic between Iran and Saudi Arabia. Saudi Arabia has used its vast material resources not only as a weapon against oil price sensitive adversaries such as Iran, but is simultaneously
using the same resources to increase ties with strategic allies internationally. In contrast, economic factors in Iranian foreign policy are made less relevant by its overriding ideological and geo-strategic manifestations, interpretations, and extrapolations. These include: the primacy of its nuclear programme as a manifestation of regional leadership and security concerns; its support for proscribed groups and Shi’ā communities in the Levant and the Gulf as leverage against ideological and sectarian rivals; and a lack of support for a two-state solution based on its ‘resistance’ perspective. Iran’s foreign policies in this regard tend to lack an exclusive economic output. For example, payments to the Afghan government and to Hezbollah were accompanied by payments from other actors such as the U.S. and Syria respectively.

However, a second tier of Iranian foreign policies which aims to counter the impact of sanctions does have a significant economic dimension to it, including: trade realignment, subsidy reform and new oil and gas based partnerships. Since sanctions against Iran are still some way off from creating a tipping point towards greater pragmatism in Iranian foreign policy, the utilisation of economic factors (and therefore the balance with non-economic factors) continues to be skewed according to its foremost national interests. Should economic conditions worsen in Iran, there could be an expectation that Iranian foreign policy might once again become more pragmatic and boost the fortunes of the Green movement or other reformists in Iran. The chance of this happening remains slim without a comprehensive oil embargo that includes Iran’s top trade partners such as China, Russia, India, the UAE and Turkey. The greatest economic factor in Iran is therefore the central role of maintaining oil revenues to sustain the current regime and its ‘revolutionary’ foreign policy agenda.

6.2 ECONOMIC FACTORS IN ALLIANCE BUILDING

Economic factors, with an emphasis on relationships dominated by oil, have been evident in a number of foreign policies that Saudi Arabia and Iran have pursued, and

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continue to pursue. The Saudi response to the Arab Uprisings has reflected the shock that the Saudis felt with the loss of a vital regional ally, President Mubarak in Egypt. Through Saudi Arabia losing its confidence in the U.S., a more normalised era in Saudi – U.S. relations has begun, and forced Saudi Arabia to establish a new *modus operandi* in its foreign policy.

Saudi strategic thinking in the growing multilateral platform of the GCC is becoming more important than at any time before, as the GCC is taking on a more vital role during the Arab Uprisings. The GCC is a reliable alliance of like-minded Sunni monarchies with closely aligned national interests, concentrated in a region dominated once again by common threats. Some of those threats come from the standoff between Shi’a minorities and the GCC states. This has been evident in Bahrain and Saudi Arabia, and although Iran has not intervened directly in the demonstrations so far, the rhetorical campaign in support of the uprisings continues to be an irritant and destabilising factor which contributes to GCC cohesion. Since most oil and gas exporters in the region are also members of the GCC, Saudi interests appear assured. However, there is still considerable friction between Saudi Arabia and Qatar in their foreign policy perspectives. Qatar’s primary aim appears to create distance and autonomy for itself but within the GCC rubric. However, unless Iran is able to establish an alternative alliance with Russia or China and thereby provide an alternative grouping for Qatar to ally with, Qatar’s status and interests within the Saudi dominated GCC are set to continue.

The GCC is probably the only organisation in the Middle East with the material resources to attempt to counter the Arab revolution and any Iranian threat. The GCC aims to continue the counter-revolutionary process through a combination of state consolidation, regional integration, and expansion. Economic factors in this new formation include Saudi Arabia seeking to expand the PSF and develop an indigenous arms industry to supplement or supplant its huge arms deals with the U.S. Saudi willingness to cover the costs associated with funding the vital needs of new GCC members such as economic development and security illustrate the precarious situation that it finds itself in following the Arab Uprisings. Saudi Arabia has approached economic investments in other theatres such as the Levant on a more piecemeal basis, based on coordination with third parties such as Egypt and the PNA,
mainly on humanitarian grounds, but still linked to its overall objectives of increasing its national security. To maintain partnerships with other Muslim states, such as Pakistan, oil is the lubricant in the engine of bilateral relations, driven mainly by ideological and defensive components. The latter have become paramount during the Arab Uprisings and in a regional environment dominated by uncertainty and a secondary threat, which is the support the U.S. is putting behind many of the revolutionary campaigns.

6.3 ECONOMIC FACTORS IN DECONSTRUCTING ADVERSARIAL ALLIANCES

Economic factors are far more evident in the attempted deconstruction of alliances between oil exporters. Saudi Arabia has attempted to use its economic muscle in the Middle East to limit and roll back Iranian influence. It is also attempting to leverage its relationships with other key actors and coordinate policies in order to isolate Iran internationally and therefore try to influence its foreign and nuclear policy. This is evident in two main theatres. In OPEC and as part of the Western imposed sanctions regime; and against members of the ‘resistance axis’ in the Levant and Gulf. Iran’s countering measures have similarly focused on oil policy and OPEC, but lacking swing status, Iran is being forced to develop client-patron relationships which will supplement for its deficiencies in major economic and political groupings.

In OPEC, Saudi Arabia tried and failed to secure agreement to drop international oil prices in order to put economic pressure on Iran. Failing this, Saudi Arabia has been forced to use its status as swing producer to try and force down prices unilaterally not only as part of its Iran strategy but as part of its obligations to major customers in the global economy suffering from low economic growth and relatively high prices in the oil market. Had Saudi oil objectives been in line with the interests of the majority of other major oil exporting states during a crucial OPEC meeting in 2011, Iran may have found less support for its oil price policy. The role of oil has been given new meaning due to the Western embargo placed on Iranian oil exports in 2012. Saudi Arabia is already working with its Western allies to fill the shortfall of exports, but since the embargo is perceived to be a declaration of economic war, Saudi Arabia could find its position facilitates a military response from Iran. The bilateral relations
of the swing producer in times of crisis are thus enhanced and its policies served best when international oil prices are high and alternative suppliers (such as Iraq and Libya) are few.

Iran is able to counter Saudi oil policy in OPEC in two main ways. Firstly, OPEC is losing relevance: OPEC has rarely managed to control the international price of oil which is a large part of its raison d’être. Secondly, Iran is countering Saudi downward pricing pressure by establishing an alliance of member states with similar pricing policies and/or anti-Western sentiment, such as Venezuela under Chavez. Iran is also trying to persuade members that changing oil payments from the U.S. dollar to another currency(s) would be in OPEC’s interests, but which simply addresses Iran’s primary payment concerns due to sanctions. At the same time, Iran is attempting to extract more gas from South Pars gas fields which would enable it to compete with Qatar and Russia more effectively. China prefers to build supply relationships bilaterally, which would favour a closer oil-based relationship with Iran. This is something the U.S. is trying to discourage through a combination of direct lobbying and diplomatic appeals as part of its sanctions policy against the Iranian regime.

Saudi policy against Iran’s nuclear programme is partly played out in its oil policy stated above and in the GCC. However, Saudi Arabia has been left to unilaterally target Iranian influence in some major theatres such as weak or conflict-ridden states including: Lebanon, Palestine, Yemen, Bahrain, Iraq, and now Syria. Saudi Arabia’s use of economic resources and political influence will continue to focus on containing and deconstructing the ‘resistance axis’ in partnership with other states where possible. By concentrating on its existing allies and relationships within its broader sphere of influence, Saudi Arabia has at its disposal states in the Gulf, Central Asia and South East Asia which could contribute to its efforts. There is therefore a certain comparison between the past Saudi – U.S. approach to defeating Communism in the developing world and the current Saudi – GCC perspective on Iranian activities in the Middle East.

Saudi Arabia is also leveraging two states which Iran may have had cause to balance with, but which now appear to be generating strategic relations with Saudi Arabia instead. The Saudi – Pakistan relationship has developed over a long period and can
be seen to play a leading role in Saudi Arabia’s nuclear policy, since it enjoys a close
defensive partnership, buttressed by aid and preferential oil supplies, and an alleged
option to purchase nuclear weapons should the need arise. Saudi Arabia’s relationship
with China, a state which Iran had the most reason to be most optimistic about, is also
developing long term relations with Saudi Arabia based on its huge oil exports. Apart
from U.S. pressure not to engage with Iran, China also appears open to a civil nuclear
partnership with Saudi Arabia which could establish the foundations for a Saudi
nuclear deterrence against Iran in future.

The perceived Shi’a and ‘resistance axis’ threat has taken on a new resonance in
Saudi Arabia since the Arab Uprisings have begun, and therefore the scope of policies
(its “Iran Initiative”) aimed at countering Iran have multiplied into a greater number
of targeted and coordinated internal and external policies. They range from
suppressing Shi’a demonstrations in and around Qatif in the Eastern province, to
leading the Peninsula Shield Force against the Shi’a uprising in Bahrain, and
participating in a U.S. and UK common stance against Bashar al-Assad’s crackdown
on protests in Syria. Since Saudi Arabia has a big stake in the outcome of the uprising
in Syria, its policies are likely to be open to exploring all options, including economic,
influencing its outcome within the parameters set for it by the engagement of the
Arab League.

Iran’s role in the ‘resistance axis’ is primarily based on ideological rather than
economic foundations and it is therefore better able to battle against its adversaries
such as Saudi Arabia and the West through symbolic actions and victories. Its role in
deconstructing adversarial alliances lies mainly in undermining their fragile political
economy, Islamic legitimacy and social cohesion. Iran has been able to leverage its
place in OPEC, its proxies in the Levant (as seen in the 2006 Hezbollah attack against
Israel) and Shi’a communities in the Gulf. The ‘axis of oil’ is a much more uncertain
but potentially more profound set of strategic relationships that could create the
necessary space for Iran to accentuate its freedom of action in future. Iranian relations
with anti-Western states such as Venezuela and states with a historical alignment
against the West, such as Russia, could provide the necessary economic opportunities
to challenging the west in established organisations such as OPEC. Iran’s relationship
with Russia and China in particular, could also give Iran its greatest advantage against
the West, through leveraging their respective membership of the UNSC.

6.4 FUTURE TRENDS

The future of Middle East foreign policy orientation and traditional alliances has been
thrown into flux by the Arab Uprisings of 2011 and this is likely to be the case for the
foreseeable future. However, one can theorise that pending the satisfactory outcome
of the chief foreign policy priorities for Saudi Arabia or Iran, the region will take one
of two courses. The first envisages a ‘status quo’ in regional relations whereby Saudi
Arabia has stemmed the worst effects of the Arab Uprisings and secured Morocco,
Jordan, Egypt and Yemen in a new pan-Arab Cooperation Council. Saudi foreign
policy will continue to undergo a slow re-orientation (including a deepening of
energy, arms and defensive relations) towards the rising powers of India and China in
Asia. Saudi Arabia (and others) would also establish a nuclear deterrent of some kind,
whilst the West tries to implement its traditional balance of power and containment
approach against the Iranian regime. That is consistent with continued conservative
rule in Iran and al-Assad rule in Syria, a moribund WMDFZ in the Middle East, and a
halt to the political changes sparked by the Arab Uprisings.

Whilst these cannot be guaranteed, the second possibility envisages a revolutionary
change, not from Iran facing down Western sanctions and achieving nuclear threshold
status, but resulting from U.S. actions in the Persian Gulf. U.S. warships are already
patrolling in the Straits of Hormuz and could precipitate Iranian defensive measures
which could then lead to a limited war and massive insurance costs for oil shipping.3

A similar scenario would envisage Iran closing the straits in response to successful
attempts by Israel to threaten a pre-emptive strike if the West does not impose tougher

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2 At the time of writing, there were two strike groups patrolling in the Persian Gulf (during a period of
overlap), led by two aircraft carriers: the USS Abraham Lincoln and the USS Carl Vinson. Simon
Henderson, ‘Danger Zone’, Foreign Policy, 27 March 2012, available at
http://www.foreignpolicy.com/articles/2012/03/27/danger_zone?page=0

Monitor, 26 January 2012, available at http://www.csmonitor.com/World/Middle-
East/2012/0126/How-Iran-could-beat-up-on-America-s-superior-military
sanctions akin to an ‘economic war’. Iran also has limited capabilities for a conventional war, and an asymmetrical war strategy is suited to engagement in the straits. In this case, the Saudi alliance with the West is likely to become strengthened as Saudi cooperation would be needed to maintain manageable international oil prices. The least likely scenario is that sanctions put so much pressure on the Iranian regime that it leads either to a rapprochement with the West or facilitates the regime change and a new beginning into Iranian – West relations. However, since the Ahmadinejad regime has not been pragmatic enough to engage a large proportion of Iranian society, a combination of more demonstrations, a popular reformist movement, and a popular defection of security services (including the IRGC) to its cause is not out of the question. The Islamic revolution is only three decades old and although it has consolidated support amongst the elite, it has not been adept at co-opting pro-reformist groups which favour better relations with the West.

6.4.1 The Implications of the Iran Case for Sanctions against Syria

At the time of writing, the al-Assad regime is under increasing pressure to stop the bloody suppression of demonstrations and the killing of resistance fighters in Homs. Although the Arab League has taken the lead on this issue, the UNSC has also been involved but has faced the veto power of Russia and China. Such non-resolutions about what future action is required is said to play into the hands of al-Assad, according to Ban Ki-moon, the UN Secretary General. In the case of Syria, splits in the UNSC appear starker than in the case of Iran. Whilst Russia and China appear more willing to work with the Arab League members, the U.S. and EU do not. The EU has already threatened new sanctions against Syria to isolate it diplomatically. Since sanctions are acknowledged to be long term tool, the rationale in their

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5 ibid
employment to tackle immediate human rights concerns in Syria, a small oil exporter, is even less convincing than their use against the Iranian regime. The same argument can be applied to Syria as that made in chapter 4: active engagement between the West and Syria, ideally through a unified UNSC resolution, could engage the al-Assad regime and recognise civil society representatives through a series of negotiations. The aim would be to halt the bloodshed, address human rights concerns, and identify political reforms and other contentions which could lead to a cease-fire and stabilise the situation. Engagement can only go so far though. The West must come to terms with an Iranian and Syrian regime which is unlikely to advance the MEPP but which are more likely to take a neutral, rather than a resistant response to a final agreement. If the West continues down the pressure track in Syria, Iran will be more likely to use PIJ and risk an escalation of the Israeli–Palestinian conflict. This could also drag Hamas back from the Egyptian/Jordanian camp, into a more confrontation resistance against Israeli retaliations. Whatever happens in Syria, it is unlikely to affect the Syrian government response to the MEPP because it remains a sensitive topic which will fall below domestic reconstruction and political consolidation.

Given the importance of Syria in the ‘resistance axis’, particularly as a conduit to Hezbollah in Lebanon, the Gulf States are unlikely to wait for sanctions to take effect. There are already Saudis volunteering to fight, but allegations that Saudi Arabia, Qatar and Kuwait are all supplying weapons to the Free Syrian Army appear unfounded since only light weapons are reported as being used. The Arab States probably want to avoid the risks of more bloodshed, arming the wrong groups and a full civil war which could escalate into a broader proxy war with Iran. Until a more robust solution to Syria can be implemented, the U.S. and EU are only left with sanctions as a means to signal disapproval to the al-Assad regime. Further sanctions could reinforce the positive bilateral diplomatic relationships between Syria, Russia and China, especially if Russia shelters Syria from direct Western intervention. Similar to UNSC sanctions against Iran, international community actions against the

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12 ibid
al-Assad regime will pose the greatest threat to Iran’s ‘resistance axis’ and significantly reduce its options to create a new global order.

6.4.2 Re-contextualising Diplomatic Engagement in the Middle East

Diplomatic engagement in the Middle East is under intense pressure from the Arab Uprisings and the demonstrations have contributed to the growth of domestic variables that the ruling elites must consider in their foreign policymaking. The events of 2012 have, in some cases, changed the regimes themselves, in Tunisia, Egypt and possibly Syria. Saudi Arabia is investing billions of dollars to ensure its vision for a broader, more integrated and consolidated Arab Gulf Union Council succeeds. As argued in chapter 3, Saudi Arabia has drawn influence from a widely defined series of alliances, including Pakistan and China. The Saudi regime is even more comfortable in working with the like-minded Sunni regimes in Morocco and Jordan even though they fall outside traditional neighbourhood of the GCC. These states can aid stability and provide the much needed manpower for the growth of the PSF which is expected over the coming years. The challenge will be for Saudi Arabia, Morocco and Jordan to invest in their political integration in ways which guarantee their long term cooperation rather than a simple patron to client bargain.

As argued in chapter 4, the only way to address the deadlock in diplomatic engagement between Iran and the West is through a fundamental rethink of sanctions and dialogue. Diplomatic engagement across the Middle East has been consistently hampered by the ideological chasm between Iran and the West. Western interventions in Afghanistan and Iraq have also established the U.S. as a local power. Therefore, a new indigenous security framework that involves all the local actors is vital to the reinvigoration of trade and cooperation across the Middle East. Iranian opposition to the MEPP and the Iranian nuclear programme are two major impediments to advancing such cooperation, but Afghanistan could hold the key to aligning Western and Iranian national security interests and rolling out such a programme across the Middle East. Chapter 4 shows that there is much to learn in both the West and Iran about the kinds of diplomatic engagement which may prove to be most fruitful, why

some foreign policies are met only with resistance and how other policies were close to succeeding.

6.4.3 The Future of FPA

The use of constructive-balancing as a conceptual model in this thesis drew out some of the most important perceptions in the West, Saudi Arabia, Iran, and the international community, which continue to inform their respective foreign policies. The omni-balancing concept rightfully recognises the necessity, particularly during the Arab Uprisings, to focus on the domestic level in order to account for all the possible factors in driving foreign policy.

FPA still has a long way to go. The Arab Uprisings have illustrated that the discipline needs to take a broad focus and cover all sorts of influences which don’t initially appear related to foreign policy. The importance of a conceptual model which is led by empirics is therefore paramount. The Arab Uprisings have highlighted the difference between the instability of revolutions and reforms in republics, versus monarchies, and so there is space to explore the apparent linkage between domestic stability, hydrocarbon revenues and more assertive foreign policies from oil and gas exporters into the 2000s.

6.5 OTHER AVENUES OF RESEARCH

Any future research could explore related thematic issues and new geographical regions of significance. The following could be particularly useful in conceptualising economic factors in Middle East foreign policy more comprehensively:

- A comparative study of oil and gas exporters and those of diversified Middle East economies such as Israel and Turkey
- An in-depth analysis of Iranian bilateral relations with China, Russia, Central Asian and Latin American states, which form the primary nodes of trade realignment for Iran
• Modelling a new scenario of Iranian economic integration into the global system, outlining the consequences for economic growth and therefore Iran’s potential capabilities in a post-sanctions environment
Interviews

Names are listed in chronological order the interviews were held. The names of those who asked not to be named have been omitted.

**London (June 2010 - January 2011)**

Sir Sherard Cowper-Coles, former British Ambassador to Saudi Arabia and former UK Special Envoy to Afghanistan

Dr Leo Drollas, Chief Economist, Centre for Global Energy Studies

Sir Richard Dalton, former British Ambassador to Iran

**Tehran (February 2011)**

Dr Ali Biniaz, Director, Center for Energy and International Economy, Institute for Political and International Studies (IPIS)

Professor Abbas Maleki, Director of the International Institute for Caspian Studies and Iran’s former Deputy Foreign Minister 1988-1997

**Riyadh (June 2011)**

H.E. Talmiz Ahmad, Indian Ambassador to Saudi Arabia

H.E. Professor Dato' Syed Omar Al Saggaf, Malaysian Ambassador to Saudi Arabia

Mr Chris Innes-Hopkins, Director of UK Trade and Investment, British Embassy, Riyadh

**Email/Telephone (August – November 2011)**

Roberto Toscano, former Italian Ambassador to the Islamic Republic of Iran

Ambassador Martin Indyk, former U.S. Ambassador to Israel and Special Assistant to President Bill Clinton for Near East and South Asian Affairs at the National Security Council

**Berlin (September 2011)**

Mr Ruprecht Polenz, Member of the German Bundestag and Chairman of the Committee on Foreign Affairs
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