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END OF THE ISLAMIC COLD WAR: THE SAUDI-IRANIAN DÉTENTE AND ITS IMPLICATIONS

by

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June 2001

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Saudi Arabia and Iran are not only reconciling their diplomatic differences, but are also cooperating in numerous areas including oil, trade, and domestic security. Given their differences, what forces are lessening tensions and motivating them to pursue this new détente? More importantly, what are the implications of this new relationship?

Shifting political sands in Saudi Arabia and Iran in the late 90s, the failure of the US "Dual Containment" policy, and the collapse of the Middle East Peace Accords are bringing the two rivals together. It is, however, Saudi Arabia and Iran's dire economic conditions, worsened by the 1998-99 oil price collapse, that forces them to cooperate. The main vehicle for Saudi-Iranian cooperation is the Organization of Petroleum Exporting Countries.

The Saudi-Iranian détente holds vast implications for oil and stability in the region. Their cooperation ensures higher oil prices, which adversely affect the world economy. These higher prices, however, salvage both countries' economies, improving their domestic stability. The reemergence of Iran onto the Gulf political landscape also serves to lessen tensions in the region. The resulting improvement in inter-Gulf relations creates possibilities for establishing a stable regional security framework that may affect the United States' role in the region.

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END OF THE ISLAMIC COLD WAR: THE SAUDI-IRANIAN DÉTENTE AND ITS IMPLICATIONS

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LIST OF ACRONYMS AND ABBREVIATIONS

ABC	American Broadcasting Corporation
BBC	British Broadcasting Company
CBS	Central Broadcasting Syndicate
CIA	Central Intelligence Agency
CNN	Cable News Network
CNNfn	Cable News Network Financial News
CSIS	Center for Strategic and International Studies
DCP	Dual Containment Policy
DOE	Department of Energy
EIA	Energy Information Administration
FBIS	Foreign Broadcast Information Service
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IISS	International Institute for Strategic Studies
ILSA	Iran-Libya Sanctions Act
IMF	International Monetary Fund
IRNA	Islamic Republic News Agency
MECS	Middle East Contemporary Survey
MEED	Middle East Economic Digest
MEES	Middle East Economic Survey
MEJ	Middle East Journal
MEP	Middle East Policy
MERIA	Middle East Review of International Affairs
OIC	Organization of Islamic Conferences
OPEC	Organization of Petroleum Exporting Countries
SAMBA	Saudi American Bank
SPA	Saudi Press Agency
UAE	United Arab Emirates
US	United States
WMD	Weapons of Mass Destruction

b/d	barrels per day
mb/d	million barrels per day
p/b	per barrel

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EXECUTIVE SUMMARY

Given events over the past four years, it seems the Saudi-Iranian "Cold War" is thawing for the immediate future. The rapprochement is a major step for Saudi Arabia, but especially for Iran given the Islamic revolution's ideological differences with Saudi Arabia's monarchy. Yet, after twenty years of hostile relations, often bordering on open conflict, Saudi Arabia and Iran are not only reconciling their differences, but are also cooperating in numerous areas. The result is an unprecedented series of confidence building measures and agreements between the two countries all but cementing their new relationship. The most recent and important of these being the mutual domestic security agreement signed in April 2001. Given their inherent differences and previous relations, what are the forces driving the rivals to cooperate? What is lessening tensions and motivating Tehran and Riyadh to pursue this new détente?

To understand just how far Saudi Arabia and Iran have come in their relations it is essential to know where they began. Saudi Arabia and Iran are vastly different nations who have different histories, geography, and natural resources. Their people practice similar, yet different versions of Islam and they are ethnically and culturally unlike one another. Most importantly, Saudi Arabia and Iran's political systems and ideological principles are quite dissimilar. These disparities were overwhelming in the past, causing Saudi Arabia and Iran to suffer nearly twenty years of cold, even hostile, relations. During this period, each regime openly and covertly sought the downfall of the other. As a result, the region suffered wars, conspiracies, bombings, and unrelenting political tension and instability. Although relations today seem to be on a new path, they remain heavily influenced by these factors and Saudi Arabia and Iran's past relations.

Despite their differences, Saudi Arabia and Iran are seeking common ground for improved relations. This cooperation is the result of several contributing factors:

- the election of moderate President Khatami's and the subsequent consolidation of and elite consensus over foreign and oil policies;
- the increased power of Crown Prince Abdullah and his focus upon regional issues and reforming the economy;
- the failure of the US "Dual Containment" policy to remove Saddam Hussein or collapse/change Iran's revolutionary regime;
- the collapse of the Middle East Peace Accords and the perceived failure of the United States to pressure Israel into settling the matter;

Although the above political enablers support the détente, the severe economic decline of both Iran and Saudi Arabia is the main force in their rapprochement. Both countries suffer from major economic problems such as exceptionally high unemployment, poor economic growth, growing foreign and domestic debts, severe annual budget deficits, and economies that are overly dependent upon petroleum production. These conditions demand a change in the way Saudi Arabia and Iran approach matters of state. Pragmatic economic policies designed to maximize oil revenues and salvage both nations' deteriorating economies are the basis of the Saudi-Iranian détente and are accelerating its growth.

The détente between Saudi Arabia and Iran holds special significance for the United States. The United States, as the largest consumer of petroleum products in world, wants affordable oil from the Persian Gulf. No two Persian Gulf countries have more control over oil than Saudi Arabia and Iran. Their newfound solidarity, especially within OPEC, allows them to affect global oil production and pricing in unprecedented ways. The result of this cooperation is the highest oil prices in decades. Additionally, OPEC's lower production levels, increased quota discipline, and price bands will ensure oil and gasoline prices remain above the previous levels. This impacts the world's economy by slowing economic growth. Should higher prices continue to negatively impact the US economy, tensions between the United States and Saudi Arabia will increase.

Despite the troubles higher energy costs create for the world economy, they do benefit the Persian Gulf region by stabilizing its faltering economies. Higher prices equate to increased revenues for the Gulf states, especially Saudi Arabia and Iran. This is salvaging their failing economies in the short term, while their governments try to implement long term economic reforms. Saudi and Iranian domestic stability benefits tremendously from improved economic conditions and their stability is vital to the entire region. The Saudi-Iranian détente also directly affects regional security by bringing Iran meaningfully back into the politics of the Gulf. Iran's reemergence on the Gulf's political landscape in turn affects inter-Gulf relations. Iran is establishing closer relations throughout the region, defusing past animosities, and disarming potential foes. Iran's "charm offensive" increases prospects for establishing a regional security framework involving the GCC states and Iran. Should this occur, the continued US military presence in the region may ultimately come under increased scrutiny by its Arab hosts.

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I. INTRODUCTION

A. SUMMARY OF ARGUMENT

Given events over the past four years, it seems the Saudi-Iranian "Cold War" is thawing.[1] The rapprochement is a major step for Saudi Arabia, but especially for Iran given the edict in Ayatollah Khomeini's will which forbid relations with the Saudis.[2] Yet, after twenty years of hostile relations, often bordering on open conflict, Saudi Arabia and Iran are not only reconciling their differences, but also cooperating in numerous areas. The result is an unprecedented series of confidence building measures and agreements between the two countries that all but cement their new relationship. The most important of these initiatives is the mutual domestic security agreement signed in April 2001.[3] Given their inherent differences and previous relations, what is lessening tensions and motivating Tehran and Riyadh to pursue this new détente?

The détente since 1997 is partly the result of shifting political sands in both countries. Changes in the leadership of Iran and Saudi Arabia in the mid to late 1990s laid the groundwork for the on-going rapprochement. President Muhammad `Ali Khatami's election and his pursuit of a "dialogue among civilizations" were crucial to changing Iran's radical image among its Arab neighbors. Crown Prince Abdullah bin 'Abd al-Aziz's defacto control of Saudi Arabia in turn opened the door for relations with Iran. His assertiveness and emphasis upon the independent pursuit of Saudi national interests made the rapprochement possible. Although domestic political change in those countries sets the stage for improved relations, it is not the driving force. Moreover, while

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[1] Analogy borrowed from Kaveh Basmenji, "Ice Age Over in Iran-Saudi Ties," Middle East Times, 21 April 2000. Available [On-line]: ' <http://www.metimes.com/2K/issue2000-16/reg/ice_age_over.htm> [26 January 2001].

[2] Ayatollah Ruhollah Khomeini, Imam Khomeini's Last Will and Testament, (Washington: Interests Section of the Islamic Republic of Iran, 1989), 16, 28.

[3] "Iran, Saudi Arabia sign 'long-awaited' security accord," Islamic Republic News Agency (IRNA), 17 April 2001, in FBIS, IAP20010417000099, 17 April 2001.

the failure of the US "Dual Containment" policy and the collapse of the Middle East Peace Accords substantially contribute to the rapprochement, they too are not the force driving Saudi Arabia and Iran together. The main force in the Saudi-Iranian détente is their dire economic situations that suffered further from the 1998-99 crash in oil prices. Concern for their faltering economic situation and its impact upon domestic stability is bringing the former enemies together.

Both Iran and Saudi Arabia suffer from increasing economic decline and internal turmoil threatening the two regimes' survival. Throughout the Middle East, oil-producing countries realize the oil boom has gone bust. Burdened with large and growing populations, Saudi Arabia and Iran's overly oil-dependent economies struggle to maintain even minimal annual growth. Low oil prices coupled with high inflation, unemployment, and deficit figures severely strain both governments' ability to maintain their "social contracts" of state welfare. The 1998-99 collapse of oil prices compounded the already poor conditions by dropping the price of oil to its lowest point in twelve years. These economic troubles are at the root of growing restlessness and discontent that is placing an increasing burden on both Iran's Islamic regime and Saudi Arabia's monarchy. Saudi Arabia and Iran realize their overly oil-dependent, centrally managed economies and inefficient, corrupt bureaucracies are to blame for most of their fiscal troubles.

Given these dire economic circumstances, both countries generally face three options. First, they can institute reforms and cut government expenditures by substantially reducing "social contract" services. This choice almost certainly entails widespread unrest as the people lose their subsidies and state jobs. Second, they can raise government revenues by instituting an effective tax system and or by finding a way to raise oil revenues. The adoption and or enforcement of a taxation system will foster unrest as the people seek increased political representation and freedom – especially versus Saudi Arabia's monarchy. Third, Saudi Arabia and Iran can balance these options.

Given the repercussions, they have choosen the latter – a combination of boosting state revenues through oil price hikes and economic reforms to restructure their failing economies. Both countries understand, nevertheless, that such reforms will be destabilizing. Therefore, the challenge, especially in light of the 1998-99 oil price slump, is to raise oil revenues to a comfortable level and make reforms at a sufficiently quick pace to stave off both economic hardship and public unrest.

To revive and reform their failing oil-based economies, Saudi Arabia and Iran must cooperate in oil production. In the past, such cooperation was nearly non-existent as both countries espoused opposite production policies. Limited and unsteady oil profits, upon which Iran and Saudi Arabia's economies are heavily dependent upon, however, plagued both regimes. The further collapse of prices in 1998-99 forced both countries to set aside their differences to shore up this vital sector of their economies. As a result, Saudi Arabia and Iran are achieving an unprecedented level of cooperation within the Organization of Petroleum Exporting Countries (OPEC). This cooperation is the linchpin of Saudi-Iranian relations. As a result, OPEC has become the principle vehicle for furthering their rapprochement. The détente between the two countries helped to stabilize oil prices and, as the world witnessed, enabled OPEC to increase oil prices to their highest point in a decade.

B. IMPORTANCE OF THE TOPIC

A Saudi-Iranian bloc in the Persian Gulf has a vast impact upon the dynamics of the region. Their relations affect not only oil, but also domestic stability, regional stability, and the very future of US forces in the region. In the past, poor relations between them fostered an environment of tension and conflict. Yet, now, under increasing economic and domestic pressure, both Saudi Arabia and Iran can no longer afford to be enemies. Iran's revolution and Saudi Arabia's oil boom have run their courses and now both countries realize not only how much they need each other, but also how much they have in common. An accord between the rivals is proving beneficial to

both – lessening regional tensions, increasing regional stability, and allowing them both to refocus their energies and resources in more positive directions that may salvage their economies and regimes.

The implications of the Saudi-Iranian détente are substantial. The détente between Saudi Arabia and Iran holds special significance for the United States and its acquisition of oil at reasonable prices. The United States, as the largest consumer of petroleum products in world, has a profound concern for both the continued flow of oil from the Persian Gulf and its price. No two Persian Gulf countries control the flow and price of oil more than Saudi Arabia and Iran. Their newfound solidarity restored both oil prices and OPEC's viability as a cartel. The union of Saudi Arabia and Iran, especially within OPEC, allows them to affect worldwide oil production and pricing in unprecedented ways. As a result, OPEC's "basket" oil price doubled and even tripled during 2000. OPEC's lower production levels, increased quota discipline, and $22-$28 price band will ensure international oil and gasoline prices remain above the previous levels. This will affect the world's economy by lowering economic growth. Should higher prices continue to influence the US economy, tensions between the United States and Saudi Arabia will increase as the US lobbys Saudi Arabia to increase production.

While the US economy does not benefit from higher oil prices, Saudi Arabia and Iran's economies do benefit from higher oil prices. This indirectly benefits the United States by contributing to the overall stability of the entire energy-producing region. Instability in either Saudi Arabia or Iran has effects throughout the region, creating the potential for even higher oil prices. Higher oil costs equate to higher oil revenues benefiting the Saudis and Iranian economies. This injection of money helps salvage their deteriorating economies in the short term as their governments try to implement long-term economic reforms. Since their détente, Saudi Arabia and Iran's economies have rebounded and posted economic growth twice and even eight times the previous year's numbers. Because of higher oil prices, per capita incomes also increased and both

governments were able to stabilize their balance sheets. Saudi Arabia even achieved its first budget surplus in over seventeen years. The increased revenue has enabled the Saudi and Iranian governments to enact some long-term economic reforms without much disruption. Despite this positive development, both countries are not proceeding with reforms as quickly as they should. In the end, higher oil prices may actually lessen the impetus or fiscal pressure for reform. This will only hurt the regimes if oil prices drop.

In the case of Saudi Arabia, the détente with Iran lessens domestic instability. First, by moving its relations towards Iran, Saudi Arabia distances itself from allegations of subservience to the United States and its support for Israel. Saudi relations with Iran help to demonstrate the kingdom is independent of US control. This bolsters Crown Prince Abdullah's credibility with the average Saudi citizen and with the more extremist elements that might otherwise launch potentially destabilizing bombing attacks within the kingdom. Second, and perhaps more importantly, the Saudi-Iranian détente removes both Iranian ideological and operational support for Shi`ah dissidents within the kingdom. Without Iranian support, these groups will find it increasingly difficult to acquire arms, training, and asylum after their attacks. The détente between the two countries also provides a link between the Sunni Wahhabi and Shi`ah cultures promoting peaceable relations and defusing Shi`ah discontent.

The rapprochement between Saudi Arabia and Iran holds substantial implications for regional stability outside of just securing their own domestic situations. First, the détente breaks Iran's isolation, which in the past contributed significantly to regional tensions and conflict. The rapprochement with Saudi Arabia brings Iran back into the politics of the Gulf. Iran's reemergence increases dialogue, reduces tensions, and improves overall inter-Gulf relations. Second, the Saudi-Iranian détente fosters a potential framework for meaningful inter-Gulf discussions on such important issues as collective security. There are increasing indications improving inter-Gulf relations may potentially provide a framework or forum for regional cooperation and dialogue on

various issues including security. While Gulf Cooperation Council (GCC) states still consider Iraq a threat, they are increasingly open to Iran, especially as a potential balancing force against Saddam. There are, however, several GCC reservations or concerns, which Iran will have to overcome before those states will enter into more far-reaching security ties with it. The Saudi-Iranian détente may also affect the US role in maintaining regional stability. In lessening regional tensions and developing a force balancing Iraq, the Saudi-Iran alliance may inspire the various host nations to ask the United States to withdraw its forces. While at present this is unlikely, improving relations among the region's leaders warrant a prudent approach considering this possibility. Should the Iranian "charm offensive" prove successful, given the vital roles both countries play in the region, the United States will have to consider the changed dynamics such a détente will bring. Further development of Saudi-Iranian relations will force the United States to reconsider several facets of its foreign policy regarding Persian Gulf security, including its policy regarding relations with Iran and its military force posture in the region.

C. METHODOLOGY

This thesis provides information and analysis concerning the improved state of diplomatic relations between the Kingdom of Saudi Arabia and the Islamic Republic of Iran. The focus is upon determining those key forces promoting improved Saudi-Iranian relations. It assesses the implications, both evident and possible, of such relations on oil, Saudi-Iranian domestic stability, and stability in the Persian Gulf region. This information aides in the decision-making process regarding US policies in those areas. The basis of this thesis is a qualitative analysis of selected primary and secondary sources, which record and interpret the relations between Saudi Arabia and Iran and their affect upon the dynamics of the region. These sources notably include official Saudi and Iranian statements and news dispatches from the region as translated by the Foreign Broadcast Information Service (FBIS). This thesis covers this subject in several sections. Chapter II of this thesis examines the background considerations, or the factors and events perpetuating poor relations between the two countries from 1979 through 1996.

Chapter III looks at the enabling and driving forces in the rapprochement between Saudi Arabia and Iran since the election of President Khatami in 1997. It also looks briefly at the dynamics of their relations within OPEC. Chapter IV studies the implications of the their new closer relationship upon oil, Saudi-Iranian domestic stability, and the overall stability of the region. It also briefly addresses the rapprochement's potential implications on US force presence in the region. This thesis comes a close in Chapter V by drawing conclusions from the entire work.

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II. SAUDI-IRANIAN PRE-CONDITIONS

Like most nations, Iran and Saudi Arabia view their relations from different historic, geographic, religious, ethnic, and political perspectives. These factors have a major influence on how the two nations perceive themselves and their roles in regional and international affairs. These perspectives are the pre-conditions forming the underlying biases and motives each country carries into the relationship.

A. HISTORIC, GEOGRAPHIC, AND RESOURCE FACTORS

1. Iran

Based largely on its sheer size and strategic location, Iran has been historically and culturally a dominant power in the region. Iran is the most populous state in the region with over 65 million people.[4] Iran is also one of the largest (636,300 square miles) countries in the region.[5] It not only has the longest Persian Gulf coastline (1,100 miles) and sits in a commanding position aside the strategically vital Straits of Hormuz, but Iran also occupies a pivotal location between the Middle East and West and Central Asia.[6] (See Figure 1) Because of its central location, Iran has been the crossroads of merchants and such invading forces as the Arabs, Saljuq-Turks, and Mongols.[7] Iran has also, however, been the seat of several empires including the Persian Empire and the later Sasanian,

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[4] Central Intelligence Agency (CIA), "Iran," in World Factbook 2000, Available [Database On-line]: <http://www.odci.gov/cia/publications/factbook/geos/ir.html> [20 April 2001]. Hereafter World Factbook 2000.

[5] Ibid.

[6] Ibid.

[7] Ira M. Lapidus, A History of Islamic Societies (Cambridge: Cambridge University Press, 1988), chapters 3, 8, 9, 13 passim; and Geoffrey Kemp and Robert E. Harkavy, Strategic Geography and the Changing Middle East (Washington, D.C.: Brookings Institution Press, 1997), 26-27.

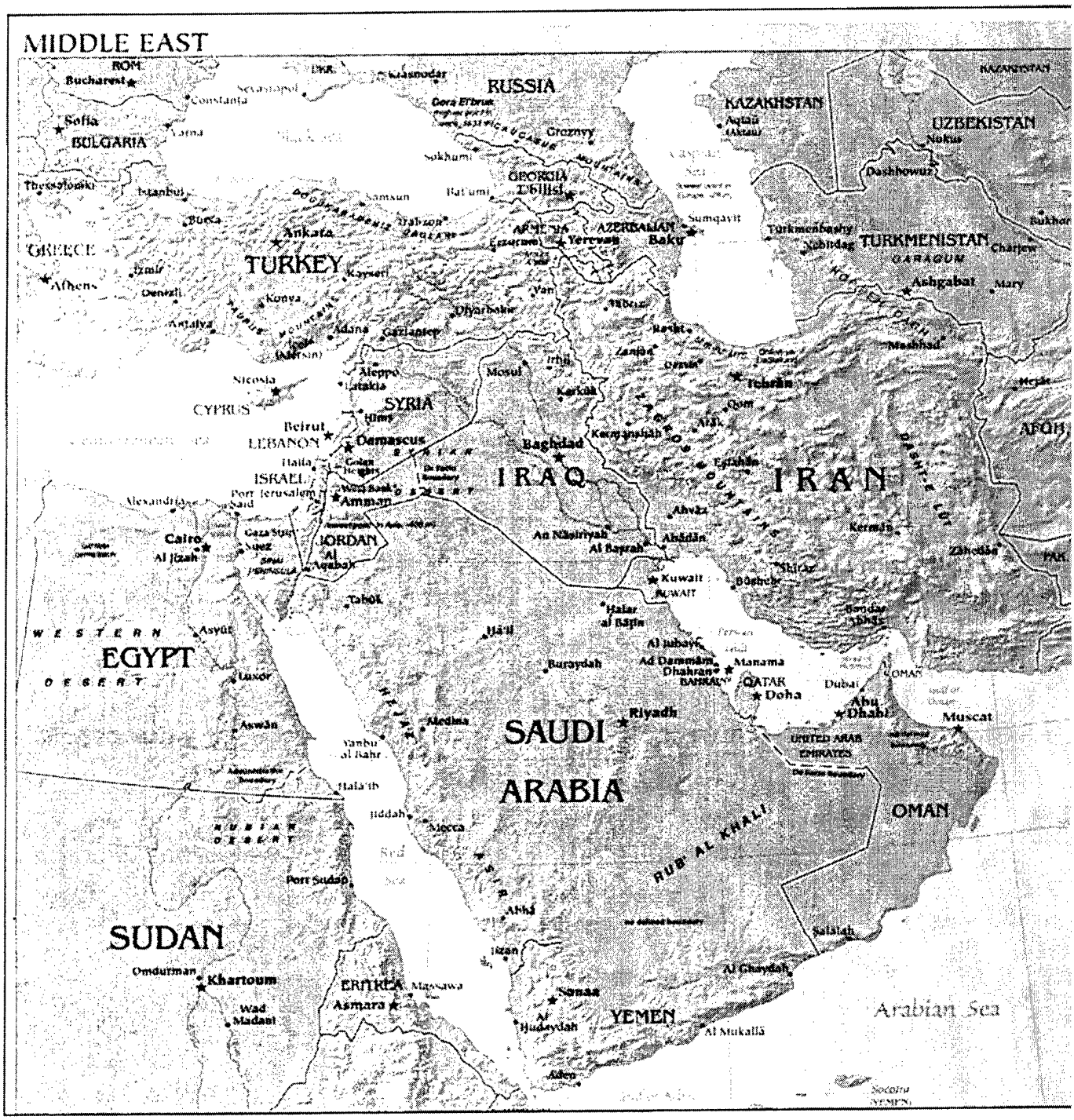

Figure 1. Map of Iran and Saudi Arabia.[8]

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8 Middle East (Reference Map) 2000. Available [On-line]: <http://www.lib.utexas.edu/Libs/PCL/Map_collection/middle_east_and_asia/Middle_East_ref2000.jpg> [29 May 2001].

Safavid, and Qajar Dynasties.[9] Throughout this period the Iranian people either expanded their borders or resisted foreign domination, including Ottoman attempts to subjugate them. In modern times, Iran's location between the former Soviet Union and the Gulf gave it a vital role in the geo-politics of the British, Soviets, and Americans during both world wars and the Cold War.[10] As a result, Iran faced foreign intervention in its domestic affairs on numerous occasions starting with the nineteenth century British-Russian regional rivalry.[11] These experiences, especially the 1953 Anglo-US sponsored Mossadiq Coup and the United States' subsequently close relationship with the shah, left Iran extremely mistrustful of Western powers and their involvement in the region.[12]

Today, Iran's energy resources combine with its key location to provide it with renewed prominence in world politics. Iran is relatively rich in energy resources – sitting atop and estimated 9 percent of the world's proven oil reserves and 15 percent of its proven natural gas reserves.[13] Iran is the second leading oil producer within OPEC next to Saudi Arabia and the second largest natural gas producer in the world next to Russia.[14] New discoveries of oil in Central Asia provide Iran renewed importance as the shortest overland link between these emerging oil and natural gas supplies and the sea-lanes of the Gulf.[15] With global energy demand projected to increase between 50 and 60 percent by

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[9] Lapidus, chapters 3, 9, 13 passim.

[10] Kemp and Harkavy, 39-60 passim.

[11] Lapidus, 575-580; and Kemp and Harkavy, 34-37.

[12] For an in depth discussion of U.S.-Iranian relations prior to the revolution, see Barry M. Rubin, Paved with Good Intentions: The American Experience and Iran (New York: Oxford University Press, 1980); and James A. Bill, The Eagle and the Lion: The Tragedy of American-Iranian Relations (New Haven, CT.: Yale University Press, 1988).

[13] U.S. Department of Energy (DOE), Energy Information Administration (EIA), "Iran Energy Oil Information," (September 2000). Available [On-line]: <http://www.eia.doe.gov/emeu/cabs/iran.html> [24 March 2001].

[14] Ibid.

[15] Hooman Peimani, Iran and the US: The Rise of the West Asian Regional Grouping (Westport, CT: Praeger, 1999), 10-11.

2020, the Persian Gulf region oil producers must increase production by 80 percent.[16] Given Iran's energy resources and strategic location, Iran will continue to play a vital role in regional and international politics.[17]

2. Saudi Arabia

Historically, Saudi Arabia has also been dominant in the region, but because of its harsh, desolate terrain and relative geographic isolation on the Arabian Peninsula, it has not faced foreign intervention nearly to the extent of Iran. Yet, as the source from which Islam arose and conquered the Middle East and North Africa, Saudi Arabia occupies a special place in regional and Muslim politics. For hundreds of years Muslims from the world have made the hajj to Islam's two holiest sites located in Saudi Arabia, bringing millions of foreign pilgrims temporarily into the kingdom every year. It was the twentieth century discovery of oil and the later geo-politics of the Cold War, however, that expanded Saudi Arabia's importance far beyond the Middle East and the Muslim world.

Saudi Arabia is the largest (864,900 square miles) country bordering the Persian Gulf.[18] It is also strategically located within the region, possessing extensive coastlines (1,640 total miles) on both the Persian Gulf and the Red Sea.[19] This position provides Saudi Arabia with nearly unlimited export facilities for the mainstay of its economy – oil. (See Figure 1.) Perhaps most importantly, Saudi Arabia sits atop 261 billion barrels of oil or roughly a quarter of the world's proven oil reserves.[20] Saudi Arabia is also the world's

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[16] See Center for Strategic and International Studies (CSIS), The Geopolitics of Energy into the 21st Century (Washington, D.C.: CSIS Press, 2000), xv-xvi; and DOE, EIA, International Energy Outlook 2000 (Washington, D.C.: EIA, 2000), 1.

[17] The CSIS report (pg. xix) emphasizes the role Iran, Iraq, and Libya will come to play in meeting the world's future oil needs and argues that sanctions barring foreign investment in their oil industries may need to be reconsidered if they are to meet that roll.

[18] World Factbook 2000.

[19] Ibid.

[20] DOE, EIA, "Saudi Arabia Energy Oil Information," (November 2000). Available [On-line]: <http://www.eia.doe.gov/emeu/cabs/saudi2.html> [24 March 2001].

largest oil producer, producing over 8 million barrels per day with the capacity to produce 10.5 million barrels per day.[21] Saudi Arabia is also the fifth largest natural gas producer after Russia, Iran, Qatar, and the United Arab Emirates.[22] Because of Saudi Arabia's oil production capabilities, it can single-handedly stabilize fluctuations in the world oil market; such as it did after Iraq invaded Kuwait in 1990. As such, Saudi Arabia plays a leading role in OPEC and the world energy market. The increase in global demand predicted for oil over the next twenty years will only heighten Saudi Arabia's influence over regional and international affairs.

B. RELIGIOUS, ETHNIC, AND POLITICAL FACTORS

1. Iran

Religiously, ethnically, and politically Iran is very different from other countries in the region. Although religious differences are not the focus of Saudi-Iranian discord, they can serve to acerbate other issues concerning national security.[23] Iran identifies itself heavily with Shi`ah Islam. The official religion of Iran is Shi'ism, in fact Iran is the only Shi`ah dominated state in the world. While other regional governments have substantial populations of Shi`ah, even majorities as in Iraq and Bahrain, only Iran is ruled by the Shi`ah sect. Iranians have additionally intermingled Persian and pre-Islamic Zoroastrian beliefs and traditions into Shi'ism to produce their own brand of nationalistic Shi`ah Islam.[24] The country therefore has Persian holidays, food, music, dress, and even a calendar that are distinctly different from their Arab cousins across the Gulf.

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[21] Ibid. Additionally, Saudi oil is the cheapest (approximately $1-3 per barrel) to produce in the world, so it reaps substantial profits from the sale of each $25 barrel.

[22] Ibid.

[23] Shahram Chubin and Charles Tripp, Iran-Saudi Relations and Regional Order (London: Oxford University Press, 1996), 64.

[24] Hooshang Amirahmadi, "Iranian-Saudi Arabian Relations Since the Revolution" in Iran and the Arab World, eds. Hooshang Amirahmadi and Nader Entessar (New York: St. Martin's Press, 1993), 146.

Revolutionary Iran's fusion of politics with religion accentuated these differences in culture and religion. Politically, Iran is vastly different from its Gulf neighbors. After the 1979 revolution ousted the country's traditional monarchy, Iran established a religiously activist and republican form of government. Iran's espousal of republicanism, populism, universalism, and anti-westernism contrasted with their Arab neighbors' monarchism, elitism, insularism, and pro-western stances.[25] Perhaps most inimical or threatening to the monarchies of the Gulf States and Iraq's Ba`athist regime was Iran's advocating the export of both its Islamic revolution and its elective parliamentarian form of government. In light of these traits, Iran perceived itself as a "true Islamic government," ruled by Muslim clerics in conjunction with the people and intent on spreading Islam, just as Mohammad had centuries earlier.[26] Yet, despite the pious Islamic image Iran espoused, its Sunni Arab neighbors saw only Iranian or Persian nationalistic ambitions and power.[27] Although its revolutionary fervor has attenuated over the past twenty years, Iran maintains its religious activism and is increasingly democratic in nature. Iran remains a military power in the region, possessing an army larger than the other Gulf States (excluding Iraq) combined.[28] These factors alone give Iran the perception it is the legitimate and dominant Islamic power in the region.

2. Saudi Arabia

Saudi Arabia on the other hand remains a religiously conservative Islamic monarchy under the al-Saud tribe. As the birthplace of Islam, Saudi Arabia directly identifies itself with Sunni Islam, specifically the Wahhabi sect that requires particularly strict adherence to the Shari`a or Islamic code of law. The presence of Islam's two holiest

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[25] R. K. Ramazani, "Shi'ism in the Persian Gulf," in Shi'ism and Social Protest, eds. Juan R. I. Cole and Nikki R. Keddie (New Haven, Ct.: Yale University Press, 1986), 44.

[26] Ibid., 32-33.

[27] Chubin and Tripp, 15.

[28] International Institute for Strategic Studies (IISS), The Military Balance 2000-2001 (London, Oxford University Press, 2000), 298. Iran has 545,600 troops while the various other Persian Gulf states only have a total of 308,600 personnel in their armed forces. Iraq has 429,000 uniformed personnel.

sites, Mecca and Medina, within Saudi Arabia provides the kingdom with a special status among Muslims. Saudi King Fadh's claim of the title *Khadim al-Haramayn al-Sharifayn* (Defender of the Holy Sites) once reserved for the Ottoman Caliph, is central to the regime's legitimacy as rulers of the kingdom and is a source of power and prestige within international Muslim circles. As a result, Saudi Arabia feels it has a dominant say in Islamic issues. For its part in the defense of the kingdom and the holy sites and its overall role in the region, Saudi Arabia maintains a smaller, though more technically advanced and financially supported military force. To maintain its military force of 162,500 men, Saudi Arabia spends more than 15 percent of its annual GDP on defense, more than ten times Iran's per capita defense spending.[29] While geographically and demographically smaller than Iran, Saudi Arabia's oil wealth and religious credentials give it a feeling of parity, if not dominance, in the region and worldwide.

C. PAST RELATIONS

The above differences and pre-conceptions have led to several confrontations between Saudi Arabia and Iran since the revolution. The record of these conflicts continues to color contemporary relations and demonstrates the sheer magnitude of the diplomatic chasm between the two nations. Since the fall of the Shah, relations between the two countries have ranged from an initial period of almost open hostility to the recent period of seemingly genuine, yet cautious friendship. Iran too often found the pursuit of its national interests, specifically oil revenues, inescapably bound up in the maintenance of its revolutionary ideals. According to Iranian scholars Shahram Chubin and Charles Tripp, the importance to the regime's legitimacy and survival, not necessarily pragmatic considerations of Iran's national interests, drove Iran's policy vis-à-vis Saudi Arabia.[30] Unable to make even the slightest concession to Saudi Arabia, Iran found itself increasingly isolated – both politically and economically. Saudi Arabia for the most part

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[29] Military Balance, 298. Saudi Arabia spent 16.2 and 15.5 percent of its GDP on defense in 1998 and 1999 respectively, while Iran only spent 6.5 and 6.2 respectively. This amounted to roughly $1,100 per capita in Saudi Arabia as opposed to just $90 in Iran.

[30] Chubin and Tripp, 73-74.

assumed a reactionary stance, unsuccessfully trying to interpret Iran's intentions through Iran's extreme and often contradicting rhetoric. As a result, pragmatic Saudi Arabia drew closer to the West for protection and continued to pursue economic policies based upon fiscal realities. Since events within Iran largely drive relations, this section focuses on Iranian policy and will be broken into two periods covering Saudi-Iranian relations before the on-going period of détente. These first two phases demonstrate the gap in relations both sides closed since 1997.

1. 1979-1989

No period has perhaps more influenced Saudi-Iranian relations than the first decade. During this period, both sides formed the initial impressions that still influence their decisions. Before the revolution, Saudi-Iranian relations were somewhat competitive, but cordial and improving. Barry Rubin records that "the fear of Saudi-Iranian conflict [in the 1970s] was exaggerated; Saudi Arabia complained about Iran's growing power and ambitions from time to time and noted the shah's hawkish stance on oil prices, but relations between them were never angry."[31] Towards the end of the shah's reign, relations between the two were even improving. By early 1978, officials from both nations continued to routinely visit one another and the two nations concluded a security agreement dealing with joint means for combating terrorism, subversion, and crime.[32] Once the revolution began, Saudi Arabia stood staunchly behind the shah, publicly announcing their confidence in him and his ability to quell the disturbances, which they blamed on communists and leftists.[33] Their support for the shah and their optimism for the situation in Iran proved misplaced as Iran's revolution succeeded.

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[31] Rubin, 142.

[32] David Menashri, Iran: A Decade of War and Revolution (New York: Holmes and Meier, 1990), 46. In November 1977, Saudi Minister of the Interior, Prince Nayef, visited Tehran to conclude a security agreement on combating terrorism, subversion, and crime. It would be 24 years [18 April 2001] before he would return to sign a similar agreement with the Islamic Republic.

[33] Ibid., 47.

The first decade of Saudi-Iranian relations after the revolution were extremely turbulent. From the outset, the anti-monarchial, anti-Western nature of Ayatollah Khomeini's movement challenged the Saudi regime both politically and religiously and soon destroyed the good relations between Iran and Saudi Arabia.[34] Even before Khomeini seized power, he and his followers were critical of the Gulf monarchies – especially Saudi Arabia. David Menashri quotes Khomeini as criticizing Muslim rulers like the Saudis for 'living like infidels and animals.'[35] Menashri records Khomeini and his followers focused upon three facets of the Saudi regime making them 'no better than the shah.'[36] The aspects they condemned were the Saudis monarchial government, their "wasteful use of their oil revenues," and "their 'un-Islamic' ostentatious lifestyles."[37] Menashri even cites one Khomeini aide in particular forewarning an Arab correspondent, 'Be patient...we will...see the fate of the Saudi rulers six months after our return to Tehran.'[38]

Although only idle threats before the success of the revolution, Khomeini's aggressive rhetoric took on an different context once revolutionaries overthrew the shah and Khomeini assumed power. The deposing of Iran's sovereign by a religiously motivated population immediately boded poorly for Saudi-Iranian relations. Like the monarchs of 18th century Europe panicking at Louis XVI's beheading, from the moment the Shah fell the al-Saud royal family feared a similar fate.[39] There was a good basis for Saudis fear, as Khomeini did not consider the revolution a solely Iranian phenomenon.

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[34] Chubin and Tripp, 15.

[35] Menashri, 95.

[36] Ibid.

[37] Ibid.

[38] Joint Publications Research Services (JPRS), No. 72717; *al-Nahar*, 7 January 1979, 8 February 1979; *al-Safir*, 19 January 1979 quoted in Menashri, 95.

[39] David Holden and Richard Johns, The House of Saud: The Rise and Rule of the Most Powerful Dynasty in the Arab World (New York: Holt, Rinehart, and Winston, 1981), 498-499.

As Iran's supreme leader, Khomeini's scathing rebukes in particular placed Riyadh on the defensive. After his victory over the shah, Khomeini not only continued his earlier vehement attacks upon the Saudi regime, but also began to openly advocate the revolution's export as a means of freeing the oppressed and establishing the universal rule of God.[40] Attempting to stir such revolt in Saudi Arabia, Khomeini and his fellow clerics immediately heightened their attacks on all aspects of the Saudi regime's legitimacy and called upon the Saudi people, especially the Shi`ah minority, to revolt. Jacob Goldberg cites an example of just such an attack in quoting the following Radio Tehran broadcast:

> The ruling regime in Saudi Arabia wears Muslim clothing, but actually represents a luxurious, frivolous, shameless way of life, robbing funds from the people and squandering them, and engaging in gambling, drinking parties and orgies. Would it be surprising if people follow the path of the revolution, resort to violence and continue their struggle to regain their rights and resources?
>
> Revolutionary masses, heroic people in Qatif [Eastern Saudi Arabia]...resist the government from the deserts where there is neither education, awareness nor culture...resist your oppressive enemies...challenge the authorities' forces by directing blows at them. Where are the arms....Where are the Molotov cocktails prepared by women and children?[41]

Such efforts troubled the al-Saud family, which depended heavily upon its religious image to maintain a repressive regime similar in many ways to the shah's.[42] At its core, Khomeini's populist Islam had "no room" for such despotic monarchial systems, which

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[40] R.K. Ramazani, "Khumayni's Islam in Iran's Foreign Policy," in Islam in Foreign Policy, ed. Adeed Dawisha (Cambridge: Cambridge University Press, 1983), 16-27 passim.

[41] Radio Tehran (in Arabic) March 8 and 14 – BBC, March 10 and 16, 1980 as quoted in Jacob Goldberg, "The Shi`i Minority in Saudi Arabia," in Cole and Keddie, 242-43.

[42] F. Gregory Gause III, Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States (New York: Council on Foreign Relations Press, 1994), 29-31.

he denounced as un-Islamic and 'the greatest disaster that had befallen Islam'[43] Khomeini attacked the Saudi Wahhabi faith calling it an "anti-quranic" and "totally baseless and superstitious religion...[that] leads the uninformed and unaware peoples to the super powers."[44] Khomeini regularly belittled the Saudi regime by referring to it simply as the "government of the Hijaz" and called the al-Sauds "traitors" rather than "protectors" or "custodians" of Mecca and Medina.[45] He also accused Saudi Arabia of being the puppet or "arch-agent" of the 'Great Satan' – the United States.[46] The extremist language of Iran's revolutionary leaders served to reinforce the Saudi perceptions that Iran meant Saudi Arabia ill will and fully intended to spread the revolution across the Gulf. Such religiously veiled claims only smacked of Iranian imperialism to Saudi Arabia and the other Gulf sheikdoms.[47] While the existence of a popular revolution within another nearby Islamic country was troublesome enough, Iran greatly expanded the gap between herself and Saudi Arabia with such drastic rhetoric.

The Saudi fears of domestic revolt appeared to come to life just as they were beginning to absorb the full impact of the revolution in Iran. On 20 November 1979, within a week after Iranian students seized the US Embassy in Tehran, Sunni militants seized the Grand Mosque in Mecca proclaiming the end of the al-Sauds' corrupt rule and the coming of the long-awaited *Mahdi*. Almost simultaneously, anti-US Iranian inspired demonstrations and riots broke out among the Shi`ah in neighboring Bahrain and, more

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[43] Ramazani, "Khumayni's Islam," 26; and "The Incompatibility of Monarchy with Islam," in Iman Khomeini: Islam and Revolution – Writings and Declarations, translated and annotated by Hamid Algar (London: KPI, 1985) quoted in Adam Tarock, Iran's Foreign Policy Since 1990: Pragmatism Supersedes Islamic Ideology (New York: Nova Science Publishers, 1999), 14, 16.

[44] Khomeini, 12.

[45] Shahram Chubin, Iran and its Neighbors: The Impact of the Gulf War (London: Centre for Security and Conflict Studies, 1987), 8 and see Khomeini, 16.

[46] Ramazani, "Khumayni's Islam," 26.

[47] Chubin, 2. Chubin and others assert that despite the revolution's new ideology, it retained much of Iran's old arrogance and imperialistic character, especially when it came to the Gulf States.

dangerously, in Saudi Arabia's eastern oil-rich provinces. Not since the *Ikhwan* Uprising of 1928-29 had the al-Sauds regime been as uncertain of its future as it was during the seizure of the Grand Mosque and the subsequent Shi`ah uprisings.[48] Saudi King Khalid and Crown Prince Fadh sensed the critical nature of the situation and directed the army to swiftly quell the revolts.[49] Throughout the 1980s, however, Saudi Arabia continued to exercise caution, for in addition to inspiring such spontaneous uprisings, Iran also supported several organized terrorist groups or cells in Saudi Arabia, Bahrain, and Kuwait.[50] In return, Saudi Arabians decided to similarly challenge Iran by supporting groups opposed to Khomeini and by backing a coup attempt in the early 1980s.[51]

Additionally, Iran's, especially Khomeini's, view of the hajj as a venue for political protest against Western influence and the Saudi regime strained Saudi-Iranian relations. Several incidents of Iranian politico-religious protest turned violent and bloody. One particular incident in 1987, led to the death of about 450 pilgrims and the severing of Saudi-Iranian diplomatic ties for four years.[52] Such continued Iranian machinations in support of dissidents throughout the Gulf, especially in Bahrain and Saudi Arabia's Shi`ah populations, were a major source of discord between Iran and her Arab neighbors.

The Iran-Iraq War (1980-1988) heightened the sense of mistrust and hostility on both sides of the Gulf. To counter Iran's revolutionary zeal, Saudi Arabia threw its

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[48] Holden and Johns, 513.

[49] Geoffrey L. Simons, Saudi Arabia: The Shape of a Client Feudalism (New York: St. Martin's Press, 1998), 309-310. According to Simons, 255 Saudis were killed and 560 injured in retaking the mosque (127 soldiers killed/451 injured). In the east, the Saudis arrested and detained thousands of Shi'ites. The timing of these incidents also caused grave concern in the U.S., where officials feared Saudi Arabia could potentially erupt in revolution like Iran.

[50] Chubin and Tripp, 16.

[51] Amirahmadi, 147.

[52] Although the Iranians contend that the hajj is political and religious in nature, the Saudis see the protests as attempts to foment general civil unrest. The explosion of two bombs outside the Grand Mosque in 1989 by Shi'ite extremists further damaged relations during this period. Tarock, 19.

support behind Saddam Hussein's 1980 invasion of Iran, becoming essentially cobelligerents with Iraq.[53] Iran saw the "imposed" war as an attempt to combat its revolutionary zeal or "snuff out the revolution" entirely.[54] Iran perceived itself not just the victim of Iraqi aggression, but also Saudi aggression. Throughout the Iran-Iraq War, Saudi Arabia did everything it could to support Iraq, short of committing its own military forces. During this period, Saudi Arabia:

- allowed Iraq to export oil through Saudi pipelines;
- encouraged other Gulf States to bankroll Iraq's war effort;
- led efforts to establish an alliance (the GCC) to counter Iran;
- enlisted the United States to intervene in the "tanker war" phase;
- waged economic warfare on Iran by flooding the world market with Saudi oil.[55]

These efforts influenced the outcome of the war and turned back Iran when it was on the verge of winning the conflict.[56]

The first decade of relations ended with the death of Iran's chief ideologue, Ayatollah Khomeini. Khomeini's passing and the sheer strain of eight years of bloody conflict with Iraq left Iran tired and less zealous to spread its revolution. Iran found itself isolated, financially drained, and deeply mistrusting of both their Arab neighbors and the

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[53] For a complete assessment of Saudi support for Iraq, see Dilip Hiro, "Iran-Iraq War," and Bahman Baktiari, "Revolutionary Iran's Persian Gulf Policy: the Quest for Regional Supremacy," in Iran and the Arab World.

[54] Chubin and Tripp, 10.

[55] Tarock, 20-21. Iran's oil revenue dropped from $21.8 billion in 1982-84 to only $6.9 billion in 1986-87, seriously affecting their war efforts.

[56] Anthony H. Cordesman, Iran's Military Force in Transition: Conventional Threats and Weapons of Mass Destruction (London: Praeger Publishers, 1999), 23.

West. The war demonstrated to Iran how disputes with their neighbors could quickly become both "arabicized" and "internationalized," isolating them not only from their neighbors, but from the West as well.[57] The war showed the leadership in Tehran they would not be able to openly impose themselves on other states – they would have to try other tactics.

The same period left Saudi Arabia relieved yet wary. Saudi support for Iraq, economic warfare, and growing ties to the United States kept Saudi-Iranian relations adversarial despite the passing of Khomeini in 1989. Iran's continued support to Saudi dissidents and its inherently anti-monarchial nature also kept Saudi Arabia at arm's length. Ironically, while apparently having succeeded in grinding down Iran's revolutionary fervor by backing Saddam, Saudi Arabia soon was engage in its own war with Iraq.

2. 1990-1996

Saudi-Iranian relations went through a period of transition from 1990 through 1996. The decline of radical and conservative influence over Iranian foreign policy and a subsequent shift from the outright hostility of the previous decade to a more moderate approach marked this period. According to Iranian academic Hooshang Amirahmadi, the shift was the result of several factors. These include:

- the death of Ayatollah Khomeini;
- Iran's desperate need for foreign exchange, especially oil revenues, to help with post-war reconstruction;
- the emphasis upon reintegrating into the capitalist world after the collapse of Soviet Union; and
- the defeat of Iraq by a largely Western coalition force.[58]

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[57] Chubin and Tripp, 4.

[58] Amirahmadi, 152.

These factors, especially the death of Ayatollah Khomeini and the devastation left by the war, ushered in a period of introspection and change within Iranian leadership circles that left Iran in a position to redirect its foreign policy course.[59] Khomeini's absence led to a shuffling of power in Tehran that created changes in the nation's policies. As with other areas of policy, foreign affairs became a contest between radicals and conservatives led by Khomeini's successor, Ayatollah 'Ali Khamenei, and more moderate and pragmatic officials under President 'Ali Akbar Hashemi Rafsanjani.[60] At issue was how the revolution's ideals were to be adapted to the needs of post-revolutionary Iran.[61]

In terms of foreign policy, the contention between conservatives and moderates centered on whether the Islamic Republic could resume relations with pro-Western Muslim nations to help its economic recovery without sacrificing Iran's Islamic and revolutionary values. Pragmatic recognition of Saudi Arabia and closer relations required Iran to cease its denigration of the al-Saud regime and Saudi-US relations and to accept the Saudis government's ultimate legitimacy. This hurdle Iran's conservatives were unwilling to surmount.[62] From their viewpoint, embracing Saudi Arabia was a "slippery slope" – tantamount to embracing the "Great Satan" itself.[63] Opening up to Saudi Arabia was a direct renouncement of the Imam Khomeini's final edict to "always reject, in a manner which is worthy of an Islamic government, *Taqooti* governments, which were

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[59] Chubin and Tripp, 18; and Ahmed Hashim, The Crisis of the Iranian State (London: Oxford University Press, 1995), 34.

[60] Hashim, 33.

[61] Ibid., 34.

[62] Note, importantly, that additional hurdles such as conservative defense of the status quo and the regime's overall legitimacy; Iran's insistence upon its central role in regional security/politics; Iran's failure to fully appreciation the damage done to Saudi-Iranian relations; and its underestimation of the amount of time required to rebuild them. See Chubin and Tripp, 18.

[63] Chubin and Tripp, 5.

and are a band of uncultured thieves and empty headed bullies."[64] Although Rafsanjani tried to adjust the nation's policies, conservative forces remained in charge of the state's influential portfolios such as foreign affairs and oil. Consequently, despite the growing power of the pragmatists, conservative influences continued to overshadow Iran's foreign policy and impair improvements in Saudi-Iranian relations.[65]

Iran's inconsistent foreign policy therefore reflected its divided leadership. The on-going power struggle between pragmatism and idealism resulted in essentially a "dual-policy" in the early 1990s according to Iranian scholar Ahmed Hashim; one "wherein the logic of state interests and of the revolution coexist[ed] uneasily."[66] The erratic foreign policy decisions this conflict of interests produced, prevented Iran from effectively resuming good relations with its neighbors. Consequently, Saudi-Iranian relations, according to scholars Chubin and Tripp, "fluctuated between conciliatory noises or gestures and fully-fledged campaigns of vitriolic propaganda, as well as direct moves to harm each other's interests."[67] Despite some promising overtures directly after the Gulf War, such as the reestablishment of diplomatic ties, the exchange of foreign minister visits, and the resolution of some hajj and oil production issues, Saudi-Iranian relations remained weak and troubled. "Crisis-making," "brinkmanship," and "ambiguity" came to characterize Iran's foreign policy and ultimately discouraged such states as Saudi Arabia from forming any lasting commitments with Iran.[68]

Consequently, although the Gulf War provided Iran an occasion to reconcile and deepen relations with its neighbors, the opportunity was soon lost. The war/post-war

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[64] Khomeini, 28. Khomeini often used the word *Taqooti* when referring to the Saudi regime. It is a Quranic term for those in positions of power and privilege who knowingly disobey Allah.

[65] Chubin and Tripp, 18; and Amirahmadi, 82.

[66] Hashim, 45.

[67] Chubin and Tripp, 18; and see Appendix.

[68] Peimani, 64.

westward drift of Saudi Arabia and the other Gulf States precluded improved Saudi-Iranian relations. Because of Iran's preoccupation with the previously mentioned preconditions, it continued to demand a central role in regional affairs after the war.[69] Iran hoped its refusal to take sides in the conflict would see it reintegrated back into regional politics. Yet, despite Iraq's downfall as the regional balancer and Iran's welcome neutrality, the Gulf States instead looked to the victorious United States for bilateral security agreements. Although Iran's exclusion from the GCC in 1981 was barely acceptable, its exclusion from a post-Gulf War settlement and security arrangement was unthinkable and a source of great irritation.[70] Iran firmly believed the US presence in the region was destabilizing and that only a coalition of Gulf States, including itself and perhaps Iraq, could produce a stable settlement. The Saudis' continued massive arms purchases from western powers also generated great concern in Iran.

The reliance upon US protection by the Gulf States was a result of both their fear of a resurgent Iraq, but also their continued wariness of Iran. Iran, however, did little to help the situation. Its expulsion of foreign workers from and fortification of the heavily disputed island of Abu Musa in 1994-95 confirmed Iran's sustained expansionist threat. Continued Iranian-inspired hajj unrest, Bahraini Shi'ite uprisings, and Iranian linked terrorist bombings in Saudi Arabia and Bahrain only worsened the perceived threat.[71] Coupled with Tehran's unrelenting revolutionary rhetoric and support of international Islamic subversives and terrorists, Saudi Arabia could not ignore the menace across the Gulf. If Iran and Saudi Arabia were to accommodate one another, it would take domestic political changes and both sides' recognition of their common interests. This change was coming.

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[69] See Sections A, B, C, and D above.

[70] Hashim, 44. Specifically, Iran's exclusion from the proposed Damascus Declaration or so-called "6+2" pact (GCC + Syria and Egypt).

[71] See Appendix; and Bruce Maddy-Weitzman, ed., Middle East Contemporary Survey (MECS) 1996 (Boulder, CO: Westview Press, 1998), 89, 111, 119, 582-583, and 593.

Continued deterioration of the economic situation in Iran was leading to increased unrest. During the early 1990s, discontent with the quality of life in Iran grew. The Majlis and the press increasingly voiced their discontent over how the government ran the economy. Assassinations and attempts on the lives of public officials, including both Khamenei and Rafsanjani, also pointed to the worsening political and economic situation.[72] The most serious indicators, however, were the growing number of riots, public demonstrations, and strikes.[73] By 1996, the government in Iran realized "something concrete had to be done to satisfy popular expectations and reduce discontent."[74] Subsequently, Iran began to seek a steadier rapprochement with Saudi Arabia. Two major Saudi overtures marked this effort, which largely consisted of conciliatory remarks exchanged by officials and the press of both sides. First, Saudi Arabia, although loosely implicating Iran in the Khobar Barracks bombing, did not officially cite Iran's complicity in the attack. Second, Saudi Arabia gave Iran its support for the upcoming 1997 meeting of the Organization of Islamic Conferences (OIC) in Tehran. Many attributed these acts to Saudi fears of being caught in a standoff between the United States and Iran over Khobar and the perception that US policies regarding Iran were weakening under Washington debate over the "Dual Containment" policy.[75] In any case, these acts were the beginning of the stronger rapprochement efforts that continue today.

D. SUMMARY

Current Saudi-Iranian relations remain heavily influenced by the various forces or pre-conditions that influenced their relations in the past. Iran and Saudi Arabia view their

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[72] Ibid., 302.

[73] Ibid.

[74] Ibid.

[75] Ibid., 594; and see Abdullah Al-Shayeji, "Dangerous Perceptions: Gulf Views of the U.S. Role in the Region," Middle East Policy (MEP) 5, no. 3 (September 1997); and Joshua Teitelbaum, "The Gulf States and Dual Containment," Middle East Review of International Affairs (MERIA) 2, no. 3 (September 1998).

national interests from differing perspectives. In considering Saudi-Iranian relations, one must look at differences in their:

- respective histories;
- geographical location and natural resources;
- religion and ethnicity;
- political systems and ideological perspectives; and
- their past relations through 1996.

Relations between the two nations since the Iranian revolution reflect these differences. Yet, despite these differences and years of discord, Iran and Saudi Arabia are coming together in unprecedented ways. They are doing so to address the most pressing issue facing both nations – their dire socio-economic situations. Failing rentier economies and growing populations of young citizens create a strain both government's must address. Therefore, while the above pre-conditions remain the underlying biases and motives influencing how each country ultimately approaches their new relationship, their troubled economies drive Iran and Saudi Arabia together. This and other factors in the détente are the subject of the next chapter.

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III. FORCES IN THE RAPPROCHEMENT

Given the turbulent nature of past Saudi-Iranian relations and the magnitude of the above differences between the two nations, what forces are bringing them together? The détente since 1997 is partly the result of shifting political sands in both countries. Changes in the leadership of Iran and Saudi Arabia in the mid to late 1990s laid the groundwork for the on-going rapprochement. Yet, although political change in those countries is the foundation for their improved relations, it is not the driving force. The driving force in the Saudi-Iranian détente is their dire economic situations, which the 1998-99 oil crash compounded. The failure of the US "Dual Containment" policy and the collapse of the Middle East Peace Accords contribute to the rapprochement, but the regimes' concern with domestic stability is the overriding factor bringing the former enemies together. Reviving and reforming their failing oil-based economies necessitates cooperation in oil production. They are achieving this through OPEC and this cooperation is the linchpin of Saudi-Iranian relations.

A. ENABLING FORCES

While Iran's relations with Saudi Arabia were slowly improving in the 90s, new leadership in both countries accelerated the rapprochement. In Saudi Arabia, the transfer of power from King Fadh to Crown Prince Abdullah ushered in a new approach to regional issues, especially regarding relations with Iran. Likewise, in Iran, the election of President Muhammad Khatami heralded major revisions in Iran's approach to foreign policy, most notably vis-à-vis Saudi Arabia. Together, the change in leadership on both sides of the Gulf provided the proper political climate enabling the acceleration of Saudi-Iranian rapprochement.

1. President Khatami

Politically, the environment in Iran began to change dramatically in 1997. Since 1989, control of the Iranian government has been a battle between the president, the *vali-ye faqih* (Iran's supreme religious leader), and the various formal and informal power structures supporting them.[76] As set forth in Iran's constitution, the president is responsible for both domestic and foreign policy, but he does not have the authority to set the "general guidelines" for the republic.[77] That right falls to Iran's *vali-ye faqih*, Ayatollah `Ali Khamenei. (See Figure 2.) Additionally, both the president and the *vali-ye faqih* have their own foreign policy organizations that propagate their policies.[78] This dualistic arrangement permeates Iran's policy-making structures, causing "enormous frictional incoherencies in the country's domestic and foreign policy."[79]

Figure 2. Iran's Vali-ye Faqih, Ayatollah `Ali Khameini.[80]

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[76] See Wilfried Buchta's Who Rules Iran? (Washington D.C.: Washington Institute for Near East Policy, 2000) for an excellent overview of Iran's current political structure.

[77] Ibid., 3.

[78] Ibid., chapters 4 and 5 passim.

[79] Ibid., 3.

[80] From Roger Hardly, "Khatami: Four Key Factors," BBC, 7 May 2001. Available [On-line]: <http://news.bbc.co.uk/hi/english/world/middle_east/newsid_1317000/1317301.stm> [30 May 2001].

Accordingly, scholars often lament the above dilemma in Iranian foreign affairs and cite it as one of the key problems with Saudi-Iranian relations. Chubin and Tripp in their 1996 study of Saudi-Iranian relations opined:

> The struggle for power in Iran, together with the regime's essentially decentralized nature, makes for erratic policies.... In reality, Iranian 'policy' is principally a series of stands and declarations reflecting positions congenial to the leadership. It does not reflect a considered position related to identified interests, priorities or a cost benefit analysis. Consequently, Iran-Saudi relations will continue to be turbulent.[81]

Such conditions characterized the Iranian regime's policies from 1989 through 1996. For Saudi-Iranian relations to improve, fundamental changes in Iran's political situation needed to occur. Chubin and Tripp concluded their 1996 work by asserting it would take:

> ...a <u>significant change in the dynamics of [Iran's] domestic politics</u>...could precipitate such a change [in Saudi-Iranian relations]. De-Islamization or the secularization of foreign policy, with greater emphasis on national interests, diminished activism and less posturing in foreign relations, would be elements in this change. Greater pragmatism and more emphasis on building confidence with its neighbors would be another manifestation. <u>The most likely cause of this change would come from domestic transformations, such as an increased centralization of power or a new national consensus</u>....[82]

Ironically, such changes were gathering steam just as their work went to print in late 1996.

In 1997, the dynamics of Iran's domestic politics shifted away from the conservatives and towards the moderates or reformists. This significant change in Iran's political environment was the result of a combination of those very "domestic transformations" Chubin and Tripp spoke of above. Increasingly, Iran's electorate is

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[81] Chubin and Tripp, 72-74.

[82] Ibid., 74; [Emphasis added].

composed of young Iranians who have no memory of "Iran's tortured past" and who grow disillusioned over their poor economic status and lack of social freedoms.[83] They perceive rejoining the international community and further democratization as possible solutions.[84] Consequently, Iranians have increasingly fewer reservations about opening up to both forces and are voting accordingly. The landslide election of moderate presidential candidate Muhammad Khatami (See Figure 3.) in 1997 and the subsequent victories of supporters in local and Majlis elections in 1999 and 2000 respectively, represented the groundswell of these electoral forces.[85]

Figure 3. Iranian President, Muhammad `Ali Khatami.[86]

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[83] R.K. Ramazani, "The Shifting Premise of Iran's Foreign Policy: Towards a Democratic Peace?," Middle East Journal (MEJ) (Spring 1998): 178. 64 percent of Iran's population was under 25 years old in 1999. IISS, "Iran: Crisis and Consensus," Strategic Survey 1999/2000, Sidney Bearman ed. (London: Oxford University Press, 2000), 174.

[84] Ramazani, 179.

[85] Khatami was elected with 69 percent of the electorate. In the 2000 elections, the rural areas and provinces voted with the larger cities to elect reformist candidates. The result was the lowest percentage of clerics elected since the revolution – 44 out of 225 elected.

[86] From Jim Muir, "Khatami Laments Limited Powers," BBC, 26 November 2000. Available [On-line]: <http://news.bbc.co.uk/hi/english/world/middle_east/newsid_1041000/1041721.stm> [30 May 2001].

The election of Khatami, who campaigned on establishing a "democratic peace" at home and a "dialogue among civilizations" abroad, and his supporters represented a national consensus that the government needed to change its policies.[87] The new national consensus demanded the government seek an "open society at home and a peaceful state abroad."[88] The shift in Iran's political dynamics ushered in an era heralding both a more concerted and more pragmatic approach to regional and international relations.[89] Under Khatami, Iran therefore "secularized" its foreign policy, emphasizing "expediency and reason," as one Iranian daily commented, to achieve the nation's vital interests.[90] Overall, Iran is now more concerned with internal stability than promoting instability in other Muslim countries such as Saudi Arabia.

The rapid nature of the Saudi-Iranian détente could not occur without Khatami's election and subsequent perceptible change in Iran's actions.[91] Despite Iran's diplomatic openings shortly after the 1990-91 Gulf War, most Arab states remained wary of Iran's true intentions.[92] Khatami's election, however, altered the perceptions of several key Arab countries, including Saudi Arabia.[93] Khatami's open rejection of Huntington's "clash of civilizations" theory and his advocacy instead of a "dialogue among civilizations" opened new doors for Iran's relations around the world. According to

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[87] Ramazani, 179.

[88] Ibid.

[89] See Mahmood Monshipouri, "Iran's Search for the New Pragmatism," MEP 6, no. 2 (October 1998).

[90] "Paper examines relationship between reforms, national interests," Aftab-e Yazd, 05 October 2000, in FBIS, IAP20001121000107, 5 October 2000.

[91] Basmenji, "Ice Age Over in Iran-Saudi Ties;" and see Peimani, 6, 59.

[92] Buchta, 128.

[93] Peimani, 6; and Geoffrey Kemp, America and Iran: Road Maps and Realism (Washington, D.C.: Nixon Center, 1998), 4.

Ramazani, Khatami's "moderate foreign policy orientation in general and good-neighbor policy in particular resonated well with GCC leaders."[94] Nevertheless, the Gulf States waited for commensurate changes in Iran's actual policy and operations before jumping too deeply into bilateral relations. Within 18 months, Khatami gained control of several powerful state portfolios, such as foreign affairs and oil, and was able to then make noticeable changes.[95] By 1999, Saudi leaders among others began to directly attribute several positive trends to Khatami's leadership. These included:

- an apparent end to Iran's support for overseas assassination teams;
- a large reduction, if not end, to Iran's support for violent opposition groups in the Persian Gulf (no domestic bombings since Khatami's election);
- fewer Iranian challenges to maritime traffic in the Persian Gulf;
- an end to anti-Saudi rhetoric; and
- a major reduction in hajj tensions because of a cessation of anti-Saudi and anti-Western demonstrations.[96]

Those trends were reflective of visible Iranian efforts to reconcile with their neighbors, including:

- several state visits by Khatami, Rafsanjani, and other prominent Iranian leaders throughout the region;
- a marked increase in conciliatory statements from both moderates and conservatives in Tehran;
- Iranian compliance with OPEC oil production quotas;

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[94] R.K. Ramazani, "The Emerging Arab Iranian Rapprochement: Towards an Integrated US Policy in the Middle East," MEP 6, no. 1 (June 1998): 45; and Peimani, 6.

[95] The replacement of conservative Foreign Minister `Ali Akbar Velayati with Kamal Kharrazi and the removal of Intelligence and Security Minister Hojjatoleslam `Ali Fallahiyan were notable changes that helped Khatami achieve a new direction in Iran's foreign policy. See Butcha, 41.

[96] Kenneth R. Timmerman, "The Saudi-Iranian Thaw," Wall Street Journal 26 May 1999.

- promotion of several economic ventures with Gulf states including Saudi Arabia, United Arab Emirates (UAE), and Kuwait;
- Iran's announced desire to negotiate directly with UAE over the disputed Gulf islands; and
- the conclusion of bilateral security agreements with several Gulf nations, most notably Saudi Arabia.

Although some, however, could solely attribute these trends to Khatami, it is vital to note that conservative forces retain substantial power within the regime. Therefore, the shift in Iran's policy regarding Saudi Arabia, while highly dependent upon Khatami's conciliatory policy orientation, is more indicative of a consensus among all the factions within Iran.[97] It seems that in the foreign policy arena, Khatami and Khamenei work together in reigning in the more radical voices so Iran's foreign policy remains consistent.[98]

Although the changed political environment in Iran facilitates the Saudi-Iranian détente, it is not the driving force behind the rapprochement. These aforementioned factors merely provide a conducive atmosphere for Saudi-Iranian relations. The driving force in the détente is Iran's desire to revive their economic situations before it implodes. Iran faces severe economic pressures forcing it to look for any solutions it can find. Those solutions demand a more pragmatic and open approach to foreign relations. Chubin and Tripp accurately predicted back in 1996 that economic troubles in Iran would force a change in Saudi-Iranian relations. They wrote:

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[97] Peimani, xii.

[98] Teitelbaum, "The Gulf States and Dual Containment."

> The most likely cause of this change [towards a more pragmatic approach to Saudi-Iranian relations] would come from domestic transformations, such as...a new national consensus resulting from widespread recognition of and reaction to the economic penalties of continuing its current policies....[99]

The "widespread recognition," Chubin and Tripp concluded, might be the result of "a sudden economic shock and its political consequences."[100] This thesis contends Chubin and Tripp were correct in that prediction. The collapse of oil prices in 1998-99 compounded Iran's already dismal economic situations – generating the "economic shock" that drove them to revise their policy vis-à-vis the Saudis.

2. Crown Prince Abdullah

In Saudi Arabia, the political environment began to change with the growing power of Crown Prince Abdullah. (See Figure 4.) Since 1998, Crown Prince Abdullah has increasingly assumed control over the day-to-day operations of the Saudi government from the ailing King Fadh.[101] Abdullah's consolidation of power directly coincided with the Saudi-Iranian détente and was a boon for their relations. The Saudi public considers Abdullah to be a popular leader who espouses both traditional Saudi tribal/Islamic values and modern views on reforming the failing economy.[102] Additionally, the Crown Prince is a strong nationalist who places an emphasis upon the nation's regional relationships. Consequently, while he values the strategic partnership with the United States, he puts a

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[99] Chubin and Tripp, 74.

[100] Ibid.

[101] Abdullah was acting king for a month in 1995 after King Fadh suffered a stroke. Since 1995, King Fadh allowed the Crown Prince to administer the government, however, since 1998, Abdullah has assumed near full responsibility for leading the country.

[102] Howard Schneider, "Saudi Arabia Finds Calm After the Storm: Desert Rulers Nurture Stability," Washington Post, 9 January 2000.

priority on the independent pursuit of Saudi national interests in the region.[103] He is not perceived to be as pro-American as his predecessors for this reason and because of his assertive nature and open criticism of US policy in the region.[104] According to scholar Joseph Kechichian, Abdullah shows a distinct "willingness to follow his own course when American and Saudi interests diverge."[105]

Figure 4. Saudi Crown Prince, Abdullah bin 'Abd al-Aziz.[106]

Some of the keys to the Saudi rapprochement with Iran are Abdullah's energetic emphasis upon regional interests and his willingness to "follow his own course." When it comes to addressing these issues, the heir apparent is very active. When oil prices bottomed out in 1998-99, the Crown Prince spearheaded an industry-wide effort to

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103 Nawaf E. Obaid, The Oil Kingdom at 100: Petroleum Policy Making in Saudi Arabia (Washington D.C.: Washington Institute for Near East Policy, 2000), 8.

104 Susan Sachs, "Saudi Heir Urges Reform and Turn From U.S.," New York Times, 4 December 2000.

105 Joseph A. Kechichian, "Saudi Arabia's Will to Power," MEJ 7, no. 2 (February 2000). Available [On-line]: <http://www.mepc.org/journal/0002_kechichian.htm> [8 April 2001].

106 From "King Fadh 'Alive and well,'" BBC, 9 April 2001. Available [On-line]: <http://news.bbc.co.uk/hi/english/world/middle_east/newsid_1269000/1269308.stm> [30 May 2001].

restore them. In fact, Abdullah is largely responsible for negotiating the March 1999 production cuts with Iran.[107] Abdullah is also the force behind the reforms Saudi Arabia is enacting.[108] In an unprecedented and now famous speech at the height of the oil crisis, Abdullah bluntly stated the glory days of oil were over and everyone, including the royal family, must "tighten their belts." Such straightforward talk endears him to his subjects, who often resent the royal family's extravagant lifestyles and tire of official statements not meshing with their own economic realities. Additionally, the Crown Prince's openly critical stance on US policy in the region, specifically regarding its support for Israel and continuing military attacks upon Iraq, wins him regional acclaim. His open support of the Palestinians, Lebanese, and Syrians in the peace process is also notable. These actions make him particularly popular with his subjects, including the radicals and conservatives, who often complain the kingdom aligns too closely with the United States.[109]

Correspondingly, Abdullah's rapprochement with Iran demonstrates that he and his government set their own political path in opposition to official US reservations about Iran. Despite US warnings and past Saudi-Iranian differences, the Crown Prince chooses to distance himself from his predecessors' anti-Iranian policies and to instead lead the Saudi rapprochement efforts.[110] When Iran hosted the IOC meeting in 1997, Abdullah not only attended, which was the first visit to Iran in nearly twenty years by such a senior Saudi official, but he also met with both Khatami and Khamenei.[111] Although this effort

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[107] David Butter, "More Cuts is the Saudi Medicine," Middle East Economic Digest (MEED), 26 March 1999, 4.

[108] Tom Everett-Heath, "The Saudi Quickstep," MEED, 26 November 1999, 4.

[109] See Mamoun Fandy, Saudi Arabia and the Politics of Dissent (New York: St. Martin's Press, 1999); and Joshua Teitelbaum, Holier Than Thou: Saudi Arabia's Islamic Opposition (Washington D.C.: Washington Institute for Near East Policy, 2000) for complete discussions of Saudi dissident movements and their opposition to Saudi Arabia's relations with the United States.

[110] Teitelbaum, Holier Than Thou: Saudi Arabia's Islamic Opposition, 118.

[111] Abdullah even posed in front of a large portrait of Ayatollah Khomeini according to Adam Tarock in Iran's Foreign Policy Since 1990: Pragmatism Supersedes Islamic Ideology.

may just be part of the Saudi strategy to neutralize Shi'ah dissidents in the eastern provinces or to buoy flagging oil prices, it nonetheless demonstrates a deliberate shift away from the United States' position.[112] Altogether, Abdullah's actions show a shift towards a much more focused approach to regional and domestic issues important to Saudi Arabia. Consequently, the assumption of power by Abdullah laid the groundwork upon which other forces, namely socio-economic ones, are acting. These other issues influence Abdullah's decision to pursue rapprochement with Iran and will be covered further below. They are the driving forces behind Saudi and Iranian policy decisions vis-à-vis each other.

B. DRIVING FORCES

1. Failure of Dual Containment

Realist approaches argue the Saudi-Iranian détente is the result of several external or international forces. These foremost of these include the failure of the US "Dual Containment" policy and the collapse of the Middle East Peace Accords. Overall, Saudi Arabia, as well as other Gulf states, senses US policy and commitment in the Persian Gulf region is wavering. "Dual Containment" of both Iraq and Iran has been a controversial policy for the last few years; its effectiveness and continued relevance argued by both academics and politicians alike.[113] Khatami's election and Iran's increasingly pragmatic approach to foreign policy heightens the debate. Many Gulf Arabs see the debate in Washington as a sign of "Dual Containment's" inherent weakness and waning US resolve and as an overall indication of the lack of rationale for maintaining US forces in the region.[114] Additionally, US failure to vigorously enforce the Iran-Libya Sanctions Act (ILSA) further reinforces Gulf perceptions of US indecision. Gulf leaders, however, also worry continued sanctions on both Iran and Iraq and "pin-prick" military

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[112] Teitelbaum, Holier Than Thou: Saudi Arabia's Islamic Opposition, 93-94.

[113] Al-Shayeji, 1. Critics of DCP include such prominent public officials as Zbigniew Brzezinski, Brent Scrowcroft, Richard Cheney, Richard Murphy, Geoffrey Kemp, Robert Pelletreau, Graham Fuller, and such noted academics as R.K. Ramazani, James Bill, Gregory Gause, and Fawaz Gerges.

[114] Ibid.; and Teitelbaum, "The Gulf States and Dual Containment."

attacks on Saddam actually harm regional stability more than help it.[115] Various sheikdoms' additionally fear being caught in a US-Iran confrontation over resurfacing allegations of Iran's past links to terrorism.[116] In the end, arguments are Saudi Arabia realizes either it must be prepared to live peaceably with both Iran and Iraq or it must seek to counterbalance one by warming relations with the other.[117] In the past Saudi Arabia sought regional balance by playing Iraq against Iran. Since that is no longer an option and the US policy is in doubt, the Saudis are looking to Iran to balance Iraq. "If the United States cannot get rid of Saddam, then Saudi Arabia will have to make local arrangements, at least in the short term."[118] Therefore, in the end, it is the United States' apparent inability to remove Saddam Hussein that "only strengthens the emerging Saudi-Iranian rapprochement, [and] enhances OPEC solidarity...."[119]

2. Failure of the Middle East Peace Accords

While the failure of "Dual Containment" contributed to the shift in relations, the collapse of the Middle East Peace Accords was also a factor in the Saudi-Iranian rapprochement. When the peace talks stalled in 1998 and the United States failed to pressure Israel harder to achieve a settlement, it was widely perceived in the Arab world as support for Israel's position. This perceived bias immediately increased already

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115 Al-Shayeji, 1.

116 Teitelbaum, "The Gulf States and Dual Containment"; and idem, Holier Than Thou: Saudi Arabia's Islamic Opposition, 91-94. Teitelbaum cites this is particularly the case with Saudi Arabia and Iran's alleged implication in the Khobar Towers bombing. Saudi leaders worry that proof of Iran's involvement in Khobar would lead to U.S. military strikes against Iran, possibly involving military assets based in Saudi Arabia.

117 Ibid.; Bruce Maddy-Weitzman, ed., Middle East Contemporary Survey (MECS) 1997 (Boulder, CO: Westview Press, 2000), 125, 127; and see Ghassan Atiyyah, "Dealing with Saddam or His Clone," MEP 7, no. 4 (October 2000).

118 Maddy-Weitzman, 127.

119 James Phillips, "Declining US Credibility and Rising Oil Prices," The Heritage Foundation, 17 March 2000. Available [On-line]: <http://www.heritage.org/library/execmemo/em663.html> [22 January 2001].

widespread disillusionment with the United States and its role in regional affairs.[120] Subsequently, the United States' inability to thwart the collapse of the accords or the escalating Israeli-Palestinian violence further irritated Arab sensibilities and promoted a "rising tide of anti-Americanism" in the Middle East.[121] This creates strong political pressure on governments, such as Saudi Arabia, who maintain close relations with the United States and who also need to protect the public legitimacy of their rule.[122] Anti-US demonstrations and sentiment urge regional leaders to at least publicly denounce US support for Israel as many did at the November 2000 Islamic Summit in Qatar.[123] Saudi Arabia was one of the countries that spoke out against the alleged US support of Israel. Additionally, Crown Prince Abdullah's often public criticism of the United States for its policies regarding Israel is well known.[124] This general disillusionment with US policies undermines its influence in the Persian Gulf and ultimately is pushing the Gulf States toward Iran.[125] Iran for its part realizes this and makes every effort to capitalize upon the Arabs' frustration. At the Qatar summit, Iranian Foreign Minister Kharrazi remarked, "Iranian arguments are getting more support. The way the Americans have dealt with the peace process has made people dissatisfied."[126] In this light, closer ties with Iran are a clear rejection of the United States and thus a means of establishing a degree of political independence that helps defuse public outcry against relations with America.

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[120] Al-Shayeji, 1; Peimani, 111; Kemp, 20; and Khalil Osman, "Thaw in Saudi-Iranian Relations Heralds New Beginning for the Middle East," Muslimedia, 1-15 May 1998. Available [On-line]: <http://www.muslimedia.com/archives/world98/saudiran.htm> [22 January 2001].

[121] Washington Institute for Near East Policy, Navigating Through Turbulence: America and the Middle East in a New Century (Washington, D.C.: Washington Institute for Near East Policy, 2001), 3-4. Available [On-line]: <http://www.washingtoninstitute.org/pubs/saudgulf.htm> [5 March 2001].

[122] Hugh Pope, "Islamic Resentment of US Builds, Undercutting Its Mideast Policy," Wall Street Journal, 15 November 2000, A23.

[123] Ibid.

[124] Ibid.; and Osman.

[125] Pope, A23.

[126] Ibid.

3. "Janus-Faced" Security Dilemmas

From a realist or neorealist point of view, the collapse of "Dual Containment" might fully account for the Saudi-Iranian détente. Such interpretations, nevertheless, fall short because they do not account for the other driving force in Middle East politics – domestic stability. Conventionally, Saudi Arabia and Iran are both relatively secure from foreign attack, but the real trouble lies beneath the surface in their domestic situations.[127] Besides international concerns, states like Saudi Arabia and Iran also balance domestic concerns that more directly threaten their regimes' survival on a daily basis. Saudi Arabia and Iran must face both internal and external threats equally in what Michael Barnett calls the "Janus-faced" dilemma.[128] They are "concerned with challenges in both the domestic and the international arenas."[129] In this struggle to maintain control on both fronts, however, Barnett argues governments will chose domestic stability over national security even if it makes them vulnerable in that area.[130] Gregory Gause agrees, writing, "it is regime security, not simply state security, that animate decision makers in the region."[131] In this vein, one could explain the various Arab leaders' anti-US statements as means of defusing rising political tensions that could threaten their regimes' security. The threat to their regimes, however, comes from a much more pervasive source – their economies.

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[127] F. Gregory Gause III, "The Political Economy of National Security," in The Persian Gulf at the Millennium: Essays in Politics, Economy, Security, and Religion, eds. Gary G. Sick and Lawrence G. Potter (New York: St. Martin's Press, 1997), 61-62.

[128] Michael N. Barnett, Confronting the Costs of War: Military Power, State, and Society in Egypt and Israel (Princeton, New Jersey: Princeton University Press, 1992), 26. Barnett's study focuses on the war preparation strategies of Israel and Egypt, however his findings are highly relevant in considering the socio-political situation of many Middle Eastern states, including especially Saudi Arabia and Iran.

[129] Ibid.

[130] Ibid., 25.

[131] Gause, "The Political Economy of National Security," 62.

States like Iran and Saudi Arabia, whose domestic policies and options are constrained by their "social contracts" and rentier economies, face increased difficulty meeting the security challenge. Such states, Barnett finds, can turn to restructuring solutions to bolster their ability to meet national security concerns.[132] Yet, because of the domestic unrest restructuring their economies and "social contracts" entails, states often must turn to international solutions to simultaneously balance their domestic and national security concerns.[133] "The more constrained the state is by its relations with its economy and society, the more it will emphasize international strategies of adjustment."[134] Saudi Arabia and Iran are constrained by their economies and societies. While Saudi Arabia and Iran attempt to restructure their economies and "social contracts," they will encounter substantial domestic unrest. Therefore, to maintain their domestic and national security, Saudi Arabia and Iran are balancing their restructuring efforts with international solutions. Their rapprochement is just such a solution. Saudi Arabia and Iran's miserable economic conditions, compounded by demographic explosions are forcing the two nations together to balance the competing goals of national and domestic security. This international solution is enshrined in their détente and most notably in their relations within OPEC.

4. Troubled Economic Situations

Both Iran and Saudi Arabia face dismal economic conditions and future predictions. The oil-based economies Abdullah and Khatami inherited in the mid-1990s suffer from mismanagement and corruption, an excessively large and inefficient public sector, and macroeconomic imbalances. Major demographic changes and the economy's heavy reliance upon oil revenues compound these problems.

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[132] Barnett, 31-33.

[133] Ibid., 32.

[134] Ibid.

a. Iran

On March 15, 1998, President Khatami made a televised address to the Iranian people characterizing Iran's economy as "sick." Despite the accurate diagnosis, however, the reformer's recovery plan ironically failed to provide for an adequate cure. The precipitous drop in oil prices in 1998 caused Iran's internal and external fiscal positions to deteriorate sharply. According to Middle East economist Jahangir Amuzegar, "By the spring of 1998, economic troubles [in Iran] reached a critical mass."[135] The real GDP declined to 2.1 percent from 3.1 percent the previous year and inflation reached 20 percent.[136] Unemployment was rampant and the Iranian rial was in a free fall against the dollar.[137] Disappointingly, Khatami's economic roadmap for his administration lacked substance and detail. According to Amuzegar, Khatami's plan addressed the aforementioned problems and others such as "inadequate aggregate investment, heavy dependence on oil export revenues, harmful public and parastatal [sic] monopolies, excessive bureaucratic regulation, low productivity, and widespread poverty."[138] The plan, however, did not provide enough remedies and instead defended some of the economy's most inefficient policies, such as subsidies.[139] Because of the plan's failure and low oil prices in 1998, Iran's economy only worsened.

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135 Jahangir Amuzegar, "Khatami's Iran, One Year Later," MEP 6, no. 2 (October 1998).

136 International Monetary Fund (IMF), Islamic Republic of Iran: Recent Economic Developments (Washington, D.C.: IMF, September 2000), 7. Available [On-line]: <http://www.imf.org> [18 April 2001].

137 Unemployment is officially was 13 percent, however other estimates held the figure substantially higher. Additionally the rial averaged 7,000 to $1 U.S. on the black market in 1998, according to World Factbook 2000.

138 Amuzegar, "Khatami's Iran, One Year Later."

139 Patrick L. Clawson and others, eds., Iran Under Khatami: A Political, Economic, and Military Assessment (Washington, D.C.: The Washington Institute for Near East Policy, 1998), 63.

Today, Iran is the most populated state in the region and it is one of the poorest.[140] By all accounts, Iran continues to have a troubled economic situation. In mid 1999, Amuzegar asserted Iran's so-called "misery index" (the combination of inflation and unemployment) was at its highest point since the revolution.[141] With inflation and unemployment still at near record levels, Amuzegar's observation remains just as true in 2001. Iran's "misery index" is a direct reflection of more troubling structural forces holding back Iran's prosperity. According to Amuzegar, the foremost of these include:

- constitutional mandates for wholesale nationalization of crucial economic activity, and a cradle-to-grave welfare system that discourages private incentives and enterprise;
- a large, overstaffed, under funded, inefficient, and corruption-ridden public sector, overly dependent upon oil export incomes for both foreign exchange and budget needs;
- a bloated bureaucracy headed mostly by incompetent Islamic loyalists and inept executives, and given extraordinary (and often unchecked) power to act through a multitude of regular and revolutionary institutions;
- the absence of a cohesive employment policy with respect to both job opportunities and needed skills;
- a mistaken capital-intensive industrial policy, absorbing the bulk of public capital outlays without generating sufficient employment opportunities for the growing entrants in the labor market;
- an inefficient and costly agricultural policy aimed at self-sufficiency on "strategic grounds," devoid of both economic justification and national security guarantees;
- a badly botched structural adjustment and liberalization strategy during the 1989-1997 period, having spawned "crony capitalism," enriched both the free-wheeling bonyads (charitable foundations) and the well-connected apparatchiks – thus widening the income gap;

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[140] Iran's estimated population was 65 million in 1999 according to World Factbook 2000.

[141] Jahangir Amuzegar, "Khatami and the Iranian Economy at Mid-Term," MEJ 53, no. 4 (Autumn 1999): 548.

- a fast dwindling middle-class of professional cadres and business entrepreneurs sorely needed to invigorate and expand the private sector; and

- lack of transparency in the operations and accounts of public agencies and parastatal institutions – making the examination and analysis of available data and policy initiatives exceedingly difficult.[142]

Like Saudi Arabia and other Middle Eastern states, the most critical structural defect is Iran's over-dependence upon volatile oil revenues to support government spending – especially its system of state welfare and subsidies.[143] While much of the world's economy was booming in the late 1990s, Iran's economy stalled because of the above factors, the most prominent of which was its over-reliance upon oil revenues that took a sharp decline in 1998/99.[144] The Iranian government depends upon oil sales for almost half its revenue and 70 percent of the country's export earnings.[145] Because world oil-price fluctuations of as little as $1 per barrel (p/b) can increase or decrease Iranian revenues by over $1 billion, the central government has trouble balancing its budget when oil prices drop unexpectedly. This was the case in 1998/99, when the drop in oil prices reduced Iran's external account from a $2.2 billion surplus in 1997/98, to a $2.1 billion deficit in 1998/99.[146] Because of the price drop, Iran's budget

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[142] Ibid., 549.

[143] Iranian subsidies cost the government an estimated 15 to 20 percent of its GDP annually. These subsidies go towards such consumables as gas, oil, wheat, milk, and sugar and towards supporting various government industries and charitable foundations (*bonyads*). Amuzegar is quoted regarding these issues in Charles Recknagel, "Iran: Economy Needs Sweeping Changes," Radio Free Europe/Radio Liberty, 6 April 2001. Available [On-line]: <http://www.rferl.org/nca/features/2000/04/F.RU.000406124546.html> [27 April 2001].

[144] Iranian fiscal years end March 20 of the following year and are indicated for example as 1998/99.

[145] IMF, Islamic Republic of Iran: Recent Economic Developments, 7.

[146] Ibid.

deficit increased from 2.5 percent to 6.7 percent of its GDP, despite self-imposed budgetary restraints.[147]

The decline of oil prices in the mid and late '90s created several chronic socio-economic problems for Iran. After having achieved an average 7.2 percent growth in the first half of the decade, sliding oil prices cut Iran's annual growth nearly in half, to an average of 3.8 percent from March 1995 through March 2000.[148] Low annual growth together with a booming population, which rose from 39 million to 62 million from 1980-1998 and is expected to reach 82 million by 2015, places a tremendous strain on Iran's struggling economy as it tries to create jobs for growing numbers of young Iranians.[149] With 720,000 to 850,000 workers entering the job market each year, Iran's unemployment soared to around 20 percent of the working population.[150] Based upon his analysis, Amuzegar argues Iran needs to foster real economic growth of at least 6.7 percent just to keep unemployment at 14 percent.[151]

Iran additionally has experienced high inflation and suffers from a continued drop in per capita income because of its growing population. After oil prices dropped, the Iranian government bank-financed its deficit leading to an accelerated

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[147] Ibid., 8.

[148] Ibid., 56.

[149] Anthony H. Cordesman, Geopolitics, Social and Economic Change, and Energy in the Middle East and Gulf: A Graphic Analysis (Washington, D.C.: CSIS, 2000), 101. Available [On-line]: <http://www.csis.org/gulf/reports/geosocecon&energyme.pdf> [18 April 2001].

[150] Official Iranian sources currently cite unemployment at 12.7 percent, while the World Factbook 2000 estimated it was 25 percent (1999), and still others recently cited it at 30 percent. See "Central Bank Head on Economic Performance Over First Three Quarters," IRNA, 5 February 2001, in FBIS, IAP20010205000089, 5 February 2001; and "Mass Weddings Encouraged in Iran," Associated Press, 19 February 2001. Available [On-line]: <http://www.tehran.com> [19 February 2001]. The actual figure is probably somewhere in between at around 20-22 percent. This doesn't include under-employment, which is an additional strain on the economy.

[151] Amuzegar, "Khatami and the Iranian Economy at Mid-Term,"544.

monetary expansion and resultant inflation.[152] Despite the rebound of oil prices in 1999/2000 and the subsequent improvement in Iran's fiscal situation, Iran still suffers from inflation that remains anchored at around 18-20 percent.[153] The population boom and oil price drop have also stripped Iran's GDP per capita, which has dropped precipitously since the revolution. The CIA estimates 53 percent of Iran's population lives below the poverty line.[154] Today, compared with its oil-rich southern neighbors, Iran nearly ties with Iraq as the poorest country bordering the Persian Gulf.[155]

Because of these economic troubles and imbalances, the "misery index" places continuous pressure upon the Iranian government to reform. Iranians demand the government lower inflation and unemployment and provide them with a generally better quality of life – such as that enjoyed in the West and by their southern Arab neighbors. Sensing the unrest and discontent, the regime in Iran has been trying for several years to undertake economic reforms to revive its failing economy. Despite a tremendous amount of rhetoric and some minor progress on those reforms, the Iranian government still failed to achieve the meaningful objectives it laid out in its last development plan (1994/95-

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152 IMF, Islamic Republic of Iran: Recent Economic Developments, 9. Iran's money supply expanded from 16 percent in 1997/98 to 26 percent in 1998/99. Inflation rose from 17 to 20 percent during the same time period.

153 Central Bank of Iran estimates of inflation are 13-14 percent. See "Central Bank Head on Economic Performance." The World Factbook 2000, however, estimates inflation as high as 30 percent. IMF, "World Economic Outlook: Fiscal and Macroeconomic Stability," (May 2001). Available [Database on-line]: <http://www.imf.org/external/pubs/ft/weo/2001/01/index.htm> [28 April 01]. The IMF records inflation to currently be at 18.5 percent. The answer lies in between at around 20 percent.

154 World Factbook 2000. 1996 estimate. 2000 estimates in Iran are similar. See "Poverty Line, Inception to Acceptance," Mashhad Khorasan, 16 May 2000, in FBIS, IAP20000620000103, 16 May 2000.

155 United Nations, Statistics Division, "Indicators on Social and Economic Activity," Common Database (November 2000). Available [Database on-line]: <http://www.un.org/Depts/unsd/social/inc-eco.htm> [2 May 2001]. Various agencies offer differing estimates of Iran's and Iraq's per capita incomes. Some place Iran ahead of Iraq. See for example World Factbook 2000; and World Bank, "GNI Per Capita, Atlas Method and PPP," 2001 World Development Indicators (2001). Available [Database on-line]: <http://www.worldbank.org/data/databytopic/GNPPC.pdf> [15 May 2001].

1999/00).[156] Khatami not only faces a struggle between the conservatives and moderates on foreign policy, but also he confronts it in the economic arena. Owing to the various powers granted to the religious establishment within Iran's Islamic constitution, needed fiscal reforms are difficult to make. Reforms affecting the exchange rate, subsidies, price controls, privatization, or modifying the tax codes are not popular among groups reaping their dividends and wielding political and religious influence.[157]

If the Iranian regime is to avoid unrest resulting from continued high levels of unemployment and inflation, it must find a path to reform and a means of stemming its gradual slide into economic ruin. Geoffrey Kemp summed up the problem in 1998, writing, "in order to develop its economy to meet the growing expectations of a large, young, and dissatisfied population, Iran must undertake massive capital investment in its energy sector."[158] Yet, with its oil production maximized and few prospects of substantially increasing its output in the near (10 year) range, Iran must make reforms and work with Saudi Arabia on oil pricing until it can either boost production or overhaul its economy. Kemp concluded therefore, Iran must "work closely with both its energy rich and energy deficient neighbors to achieve mutually beneficial economic relationships."[159]

b. Saudi Arabia

Like Iran, Saudi Arabia also has several socio-economic obstacles to overcome. Having failed to yet diversify its economy, Saudi Arabia remains substantially dependent upon oil – much more than Iran's. As of 2000, Saudi Arabia draws 86 percent of its government revenue, 90 percent of its export revenue, and 40 percent of its GDP

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156 See Jahangir Amuzegar, "Iran's Post-Revolutionary Planning: The Second Try," MEJ 8, no. 1 (March 2001) for a complete assessment of Iran's Second Five Year Develop Plan 2000/01-2004/05.

157 Clawson, 54.

158 Kemp, 70.

159 Ibid.

from sales of petroleum products.[160] Consequently, low oil prices directly affect the Saudi government's fiscal performance. Since government expenditures account for around 35 percent of the GDP, a substantial drop in revenue impacts virtually every other sector of the economy.[161] The 1990's were a bad decade for the Saudis. Even before Saudi oil sunk to a low of $8.28 a barrel in November 1998, the Saudi economy was performing very poorly. In the five years leading up to the price drop (1993-1997), Saudi Arabia averaged only 0.9 percent annual growth.[162] Even despite substantially higher oil prices during the last two years, Saudi Arabia still only managed to average 2.3 percent annually from 1991 to 2001.[163]

Over-reliance upon oil and the nation's system of public welfare creates budgetary problems in Saudi Arabia. As a rentier state, the Saudi regime maintains a "social contract" with the Saudi people exchanging political representation and access to power for government subsidized lifestyles. As a result, Saudi Arabia suffers from several budgetary restrictions that create economic imbalances. These include:

- a lack of tax revenue as a source of government income, thus forcing it to rely upon oil revenues instead;
- a large public-sector wage bill which includes job creation and defense security force spending; and

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160 Saudi-American Bank (SAMBA), The Saudi Economy: 2000 Performance, 2001 Forecast (Riyadh: Saudi American Bank, February 2001), 6. Available [On-line]: <http://www.samba.com.sa/investment/economywatch/index.htm> [23 March 2001]; and World Factbook 2000.

161 Government expenditures in 1999 totaled $48.27 billion and the nominal GDP was $139 billion.

162 IMF, "World Economic Outlook: Fiscal and Macroeconomic Stability."

163 Ibid.

- a requirement to dole out substantial government largesses including subsidies for housing, food, gas, medical care, education.

These subsidies and wage bills amount to a substantial portion of the annual budget. Saudi Arabia's 2000 budget dedicated a total of $25 billion or 51 percent of the budget towards such areas and this did not include defense spending.[164] Although these commitments cost the Saudi government substantial amounts, the government is afraid to reduce or eliminate them out of fear of widespread discontent.

Consequently, the requirement to meet this "contract" and the government's heavy reliance upon fluctuating oil revenues creates planning problems, budget deficits, and government debt. Because of lower than expected oil revenues, mandatory "social contract" expenditures, and generally poor fiscal discipline, Saudi Arabia ran budget deficits averaging $7.6 billion dollars a year from 1995-1999.[165] Worse, until higher oil prices in 2000 buoyed up the Saudi economy, Saudi Arabia had not run a budget surplus since 1982. Budget deficits and the debt from the Gulf War substantially reduced Saudi financial reserves resulting in heavy domestic borrowing. Financing the budget deficits created a domestic debt equal to $162.7 billion or 101 percent of the country's GDP and created a foreign debt exceeding $25 billion or 15.3 percent of the GDP.[166] These liabilities and their growing interest payments create a drain on government revenues that Saudi Arabia could invest back into the economy, infrastructure, and job creation.

Because of these economic imbalances, Saudi Arabia suffers from several socio-economic problems. The combination of low economic growth and a growing population is creating a strain on the Saudi economy. Despite vast oil riches, Saudi

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[164] See Saudi 2001 budget figures contained in the SAMBA report on page 7.

[165] SAMBA, 1.

[166] SAMBA, 2. Figures are for 2000.

Arabia's population grows poorer and increasingly unemployed each year. An earlier population explosion during the oil boom of the 1980s and a birth rate averaging 3.2 percent, creates an increasingly young population.[167] As of 2000, 55 percent of the Saudi population was between 15 and 64 years old and 43 percent was under 14 years old.[168] As the so-called "oil boom baby boomers" enter the job market in increasing numbers, the Saudi economy must generate an estimated 100,000 jobs per year.[169] According to Saudi-American Bank (SAMBA) chief economist Brad Bourland, the Saudi economy "simply has not been keeping pace with labor force growth over the past decade."[170] Low economic growth has lead to growing unemployment, estimated officially at 14-15 percent and unofficially at 27-35 percent of males and 95 percent of females.[171] Additionally, an excessive number of expatriates, totaling 5.3 million (25 percent) of the population, compete for jobs with Saudi nationals.[172] The SAMBA 2000 report cites unemployment as the Saudi economy's most pressing challenge in the coming years.[173]

The growing population not only creates employment problems, but also simultaneously creates a strain upon the government infrastructure and the average Saudi's per capita income. Since it peaked at $16,117 in 1981, per capita income in Saudi Arabia has dropped steadily.[174] According to the IMF, Saudi per capita income in 2000 is

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[167] David Butter, "Ushering in the New Generation," MEED, 16 March 2001, 33. Birthrate figure is for 2000.

[168] World Factbook 2000.

[169] SAMBA, 2.

[170] Butter, "Ushering in the New Generation," 30.

[171] SAMBA, 12; and EIA, "Saudi Arabia Energy Oil Information." Saudi Arabia only recently began posting official unemployment figures. The consensus is, however, that these are low estimates.

[172] World Factbook 2000.

[173] SAMBA, 3.

[174] IMF, "World Economic Outlook: Fiscal and Macroeconomic Stability."

$8,254 – roughly half its 1981 level.[175] Plunging per capita incomes reflect the larger deterioration of the "social contract." Growing numbers of Saudi seeking government sponsored lives are generating a tremendous demand for increased power, housing, food, gas, government jobs, education, and medical care. The Saudi government, limited in its ability to generate revenues by the above "contract" restrictions, must rely heavily upon higher oil prices to provide the spending money needed to invest in such services. As the population continues to grow to an estimated 33.7 million in 2015, the Saudi government will face increasing financial difficulties trying to provide jobs and subsidies for the citizenry. [176]

Accordingly, the Saudi regime knows it must make economic reforms if it is to avoid potentially destabilizing uprisings. Although these fiscal and socio-economic problems existed for several years, an effort began only in the late 90s to implement various reforms. Since the 1998 oil crash, Crown Prince Abdullah has undertaken to diversify the Saudi economy and encourage foreign investment as a means of boosting economic growth. Although these efforts have produced some results, they have not proceeded at the rate necessary to protect the economy from another oil price slump. According to one economist, 'Massive investment is needed, and it won't take much of a drop in oil prices to push Saudi Arabia back into the all-to-familiar territory of budget deficits.'[177]

Just as the Saudi regime knows it must make economic reforms that will be destabilizing for its monarchial rule, Iran likewise knows it must make economic reforms to restart its economy. These reforms will be just as destabilizing as those in Saudi Arabia. Economic reforms will be difficult under the best of circumstances, however

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[175] Ibid.

[176] Cordesman, 101.

[177] Unnamed economist quoted in David Butter and Tom Everett-Heath, "Time to Capitalize on High Oil Prices," MEED, 23 March 2001, 4.

Saudi Arabia and Iran can minimize these disruptions by boosting oil revenues. A few years ago, a Kuwaiti political analyst pointed out, "...sound oil policies are a principal way out [of financial trouble] for neighboring states and Iran over the short and medium-term."[178] To do this, they need Iran's compliance in oil production quotas. The vehicle for doing this is OPEC.

C. VEHICLE FOR RAPPROCHEMENT: OPEC

Despite their differences, Arabs and Iranians have one overarching common interest – oil. Oil serves as "a logical entry point to wider cooperation between Arabs and Iran" and since its founding OPEC has been the principle institution for achieving cooperation among Arabs and Iranians on oil issues.[179] Today, Saudi Arabia and Iran are once again relying upon the organization to achieve cooperation in oil issues. In the short term, cooperation within OPEC to achieve stable, higher oil prices, and thus boost each nation's revenues, is the primary vehicle for the Saudi-Iranian détente. Limited and unsteady oil profits plague both regimes and force them to cooperate in shoring up this critical sector of their economies.

Regardless of recent higher prices, the overall long-term trend for oil prices has been downward because of increased production worldwide, improvements in gas/oil efficiency, new technologies, and conservation. Therefore, Iran and Saudi Arabia have to diversify away from oil if they expect to create conditions fostering sustained growth in the future. Yet, ironically, in the short-term both nations require stable and moderate to high oil revenues to:

- at least maintain their current per capita income levels;
- reduce their annual budget deficits;

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178 Jassem Khaled al-Saadoun, "Contemporary Arab-Iranian Economic Relations," in Arab-Iranian Relations, Khair el-Din Haseeb ed. (Beirut, Lebanon: Center for Arab Unity Studies, 1998), 60.

179 Ibid., 62.

- make repairs and upgrades to their oil infrastructure;
- pay down their foreign and domestic debt;
- foster growth in non-oil sectors;
- improve their general economic growth rates; and
- create more jobs.

More importantly, Saudi Arabia and Iran need higher oil revenues to help maintain their economic stability while they try to ease in needed economic reforms. For Khatami to implement the various measures in his proposed Third Development Plan (2000-2005), he will need the breathing room high oil revenues engineered through cooperation within OPEC can bring. According to Amuzegar, "A thriving and stable oil market would be essential for an effective implementation of these [reform] measures."[180] To this same end, Saudi Arabia also needs to ensure oil supply and demand is closely coordinated with Iran within OPEC. "With oil revenues accounting for 75 percent of state income, no amount of skillful maneuvering by government strategists [to implement reforms] can engineer stable economic growth unless there is strong global demand for [Saudi oil]."[181]

Relations between Saudi Arabia and Iran concerning OPEC and oil policy were, however, just as turbulent as their diplomatic relations – often acting as an extension of them. While their ideological/political differences color their relations with regard to oil, an overarching reason for this friction within OPEC exists. Saudi Arabia and Iran look at oil production and pricing from different points of view. Saudi Arabia takes a long-term outlook to oil production and thus pricing. Large capital reserves, vast oil reserves, high

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[180] Jahangir Amuzegar, "Prospects For Iran's Post-Election Economy," Middle East Economic Survey (MEES) (March 2000). Available [On-line]: <http://www.mees.com/back_issues/volume43/v43n13/> [25 January 2001].

[181] "Revenue Rise Eases Adoption of Reforms," MEED, 24 March 2000.

productive capacities, and small populations usually characterize long-term producers. Such countries' economies are not as sensitive to oil price fluctuations. These countries often ride out low prices by drawing upon the capital reserves they have built by having low overhead, such as small populations and or bureaucracies. Long-term producers, such as Saudi Arabia, Kuwait, and Qatar, seek to keep production at relatively high levels and prices at low to moderate levels to shut out competition, gain larger market shares, and discourage conservation and substitution efforts. Saudi oil, some of the least expensive to produce, flooding the market drives out more expensive oils. As a result, Saudi oil can soak up larger shares of the market where these other oils might have had footholds. Furthermore, cheap oil precludes expensive research and exploration to find substitutes and stymies conservation efforts – making dependence upon Saudi oil much more acute. Additionally, Saudi Arabia maintains concerns over the effects high oil prices have upon Western markets and their security relationship with the United States.[182]

Iran, conversely, takes a short-term outlook to production and pricing based on its needs and partly upon its ideology. Large populations and bureaucracies placing heavy everyday demands upon the government often characterize short-term countries. Additionally, extensive development projects, military build-ups, wars, and reconstruction projects consume these countries' oil revenues and deplete their savings or reserves. Although they may have extensive oil reserves, these countries also often lack oil production capacity. Iran is just such a case. A combination of Iran's debt from the eight-year fight with Iraq, general fiscal mismanagement, and the demands of its large population, forces Iran to seek higher revenues in the short term and makes their economy particularly vulnerable to price fluctuations. Additionally, Iran's revolutionary ideology used to color its outlook on oil pricing. Revolutionary Iran viewed oil as the Muslim peoples' "birthright," not as a weapon against other Muslims or for a particular group's interests.[183] As a result, Iran, relatively unconcerned with the long-term impact

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[182] Chubin and Tripp, 66.

[183] Chubin, 15.

of higher prices, sought to keep production low and revenues high to provide their people with subsidized lifestyles.

These factors and opposing viewpoints on oil production, combined with production disparities and misperceptions of each other's intentions, contributed in the past to poor Saudi-Iranian relations. Saudi oil analyst Nawaf Obaid summed up oil's role in Saudi interstate relations, writing "whereas many elements – economic, historical, religious, and political – make up the kingdom's relations with oil exporters, those relations are heavily conditioned by one key set of facts: the kingdom possesses the largest petroleum reserves, greatest spare capacity, and the cheapest uplift costs in the world."[184] Much of the problem between the two revolved around Saudi Arabia's superior production capacity. Saudi Arabia, during most of her relations with Iran, has been the largest producer within OPEC. Saudi Arabia has the capacity to produce 10 million barrels per day (mb/d), while Iran barely 3.7 mb/d.[185] Exacerbating the gap, Saudi Arabia's OPEC production quota averages around 8 mb/d – leaving it a surge or "swing" production capacity of 2 mb/d.[186] Furthermore, Saudi Arabia's high quota corresponds to a small population (21 million), while Iran's quota of is dwarfed by its population (65 million). Accordingly, Iran was often both jealous and threatened by the Saudi ability to open up production to flood the market and single-handedly drive prices down. During the Iran-Iraq War, Tehran saw high levels of Saudi oil production as a form of economic warfare. Iran perceived Saudi attempts to keep oil prices low as a scheme to defeat their revolution by "selling out" their fellow Muslims.[187] Chubin sums up Iran's perceptions asserting, "Iran with large revenue needs, little sympathy for the

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[184] Obaid, 79.

[185] EIA, "OPEC Fact Sheet," (March 2001). Available [On-line]: <http://www.eia.doe.gov/emeu/cabs/opec.html> [24 March 2001]. Hereafter "OPEC Fact Sheet." Some estimates have Saudi oil production estimated at 14 mb/d.

[186] Ibid.

[187] Chubin, 15.

West, insufficient reserves to take a long term view of the market, and production at maximum capacity, saw Saudi oil policy as an extension of its alliance with the United States."[188] Iran asserted Saudi Arabia should act as the "swing producer" – adjusting its production up or down as a sort of market "savoir" – protecting stable prices.

Saudi Arabia, however, felt Iran's selfish short-term concerns could not hold back their production and profits.[189] Saudi Arabia did not feel the responsibility to shoulder most of the cuts so Iran could continue to maximize its own production and revenues. Saudi Arabia maintained its production floor of 8 mb/d – 35 percent of OPEC's output. Since Saudi Arabia wielded the most power within OPEC, Iran was relatively powerless to impact OPEC decisions except through political pressure and veiled military threats. Although both Saudi Arabia and Iran were able to come to the table over oil issues several times in the past, these agreements seldom lasted very long because of the nations' differences in market outlook and political perception. As a result, production agreements meant to buoy flagging oil prices often collapsed over cross-accusations of cheating on quotas.

The deteriorating condition of their economies because of both demographic pressures and the collapse of oil prices in 1993 and 1998, however, forced changes in Saudi-Iranian relations. In 1993, Saudi Arabia faced not only slumping oil prices and their effect on its economy, but the Saudi regime also faced increased Sunni and Shi'ite dissident activity, an always-contentious hajj season, and negotiations between the GCC and Iran over Abu Musa and the Tunbs islands. Similarly, Iran was facing economic troubles of its own as a result low oil prices and the previously mentioned socio-economic pressures. An agreement brokered between the two nations to shore up slipping oil prices, boosted Iran's quota from 3.3 to 3.6 mb/d at Saudi expense. Allegedly, Saudi

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[188] Chubin and Tripp, 68.

[189] Ibid., 70.

Arabia saw this cooperation over oil as an offering to improve relations with Iran.[190] Cooperation, in the Saudi view, would boost oil prices, possibly lessen Iranian sponsorship of Saudi dissident activity, lessen hajj tensions.[191] The Saudis even held out the hope warmer relations with Iran might benefit negotiations over the disputed islands by creating a better diplomatic environment.[192] The political climate, however, had not changed sufficiently in Iran, nor had the economic situations in both countries grown dire enough to hold the accord together. Despite the agreement, heralded as the beginning of an era of good relations, the two sides soon were back at one another's throats with accusations of over-production, untrustworthiness, and giving in to US pressure.[193] It would take a change in the political climates and the continued deterioration of their economies, compounded by yet another collapse in oil prices, to secure a lasting agreement.

The 1998 price slide produced a genuine change in Saudi-Iranian relations. In keeping with their strategy of engineering low oil prices to discourage competition and expand their market share, Saudi Arabia sought and achieved a 10 percent production increase within OPEC in November of 1997. The strategy, however, backfired. A warm winter in North America combined with the injection of Iraqi "food-for-oil" stocks into the market and the collapse of the Asian economy to create a glut of oil that ultimately dropped oil prices far below OPEC's comfort level. While the low prices severely cut competition, especially in the Caspian region, the price dropped low enough to cut Saudi oil revenues by $14 billion (30 percent) and force the country into its first recession since

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[190] Ibid., 69.

[191] Ibid.

[192] Ibid.

[193] Ibid., 70.

the 1993 price collapse.[194] The drop in oil revenues also hurt other OPEC members like Iran, who could not afford to ride out the lull by tapping reserves.[195] As in 1993, Saudi Arabia and Iran bickered for a year over who would take the largest percentage production cut to bring prices back to acceptable levels. Finally, in early 1999, the sheer economic pressure forced the two sides to make concessions to salvage their troubled economies. Saudi oil analyst Nawaf Obaid argues, "the motive behind the production cuts was clear – one of the weakest oil markets in years placed severe pressure on all exporters, especially Saudi Arabia." [196] Amazing many analysts, the Saudis led the way taking the lion's share of the production cuts (585,000 b/d), dipping substantially below their 8 mb/d floor to 7.44 mb/d.[197] As a sign of newfound solidarity, the Iranians followed the Saudi lead and took the second largest production cut (264,000 b/d).[198] The combined cuts by OPEC and non-OPEC exporters totaling 2.1 mb/d immediately drove prices up and substantially contributed to oil prices reaching their highest levels in over a decade – over $35 per barrel by September of 2000.[199] Since then, Iran and Saudi Arabia have maintained a united front within OPEC – jointly advancing production cuts and increases – to keep prices within a set price band. Additionally, continued quota discipline, previously uncharacteristic of OPEC members during good times, has helped to maintain stable prices.[200] Owing to OPEC's newly discovered solidarity, oil prices are remaining high and providing much needed revenue for OPEC member's struggling

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[194] James Richards, "New Cohesion In OPECs Cartel?: Pricing and Politics," MERIA 3, no. 2 (1999). Available [On-line]: <http://www.biu.ac.il/Besa/meria/journal/1999/issue2/jv3n2a2.html> [12 December 2000].

[195] Ibid.

[196] Obaid, 60.

[197] Ibid., 62.

[198] Ibid., 61.

[199] Ibid., 61-62; and see "Oil Prices Push Higher," CNN, 11 September 2000. Available [On-line]: <http://cnnfn.cnn.com/2000/09/11/worldbiz/oil/> [12 October 2000].

[200] Obaid, 62-63.

economies. Saudi Arabia and Iran are readjusting their development plans to account for the increase in foreign export earnings resulting from substantially higher oil prices. Chapter Four covers these implications in more detail.

Although Saudi-Iranian relations were improving, the March 1999 production cut agreement put negotiations into high gear. The exchange of diplomatic visits at the highest levels and rapidly expanding economic and security ties marked the remainder of 1999. In May, Saudi Defense Minister Prince Sultan visited Tehran to discuss closer relations.[201] Later that same month, President Khatami met with King Fadh and Crown Prince Abdullah in Riyadh. (See Figure 5.) This was the first such meeting between the countries' leaders in over twenty years, opening new doors in their rapprochement.[202] Khatami also met with other major Saudi ministers and toured the country, making a remarkable stop in Saudi Arabia's predominately Shi`ah eastern provinces. At that same time, Saudi Arabia contributed to better relations by announcing the appointment of a Shi`ah, Jameel al-Jishi, as Saudi ambassador to Tehran.[203] Continued OPEC solidarity and higher prices saw Iranian parliamentary speaker Ali Akbar Nateq Nuri visit Saudi Arabia in October 1999. During his visit, the two countries agreed to continue improving relations and to coordinate an Islamic response to regional and world affairs.[204] The next month Saudi Arabia held a trade fair in Tehran - the first in Iran since the 1979 Islamic

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201 "Saudi Prince Sultan on Gulf Security, Ties With Iran," SPA, 2 May 1999, in FBIS, FTS19990502000343, 2 May 1999.

202 "Khatami Visit Opens Saudi Door," BBC, 15 May 1999. Available [On-line]: <http://www.news.bbc.co.uk/low/english/world/middle_east/newsid_344000/344918.stm> [13 March 2001]. During the visit King Fadh remarked, "The door is wide open to develop and strengthen relations between the two countries in the interests of the two peoples and the Muslim world."

203 "Saudi Arabia to Appoint New Envoy to Iran Soon," Tehran Times, 8 June 1999, in FBIS, IAP20010205000089, 8 June 1999.

204 "Nateq-Nuri: Iran-Saudi Cooperation Will Benefit Region," IRNA, 11 October 1999, in FBIS, FTS19991011000214, 11 October 1999.

revolution. The fair expanded the political-economic relations between Saudi Arabia and Iran.[205]

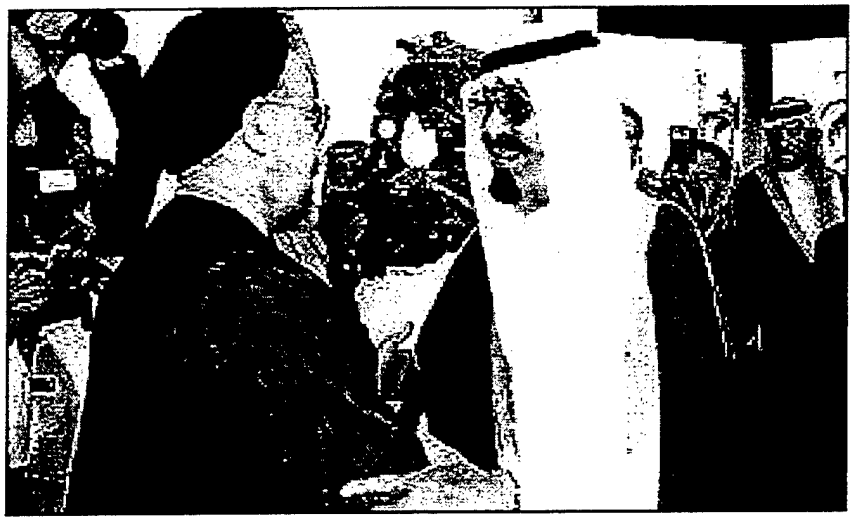

Figure 5. Khatami and Abdullah Meet in Riyadh, May 17, 1999.[206]

Continued solidarity in OPEC and resulting high oil prices maintained both Saudi Arabia and Iran's efforts at rapprochement in 2000. Leading off these effort in the new millennium was King Fadh's invitation to Ayatollah Khamenei to visit Saudi Arabia for the hajj – the first such overture since 1979.[207] Despite GCC reservations over improving relations with Iran, relations continued to improve between Saudi Arabia and Iran.[208] Even Secretary of Defense Cohen's April visit to Saudi Arabia, where he warned them of

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205 "Unattributed Article: 'Tehran-Riyadh Ties Cooperation Replaces Confrontation,'" Kayhan, 21 November 1999, in FBIS, FTS199912020005799, 2 December 1999.

206 From "World Middle East Iran and Saudi Arabia Strengthen Ties," BBC, 17 May 1999. Available[On-line]: <http://news.bbc.co.uk/hi/english/world/middle_east/newsid_345000/345834.stm#top> [30 May 2001].

207 "Iran: Khamene'i Receives King Fahd's Special Envoy," IRNA, 19 February 2000, in FBIS, IAP20000219000047, 19 February 2000.

208 "Sources Cited on Iranian-GCC Security Ties," Al-Watan al-Arabi, 5 May 2000, in FBIS, GMP20000504000165, 5 May 2000.

Iran's continued threat, could not slow their growing cooperation.[209] In fact, the remainder of 2000 saw a continued exchange of high-level diplomatic visits surrounding efforts to conclude a Saudi-Iranian security agreement.[210] 2000 ended with the highest oil prices in a decade, predictions of large revenue surpluses, and speeches lauding Saudi-Iranian relations by both Khatami and Abdullah before the world stage of the U.N.'s Millennium Conference.[211] Relations between the two nations were stronger than ever.

At the time of this paper, Saudi Arabia and Iran continue to benefit from high oil prices because of their cooperation within OPEC. Boasting large oil revenue surpluses, improved economic growth, and a doubling in bilateral trade, both nations remain active in promoting their relations outside OPEC.[212] Most notably in April 2001, after another uneventful hajj season, Saudi Arabia and Iran finally signed their unprecedented and "long-awaited" security agreement.[213] Although this agreement does not involve matters related to national defense or extradition of criminals, it marks the pinnacle of Saudi-Iranian cooperation to date – to include the period before the revolution.[214] The implications of this unprecedented level of cooperation impacts oil prices, but it also has

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209 "US Military Presence in Gulf Viewed," Al-'Arab al-'Alamiyah, 18 May 2000, in FBIS, GMP20000518000072, 18 May 2000.

210 See for example, "Saudi, Iranian Defense Ministers Discuss Cooperation, Relations," SPA, 25 April 2000, in FBIS, GMP20000425000041, 25 April 2000.

211 See "Saudi Crown Prince Addresses UN's Millennium Summit," SPA, 6 September 2000, in FBIS, GMP20000906000234, 6 September 2000; and "Iran: Khatami Speech at UN Conference on Dialogue Among Civilizations," Vision of the Islamic Republic of Iran Network, 5 September 2000, in FBIS, IAP20000906000097, 5 September 2000.

212 "Iran-Saudi Trade Exchanges Double," IRNA, 5 May 2001, in FBIS, IAP20010505000042, 5 May 2001.

213 "Iran, Saudi Arabia sign 'long-awaited' security accord," IRNA, 17 April 2001, in FBIS, IAP20010417000099, 17 April 2001.

214 "Saudi Daily Reports on Prince Naif's Iran Talks, Signing of 'Historic' Agreement," Jedda Arab News, 18 April 2001, in FBIS, GMP20010418000014, 18 April 2001.

large implications for the domestic stability of Iran and Saudi Arabia, the stability of the region, and US policies therein. These implications are the subject of the next chapter.

D. SUMMARY

Despite a history of poor relations, Saudi Arabia and Iran are seeking common ground for improved relations in numerous areas. This cooperation is the result of several contributing and or driving factors such as:

- the election of moderate president Khatami's and the subsequent consolidation of and elite consensus over foreign and oil policies;
- the increased power of Crown Prince Abdullah and his focus upon regional issues and reforming the economy;
- the failure of the US "Dual Containment" policy to remove Saddam Hussein or collapse/change Iran's revolutionary regime;
- the collapse of the Middle East Peace Accords and the perceived failure of the United States to pressure Israel into settling the matter;

Although the above political enablers support the détente, the severe economic decline and its repercussions upon the domestic political stability of both Iran and Saudi Arabia is the critical force in their rapprochement. Major economic problems such as exceptionally high unemployment, poor economic growth, growing foreign and domestic debt, annual budget deficits, and an economy overly dependent upon petroleum production, have demanded a change in the way Saudi Arabia and Iran approach matters of state. Pragmatic economic policies designed to maximize oil revenues and salvage both nations' deteriorating economies are the basis of the Saudi-Iranian détente and are accelerating its growth. The implications of this détente are the subject of the next chapter.

IV. IMPLICATIONS

A. IMPORTANCE TO THE UNITED STATES

In a March 2000 speech designed to improve dialogue between the United States and Islamic Republic of Iran, Secretary of State Madeleine Albright emphasized the important role Iran plays in the Persian Gulf region:

> There is no question that Iran's future direction will play a pivotal role in the economic and security affairs of what much of the world reasonably considers the center of the world.... The United States recognizes Iran's importance in the Gulf.... We look toward Iran truly fulfilling its promises to serve as an 'anchor of stability'....[215]

Her comments were not an exaggeration of Iran's significance in the region. Iran's ability to act as a US proxy – blocking Soviet expansion – was critical to the US "Twin Pillars" policy up until the revolution. Today, Iran straddles the Straits of Hormuz and the Caspian region, providing it continued influence, if not outright control, over both the Persian Gulf and Caspian regions' energy exports. Iran itself is the fifth largest oil producer in the world and the second largest within OPEC. Additionally, Iran has the second largest reserves of natural gas in the world next to Russia. Iran's Islamic revolution in 1979 shook not only the regional sheikdoms to their core, but also radically altered the course of US relations throughout the Muslim world. Iran's eight-year war with Iraq polarized the Gulf and drew the United States into the fray. Today, Iran's "peace offensive" has nearly reversed the US policy of "containment" by enlisting the support and recognition of such world powers as China, Russia, Japan, and Germany. In short, Iran's actions and influence, especially within the Persian Gulf, have implications extending well outside the region.

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[215] Madeleine K. Albright, "Remarks Before the American-Iranian Council," 17 March 2000, available [on-line] at http://www.secretary.state.gov/www/statements/2000/000317.html. She took the words, 'anchor of stability,' from remarks Iranian Foreign Minster Kharrazi made previously about Iran's role in regional affairs.

Saudi Arabia holds no less a position in its ability to affect world and regional affairs. Saudi Arabia, as the largest producer of oil in the world, can directly drive the price of oil up or down. Additionally, not only does Saudi Arabia control one-fourth of the worlds proven oil reserves, but also it holds sway over the affairs of its fellow members in the GCC, who combined control more than half the world's proven oil reserves. As a result, the kingdom's influence within the world oil market is nearly supreme. Since the Iranian revolution, Saudi Arabia has come to be the United States' foremost ally in the region. In this role, it provided the funds and served as the launching pad for the US-led Operation Desert Shield/Storm that ejected Saddam Hussein out of Kuwait in 1991. Saudi Arabia also sponsors several thousand US troops and their equipment in continuing operations against Iraq. The kingdom is also the birth place of the Islam and therefore holds tremendous sway over the Muslims of the world, who all must make a pilgrimage there at least once in their lifetime. Saudi Arabia's actions, like those of Iran, have major repercussions, especially within the region and within the oil markets of the world.

The Saudi-Iranian détente has special significance for the United States because it combines the unique influences of each actor, creating powerful implications for the United States. Iran and Saudi Arabia's on-going rapprochement holds especially important implications for US interests in three vital areas. First, the Saudi-Iranian détente has overarching effects upon the dynamics of the global oil market, potentially influencing the world's economy in a detrimental way. Second, the rapprochement between Riyadh and Tehran holds beneficial influences for each nation's domestic stability. This stability is vital to the stability of the region. The Saudi-Iranian détente also directly affects regional security by bringing Iran meaningfully back into the politics of the Gulf. This, in turn, affects inter-Gulf relations and prospects for both establishing a regional security framework and continuing the US military presence in the region.

B. OIL

1. Oil and OPEC's Rebound

Saudi-Iranian relations have had a tremendous affect upon the global oil market, which in itself directly affects the heavily energy dependent economies of industrialized nations such as the United States. Specifically, the Saudi-Iranian détente has restored not only OPEC's cohesion and influence, but it has fostered oil prices at levels many consider harmful to the US and world economies. This has in turn led to increased tension between the United States and Saudi Arabia, its key ally within OPEC.

In early 1999, despite OPEC attempts to stem their collapse, oil prices plunged to their lowest point since 1986; leading some to speculate as to OPEC's future relevance.[216] Routine cheating on quotas by several members (notably Iran and Nigeria) made production agreements worthless.[217] Despite this, in March 1999, Saudi Arabia, with the backing of Iran, orchestrated an agreement that subsequently produced a two-year bullish oil market, restoring OPEC's international clout.[218] Due in large part to the Saudi-Iranian agreement and ensuing OPEC unity, OPEC's "basket" oil price rebounded sharply, doubling and at times even tripling in value during 2000.[219] Beginning with the March 1999 agreement, OPEC production cuts rallied prices from less than $10 per barrel (p/b) in December 1998, to a peak of over $30 p/b in August 2000; an overall average of more than $27 p/b for 2000. [220] (See Figure 6.)

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216 Nawaf Obaid, "Saudi Oil Politics," Policywatch 379 (April 1999). Available [On-line]: <http://www.washingtoninstitute.org/watch/Policywatch/policywatch1999/ 379.htm> [24 March 2001].

217 Ibid.

218 Shibley Telhami, "Iranian, Arab Clout is Back," Los Angeles Times, 19 March 2000. Available [On-line]: <http://www.brook.edu/views/op-ed/telhami/20000319.htm> [24 March 2001].

219 Other factors such as increased winter demand, limited refining capability, market speculation, government legislated additives, and unrest in the Middle East contributed to the rise in prices. However, OPEC's ability to restrict supply had a substantial affect upon prices.

220 "OPEC Fact Sheet."

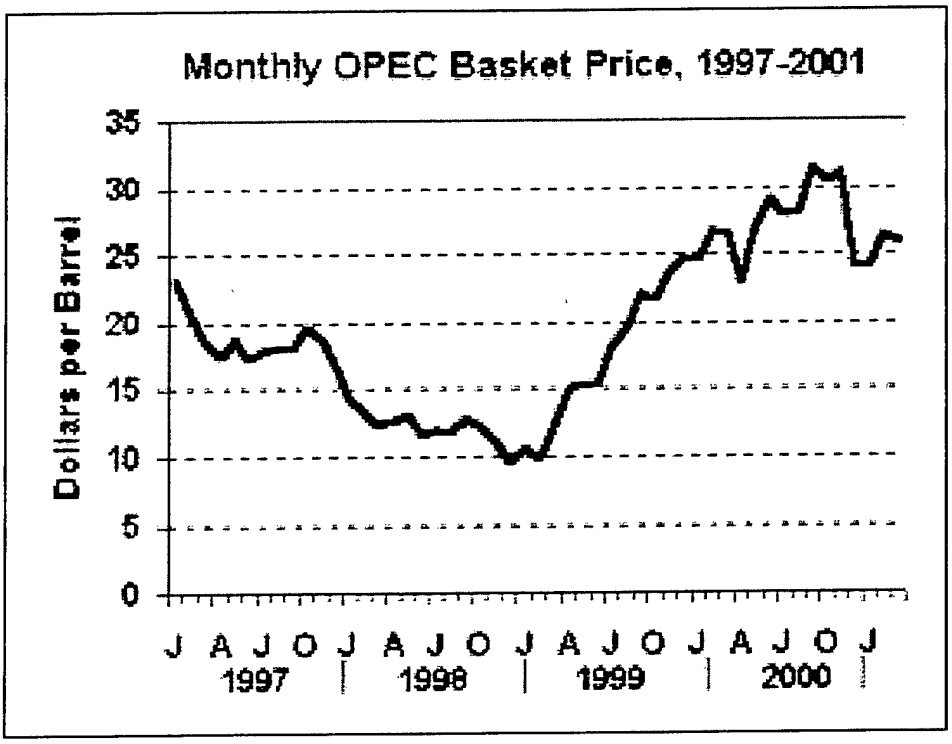

Figure 6. Monthly OPEC Basket Price, 1997-2001.[221]

In spite of some occasional Saudi-Iranian dissention over production increases and the selection of a new secretary-general, OPEC not only remained unified throughout 2000, but also managed to keep prices at the high end of the market ($25-$30). The lack of dissention and high prices were even more remarkable given the intense US and international pressure placed upon OPEC members to change their production policies. Much of the US pressure falls upon Saudi Arabia for four reasons:

- it has the productive capacity to make substantial market corrections;
- it is the recognized leader within OPEC;

221 From EIA, "OPEC Revenues Fact Sheet," (March 2001). Available [On-line]: <http://www.eia.doe.gov/emeu/cabs/opecrev.html> [24 March 2001]. Hereafter "OPEC Revenues Fact Sheet."

- as an ally, the United States has a working relationship with Saudi Arabia; and
- many still hold Saudi Arabia owes the United States a debt of gratitude after the Gulf War.

From March 1999 through March 2001, OPEC remained firm in its decision to raise and maintain oil prices within a so-called "price band" ranging from $22 to $28 p/b. After the March 1999 cuts, oil prices rose steadily. This did not draw much attention from the United States, which initially assumed market forces would eventually readjust prices downward.[222] Yet, demand for increased OPEC production began to mount from several fronts once oil topped $25 p/b and US gasoline and heating oil prices soared in February 2000. Pressures on OPEC during the next year ranged from the Clinton administration's "quiet...engaged diplomacy" to Congressional strong-arm tactics that even included the introduction of legislation intended to deal with the "oil price-fixing activities, policies, and programs of OPEC."[223] Congressional charges that the Clinton administration lacked a comprehensive energy policy led to partisan calls for the resignation of Department of Energy Secretary Bill Richardson and became the mantra of Republican political candidates in the hard fought 2000 campaign for the White House.[224] This placed even more demands upon the administration to get OPEC production increases. For the next several months, Energy Secretary Richardson traveled

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[222] Michael Eskenazi, "Why There's Action to Halt Oil Price Gusher," CNN, 17 February 2000. Available [On-line]: <http://www.cnn.com/2000/US/02/17/oil2_16.a.tm/index.html> [24 March 2001].

[223] Mike Ferullo, "Richardson Defends Clinton Administration Energy Policy," CNN, 27 June 2000. Available [On-line]: <http://www.cnn.com/2000/ALLPOLITICS/stories/06/27/richardson.energy/index.html> [24 March 2001]. Senator Benjamin Gilman (R-NY), Chairman of the House International Relations Committee, introduced two measures easing legal action against overseas energy cartels and directing the president to censure any U.S. or foreign nation activities supporting OPEC's "oil price-fixing activities."

[224] Ibid and "Clinton to Urge OPEC to Increase Oil Production," CNN, 17 March 2000. Available [On-line]: <http://www.cnn.com/2000/ALLPOLITICS/stories/03/17/oil.reserve/index.html> [24 March 2001]. It is important to note that Richardson was also under fire for security lapses at the Los Alamos Nuclear Weapons Laboratory. Pat Buchanan charged OPEC, namely Saudi Arabia and Kuwait with 'conspir[ing]' against the U.S. and Governor George W. Bush asserted that Kuwait and Saudi Arabia owed the U.S. compliance in return for the 'help' President Bush gave to Kuwait after Saddam Hussein invaded it in 1990.

the globe from Saudi Arabia to Mexico successfully lobbying for a series of production increases. Yet, despite a chain of Saudi-led production hikes in March (1.7 million b/d), June (708,000 b/d), and July (500,000 b/d), prices only dropped temporarily before continuing to spiral upwards of $30 p/b. In September, prices peaked near $35 p/b, drawing massive public protests in Europe, severe outcry in the United States, and dire warnings of an oil-induced global slowdown.[225] Once again, growing pressure on OPEC and their own worries over the affect of extraordinarily high prices on world markets, led them to boost production by 800,000 b/d starting on October 1. Market speculation, alleged shortfalls in refinery capabilities, and the outbreak of unrest in Palestine, kept prices, however, firmly above the $28 p/b mark.

Throughout September and into the winter, fuel prices soared worldwide fostering more predictions of a global recession. Forecasts of heating oil shortages in the coming winter and its impact upon the closing days of the 2000 presidential elections, forced President Clinton to order the controversial release of thirty million barrels of oil from the US Strategic Petroleum Reserves.[226] Despite Clinton and Richardson's continuous lobbying efforts, OPEC declined to make further production changes citing growing worries of oversupply.[227] A December price drop of several dollars per barrel exacerbated these worries.[228] In 2001, worries over another potential price collapse saw OPEC disregard continued US calls for production hikes and instead make two substantial production cuts in January (1.5 million b/d) and March (1 million b/d). These

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225 "OPEC Agrees to Boost Oil Output," CNN, 10 September 2000. Available [On-line]: <http://www.cnn.com/2000/WORLD/europe/09/10/austria.opec.02/index.html> [24 March 2001]; and "OPEC President Noncommittal about Oil Production Hike," CNN, 22 October 2000. Available [On-line]: <http://www.cnn.com/2000/WORLD/americas/10/22/richardson.opec/index.html> [24 March 2001].

226 Mike Ferullo, "Richardson Testifies on High Cost of Oil Before Contentious Senate Panel," CNN, 26 September 2000. Available [On-line]: <http://www.cnn.com/2000/ALLPOLITICS/stories/09/26/home.heating/index.html> [24 March 2001].

227 "OPEC Holds Output Quotas," CNNfn, 13 November 2000. Available [On-line]: <http://cnnfn.cnn.com/2000/11/13/worldbiz/oil/index.htm> [22 May 2001].

228 "Oil Prices Retreat Again," CNNfn, 8 December 2000. Available [On-line]: <http://cnnfn.cnn.com/2000/12/08/europe/oil/index.htm> [22 May 2001].

cuts demonstrated the seriousness of OPEC's intention to proactively defend higher prices in 2001.[229] OPEC actions to stem the decline may not succeed in 2001. Most analysts predict average oil prices will be slightly lower than in 2000, but would remain above the $22 benchmark throughout 2001.[230] Given the forecasts hold, Iran and Saudi Arabia should see oil revenues decrease slightly, but remain well above the lows of the late 90s.[231] Should prices continue to rise, however, pressure upon Saudi Arabia will increase substantially since they are one of the few countries that still have spare production capacity. In February, OPEC was pumping at near 95 percent of its nominal capacity – leaving only Saudi Arabia (1.5-2.0 mb/d), United Arab Emirates (500,000 b/d), and Kuwait (280,000 b/d) with remaining capacity to meet demand.[232]

2. Potential Damage to World Economy

OPEC's cohesion and apparent ability to "micro-manage" the highly volatile oil market to raise and maintain prices has surprised many analysts. The higher prices Saudi Arabia and Iran are trying to achieve, in the end, however, may hurt both the world economy and the oil market itself. As mentioned in Chapter III, Saudi Arabia and Iran have traditionally disagreed over oil production, virtually dividing OPEC into two production camps. The growing strength of the current détente, built upon Saudi-Iranian oil dealings, has breeched the divide and brought increased consensus and cohesion throughout OPEC. As a result, OPEC has not only been able to maintain prices within its set band for over a year, but also achieved levels above the $28 mark for eighty-one

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229 "OPEC Fact Sheet."

230 Ibid. and Moin A. Siddiqi, "Which Way Will Oil Markets Turn in 2001?" Middle East (February 2001): 39. Other analysts predict prices ranging from $20 to $25 p/b.

231 EIA, "OPEC Revenues: Country Detail – Iran," (March 2001). Available [On-line]: <http://www.eia.doe.gov/emeu/cabs/orevcoun.html> [24 March 2001]. Hereafter "Iran OPEC Revenues Country Detail"; and SAMBA, 4.

232 Siddiqi, 39.

consecutive trading days in 2000.[233] (See Figure 7.) This ability to manage prices at the high end of the spectrum is critical to their future revenues. For every $1 p/b

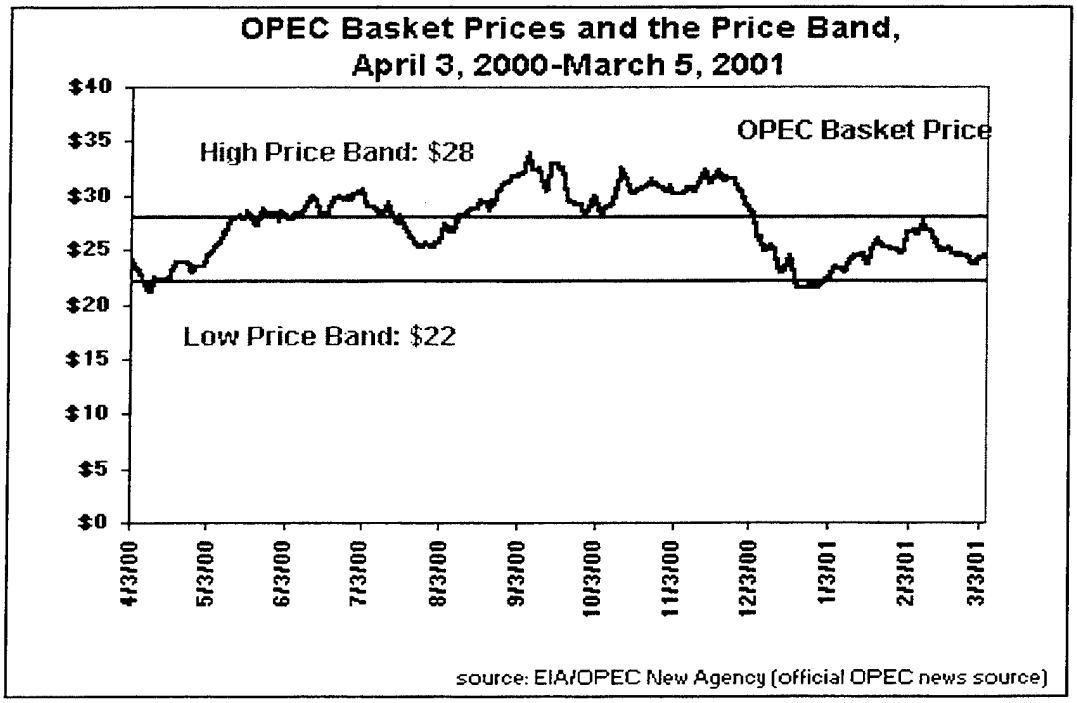

Figure 7. OPEC Basket Prices and the Price Band.[234]

increase in the price of oil, there is a corresponding increase in revenues of several billion dollars for each major producer. Both Saudi Arabia and Iran need the higher revenues to meet their budgeted expenses and could use the surplus to help their struggling economies in other areas. Saudi Arabia, for example, is only funding a six percent increase in spending in 2001. Such a small percentage does not provide much of an economic stimulus to the economy. Unless oil revenues substantially exceed projections, it is unlikely to provide the Saudi government much room for debt reduction or

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233 Ibid.

234 From "OPEC Fact Sheet."

investment to stimulate the economy.[235] Iran also needs the higher revenues to fund an overall nominal annual budgetary increase of 25 percent, including a 22 percent increase in defense spending and 40 percent for more police.[236]

To this end, Saudi Arabia and Iran are trying to manage prices at the high end of the spectrum without necessary regard for the detrimental effects it can have upon the market in the long-term.[237] This tendency could impact the global economy and stress US-Saudi relations. Merrill Lynch forecasts oil prices for 2001 will be above the 10-year historical average because of "secular growth in the demand for OPEC crude and, more importantly, the desire by key OPEC countries, notably Saudi Arabia, to administer a higher price band."[238] The West worries that because of the industrialized world's high oil demands, higher prices will hurt economic growth in the coming year. Since $17 p/b figures underpinned the booming economy of the 1990s, analysts figure higher prices will cause a contraction in growth.[239] Economists with Credit Suisse and the IMF predict for every $5 p/b rise in cost, global economic growth slows by a quarter (0.25) of a percent.[240] Since 1998, oil prices rose approximately $10 p/b, which equates to a .5 percentage point drop in world growth. In March 2001, the United States, which

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235 "Weak Crude Prices May Rob Saudis of Deficit-free Budget," Gulf News Online, 20 February 2001. Available [On-line]: <http://www.gulfnews.com/Articles/ news.asp?ArticleID=10062> [24 February 2001].

236 "Iran's Khatami Presents Budget, Promises Recovery," Gulf News Online, 30 November 2000. Available [On-line] <http://www.gulf-news.com/Articles/news.asp?ArticleID=3835> [27 March 2000].

237 "OPEC May Cut Quotas," CNNfn, 20 February 2001. Available [On-line]: <http://cnnfn.cnn.com/2001/02/20/europe/opec/index.htm> [24 March 2001].

238 Siddiqi, 39.

239 Ibid.

240 "OPEC May Cut Quotas," CNNfn; and see IMF, "The Impact of Higher Oil Prices on the Global Economy," 8 December 2000. Available [On-line]: <http://www.imf.org/external/pubs/ft/oil/2000/ index.htm> [4 May 2001].

consumes over 20 mb/d (45 percent from OPEC), reported higher energy costs were having a negative effect upon the nation's economy.[241]

Despite protest over the spiraling costs of energy, OPEC maintained its defiance, cutting production twice for a total of 2.5 mb/d in the first quarter of 2001. In a particularly telling exchange, Saudi Oil Minister Ali al-Naimi dismissed concerns that cuts would hurt the economy and confirmed the Saudi desire to defend prices at $25 p/b, keeping the band "very narrow." He then continued to openly threaten non-OPEC producers saying:

> We hope that all major producers will see the light and cooperate [with production cuts]. The alternative is really not very healthy, neither for the companies, for the governments, whether they are producers or consumers. We have seen disaster more than once when all of us vie for market share. I have no doubt that they will cooperate and they will deliver. Everybody wants $25, even non-OPEC, so why should our share be less? Everybody knows that if OPEC wants to slug it out, we will be very successful in the long run. But in the short run everybody will be destroyed. They know that.[242]

The exchange was indicative of the new Saudi policy to defend high prices and revenues rather aggressively. This will put it increasingly at odds with US demands for energy at affordable rates. The new Bush administration is, however, less forceful in its rhetoric than it was during the 2000 campaign. While campaigning, Bush reportedly argued President Clinton needed to simply get on the phone with OPEC and tell them,

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241 Tom Doggett, "Abraham: Energy Costs Pose Recession Risk," Reuters, 19 March 2001. Available [On-line]: <http://dailynews.yahoo.com/htx/nm/20010319/pl/bush_energy_dc_7.html> [24 March 2001] and EIA, "Short Term Energy Outlook", (March 2001). Available [On-line]: <http://www.eia.doe.gov/emeu/steo/pub/steo.html> [24 March 2001].

242 "Saudis Vow to Keep Oil Prices Under Control" CNN, 17 March 2001. Available [On-line]: <http://www.cnn.com/2001/WORLD/meast/03/17/energy.saudi .naimi.reut/index/html.> [24 March 2001].

"We expect you to open your spigots!"[243] Nevertheless, since his election, President Bush has taken a different tack, employing a policy that "focuses on the long term" and realizes higher prices are a "supply-and-demand issue."[244] It is unlikely Bush, a former Texas oilman, was ignorant of the nature of supply and demand during the election, rather it reflects some naivety on foreign relations and the dynamics of US-OPEC relations. Whether the United States will clash further with OPEC in the future depends how deeply it slides into recession and whether high oil prices, linked to the Saudi-Iranian détente, are deemed the main cause.

C. DOMESTIC STABILITY

The United States has a historical interest in the free flow of Persian Gulf oil to the industrialized world and in preventing hostile powers from interrupting that flow.[245] Regional stability, in the context of those overarching objectives, is vital to their maintenance.[246] The achievement of regional stability, nevertheless, is inextricably tied to the domestic stability of both Iran and Saudi Arabia.[247] As it did during the 1979 Iranian revolution, radical changes or revolutions in the domestic affairs of either state have the potential to destabilize the region.[248] The Saudi-Iranian agreement has been

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243 "Bush Took Tough Line on OPEC During Presidential Race," CNN, 20 March 2001. Available [On-line]: <http://ww/cnn.com/2001/ALLPOLITICS/03/20/bush_opec_ap/index.html.> [24 March 2001]. Candidate Bush was also particularly fond of referring to the favor owed by Saudi Arabia and Kuwait to the U.S. for its assistance during the Gulf War.

244 "Bush Sees No Quick Fixes to Energy 'Crunch,'" Reuters, 19 March 2001. Available [On-line]: <http://dailynews.yahoo.com/h/nm.20010319/pl/ bush_energy_dc_9.html> [24 March 2001].

245 Gary Sick, "The United States in the Persian Gulf: From Twin Pillars to Dual Containment," in The Middle East and the United States: A Historical and Political Reassessment, David W. Lesch ed. (Boulder, CO: Westview Press, 1999), 277.

246 Ibid.

247 Chubin and Tripp, 8.

248 The chain of events following the Iranian Revolution demonstrates well the link between domestic or regime stability and regional stability. In short, it can be argued that the 1979 revolution paved the way for the 1980-88 Iran-Iraq War, which led to extreme fluctuations in oil prices throughout the

especially helpful in stemming the tide of social discontent in both nations. It provides them increased revenue and legitimacy in the short-term, so they may try long-term reforms. Domestic stability, in turn, is the foundation for future cooperation between Saudi Arabia and Iran and it is essential for maintaining stability in the Persian Gulf region.

1. Iran

The Saudi-Iranian détente has improved Iran's domestic stability, at least in the short-term. The substantial increase in revenues helps reinforce the Islamic regime's legitimacy and stabilized its economy while the regime pursues needed reforms. The collapse of oil prices in 1998-1999 hit Iran's struggling economy especially hard. Unemployment ran as high as 25 percent, inflation crested over 20 percent, and the country's growth rate dropped from 3.7 in 1997/98 to 1.8 percent in 1998/99.[249] Iran also faced extensive external debt, high state subsidies, a large and inefficient state sector, independent religion-based state monopolies (*bonyads*), a severe 30-year record agricultural drought, and international isolation and sanctions weighing on its thinly stretched oil resources. This poor economic performance coupled with a young, rapidly expanding, educated, and urbanized population has been at the heart of increasing crime, drug use, and widespread social discontent. The recent oil boom is, therefore, a blessing to the Khatami regime, which took over on the eve of the oil collapse in late 1997. Since then, oil export revenues jumped 121 percent, reaching an estimated $23.6 billion in 2000.[250] The surge in revenues generated an oil revenue surplus of between $9 and $10 billion.[251] This injection of revenue more than doubled Iran's GDP, from 2.5 percent in

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1980s, which then also led to the 1990 Gulf War, which in turn fostered increased dissention in Saudi Arabia in the early to mid-1990s.

[249] World Factbook 2000, 1999 estimate for unemployment; IMF, "World Economic Outlook: Fiscal and Macroeconomic Stability," 1999 data for inflation; and Political Risk Services Group, Iran Country Report (December 2000): D3, estimates for real GDP percentage change.

[250] "Iran OPEC Revenues Country Detail."

1999/00 to 5.2 percent in 2000/01. Since oil revenues account for roughly 40-50 percent of the government's budget, the unexpected jump also helped stabilize their budgetary troubles for the time being. (See Table 1.)

Performance Indicator	1998	1999	2000
Nominal GDP (percent)	18	27	30
Real GDP (percent)	1.8	2.5	5.2
Per Capita GDP (US$)	3,030	3,800	NA
Average Iranian Oil Price (US$/barrel)	NA	17.20	24.00

Table 1. Iran's Economic Performance (1998-2000).[252]

As in Saudi Arabia, the jump in revenues has helped to stabilize the government by taking some pressure off the Khatami regime, which needs every advantage it can get in its reform struggle with the conservative factions. Additionally, the windfall profits come during a presidential election year in which Khatami seeks to reaffirm his popular mandate for continued reforms. The increase in revenues provided a much more optimistic outlook among government officials. Iran's Central Bank Governor beamed in October 2000, "higher oil prices will really help us speed up investment, reduce unemployment, and accelerate our economic growth."[253] The cash infusion could not come soon enough as one member of the Majlis commented, "unemployment has reached a critical state and the situation is near explosion."[254] In an attempt to stem

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251 "IRNA commentary views role of oil in economic growth," IRNA, 8 April 2001, in FBIS, IAP20010408000060, 8 April 2001; and Hugh Pope, "Petrodollars Staying Under Mattresses – Chastened OPEC Nations Use Windfall to Ease Fiscal, Economic Woes," Wall Street Journal, 18 December 2000, A16.

252 Sources: IMF, "World Economic Outlook: Fiscal and Macroeconomic Stability," data for nominal GDP growth; and Political Risk Services Group, Iran Country Report, estimates for real GDP percentage change, per capita income and oil prices.

253 "Oil Windfall Shifts Iran Economy into Growth Mode," Business Recorder, 10 October 2000. Available [On-line]: <http://www.brecorder.com/story/S00DD/SDJ01/SDJ01167.htm> [27 March 2001].

254 "Iran Moves to Spend Oil Windfall on Job Creation," Business Recorder, 8 August 2000. Available [On-line]: <http://www.brecorder.com/story/S00DD/SDH29/SDH29257.htm> [27 March 2001].

unemployment and immediately jump-start the economy while the boom lasts, Khatami's government eagerly tapped into the growing surplus in mid-year. In August 2000, Khatami sought the Majlis' permission to release surplus funds from Iran's newly established "special oil stabilization fund" – a reserve set aside under the latest Five Year Plan (2000-2005) to protect Iran's economy from oil price shocks.[255] The Majlis agreed to release half the funds for investment in development projects and loans to the private sector as part of the government's overall plan to stimulate growth, reduce unemployment, and diversify away from oil dependence. If the economic stimulus package is successful and oil revenues remain high, then the prospects for Khatami's re-election look even brighter. While critics contend the large infusion of capital into the Iranian economy may create even higher inflation rates, Khatami remains optimistic. "The public's greater trust in [my] administration and the Islamic Republic's improved international standing has created unique opportunities to realize economic goals," Khatami remarked to the Majlis in presenting his 2001 budget.[256] He continued, "Thanks to public support and participation, we are getting through myriads of political, economic, and social problems."[257]

2. Saudi

The Saudi-Iranian détente has also helped stabilize the Saudi regime. The improvement in relations with Iran improved the al-Saud regime's legitimacy and stabilized its economy in the short-term, providing it maneuver room to enact needed reforms over the long-term. While increased revenues helped take the financial stress off Saudi Arabia, Riyadh's closeness to Iran improved the regime's ability to refute accusations of being a US puppet. This improved the al-Saud regime's legitimacy with its subjects and other Arab nations. Additionally, improved relations removed Iranian

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[255] Ibid.

[256] "Iran's Khatami Presents Budget, Promises Recovery," Gulf News Online.

[257] Ibid.

support for opposition forces within Saudi Arabia, helping the regime to further stabilize its domestic situation.

In a RAND study of political violence and its affects on the stability of Gulf nations, authors Daniel Byman and Jerrold Green conclude, "demographic and economic problems are at the root of many grievances Gulf citizens express about their regimes."[258] The collapse of oil prices in 1998-1999 exacerbated these same tensions within Saudi Arabia and was a driving force in its decision to work with Iran to achieve higher oil prices. The success of the Saudi-Iranian led price rally produced windfall profits for the Saudi regime. Because of the continued boom, Saudi oil export revenues jumped sharply from $40 billion in 1999 to $77 billion in 2000.[259] Since oil revenues accounted for roughly 86 percent of the Saudi government's 2000 budget, the unexpected jump directly translated into a budget surplus of $12 billion dollars.[260] This has translated into a vast improvement in Saudi Arabia's economic performance and outlook. (See Table 2.)

Performance Indicator	1998	1999	2000
Nominal GDP (percent)	-12.2	7.7	15.5
Real GDP (percent)	1.6	0.5	4.1
Per Capita GDP (US$)	6,081	6,495	7,362
Average Saudi Oil Price (US$/barrel)	11.50	17.45	27.00

Table 2. Saudi Arabia's Economic Performance (1998-2000). [261]

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258 Daniel L. Byman and Jerrold D. Green, Political Violence and Stability in the States of the Northern Persian Gulf (Santa Monica, California: RAND, 1999), xiv.

259 SAMBA, 4.

260 Ibid 6. Actual Saudi oil prices in 2000 outpaced government expectations by $9 per barrel ($27 per barrel vice the $18 planning figure) 6.

261 Sources: SAMBA and U.S. Embassy, Saudi Arabia: 2000 Economic Trends (Riyadh: U.S. Embassy, April 2000) Available [On-line]: <http://usembassy.state.gov/riyadh/wwwhet00.html> [24 March 2001].

In the short-term, the jump in revenues stabilizes Saudi Arabia by taking some pressure off the government, which ran budget deficits for the last seventeen years.[262] According to the Saudi American Bank, however, the higher oil revenues "did not translate into a broad-based economic boom, as the government used the income to improve its fiscal health, rather than spend."[263] While the budget allowed the government to immediately pay $2.1 billion in cash obligation to government workers, $2.6 billion in debts to farmers and contractors, and reinstate barley subsidies it suspended in 1998, the government notably did not go on a spending spree like in the past.[264] This was the case throughout much of OPEC as "chastened" members recalled the 1999 price collapse and decided to keep the petrodollars "under their mattresses," focusing instead on mending their external fiscal situations.[265] The Wall Street Journal and SAMBA estimated much of the additional funds were put aside as a hedge fund to counter oil downturns and or invested in foreign, particularly US, assets.[266]

Although higher oil prices bode well for Saudi short-term stability, prospects for the Saudi use of the windfall profits to enact long-term reforms are mixed. Despite the rise in oil revenues, Saudi Arabia still faces serious fiscal challenges including an over-dependence upon oil revenues, high government debt, low capital expenditures because of excessive state salaries and interests payments, high unemployment, and declining per capita income. Solving these fundamental fiscal imbalances will require substantial reform. Saudi Arabia's latest Five-Year (2000-2005) plan is off to a good start and promises fiscal restraint in keeping with the government's needs to restore its fiscal

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262 SAMBA, 2. The last Saudi budget surplus was in 1982.

263 Ibid.

264 Ibid., 6-7.

265 Pope, "Petrodollars Staying Under Mattresses – Chastened OPEC Nations Use Windfall to Ease Fiscal, Economic Woes."

266 Ibid. See also SAMBA, 7.

health while implementing reforms to diversify the economy away from oil.[267] The 2001 budget calls for balance with a slight (6 percent) increase focused on addressing the needs of Saudi Arabia's growing population, such as hospitals and desalinization plants, instead of more defense items.[268] Indeed, if Saudi-Iranian relations help reduce regional security tensions, then perhaps the Saudi government could substantially reduce defense spending, which accounted for roughly 12 percent of its annual GDP in 1997.[269] In any case, Saudi Arabia is focusing on implementing several reforms including:

- drafting new tax laws;
- accelerating privatization of government assets;
- improving and strengthening customs and tax administration;
- implementing civil service reform; and
- passing legislation encouraging foreign direct investment, especially in infrastructure such as electricity and telecommunications.[270]

Despite the improved short-term fiscal situation and indications that Saudi Arabia is becoming more fiscally responsible, there still is legitimate concern that the increase in revenues might lead them to forestall forging ahead with reforms they know will ultimately hurt.[271] The Saudi government knows especially well that reforming the

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[267] SAMBA, 8.

[268] Ibid., 7. SAMBA reports the spending increases to be in line with demographic demands for more teachers, hospitals (29 new and start construction of 70), schools (1,111 primary, 819 intermediate, 905 high schools, and 10 technical colleges), and desalinization plants (3 completed and start construction of 12). They also estimated defense spending remained at current levels or declined.

[269] World Fact Book 2000. This compares to 3 percent in Iran (FY98/99).

[270] SAMBA, Saudi Arabia's New Foreign Investment Law (April 2001): 1. Available [On-line]: <http://www.samba.com.sa/investment/economywatch/index.htm> [23 March 2001].

[271] "OPEC Revenues Fact Shee."

country's economy will anger more Saudis than it will please.[272] Therefore, the appeal of a short-term solution may again lure the Saudi government to rely on high oil prices to bail them out. In Joshua Teitelbaum's study of Saudi Arabia's Islamic opposition, he warns of just such a tendency among Saudi leadership: "At times, it seems as if the Saudis put their faith in windfall profits from a rise in oil prices. Indeed, a subsequent rise in oil prices in 2000 did not bring about any radical changes in Saudi economic policy."[273] The Energy Information Administration (EIA) finds similar tendencies and reports Saudi reform efforts, such as reducing subsidies, are "sporadic at best."[274] For example, Saudi Arabia announced an electricity rate increase in April 2000, but had to repeal it in the face of widespread protest just seven months later.[275] Overall, in EIA's assessment, "higher oil revenues [in Saudi Arabia and throughout OPEC] tend to reduce pressures towards painful reforms."[276]

Saudi Arabia's accord with Iran also contributes to Saudi regime legitimacy and domestic stability in three perhaps less tangible ways. First, by moving its relations towards Iran, Saudi Arabia distances itself from allegations of subservience to the United States and its support for the "Zionists" – Israel. Many average Saudi citizens harbor an exaggerated perception that the United States controls the region and their government.[277] Saudis resent not only this perceived influence, but also the overt presence of US forces on Islam's holy soil, the spread of Western culture, and the United States' close ties to Israel. Saudis, as well as other Arabs and Iranians, also readily point

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[272] Byman and Green, 19.

[273] Teitelbaum, Holier Than Thou: Saudi Arabia's Islamic Opposition.

[274] EIA, "OPEC Revenues: Country Detail – Saudi Arabia," (March 2001). Available [On-line]: <http://www.eia.doe.gov/emeu/cabs/orevcoun.html> [24 March 2001]. Hereafter "Saudi Arabia OPEC Revenues Country Detail."

[275] Ibid.

[276] Ibid.

[277] Byman and Green, 26.

to the heavy lobbying of Saudi leaders by senior US officials as a sure sign of excessive US influence.[278] Trips to Riyadh by the Secretaries of Defense, State, and Energy on such topics as increased arms purchases, Iraqi sanctions, and lower oil prices are a yearly, if not more often occurrence. Saudi citizens' suspicions of the regime's subservience to Washington are often confirmed when such lobbying produces decisions that coincide with US interests – such as new arms contracts, operations versus Iraq, or hikes in oil production.[279] On the other hand, taking positions that run counter to US interests, most notably in opposition to the Arab-Israeli Peace Accords, enhances the Saudi regime's legitimacy. Along these lines, no move could better demonstrate Saudi independence from US control than to ally with the most fervently anti-US power in the region. In short, Saudi relations with Iran help demonstrate the kingdom is independent of US control. Because of Iran's long-running condemnation of the United States, Saudi-Iranian relations are difficult to twist into anything other than a clear rejection of Washington's policies.[280] This bolsters Crown Prince Abdullah's credibility with the average Saudi citizen and with the more extremist elements that might otherwise launch potentially destabilizing bombing attacks within the kingdom. The rejection of the United States is also a very popular current motif throughout the Middle East given the on-going unrest in Palestine. Abdullah's stance with Iran against the peace accords keeps Saudi Arabia both in the Arab political mainstream and demonstrates a unified Muslim front versus Israel

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[278] See for example, "Iran: Radio Commentary on US Influence in Oil Production," 14 May 2000, Voice of the Islamic Republic of Iran, in FBIS, IAP20000514000048, 14 May 2000; and "Paper Views US Defense Secretary's Mideast Tour, End of US 'Hegemony,'" Al-Quds al-Arabi, 16 November 2000, in FBIS, GMP20001116000104, 16 November 2000.

[279] See for example, "Iraqi Paper Views Saudi Oil Role," Al-Qadisiyah, 9 March 1999, in FBIS, FTS19990314000375, 9 March 1999; and "US Military Presence in Gulf Viewed," Al-'Arab al-'Alamiyah, 18 May 2000, in FBIS, GMP20000518000072, 18 May 2000.

[280] Peimani, 41. Interestingly Iraq has done just that by alleging that Saudi Arabia could not improve ties with Iran "without the encouragement and approval of the United States. State newspapers go on to say that the growing Saudi-Iranian alliance is really a growing "axis" between the U.S., Iran, and Saudi Arabia against Iraq. See "Baghdad Fears New 'Axis' of US-Saudi-Iran," Agence Free Presse, 23 April 2000. Available [On-line]: <http://www.iranmania.com/news/apr00/230400a.asp> [22 January 2001].

and the United States.[281] Overall, if it is not tremendously important to the Saudi regime's economic recovery and stability, the improvement in ties with Iran at least bolsters the regime's sovereignty and Islamic legitimacy by symbolically demonstrating the kingdom's independence from US control.

Second, and perhaps more importantly, the Saudi-Iranian détente has removed both Iranian ideological and operational support for Shi`ah dissidents within the kingdom. The Saudi Wahhabi sect of Islam fundamentally regards Shi'ism as blasphemy and therefore the Saudi Shi`ah have traditionally looked to Iran for support and guidance. Because of poor treatment of the Shi`ah minority, Saudi Arabia has incurred various Iranian inspired and or supported Shi`ah uprisings. Allegedly, the most recent of these incidents was the bomb attack on the US barracks in Dhahran in 1996, which killed nineteen service members. While the United States has remained insistent on Iranian involvement in the bombing from the beginning, and despite steady evidence of Iranian involvement, Saudi Arabia consistently drifts further and further from their initial accusations against Iran.[282] The drastic improvement in their relations since the 1996 attack spawns speculation concerning a Saudi-Iranian Khobar cover-up in exchange for a cessation of Iranian support for the Saudi Shi`ah opposition and for help in tracking down remaining members hiding in Iran.[283] While remaining unproven at the official level,

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281 "Saudi Arabia, Iran Issue Joint Communiqué," SPA, 19 May 1999, in FBIS, LD1905182899, 19 May 1999.

282 See for example, Teitelbaum, Holier Than Thou: Saudi Arabia's Islamic Opposition, 88-94, for complete coverage of the case and see also: "Iran, U.S. spar over Saudi Bombing, Terrorism," CNN, 4 August 1996. Available [On-line]: <http://www.cnn.com/WORLD/9608/04/iran.perry/index.html> [23 October 2000]; "Saudi Official Says Countrymen Responsible for Khobar Towers Bomb," CNN, 22 May 1998. Available [On-line]: <http://www.cnn.com/WORLD/meast/9805/22/ khobar.towers/index.html> [23 October 2000]; and "Iran paper: Saudi minister denies Iranian involvement in Dhahran bombing," Tehran Times, 15 May 2001, in FBIS, IAP20010515000025, 15 May 2001.

283 See Teitelbaum, Holier Than Thou: Saudi Arabia's Islamic Opposition, 88-94 for a complete assessment of the Khobar cover-up allegations and see also Thomas Friedman, "A Saudi-Iranian Schmooze," New York Times, 1 May 1997; John McWethy, "Saudis Give Their Version of the Al-Khobar Bombing," ABC News, 26 May 1998, Transcript #98052602-j04.

such findings seem highly probable and are in line with the traditional Saudi preference of accommodation over confrontation.

Ironically, while the cover-up may help provide domestic stability to Saudi Arabia and is an indication Iran is placing their national interests above ideological goals, the United States is steadily moving forward to prove Iran's involvement. *CBS News* reported in February 2001, that the FBI is preparing to issue a final report to the new Bush administration linking Iran to the incident.[284] If conclusive, this report may lead to US indictments against those Iranian officials involved and or a military response in retribution.[285] Unless Saudi Arabia openly allies with the United States on the subject, which is unlikely given recent statements and the progressive nature of their relations, Iran will not reinitiate support for domestic opposition forces in Saudi Arabia. Given the emphasis Iran places upon the rapprochement, the Saudi regime may rest assured Iranian sponsored opposition groups will not bother them.

The détente between the two countries also provides a link between the Sunni Wahhabi and Shi`ah cultures promoting peaceable relations and defusing Shi`ah discontent. Byman and Green concur that the rapprochement helps foster a "diminution in conflict" between the two sects within Saudi Arabia.[286] Saudi Arabia's appointment of a Shi`ah as ambassador to Iran was a sure sign of their placation or accommodation of Shi`ah on both sides of the Gulf. Therefore, while Washington may press for answers that could hurt Saudi-Iranian relations, Saudi Arabia's relations with Iran continue to improve their domestic stability. By bolstering the Saudi economy, enhancing the regime's legitimacy, eliminating Iranian support for domestic Shi`ah terrorists, and by bridging the

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284 "Senior Iranian Linked to Khobar Towers Attack - CBS," Reuters, 23 February 2001. Available [On-line]: <http://dailynews.yahoo.com/htx/nm/20010223/ts/crime_khobar_dc_1.html> [24 February 2001].

285 "Powell Presses Terror Probe," CBS News, 26 February 2001. Available [On-line]: <http://www.cbsnews.com/now/story/0,1597,274234-412,00.shtml> [27 February 2001].

286 Byman and Green, 86.

gap between the Sunni and Shi`ah sects within the kingdom, the Saudi-Iranian détente is a boon to Saudi stability.

D. REGIONAL STABILITY

The rapprochement between Saudi Arabia and Iran also holds substantial implications for regional stability outside of just securing their own domestic situations. First, the détente breaks Iran's regional isolation, which in the past contributed significantly to regional tensions and conflict. Iran's reemergence reduces tensions and improves overall inter-Gulf relations. Having overcome the divide in its relations with Gulf-leader Saudi Arabia, Iran's relations with the other sheikdoms continue to improve. Second, the Saudi-Iranian détente fosters a potential framework for meaningful inter-Gulf discussions on such important issues as collective security. Finally, the Saudi-Iranian détente may affect the United States' role in maintaining regional stability. In lessening regional tensions and developing a force to balance Iraq, the Saudi-Iran alliance may inspire the host nations to ask the United States to withdraw its forces. While at present this an unlikely development, improving relations among the region's leaders warrant a prudent approach considering this possibility.

1. Iran's Reemergence and Reduced Tensions

Iran faced isolation in the past, but it is now reemerging and gaining an increasing role in regional affairs. Before Khatami's election, Iran's religious differences, size, military power, and revolutionary ideology tended to frighten its smaller Gulf neighbors. These fears created tension between the Gulf states and Iran. As a result, they tried to exclude Iran from regional matters by forming Arab alliances and pacts, such as the GCC. These coalitions only further isolated Iran by turning seemingly bilateral issues into Arab versus Persian regional disputes.[287] Iran learned the consequences of the Arab states siding with one another on several occasions, the foremost being the Iran-Iraq War and its on-going disagreement with the GCC over the Abu Musa and Tunbs Islands. The

[287] Chubin and Tripp, 4.

Iran-Iraq War left an indelible impression upon Iran that it was cornered in the region. This isolation, whether self-imposed by Iran's own revolutionary ideology and policies or imposed merely by Arab fears, contributed to poor inter-Gulf relations and stability. For example, Iran's immediate regional and international isolation after the fall of the shah contributed to the devastating eight-year Iran-Iraq War. Hooman Peimani points to this in his study of Iran, asserting the republic's seclusion both contributed to Saddam's decision to invade it and to the prolongation of the subsequent war.[288] While creating actual security problems, Iran's regional isolation additionally served as a constant irritant to deeply nationalist Iranians. Iranians saw Arab policies as ethnocentric and nationalistic. These forces fostered constant regional tension. In response to the exclusionary policies of the Arab Gulf states, Iran lashed out by denouncing the various sheikdoms, supporting opposition groups, and prolonging the Iran-Iraq War. These acts in turn fostered GCC counter-statements, support for Iranian opposition movements, and an increased reliance upon foreign protection. In the end, it became a circle of Iranian isolation, Arab-Iranian infighting, and further Iranian isolation.

Today, however, the Saudi-Iranian détente is the centerpiece of their joint efforts to eliminate tensions and break the cycle that destabilized the region in the past.[289] Since the beginning of the Saudi-Iranian rapprochement, both sides have promoted the positive effects their accord has upon the region.[290] Khatami's opening of Iran and his promotion of "dialogue" versus ideological rhetoric undoubtedly did the most to lessen tensions in the region. Without Saudi Arabia's commensurate steps at détente, however, it is doubtful Iran could reemerge on the regional scene as quickly as it has. While in the past it was Saudi Arabia that led efforts to isolate Iran, the kingdom now leads efforts to bring

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288 Peimani, 71.

289 Ibid., 59, 42.

290 See for example, "Iran: Aftab-e Yazd confirms close Iran-Saudi ties good for regional stability," Aftab-e Yazd, 15 April 2001, in FBIS, IAP20010429000067, 15 April 2001; and "Saudi Editor Praises Ties With Iran, Oil Coordination," Al-Bilad, 26 April 2000, in FBIS, GMP20000427000163, 26 April 2000.

Iran back into the Gulf political mainstream. As the largest and most oil-rich of the Gulf sheikdoms, Saudi Arabia holds tremendous sway. Saudi Arabia's acceptance of Iran's overtures, therefore, opens the doors of rapprochement (even wider in some cases) to the smaller Gulf countries.[291] Consequently, Iran's relations with Kuwait, Qatar, Oman, and even Bahrain and UAE are improving. The blossoming of these countries' bilateral relations with Iran are a clear sign of an overall regional shift in Arab-Iranian relations inspired by the Saudi-Iranian détente.[292]

Besides Saudi Arabia, Kuwait leads the way among GCC states in improving its ties with Iran. Over the course of the last year, Kuwait and Iran reconciled their differences and established closer relations in several areas. On the subject of security, Iran and Kuwait signed a far-reaching domestic security cooperation deal in October 2000.[293] This accord will benefit both sides in comabatting drug-traffiking and domestic terrorism. In Kuwaiti-Iranian trade relations there were several developments. Despite disagreements over Gulf oil drilling rights in May 2000, Kuwait and Iran resolved the issue peaceably and within a year the two were close to concluding a formal agreement demarcating their boundaries.[294] Iran and Kuwait also concluded an "important" labor agreement in January 2001.[295] The two countries in February 2001 also unveiled an ambitious $2 billion plan to build a 540 kilometer pipeline to supply Kuwait with 200 million liters of fresh drinking water per day from northern Iran.[296] These agreements

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[291] Peimani, 41.

[292] Ibid.

[293] See "Iran, Kuwait Sign Memorandum of Understanding on Domestic Security Cooperation," IRNA, 2 October 2000, in FBIS, IAP20001002000077, 2 Oct 2000.

[294] "Kuwaiti ForMin Interviewed on Domestic Issues, Iraqi Sanctions, Iran Ties," Al-Sharq al-Awsat, 6 May 2001, in FBIS, GMP20010506000004, 6 May 2001.

[295] "Iranian, Kuwaiti Labor Ministers Sign 'Important' Agreement on Labor," IRNA, 22 January 2001, in FBIS, IAP20010122000096, 22 January 2001.

[296] "Iran-Kuwait Water Plan Unveiled," BBC, 22 February 2001. Available [On-line]: <http://news.bbc.co.uk/hi/english/world/middle_east/newsid_1184000/1184501.stm> [28 March 2001].

demonstrate Kuwait, like Saudi Arabia, is leaving their previous disputes with Iran in the past. Indeed, Kuwait's Foreign Minister remarked, "friendship and cooperation with Iran are the cornerstone of [Kuwait's] national policy."[297]

Iran's relations with Oman and Qatar, while historically good, also continue to improve. Oman's "historical and long-standing" bilateral relations with Iran steadily improve with diplomatic visits, joint military operations, and increasing trade relations.[298] Iran and Oman discussions in these fields focus upon improving cooperation in energy, the private sector, and the transit of goods through their north-south corridor as well as regional and international security issues.[299] Like Oman, Qatar's relations with Iran remain strong, focusing on improving trade and investment opportunities between the two nations.[300] These relations remained firm even despite a short-lived November 2000 dispute within the OIC over Qatar's relations with Israel. Ironically, the dispute demonstrated the power of Saudi-Iranian relations when both countries threatened to boycott Qatar's hosting of the OIC meeting over the issue.[301] The combined influence of the two nations quickly forced Qatar to sever its trade relations with Israel as a demonstration of the newfound Islamic unity in the region.[302]

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297 "Kuwaiti ForMin Interviewed on Domestic Issues, Iraqi Sanctions, Iran Ties," Al-Sharq al-Awsat.

298 "Iran: Foreign Minister Kharrazi Returns to Tehran from Oman Visit," IRNA, 10 April 2001, in FBIS, IAP20010410000010, 10 Apr 2001.

299 Ibid.

300 "Iran, Qatar Sign Joint Communique," IRNA, 18 July 2000, in FBIS, IAP20000718000085, 18 July 2000.

301 "Iran: Muslim Nations Boycotting Qatar Summit in Protest," Tehran Times, 9 November 2000, in FBIS, IAP20001109000021, 9 November 2000.

302 "Qatar Agrees To Cut Israeli Links To Save OIC Summit," Gulf Daily News, 9 November 2000, in FBIS, GMP20001109000043, 9 November 2000.

Iran's relations with Bahrain and UAE, although troubled in the past, remain on a path towards ultimate reconciliation. Bahrain, who has been at odds with Iran for over twenty-years, is steadily improving its relations with Tehran – although in much smaller increments than the other states. The discussions between Iran and Bahrain represent a "new stage," according to Bahrain's Commerce Minister, in their bilateral cooperation based on "good neighborly relations, mutual respect, and non-interference in each other's internal affairs."[303] Discussions between the two only focus upon cultural, artistic, and academic exchanges and bilateral trade relations.[304] As part of this effort, they formed the Iran-Bahrain Joint Cooperation Council to study ways of expanding economic cooperation between the two nations.[305] Economic cooperation is the strong point in Iran and UAE's somewhat troubled relations. Despite Iran and UAE's dispute over the gulf islands, they remain one of each other's largest trading partners.[306] This creates a rather unique relationship where verbal diplomatic exchanges shift back and forth; one day condemning each other's actions concerning the Abu Musa and Tunbs Islands, while the next day commending expansion of trade relations.[307] Interestingly, by refusing to allow their dispute with Iran to interfere with trade; UAE demonstrates the importance they attach to their relations with Iran. With respect to the Saudi role in the UAE-Iran dispute, the Saudis refuse to let the dispute derail their relations with Iran, which it feels will

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303 "Bahrain: Visiting Iranian Minister on Doha Summit, US Policy," Bahrain Tribune, 10 November 2000, in FBIS, GMP20001110000091, 10 Nov 2000.

304 Ibid.

305 "Iran, Bahrain for Expansion of Economic, Trade Cooperation," INRA, 28 February 2001. Available [On-line]: <http://www.irna.com/newshtm/eng/10200911.htm> [3 March 2001].

306 "Iran: Foreign Trade Balance Deficit Improves by 20 Percent," IRNA, 13 July 2000, in FBIS, IAP20000713000016, 13 July 2000.

307 See for example, "Iran: Deputy denounces UAE's 'irrational' stance on islands," IRNA, 18 April 2001, in FBIS, IAP20010418000025, 18 April 2001; "Iran News reports $2 billion Iran-UAE gas deal," Iran News, 19 April 2001, in FBIS, IAP20010419000008, 19 April 2001; and "UAE, Iran Maintain Economic Ties Despite Islands Dispute," Al-Hayah, 7 May 2000, in FBIS, GMP20000508000112, 7 May 2000.

lessen overall regional tensions.[308] On several occasions the Saudis refused to let the dispute break up the GCC. This approach, while disconcerting to UAE, is for the best. The Saudi stance provides links promoting continued discussion that ensure Iran's inclusion in regional matters. The Saudi-Iranian détente may one day produce initiatives directed toward settling the UAE-Iran dispute.[309]

Only with respect to Iraq, does the Saudi-Iranian détente (and that with other Gulf states) increase tensions. Iraq fears Saudi Arabia and Iran aim to counter its influence in the region. Comments from Baghdad routinely allege there exists a larger alliance of Iran, Saudi Arabia, Kuwait, and the United States intent on destroying Iraq.[310] Iraq even cited Iran's April 2001 retaliatory surface-to-surface missile strike, against Iranian oppositions groups operating out of Iraq, as part of larger US-Saudi led offensive against their country. They pointed especially to the attack's coincidence with the signing of the Saudi-Iranian security agreement.[311] Although such a diverse alliance is not likely in the near future, Iraq has legitimate concerns regarding, at a minimum, the closeness between Saudi Arabia and Iran. Although publicly discounting any threat from Iraq, Saudi and Iranian officials know the basis of their relations is partly an underlying and unspoken desire to contain Saddam Hussein. Saddam for his part refuses to improve relations with either Saudi Arabia or Iran – continuing to threaten both states.[312] Given such actions, it

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308 "Saudi Interior Minister: Iran Agreement "Nothing To Do" With UAE Islands," 26 April 2001, SPA, in FBIS, GMP20010426000143, 26 April 2001.

309 "Article Hails Saudi-Iranian Security Agreement, Faults US Attitude," Al-Madinah, 26 April 2001, in FBIS, GMP20010429000146, 26 April 2001.

310 See for example, "Paper Sees 'New US Plot' Against Iraq in Saudi, Kuwaiti, Iranian Moves," Al-Jumhuriyah, 24 April 2001, in FBIS, GMP20010424000053, 24 April 2001; and "Paper Criticizes Iran, Kuwait, Saudi Arabia Stand On Iraq," Al-Iraq, 23 May 2000, in FBIS, GMP20000528000186, 23 May 2000.

311 "Iraqi Writer Sees in Iran Attack Signal for Rapprochement With US, Saudi Arabia," Al-Thawrah, 20 April 2001, in FBIS, GMP20010420000154, 20 April 2001.

312 See for example, "Iraq Calls for Overthrow of Saudi Monarchy," Middle East Times, 22 January 2001. Available [On-line]: <http://metimes.com/2K1/issue2001-/reg/iraq_calls_for.htm> [26

is unlikely either Saudi Arabia or Iran will be able to achieve a break through in their relations with Iraq. Whether the détente may incline Iraq to seek its own balancing alliances, with perhaps UAE or Syria, or open negotiations with both countries warrants close observation. In this respect, the new security dynamics that Saudi-Iranian relations establish and their affect on Iraq's posture warrants close observation.

2. Regional Security Framework

The Saudi-Iranian détente does more than relieve regional tensions and improve trade and diplomatic relations. The warmer inter-Gulf relations the détente helps foster may also provide a framework for solidifying those relations into an actual security agreement. There are increasing indications improving inter-Gulf relations may potentially provide a framework or forum for regional cooperation and dialogue on various issues including security. To achieve a stable peace in the region without undue US involvement, several prominent US scholars and diplomats have called for cooperative agreements to confront common issues among all the Gulf nations. Critics argue the widely held belief that only by reintegrating Iran back into the politics of the region can the GCC and the United States achieve stability in the Gulf.[313] This is the same argument Iran has made since the end of the Iran-Iraq War. The United States itself recognizes Iran's importance to regional affairs and encourages regional discussions. Some in the United States also study the ability of Iran to act as a counter-balance to Iraq.[314] Notably, Secretary of State Madeleine Albright incorporated all these themes in her March 2000 speech before the American-Iranian Council:

January 2001]; and "Al-Hayah Reports on Iran-Iraq Border Tension, Military Escalation," Al-Hayah, 26 August 2000, in FBIS, GMP20000826000007, 26 August 2000.

[313] See for example, Kemp, 16-17 and Lawrence G. Potter, "Confidence Building Measures in the Persian Gulf," in Sick and Potter, 240.

[314] See Kenneth Katzman, Searching For Stable Peace in the Persian Gulf (Carlisle, PA: Strategic Studies Institute, 1998); F. Gregory Gause III, "The Illogic of Dual Containment," Foreign Affairs 73, no. 2 (March/April 1994); Zbigniew Brzezinski in Elaine Sciolino, "Time to Shift Course on Iran?," International Herald Tribune, 23 September 1996; and Graham E. Fuller and Ian O. Lesser, "Persian Gulf Myths," Foreign Affairs 76, no. 3 (May-June 1997).

> There is no question that Iran's future direction will play a pivotal role in the economic and security affairs of what much of the world reasonably considers the center of the world.... *We welcome efforts to make [the Gulf region] less dangerous and would encourage regional discussions aimed at reducing tensions and building trust....* Both [the United States and Iran] have a stake in preventing further Iraqi aggression.... The United States recognizes Iran's importance in the Gulf.... We look toward Iran truly fulfilling its promises to serve as an 'anchor of stability'...[315]

As a result, consideration of Iran as a potential partner in regional defense is slowly growing among the members of the GCC. Despite Saddam Hussein's defeat by coalition forces ten years ago, Iraqi threats and pursuit of weapons of mass destruction (WMD) still are the dominant concerns of the GCC. Although Iraq disputes much of the West's claims about its aggressive policies, Baghdad continues to present an aggressive posture. In January 2001, Ba`ath party newspapers again challenged Kuwait's sovereignty and called for the overthrow of the Saudi monarchy, saying "now more than ever [the Saudi people] are aware the time has come to get rid of this backward regime."[316] Iraq's continuous threats and posturing have made the overtures from Iran all the more noticeable to the Gulf states. While the GCC still holds Iraq with a certain degree of fear and suspicion, it increasingly perceives Iran to be benign. The Gulf states, in the words of the Saudi Defense Minister, "neither feel threatened by nor fear Iran."[317] Such GCC member statements are increasingly unnecessary, as inter-Gulf relations are progressing to the point of actual bilateral domestic security agreements promising formal cooperation with Iran in combating terrorism, drug trafficking, and organized crime.

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[315] Madeleine K. Albright, "Remarks before the American-Iranian Council." Her reference to 'anchor of stability' was taken from an earlier speech by Iranian Foreign Minster Kharrazi. [Emphasis added].

[316] Unnamed sources quoted in "Iraq Calls for Overthrow of Saudi Monarchy," Middle East Times.

[317] See for example, "Saudi Defense Minister: Gulf States Not Threatened by Iran," Vision of the Islamic Republic of Iran Network 1, 16 April 2000, in FBIS, IAP20000416000054, 16 April 2000.

Despite their vastly improved bilateral relations with Iran, collectively and individually the GCC and its member are not ready to sign more comprehensive military security agreements. Iran, however, continues to call for such agreements as the only solution to establish lasting regional security.[318] Overall, the Arab sheikdoms want to wait longer before entering into collective security agreements with Iran. Saudi Arabia and Oman cite such agreements with Iran as premature. That is generally the consensus around the region. Dismissing reports of a pending GCC-Iran security agreement, Arab sources cited as reasons Iran's still unstable domestic politics and the opinion that "Gulf-Iranian relations have not yet reached a satisfactory stage of strength, maturity, and mutual trust."[319] GCC-Iranian agreements of such magnitude are unlikely in the offing regardless, since the members themselves find it difficult to agree on security matters. In fact, until December 2000, the GCC remained without its own formal defensive agreement – almost twenty years after its founding.[320] Although, a substantial increase in Iraqi belligerency combined with a further deterioration the Arab-Israeli situation and ineffective US policies might speed up the process.

The largest sticking point to the improvement of inter-Gulf relations and the rapprochement with Iran is the on-going UAE-Iran dispute over the Abu Musa and Tunbs Islands. The GCC continues to affirm UAE's right to the islands and insists an international court hear the case.[321] Iran, nevertheless, continues to insist the matter is simply a "misunderstanding" and that the islands "beyond question" belong to them.[322]

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318 "Iran: Article Views Significance of Saudi Minister's Visit to Tehran," IRNA, 14 April 2001, in FBIS, IAP20010414000065, 14 April 2001.

319 "Sources Cited on Iranian-GCC Security Ties," Al-Watan al-Arabi, 5 May 2000, in FBIS, GMP20000504000165, 5 May 2000.

320 "GCC Leaders Sign 'Joint Defense Agreement,'" SPA, 31 December 2000, in FBIS, GMP20001231000032, 31 December 2000.

321 "SPA: GCC Foreign Ministers Issue Final Statement in Riyadh," SPA, 17 March 2001, in FBIS, GMP20010317000188, 17 March 2001.

322 "APU-Majlis-Protest," IRNA, 28 February 2001. Available [On-line]: <http://www.irna.com/newshtm/eng/10195411.htm> [3 March 2001].

Having made several unrequited visits to UAE to discuss the issue, Iranian officials dismiss the GCC solution and insist they will only settle through bilateral talks with UAE. Tehran sees no reason why the dispute should stall closer relations. UAE although asserts the dispute is "an obstacle to any security deal for the region."[323] More disturbingly, UAE is also playing Iraq against the growing Saudi-Iranian relations to gain an advantage in their dispute over the Islands.[324] They have additionally undertaken major upgrades of their armed forces, including the purchase of Russian ballistic missiles and 80 US F-16 fighters.[325] Iran in turn undertook its own military modernization program by increasing its 2001 defense budget by 22 percent and by discussing $7 billion worth of arms deals with Russia.[326] Saudi Arabia remains united with the rest of the GCC regarding the islands, but its growing relations with Iran have strained its ties with UAE. Despite this, analysts still feel the disagreement will not likely preclude continued Saudi-Iranian overtures.[327] Saudi Arabia does not want to see the island dispute widen and spoil the Gulf-wide rapprochement. Therefore, Saudi Arabia will remain the balancer between Iran and UAE to ensure the quarrel is contained.

3. US Presence

Finally, improving ties between the GCC states and Iran may also hold a major implication for the continued presence of US forces in the region. This may have long

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[323] Commander in Chief of UAE's armed forces, Sheik al-Nahayan, quoted in "Iraq and UAE Express Concern Over Iran-Saudi Links," Agence France Presse, 23 April 2000. Available [On-line]: <http://www,iranmania.com/news/apr00/2304001.asp> [22 January 2001].

[324] Ibid. In April 2000, UAE reopened their Baghdad embassy for the first time since the 1990 Gulf War.

[325] "Arms Sales a Monkey Wrench in Middle East Relations," Strategic Forecasts, 7 July 2000. Available [On-line]: <http://www.stratfor.com/meaf/commentary/0007062307.htm> [5 January 2001].

[326] "Iran's Khatami Presents Budget, Promises Recovery," Gulf News Online; and "Russia and Iran Agree to Arms Deal," CNN, 12 March 2001. Available [On-line]: <http://cnn.com/2001/WORLD/europe/03/12/khatami.russia.02/index.html> [13 March 2001].

[327] Middle East Policy Council, "U.S. Policy Toward Iran: Time for a Change?," 12 December 2000. Available [On-line]: <http://www.mepc.org/forums/chcs/23.htm> [5 March 2001].

range affects on regional stability. As Iran continues to espouse peace and improve its relations with various Gulf states, especially Saudi Arabia, it eliminates one the main justifications for maintaining US forces in the region. While the Soviet threat to the Gulf has past, Iran remains a perceived threat to the Gulf and its oil supplies. This threat serves as a major rationale for deploying US forces and granting a budget priority to the Middle East.[328] Certainly, Iran's past rhetoric and actions perpetuated those circumstances and thus helped justify the United States' role in the region. Today, however, Iran is shifting course and changing its strategy in this area. Iran realizes its past attempts to force changes in its neighbors' policies were the cause of much of its economic and diplomatic troubles. Iran further realizes that by removing the threats and the tension, it not only can improve its economic situation, but it also removes one of the main justifications the Gulf states have for maintaining US forces in the region.[329]

To that end, Iran is working diligently to lessen tensions and convince Gulf leaders that US forces are no longer necessary. "Iran is trying hard," writes Peimani, "to eliminate any excuse for non-regional, such as US, forces to justify their long-term stay in the region."[330] This "peace offensive" is intimately intertwined in Iran's overtures to the various Gulf states. At every opportunity Iranian officials throughout the regime, from Khameini to Khatami, announce Iran's good intentions and the destabilizing effects foreign forces have upon the region. Iranian's Defense Minister set forth Iran's objectives saying:

> On the basis of the principle that collective security is the best guarantee for the region's security, we oppose the foreign presence in the region. Our call for the departure of the US forces from the Persian Gulf is based on our long-term view that foreign presence in the region could provide a shaky and non-permanent balance for a short period of time.... We urge

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[328] Richard K Herrmann and R. William Ayres, "The New Geo-Politics of the Gulf: Forces for Change and Stability," in Sick and Potter, 48.

[329] Tarock, 32.

[330] Peimani, 79.

> our neighbors to have closer and sincere cooperation in order to achieve [long-term stability]. In our view, security is an issue of psychology and therefore we have to remove the barriers and misunderstanding through cooperation, mutual respect, and non-interference in each other's internal affairs...Western countries have effectively helped increase tension and insecurity in the region. Iran believes that cooperation and solidarity are the best way for ensuring security.[331]

Statements like this and Iran's openness, improving trade relations, blossoming democracy, moderate leaders, and sheer willingness to work together for regional stability are disarming its neighbors. Therefore, while the United States continues to warn the Gulf states of Iran's potential threat, these warnings fall on deaf ears. Many Arabs increasingly see those warnings as "artificially induced" and or "exaggerated."[332] Meanwhile, opposition to US policies in the region grows. Gulf Arabs particularly protest US support for Israel, its continued bombing of Iraq, and its military presence in the region.[333] As a result, Iran's view of the United States as a destabilizing force in the region is gaining more support, at least among the average citizens.

If the view of Iran as benign and the United States as destablizing continues to gain support, then slowly Gulf leaders may adopt the view that the US presence is no longer in their "best interests," especially given the challenges it presents to their regimes' legitimacy and popularity.[334] Adam Tarock asserts the Gulf states "have

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331 "Iran's Defense Minister Interview," Al-Sharq al-Awsat, 25 April 2000, in FBIS, GMP20000425000124, 25 April 2000.

332 See Howard Schneider, "Cohen Warns Gulf States on Dealing with Tehran; Secretary Cites Dangers Even as Ties Improve," Washington Post, 10 April 2000, A14; Mohammad Ali Azarshab, "The Place of Arab-Iranian Relations in the Islamic World Frame," in el-Din Haseeb, 520; and Monshipouri.

333 See for example, "Al-Jumhuriyah--Writer Sees Anti-US Sentiments Growing in Mideast, Gulf Area," Al-Jumhuriyah, 3 December 2000, in FBIS, GMP20001203000101, 3 December 2000; "Saudis Divided Over Foreign Troop Presence," Gulf New Online, 19 February 2001. Available [On-line]: <http://www.gulf-news.com/Articles/news.asp?ArticleID=9999> [24 February 2001]; "Kuwait Focus Reveals Dwindling Gulf Support," Strategic Forecasts, 25 October 1999. Available [On-line]: <http://www.stratfor.com/meaf/commentary/m9910252305.htm> [7 July 2000].

334 Tarock, 31.

concluded that [the GCC and Iran] are of equal weight and have thus embraced détente as the best way for maintaining security and stability in the Persian Gulf."[335] Therefore, if the perception that Iran is an equal and no longer a threat also becomes widely held, then the perceived justification for US forces to remain may cease to exist. This could lead to requests by various Gulf governments for the United States to reduce or withdraw its forces from the region.

Despite these developments, however, the Gulf states are unlikely to make drastic changes to their security structure in the immediate future. The GCC, by several accounts, is not capable of defending itself should either Iraq or Iran decide to attack.[336] Disparities and differences in command and control systems, equipment, and national priorities prevent the GCC from forming a truly effective military alliance capable of deterring Iran or Iraq.[337] The GCC is aware of this fact and, according to Geoffrey Kemp, "knows full well that their defense in the last resort depends on the United States, and this will require a continued forward American military presence."[338] Additionally, no Arab country wants to be beholden unto Iran for protection. Even Iranian scholar Hooshang Amirahmadi admits, "For [the Gulf States], Iran's participation in a security system means exchange of information, cooperation in matters of security, and increased

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[335] Ibid., 32.

[336] See Byman and Green, 103; Brent J. Talbot and Jeffrey J. Hicks, "Led By A Lion," Aerospace Power Journal (Fall 2000): 77, and Simon Henderson, "The Gulf Cooperation Council Defense Pact: An Exercise in Ambiguity," Policywatch 511 (January 2001). Available [On-line]: <http://www.washingtoninstitute.org/watch/Policywatch/policywatch2001/511.htm> [24 March 2001].

[337] "GCC Security To Remain Priority," Gulf News, 9 April 2001, in FBIS, GMP20010408000303, 9 April 2001.

[338] Kemp, 21.

economic and routine regional political interaction."[339] Finally, US relations with key host nations remain strong and will remain so for the near future.[340]

E. SUMMARY

The détente between Saudi Arabia and Iran holds special significance for the United States. The United States, as the largest consumer of petroleum products in world, has a profound concern for the continued flow of affordable oil from the Persian Gulf. No two Persian Gulf countries control the flow and price of oil more than Saudi Arabia and Iran. Their newfound solidarity, especially within OPEC, allows them to impact oil production and pricing in unprecedented ways. OPEC's lower production levels, increased quota discipline, and price band will ensure oil and gasoline prices remain above previous levels. This will impact the world's economy, as it has the US economy, by lowering economic growth. Should higher prices continue to impact the United State's economy, tensions between the United States and Saudi Arabia will increase. Despite the troubles higher energy costs entail, they nevertheless benefit the Persian Gulf region by stabilizing its faltering economies. Higher prices equate to increased revenues for all the Gulf states, especially Saudi Arabia and Iran. These revenues help salvage their failing economies in the short term as their governments try to implement economic reforms. Saudi and Iranian domestic stability benefits tremendously from improved economic conditions and their stability is vital to the entire region. The Saudi-Iranian détente also directly affects regional security by bringing Iran back into the politics of the Gulf. This, in turn, affects inter-Gulf relations and prospects for both establishing a regional security framework and continuing the US military presence in the region.

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339 Amirahmadi, 157.

340 "Gulf Times Report: 'Qatar-US Relations Flourishing,'" Gulf Times, 10 April 2001, in FBIS, GMP20010410000087, 10 April 2001; "Bahraini Amir: US Presence in Gulf To Secure Peace," Bahrain Tribune, 9 May 2001, in FBIS, GMP20010509000158, 9 May 2001; "Saudi King Fahd Congratulates Bush on Winning US Presidency," SPA, 14 December 2000, in FBIS, GMP20001214000160, 14 December 2000.

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V. CONCLUSIONS

The détente between the two regional powers Saudi Arabia and Iran has vast implications for the United States, the region, and global oil production and pricing. The rapid improvement in Saudi-Iranian relations after twenty years of hostile relations is unprecedented. The forces enabling and driving the rapprochement, however, are clear. To understand just how far Saudi Arabia and Iran have come in their relations it is essential to know where they began. Saudi Arabia and Iran are vastly different nations. They have different historical backgrounds, geography, and natural resources. Their people practice similar, yet different versions of Islam and they are ethnically and culturally unlike one another. Most importantly, Saudi Arabia and Iran's political systems and ideological principles are almost in complete opposition to one another. These disparities were overwhelming in the past. Because of these differences, Saudi Arabia and Iran suffered nearly twenty years of cold, even hostile, relations. During this period, each regime openly and covertly sought the downfall of the other. As a result, the region suffered wars, conspiracies, bombings, and unrelenting political tension and instability. Although relations seem to be on a new path, they remain heavily influenced by these factors and their past relations.

Despite their differences and a history of poor relations, Saudi Arabia and Iran are seeking common ground for improved relations in numerous areas. This cooperation is the result of several contributing and or driving factors such as:

- the election of moderate president Khatami's and the subsequent consolidation of and elite consensus over foreign and oil policies;
- the increased power of Crown Prince Abdullah and his focus upon regional issues and reforming the economy;
- the failure of the US "Dual Containment" policy to remove Saddam Hussein or collapse/change Iran's revolutionary regime; and

- the collapse of the Middle East Peace Accords and the perceived failure of the United States to pressure Israel into settling the matter.

While the above political enablers or factors support the détente, it is the severe economic decline and its repercussions upon the domestic political stability of both Iran and Saudi Arabia that is the driving force in their rapprochement. Both countries suffer from major economic problems such as exceptionally high unemployment, poor economic growth, growing foreign and domestic debts, severe annual budget deficits, and economies that are overly dependent upon petroleum production and in need of reform. These conditions demand a change in the way Saudi Arabia and Iran approach matters of state. Pragmatic economic policies designed to maximize oil revenues and salvage both nations' deteriorating economies are the basis of the Saudi-Iranian détente and are accelerating its growth.

The détente between Saudi Arabia and Iran holds special significance for the United States. The United States, as the largest consumer of petroleum products in world, wants affordable oil from the Persian Gulf. No two Persian Gulf countries have more control over that oil than Saudi Arabia and Iran. Their newfound solidarity, especially within OPEC, allows them to affect oil production and pricing in unprecedented ways. The result of this cooperation is the highest oil prices in decades. Additionally, OPEC's lower production levels, increased quota discipline, and price bands will ensure oil and gasoline prices remain above the previous levels. This impacts the world's economy, as it has the US economy, by slowing economic growth. Should higher prices continue to impact the United State's economy, tensions between the United States and Saudi Arabia will increase. Despite the troubles higher energy costs entail, they benefit the Persian Gulf region by stabilizing its faltering economies. Higher prices equate to increased revenues for the Gulf states, especially Saudi Arabia and Iran. This is salvaging their failing economies in the short term while their governments try to implement economic reforms. Saudi and Iranian domestic stability benefits from improved economic conditions and their stability is vital to the entire region. The Saudi-Iranian détente also

directly affects regional security by bringing Iran meaningfully back into the politics of the Gulf. Iran's reemergence on the Gulf's political landscape in turn affects inter-Gulf relations. Iran is establishing closer relations throughout the region, defusing past animosities, and disarming potential foes. Iran's "charm offensive" increases prospects for establishing a regional security framework involving the GCC states and Iran. Should this occur, the continued US military presence in the region may ultimately come under increased scrutiny by its Arab hosts.

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APPENDIX
ABBREVIATED CHRONOLOGY OF SAUDI-IRANIAN RELATIONS (1979-2001)

The following is an abbreviated chronology of Saudi-Iranian relations. It focuses upon the major events that occurred between them that affected their relations or the general environment in the region.

	DATE	EVENT
B	1979	Revolutionaries depose Iran's monarch and establish Islamic Republic of Iran.
B	11/1979	Seizure of the Grand Mosque in Mecca. Saudis suspect Iranian influences were responsible.
		Saudi Shiites protest US forces in Saudi Arabia and denounce the royal family – 24 killed, thousands arrested. Saudis see Iranian hand in protests.
B	09/1980	Iraq invades Iran with tacit Saudi support.
B	1980-1981	US-Saudi AWACs support package approved to provide protection against Iran.
B	1981	Establishment of the Gulf Cooperation Council (GCC) to counter Iraqi and Iranian threats.
B	1984	Saudis, using US AWACs support, shoot down two Iranian fighters.
B	1980s	Saudi Arabia helps Iraq export oil past Iranian blockades by allowing them to use Saudi pipelines.
B	1980s	Saudis step up oil production – waging economic warfare on Iran's oil markets. Iran's oil revenue drops from $21.8 billion in 1982-84 to only $6.9 billion in 1986-87.
B	1987	Saudis encourage Kuwaitis to request US intervention in Iran-Iraq "tanker war" which "internationalizes" the war – leading to US-Iranian naval confrontations and the eventual US downing of an Iranian airliner in 1988.
		Iranians attending Hajj in Mecca clash with Saudi forces attempting to stop their political demonstration – 450 killed.
B	04/1988	Saudis sever relations with Iran over 1987 Hajj – limiting Iran to only 45,000 pilgrims per year. Iranians boycott future pilgrimages.
G	08/1988	Iran-Iraq War ends.
B	1989	Two bomb explosions near Grand Mosque in Mecca attributed to Shiites and Iran – Saudi-Iranian relations deteriorate further.
G	1989	Death of Khomeini and subsequent attenuation of vehement ideological rhetoric and advocacy for spreading revolution to Gulf States.
G	1990-1991	Gulf War – Iran does not get involved in war - gaining favor of Gulf States for its impartiality. Saudis see opportunity to improve relations with Iran.

	DATE	EVENT
B	03/1991	Saudi Arabia and GCC consider security agreement with Syria and Egypt called the Damascus Declaration or the "6+2" plan. Iran sees the agreement as an attempt to isolate it.
G	06/1991	Saudi Foreign Minister Prince Saud al-Faysal visits Tehran to allay Iranian fears over the Damascus Declaration and to discuss separate Saudi-Iranian framework for cooperation on Gulf, Islamic, and economic issues and on GCC-Iranian security matters.
G	06/1991	Saudi-Iranian relations restored. Saudi Arabia allows 115,000 Iranians to attend Hajj yearly. Iranian Foreign Minister Velayati attends Hajj with other pilgrims.
B	04/1992	Iran claims sovereignty over Abu Musa despite 1971 accord with UAE establishing joint control. UAE protests and additionally revitalizes issue of Iranian 1971 seizure of Tunbs Islands.
G	1992	Iranian Ayatollah Khamenei fatwa against Shiite protesting or offending Sunnis during upcoming Hajj. 1992 Hajj is uneventful.
B	1992	Border dispute between Saudi Arabia and Qatar – Iran supports Qatar and warms relations. Saudis see Iran as trying to split GCC.
B	12/1992	GCC summit condemns Iranian actions on Abu Musa and discuss plans to implement "6+2" plan.
B	1993	US establishes "Dual Containment" policy vis-à-vis Iran and Iraq.
B	01/1993	Oil prices slide to 5 year low – hurting Iran and leading them to accuse Saudis of over-production. Saudis respond with counter accusations of Iranian over-production.
NA	03/1993	Iran makes overtures towards Iraq – reportedly assisting Iraq in breaking embargo and denouncing US air strikes.
B	05/1993	Saudis crack down on Iranian "political" demonstrations at 1993 Hajj and Iran protests – Saudi-Iranian relations suffer temporary setback.
G	09/1993	Tehran and Riyadh compromise over oil production to present a united OPEC front.
		Saudis reach compromise with internal Shiite dissidents, negotiations over Abu Musa and Tunbs proceed.
G	10/1993	"6+2" plan languishes under GCC indifference and improving Iranian relations.
G	01/1994	Saudi King Fadh sends personal emissary to Iranian President Rafsanjani. Tehran responds to OPEC cooperation and Saudi overtures warmly – emphasizing cooperation.
B	02/1994	Saudi-Iranian "honeymoon" over as both sides bicker over oil prices and production quotas.
B	1994	Iran forcibly seizes Abu Musa Island from UAE.
B	03/1994	OPEC meeting - Iran fails to get further cuts in Saudi production.
NA	1991-1996	Continued Iranian strikes in Iraq against Iranian and Kurdish dissident groups operating from bases in Iraq.
B	1994	Yemeni Civil War – Saudis back south secessionist forces that lose. Iran criticizes Saudis for intervention

	DATE	EVENT
NA	02/1994	Iraqi delegation visits Tehran, however bomb explodes in Iran and Tehran accuses Iraq of supporting Iranian dissidents.
B	12/1994	Shiite demonstrations in Bahrain – Iran accused of stirring discontent.
B	1995	Iran strengthens positions on Abu Musa and Tunbs Islands – building power plant on Greater Tunbs and a port and airfield on Abu Musa.
B	03/1995	Bomb explodes in Bahrain – Iran accused of supporting such attacks.
NA	05/1995	Iranian delegation visits Baghdad. Warming between two countries becoming stronger.
NA	09/1995	Iraqi delegation visits Tehran to discuss outstanding issues from Iran-Iraq War – POWs, borders, etc…
B	11/1995	Terrorists bomb the OPM/SANG building in Riyadh. Saudis initially point to external terrorists, however four Saudis are eventually captured who have no connection to Iran.
B	12/1995	Qatari ruler walks out of GCC meeting in protest to appointment of Saudi Secretary-General.
B	1995-1996	Renewed Bahraini Shiite violence.
NA	1996	Iran-Iraq continued discussions on resolving their war related issues.
G	01/1996	Prince Sultan comments that Iran and Saudi Arabia are the two most important Islamic nations and that their Islamic beliefs unite them despite their sectarian differences. Iran receives the comments warmly.
B	03/1996	Iran rejects GCC proposal to resolve Abu Musa/Tunbs Islands issue thru the International Court of Justice.
NA	05/1996	OPM/SANG terrorists executed.
B	06/1996	Bahrain withdraws ambassador from Tehran in protest of alleged Iranian support to Shiite uprisings.
		Khobar Towers bombing in Dhahran, Saudi Arabia. Iran immediately implicated by Saudi investigators, but no hard evidence found. US leaning towards retaliation if Iranians implicated.
G	07/1996	King Fadh, in aside comments to Iran's ambassador, calls for increased bilateral ties with Iran.
G	01/1997	Saudi and Iranian Commerce Ministries meet and agree to expand economic cooperation, including the exchange of delegations, trade shows, and joint ventures in the private sector.
G	03/1997	Iranian Foreign Minister Velayati visits Riyadh to invite King Fadh to Organization of Islamic Conferences (OIC) summit in Iran in December.
		President Rafsanjani and Crown Prince Abdullah meet at OIC summit in Pakistan and discuss improving relations.
		GCC expresses their readiness to open warmer relations with Iran.
B	04/1997	Iran conducts Operation "Road to Jerusalem" - the largest Persian Gulf military exercise ever conducted by Iran.
G	05/1997	Khatami elected president in Iran and asks for "an opening of a new page" in bilateral relations - receives congratulations from Fadh.

	DATE	EVENT
G	07/1997	Saudi Minister of State delivers personal messages of King Fadh and Crown Prince Abdullah to Tehran.
G	1997	Saudi executives visit Tehran to sign "economic cooperation accords" with Iranian companies.
G	08/1997	Renewed airline traffic between Iran and Saudi Arabia – first since 1979.
		GCC Secretary General reports that Iran is not a threat to its Arab neighbors and improved relations were good for the stability of the region.
G	11/1997	Iran's Foreign Minister, Kharrazi, conducts talks with Saudi Foreign Minister Saud al-Fisal at the U.N. and later with King Fadh and Crown Prince Abdullah in Riyadh.
G	12/1997	Iran hosts OIC – events demonstrate definite warming between Iran and Saudi Arabia. Prince Abdullah meets with both President Khatami and Ayatollah Khamenei – the first such meetings since 1979. Khatami elected leader of the OIC for three years.
G	02/1998	Former Iranian President Rafsanjani visits Saudi Arabia for 10 days with blessing of Ayatollah Khamenei – first visit to Saudi Arabia by high level Iranian official. Talks discuss improving bilateral relations and plans for increasing security in the region through joint efforts.
G		Iran's Oil Minister travels to Saudi Arabia with Rafsanjani. Together they petition Riyadh to cut oil production to raise prices from their $12 a barrel low. Talks between Saudi Arabia, Iran, and other OPEC and non-OPEC members, lead to a series of production cuts in mid-1998.
G	1998	President Khatami tells Iranian pilgrims to refrain from political demonstrations. Saudis increase Iranian Hajj quota.
G	03/1998	Iranian warship visits Jeddah, Saudi Arabia.
G	05/1998	Saudis absolve Iran of any involvement in Khobar bombing. Allegations arise of a Saudi-Iranian conspiracy to cover up Iranian involvement, preventing US retaliation in turn for an end to Iranian support for Saudis dissidents. Act seen as a symbol of changing Saudi-Iranian relations. Investigation however remains open.
G		Saudi FM Prince Saud and Iranian FM Kharrazi sign a wide-reaching bilateral agreement promoting cooperation in the fields of trade and business, economy, joint investment, science, technology, culture, tourism, and sports. Other areas slated for bilateral cooperation include industries, mining, air and sea transportation links, and environmental protection.
G	06/1998	OPEC cuts oil production. Saudis and Iranians lead the way cutting 585,000 and 264,000 a day respectively.

	DATE	EVENT
[redacted]	07/1998	Iran successfully tests medium range missile (Shahab-3) capable of hitting Israel and Saudi Arabia. Iran's Ambassador to Saudi Arabia, Mohammad Reza Nouri, in the London-based newspaper "Al-Hayat." Nuri told the newspaper that "Iran's missile capabilities are at the disposal of the Kingdom of Saudi Arabia.... Our relations with Saudi Arabia have reached a historical stage where we are complementing one another, and if we have a missile or non-missile capability, it is at the kingdom's disposal."
G	08/1998	Intervention by Saudi Arabia and the U.N. helps to diffuse tensions between Iran and Afghanistan's Taleban, which had risen almost to a point of open conflict.
G	03/1999	Saudi-Iranian accord at OPEC leads to oil production cut backs.
G	05/1999	Saudi Defense Minister Prince Sultan visits Tehran to discuss relations and prepared for President Khatami's visit to Riyadh – first such high level meeting in two decades.
		President Khatami meets with King Fadh in Riyadh. Also meets with other major ministers and tours the country. Saudi Arabia announces appointment of a Shi'ah, Jameel al-Jishi, as Saudi ambassador to Tehran.
[redacted]	06/1999	UAE criticizes Saudi Arabia for warming its ties to Iran without forcing Iran to address the Tunbs and Abu Musa issue and walks out of the meeting. Iranian overtures ignite "bitter debate among Arab states." UAE goes so far as to threaten to suspend its membership in the GCC.
[redacted]	07/1999	Resumption of June GCC meeting calls for the establishment of a three country committee comprised of representatives of Oman, Qatar, and Saudi Arabia, as well as the GCC secretary, who will arrange for direct talks between the UAE and Iran. Iran has rejects the committee, calling instead for unmediated bilateral talks with the UAE.
G	09/1999	Saudi envoy delivers letter to Khatami. The letter reportedly called for increased collaboration in stabilizing the oil market and developing military cooperation in the Gulf - the first discussion of joint security cooperation.
		OPEC continues to hold down production – keeping prices higher. Saudis and Iranians come to agreement over chairmanship of committee, but Kuwait, UAE, and Iraq protest plan – left to later date.
[redacted]	10/1999	Iranian Revolutionary Guard air and naval forces conduct "Courage-78" and "Unity 77," using their three submarines, frigates, and helicopters armed with anti-submarine weapons. Analysts argue such exercises were aimed at showing the GCC that a joint Iran-GCC naval capability could replace the United States as regional defense.

	DATE	EVENT
G	10/1999	Iranian parliamentary speaker Ali Akbar Nateq Nuri visits Saudi Arabia - the two countries agree to improve relations and coordinate an Islamic response to regional and world affairs.
G	11/1999	Saudi Arabia holds trade fair in Tehran - the first in Tehran since the 1979 Islamic revolution. The fair was intended to expand the political-economic relations between Saudi Arabia and Iran. Some 70 Saudi firms take part.
G	02/2000	King Fadh invites Ayatollah Khamenei to visit Saudi Arabia – first such invitation since 1979.
B	04/2000	US Secretary of Defense, William Cohen, tours GCC warning of continued threat from Iran.
G	04/2000	GCC meeting discussing improving Iranian relations in the region.
		Iranian Defense Minister Shamkhani remarks explaining Iranian goal of "collective security in Gulf."
B	05/2000	Reports of GCC meeting that they are not yet ready to sign or enter into security agreements with Iran.
G	05/2000	Iranian Defense Minister visit to Saudi Arabia – "building foundation for improved ties."
		Saudi Defense Minister Sultan remarks concerning good Saudi-Iranian ties.
G	07/2000	Saudi Arabia and Iran announce they will sign a security agreement in the near future.
B	07/2000	Iran conducts second successful test of medium range missile (Shahab-3) capable of hitting Israel and Saudi Arabia.
G	08/2000	Message from King Fadh to President Khatami to "expand bilateral ties."
G	09/2000	GCC Meeting open dialogue over tripartite committee to resolve Iran-UAE dispute over Tunbs/Abu Musa.
G	09/2000	Abdullah speech at UN Millennium Conference openly advocates Saudi-Iranian relations.
		Abdullah and Khatami meeting after UN Millennium Conference and discuss continuing relations.
G	04/2001	Saudi Arabia and Iran sign an unprecedented security agreement marking the highest point in their countries' relations.

Key: B = Bad event for relations, G = Good event for relations, NA = Not Applicable

Sources: New York Times, Washington Post, Wallstreet Journal, CNN, BBC, FBIS, Strategic Forecasts, and Gulf News On-line.

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