

## **Differentiated Containment: U.S. Policy Toward Iran and Iraq**

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### **FOREWORD AND ACKNOWLEDGMENTS**

Since World War II, the United States has identified the security and stability of the Gulf region as a vital national interest. This publication presents two documents. The first, *Differentiated Containment: U.S. Policy Toward Iran and Iraq*, is the report of the Co-Chairs of an Independent Task Force sponsored by the Council on Foreign Relations. The report, by Zbigniew Brzezinski and Brent Scowcroft, serves as the Statement of the Task Force and also appeared in the May/June 1997 issue of *Foreign Affairs*. The second document, *Gulf Stability and Security and Its Implications for U.S. Foreign Policy*, contains the Statement and Recommendations of an Independent Study Group also sponsored by the Council. As defined in these two documents, the Gulf region includes Iran, Iraq, and the members states of the Gulf Cooperation Council--Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The Task Force met four times in 1996-97. Its Co-Chairs traveled to the region in March 1997 to make their first-hand review of the situation. The Study Group met seven times in 1996, and its deliberations were summarized in a report drafted by Dr. Shibley Telhami of Cornell University. Neither group achieved a full consensus on how the United States might better assist in maintaining Gulf security and stability, and some significant dissenting opinions have been noted. The groups' reports provide a number of recommendations for Washington's consideration that we hope will receive serious attention.

For those interested in examining the context of current U.S. policy toward the Gulf, the Background Materials section of this publication provides a variety of primary sources. They include official documents and statements of the U.N. Security Council and the U.S. government; a *Foreign Affairs* article by Anthony Lake, assistant to the president for national security affairs from 1993 to 1997; an article on Iran by an Israeli defense analyst; a press interview with the German foreign minister concerning the German court verdict in the so-called Mykonos case; excerpts from the March 1997 communique, of the foreign ministers of the Gulf Cooperation Council; and a summary of a recent conference on Gulf security held in Abu Dhabi.

As Project Director of the Independent Task Force and Chair of the earlier Independent Study Group, I wish to thank all participants for the time and thought they devoted to those proceedings. I particularly thank Nomi Colton-Max, the Program Associate for the Middle East at the Council, for the work she performed as rapporteur and editor of the Study Group report.

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## STATEMENT OF THE INDEPENDENT TASK FORCE

The Persian Gulf is one of the few regions whose importance to the United States is obvious. The flow of Gulf oil will continue to be crucial to the economic well-being of the industrialized world for the foreseeable future; developments in the Gulf will have a critical impact on issues ranging from Arab-Israeli relations and religious extremism to terrorism and nuclear nonproliferation. Every president since Richard Nixon has recognized that ensuring Persian Gulf security and stability is a vital U.S. interest.

The Clinton administration's strategy for achieving this goal during the president's first term was its attempted "dual containment" of Iraq and Iran. This is more a slogan than a strategy, however, and the policy may not be sustainable for much longer. In trying to isolate both of the Gulf's regional powers, the policy lacks strategic viability and carries a high financial and diplomatic cost. Saddam Hussein is still in power six years after his defeat at the hands of a multinational coalition, and the international consensus on continuing the containment of Iraq is fraying. The strident U.S. campaign to isolate Iran, in turn, drives Iran and Russia together and the United States and its Group of Seven allies apart. Finally, the imposing U.S. military presence that helps protect the members of the Gulf Cooperation Council (GCC) from external threats is being exploited by hostile elements to take advantage of internal social, political, and economic problems. The advent of the Clinton administration's second term, together with the imminent inauguration of a new administration in Iran following this May's elections, provides an opportunity to review U.S. policies toward the Gulf and consider whether midcourse corrections could improve the situation.

The first step in such a reevaluation is to view the problems in the Gulf clearly and objectively. In Iraq, the United States confronts a police state led by an erratic tyrant whose limited but potentially serious capacity for regional action is currently subject to constraint. In Iran, the United States confronts a country with potentially considerable military and economic capabilities and an imperial tradition, which occupies a crucial position both for the Gulf and for future relations between the West and Central Asia. If Iraq poses a clear and relatively simple immediate threat, Iran represents a geopolitical challenge of far greater magnitude and complexity.

Consultation with leaders of some Persian Gulf countries has made it plain to us that they do not share an identical view of the threat posed by Iraq and Iran. Hence no U.S. Gulf policy will satisfy everyone in every respect. That makes it all the more essential that any adjustment in U.S. policy toward Iraq and Iran be preceded by extensive consultations with friendly Gulf leaders. Inadequate dialogue and unilateral action have caused some insecurity in the region and weakened trust in U.S. steadfastness.

## PERSISTENT PROBLEMS

When the British withdrew from the Persian Gulf in 1971, the United States became the principal foreign power in the region. For almost three decades it has pursued the goal of

preserving regional stability, using a variety of means to that end, particularly regarding the northern Gulf powers of Iraq and Iran.

At first the United States relied on Iran as its chief regional proxy, supporting the shah's regime in the hope that it would be a source of stability. This policy collapsed in 1979 with the Iranian Revolution, when Iran switched from staunch ally to implacable foe. During the 1980s, the United States strove to maintain a de facto balance of power between Iraq and Iran so that neither would be able to achieve a regional hegemony that might threaten American interests. The United States provided some help to Iraq during the Iran-Iraq War of 1980-88, moved in other ways to counter the spread of Iranian-backed Islamic militancy, and provided--with Israeli encouragement--some help to Iran, chiefly in the context of seeking the release of American hostages. This era ended with Iraq invading Kuwait in 1990 and the United States leading an international coalition to war to restore Kuwaiti sovereignty and defeat Iraq's bid for dominance.

The Clinton administration came into office in 1993 facing the challenge of ensuring Gulf stability in a new international and regional environment. The disappearance of the Soviet Union gave the United States unprecedented freedom of action, while the Madrid Conference, sponsored by the Bush administration, inaugurated a fundamentally new phase of the Middle East peace process, offering hope that the Arab-Israeli conflict might eventually prove solvable. The Clinton team's initial Middle East policy had two aspects: continued support for the peace process and dual containment of Iraq and Iran. These strands were seen as reinforcing each other: keeping both Iraq and Iran on the sidelines of regional politics, the administration argued, would protect Saudi Arabia and the smaller Gulf monarchies and enable Israel and the moderate Arab states to move toward peace, while the burgeoning Arab-Israeli detente would demonstrate that the attitudes of the "rejectionist front" were costly and obsolete.

Dual containment was envisaged not as a long-term solution to the problems of Gulf stability but as a way of temporarily isolating the two chief opponents of the American-sponsored regional order. Regarding Iraq, the policy involved maintaining the full-scale international economic sanctions and military containment the administration had inherited, including a no-fly zone in southern Iraq and a protected Kurdish enclave in the north. The Clinton administration stated that it merely sought Iraqi compliance with the post-Gulf War U.N. Security Council resolutions, particularly those mandating the termination of Iraq's weapons of mass destruction programs. In practice, the administration made it clear that it had no intention of dealing with Saddam Hussein's regime, and seemed content, for lack of a better alternative, to let Iraq stew indefinitely. The administration responded to Iraqi provocations, but saw little opportunity to oust Saddam except at great cost in blood and treasure.

The dual containment policy initially involved mobilizing international political opposition against Iran, together with limited unilateral economic sanctions. The Clinton administration asserted that it was not trying to change the Iranian regime per se but rather its behavior, particularly its quest for nuclear weapons, its support for terrorism and subversion in the region, and its opposition to the peace process. By early 1995,

however, the U.S. attitude toward Iran began to harden. The Iranian behavior at issue had continued. But the real impetus for a shift seems to have come out of American domestic politics, in particular the administration's desire to head off a challenge on Iran policy mounted by an increasingly bellicose Republican Congress.

Congressional initiatives were designed to increase pressure on so-called rogue states such as Iran and Libya, to the point of erecting secondary boycotts against all parties doing business with them, including American allies. Hoping to deflate support for such action, in spring 1995 President Clinton announced (with an eye on domestic politics at the World Jewish Congress) that he was instituting a complete economic embargo against Iran. The move achieved its intended domestic effects in the United States, but only temporarily. Late in 1995 pressure from Congressional Republicans, led by House Speaker Newt Gingrich (R-Ga.), called for covert action against the Iranian regime, and last year Congress passed the Iran and Libya Sanctions Act, which the president signed. This legislation mandates U.S. sanctions against any foreign firm that invests more than \$40 million in a given year in the development of energy resources in Iran or Libya. Not surprisingly, it has been strenuously opposed by America's allies as an unjustifiable attempt to coerce them into following a hard-line policy.

At the start of President Clinton's second term, therefore, U.S. Persian Gulf policy is at an impasse. Saddam Hussein remains in power in Iraq and has even regained some control over the Kurdish areas of the north, while the Gulf War coalition that defeated him is eroding. Toughened U.S. sanctions against Iran, although doing some damage to the Iranian economy, have produced no major achievements and increasingly isolate America rather than their target. The continued willingness and ability of some members of the GCC and others to help implement these policies is open to question. What, then, is to be done?

#### BEYOND AGGRESSIVE TYRANNY

The continued rule of Saddam Hussein poses a danger to the stability and security of the region. He has threatened his neighbors while doing everything possible to acquire weapons of mass destruction in direct violation of international law, even during the last several years, when subject to the most restrictive supervision in the history of international arms control. Although there are real costs involved in maintaining Iraq's pariah status, it is difficult to see how any policy in the military sphere other than continued containment can be adopted so long as Saddam remains in power. The United States should be prepared to maintain Iraq's military containment unilaterally should the will of others falter. Similarly, while there are costs to keeping Iraq's oil off the world market, retaining the economic embargo in general is necessary, because with unrestricted access to large profits Saddam would likely embark on further military development.

The United States may, however, need to consider a revised approach to the political and economic aspects of Iraq's containment, because not all of them can be implemented unilaterally. Furthermore, they have unfortunate consequences on the humanitarian

situation in Iraq, which especially concerns some members of the GCC. While America's basic goal should continue to be keeping Saddam's Iraq in a straitjacket, the United States may need to adjust the fit to ensure the straitjacket holds. There should thus be five corollaries to the basic containment policy, not all of which the Clinton administration has adequately stressed.

First, the international community must credibly demonstrate its concern for the Iraqi people even if their own ruler does not. Sanctions against Iraq continue to be necessary, but the United States and others should try to mitigate the sanctions' effects on ordinary Iraqis. The offer to permit Iraq to sell some oil and use the proceeds to alleviate its humanitarian problems has been on the table since the end of the Gulf War and remains a good idea. Saddam's recent willingness to accept stringent conditions on the disbursement of the funds from such oil sales has led to the deal enshrined in U.N. Security Council Resolution 986, which was designed to address this problem. If it becomes necessary or appropriate to ease Iraq's economic containment, the sanctions should be suspended rather than lifted completely, so that the international community can easily reimpose them should unacceptable Iraqi behavior resume.<sup>1</sup>

Second, the United States should reassure Iraqis and their neighbors that while America continues to seek political relief for the Iraqi people, it is committed to the integrity of the Iraqi state. The ultimate goal of U.S. policy should be an Iraq that retains its existing borders and that at some point after Saddam has left the scene can take its rightful place as a legitimate member of the international community. Any doubts about this should be dispelled.

Third, the United States should consult more closely with Turkey on areas of common interest. Turkey's continued support for U.S. policy in northern Iraq is crucial, and to secure it Washington should confer on how best to stabilize the situation in Iraqi Kurdistan. If the Turks are not comfortable with the status quo, including the arrangements for Operation Northern Watch, the United States should discuss with them what might be done to address their concerns.

Fourth, the United States should send a clear signal that it is prepared to work with a post-Saddam Iraqi regime. That such a regime be benign and democratic is desirable but unlikely, so these factors should not be prerequisites for Iraq's reintegration into regional politics. American officials should state that they would be prepared to deal with any Iraqi regime--including one that emerged from within the military or the Baath Party--that is ready to fulfill Iraq's basic international obligations. To start relations from as clean a slate as possible, the United States should consult with interested parties about whether a post-Saddam regime should be offered relief from Iraq's enormous debts or Gulf War reparations. Such a gesture would be a sensible way to deal with the problems of Iraqi reconstruction, and it might even help induce aspiring successors to step forward.

Fifth, if and when Saddam's regime crosses clearly drawn lines of appropriate behavior, particularly with regard to its weapons of mass destruction programs and its threats to other countries, the United States should punish it severely and effectively. For several

years the United States has responded to Iraqi provocations with more bluster than action; the precedent of Operation Desert Storm shows the reverse is a better strategy. With his behavior incurring militarily insignificant penalties, Saddam may have concluded that he can continue to maneuver with relative impunity to heighten the contradictions in the allied coalition. This cat-and-mouse game should stop. There must be no doubt in anyone's mind that should Saddam try to break his containment through force, he will be punished. Accompanying such resolve must be a serious diplomatic effort to nurse the Gulf War coalition of European and Arab countries and Japan back to robust health. Forceful American action can and should build on multilateral consultation and a sense of purpose and necessity; it should not be conditioned on allied approval, but neither should the United States be perceived as ignoring allies' concerns or taking their support for granted.

## BEYOND HOSTILE FANATICISM

Iran's geopolitical importance is greater than Iraq's, and the challenge it represents is more complex. Given the American military presence, Iran does not currently pose a threat of military aggression, but its long-term policies could destabilize the region.

Several areas of Iran's behavior are frequently cited as sources of concern: its conventional military buildup, its opposition to the peace process, its promotion of Islamic militancy, its support of terrorism and subversion, and its quest for nuclear weapons. Terrorism and nuclear weapons, especially the latter, directly threaten U.S. national interests. Both issues, however, can be addressed by specific policy instruments, rather than the current crude and counterproductive attempt to cordon off the entire country. A more nuanced approach could yield greater benefits at lower cost.

Concerned about traditional military threats to regional security, some observers have worried about increases in Iran's conventional military capabilities. So far, there is little reason to believe that Iran's conventional military buildup will pose a direct challenge to U.S. regional supremacy. And for years to come, the United States will retain the capability to rebuff any such challenge.

Continued progress in the Middle East peace process is indeed an important American interest. Still, opposition to that process by another country should not be grounds for international excommunication. Israel itself has found it useful to have dealings with Iran on various occasions, most recently with the help of German mediation, and the United States should not feel constrained from doing the same when its interests so dictate.

Although Iran has often used religion as a cloak for subversion and terrorism, the United States must be careful not to demonize Islam, worrying simplistically about a "green menace" comparable to the old red one. The Iranian regime, unable to govern effectively, has lost appeal both at home and abroad. Sectarian, ethnic, and geographic cleavages within the Islamic world militate against the rise of a unified, Iranian-led threat.

Iran's support of violence and subversion abroad should, however, concern the United States. Iran has provided backing for terrorists and fomented unrest in other countries, and the international community should continue to harshly criticize Iran for these acts.<sup>2</sup> Direct attacks on American citizens would constitute a special provocation and call for clear retaliatory measures. As a response to terrorism in general, however, containment is not a solution.

The single most worrisome aspect of Iran's behavior is its apparent quest for a nuclear weapons capability. The United States should respond by pushing the controls and inspection provisions of the existing nuclear nonproliferation regime to their limits and continuing to make counter-proliferation efforts a top priority. It should focus more narrowly on the nuclear threat as opposed to other issues, which might strengthen its case for controls and achieve greater success in stemming the flow of support for the Iranian nuclear weapons program. Finally, it should explore the notion of using carrots in addition to sticks in getting Iran to shift course.

There seems little justification for the treatment the United States currently accords Iran because of its nuclear program. Instead of simply punishing the country, the United States should consider whether a tradeoff might be feasible in return for Iran's acceptance of restrictions on its civilian nuclear program or intrusive inspections by the International Atomic Energy Agency of its nuclear facilities. Since the economic rationale for nuclear power has diminished in recent years, it may be possible to get Iran to limit its civilian nuclear energy program enough to give outsiders reasonable confidence that further military progress is not being made. Such an outcome, possibly arranged with Chinese or Russian support, would leave both the United States and Iran better off and significantly ease tensions in the region.

The policy of unilateral U.S. sanctions against Iran has been ineffectual, and the attempt to coerce others into following America's lead has been a mistake. Extraterritorial bullying has generated needless friction between the United States and its chief allies and threatened the international free trade order that America has promoted for so many decades. To repair the damage and avoid further self-inflicted wounds, the United States should sit down with the Europeans, the Japanese, and its Gulf allies and hash out what each other's interests are, what policies make sense in trying to protect those interests, and how policy disagreements should be handled. Only such high-level consultation can yield multilateral policies toward Iran that stand a good chance of achieving their goals and being sustainable over the long term.

One negative consequence of current policy is the damage inflicted on America's interest in gaining greater access to the energy sources of Central Asia. An independent and economically accessible Central Asia is in the interests of both the United States and Iran. The United States should do nothing to preclude Central Asia's eventual emergence, nor stand in the way of deals that might facilitate it. The United States should therefore refrain from automatically opposing the construction of gas and oil pipelines across Iran. Here, as with policy toward Iraq, the United States must consult more often with its Turkish ally and fashion a regional policy that makes sense on the ground.

Another area of common interest is the resuscitation of U.S.-Iranian commercial relations. To this end, Washington should be open-minded regarding the resumption of activity by American oil companies in Iran. In 1995, for example, the U.S. government forced the cancellation of a \$1 billion deal between Iran and Conoco; this served no one's interests except those of the French firm Total. Future commercial deals should be evaluated on an individual basis and permitted unless they contribute specifically to Iranian behavior the United States opposes.

#### A NUANCED CONTAINMENT

However one judges its achievements to date, dual containment cannot provide a sustainable basis for U.S. policy in the Persian Gulf. A more nuanced and differentiated approach to the region is in order, one in tune with America's longer-term interests. This new policy would keep Saddam boxed in, but would supplement such resolve with policy modifications to keep the Gulf War coalition united. The new policy would start with the recognition that the United States' current attempt at unilateral isolation of Iran is costly and ineffective and that its implementation, in the words of one recent study, "lacks the support of U.S. allies and is a leaky sieve." The United States should instead consider the possibilities of creative tradeoffs, such as the relaxation of opposition to the Iranian nuclear program in exchange for rigid and comprehensive inspection and control procedures.

This new course would not involve a dramatic policy reversal and is not likely to yield vast benefits in the immediate future. What it would do is enable the United States to sustain its policy and keep options open for the long term. America may have to consider modifying certain aspects of Iraq's economic containment to keep its military straitjacket securely fastened. On the other hand, flexibility would facilitate diplomatic contacts, presuming an Iranian interest in better relations. Absent such statesmanship, it is all too likely that U.S. policy in the Gulf will continue to be driven by domestic political imperatives rather than national interests, with the hard line of recent years making long-term goals increasingly difficult to achieve.

The foundation of America's policy in the Persian Gulf should continue to be a commitment to ensuring the security of its allies and protecting the flow of oil. Few doubt that the United States has the power to sustain this commitment, but some question whether it has the will. In such circumstances, a recommitment by President Clinton to the principles of the Carter Doctrine--a renewal of U.S. vows to the Gulf--might be both welcome and appropriate. It is imperative that all parties understand an important strategic reality: the United States is in the Persian Gulf to stay. The security and independence of the region is a vital U.S. interest. Any accommodation with a post-Saddam regime in Iraq or with a less hostile government in Iran must be based on that fact.

This Statement was published under the byline of the two Co-Chairs, Zbigniew Brzezinski and Brent Scowcroft, and the Project Director, Richard Murphy, in the May/June 1997 issue of Foreign Affairs. The Task Force members are signatories to this

Statement. This Statement reflects the general policy thrust and judgments reached by the Task Force, although not all members of the group necessarily subscribe to every finding and recommendation. Additional views of members of the Task Force appear in the footnotes.

<sup>1</sup>Phebe A. Marr and Robin Wright do not think that sanctions have to be suspended to be eased. They maintain that U.N. Resolution 986 provides an appropriate vehicle for increasing future oil revenues for Iraq while maintaining controls on Saddam.

<sup>2</sup>On April 10, 1997, a German court ruled that a committee that included Iran's highest government leaders gave orders to carry out the slaying of three Kurdish dissidents at the Mykonos restaurant in Berlin in 1992. Wright comments that the outcome of the Mykonos trial presents both the justification and opening for joint action with our European allies in a number of ways.

#### MEMBERS OF THE INDEPENDENT TASK FORCE

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Note: Institutional affiliations are for identification purposes only.

#### GULF STABILITY AND SECURITY AND ITS IMPLICATIONS FOR U.S. FOREIGN POLICY STATEMENT AND RECOMMENDATIONS OF THE INDEPENDENT STUDY GROUP

U.S. policy toward the states of the Persian Gulf is at an impasse. Maintenance of the policy known as dual containment concerning Iraq and Iran is producing uneven results, not all of them positive from the point of view of either U.S. interests or those of our friends among the Gulf states.

While Iraq is weakened militarily and poses no immediate threat to the region, Saddam Hussein remains in power in Baghdad. Some argue he is stronger today for having eliminated many real and suspected domestic challengers during the six years since Operation Desert Storm. Some even charge that the United States and certain of its close Arab partners are responsible for inflicting unnecessary suffering on the Iraqi people. But there is no sound basis for predicting how long Saddam Hussein will continue to maintain control.

Iran stridently opposes the Arab-Israeli peace process, which remains a major U.S. policy interest. In Washington's view, Tehran continues to sponsor international terrorism and to pursue a nuclear weapons program.<sup>1</sup>Iran's internal political situation has created no

openings for a meaningful political dialogue with the American administration, and Washington has shown no interest in establishing such a dialogue.

American efforts to develop the defensive capabilities of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (the member-states of the Gulf Cooperation Council, GCC) continue. These states have bought substantial quantities of sophisticated equipment, primarily from the United States and European allies. But the GCC states have yet to build an effective defense system that would replace or significantly shrink the need for America to defend them against external aggression.<sup>2</sup>

Thus far the American public has accepted the administration's policy of dual containment of Iraq and Iran. This reflects widespread resentment of Iran's behavior since its 1979 revolution and deep distrust of Saddam Hussein since his invasion of Kuwait and his post-war attempts to evade U.N. controls on his weapons of mass destruction (WMD). There has been virtually no domestic challenge to maintenance of the present force levels and financial costs of the American investment in the policy of dual containment, and the administration has successfully argued that its military engagement in the Gulf serves to defend vital U.S. interests.

This could change. While the U.S. commitment to provide external security for the states of the GCC against Iraqi and Iranian aggression is firm, it may be too expensive to keep up indefinitely. Equally important, the U.S. military presence in the Gulf, which is intended to maintain security and stability, risks making the regimes the United States seeks to support a target for their domestic critics. Beyond a doubt the United States can defend the area against external aggression, but it cannot deal with domestic challenges to regimes' legitimacy.<sup>3</sup> The United States must explore alternatives that will better sustain American interests. Friends in the region face new challenges in the decade ahead posed by the population explosion and constraints on their economic and social programs, particularly given the prediction of only a slow rise in their oil revenues.

To consider these problems, the Council on Foreign Relations asked a group of distinguished American experts in Gulf affairs to study current U.S. policies and recommend possible modifications that, in close consultation with U.S. allies, would allow the United States to pursue its objectives of Gulf security and stability more effectively.

This Statement and the accompanying Report are the result.

## RECOMMENDATIONS

The Study Group recommends that the U.S. government reassess its policy in the following nine areas:

### 1. General U.S. Gulf Policy

The Gulf region requires a focus distinct from the Arab-Israeli peace process. While peace process issues and Gulf policies are linked in many ways, any review of or modification to current Gulf policy should not be hostage to the achievement of a comprehensive peace between Israel and its front-line neighbors.

## 2. Iraq

While U.S. policy has kept Saddam Hussein's government weak and Iraq's program for WMD under tight control, the continued effectiveness of this policy is under challenge. Dual containment was never meant to be a long-term solution. Humanitarian concerns, the disintegration of Iraqi society, and continued division within the Kurdish movements in northern Iraq trouble U.S. allies and may undermine support for U.S. strategy in the United States as well as the Gulf. A more humane alternative would involve continuing provision of humanitarian relief under U.N. Security Council Resolution 986 combined with more focused military pressure on targets of value to Saddam Hussein. Furthermore, America's expectations of Iraq must become more specific, and the United States should consider whether economic sanctions should be narrowed, to maintain U.S. cooperation with key members of the international coalition in the Gulf, particularly Britain, France, and Turkey. In the meantime, the United States should maintain its capability to defend Kuwait and sustain no-fly and no-air-defense zones in southern Iraq. However, the United States must take into account that some American Gulf allies are more concerned with the growing strength of neighboring Iran and worry less about what Saddam Hussein will do if he remains in power. Accordingly:

- a) The United States should restate its commitment to the territorial integrity of Iraq and the human rights of all Iraqis, while continuing to oppose Saddam Hussein's leadership.
- b) If the collapse of the regime in Iraq is the only acceptable outcome for the United States, then the United States should openly assert that it will not under any circumstances deal with the regime of Saddam Hussein. Such a statement might provide an additional incentive for internal change in Iraq. As a corollary, Washington must accept that change will most likely come from the inner circles of the military or the Ba'ath party. The United States should declare ahead of time its willingness to deal with any new Iraqi government that accepts U.N. resolutions and international norms, including ones on respecting Kuwaiti independence and on negotiated settlements of the problem of Kuwaiti prisoners of war. If any new government accedes to these conditions, the United States should be prepared to move quickly to deal with this leadership, likely weaker than the current government which has had a quarter-century to entrench itself in power. The possibility of relief from claims of war reparations as a reward for new leadership should also be discussed with countries holding claims. Current U.S. signals may give the impression that if a new government in Iraq comes from within the existing power structure, it would be treated the same way the government of Saddam Hussein is being treated--thereby reducing potential opponents' incentives to act.<sup>4</sup>
- c) The unpleasant reality may be however, that Saddam remains in power indefinitely. The United States needs to formulate and articulate a coherent policy toward Iraq for this

eventuality. The United States must also do what it can to lessen the fragmentation of Iraqi society. A healthy society will be needed to make a post-Saddam Iraq viable and will also encourage opposition forces against Saddam Hussein.

### 3. Iran

America lacks a clear end game, seems unconcerned with Iranian energy exports, and is experiencing policy tensions with its allies. Washington acknowledges it has not changed Iranian behavior on the issues of terrorism, acquisition of weapons of mass destruction, or opposition to Arab-Israeli peace.<sup>5</sup> The Study Group affirms that military containment of Iran must continue. In addition, it suggests that the U.S. government should consider tests to Iran's adherence to international norms and offer incentives to achieve these changes.<sup>6</sup> The United States should begin with modest steps:

- a) Reduce the intensity of the rhetorical war, which gives Iran the impression that the United States seeks nothing less than the demise of its government. In turn, state that Washington expects a reciprocal toning down of Iranian rhetoric vis-a-vis the United States and its allies.
- b) Reduce the economic embargo to a narrow range of specific items such as WMD components, missiles, and dual-use technology.<sup>7</sup>
- c) Encourage the International Atomic Energy Agency (IAEA) to carry out a more aggressive program of inspections.<sup>8</sup>
- d) Explore the potential of dialogue through track-two channels to Iran.

### 4. Force Restructuring

So long as tensions with Iran and Iraq remain, some American forces will be needed in the region. American forces are an effective deterrent against conventional threats and their presence helps GCC leaders face down criticisms from Baghdad and Tehran about their support for the Arab-Israeli peace. However, the troops' presence also feeds domestic dissent.

While American forces will remain in the region for the foreseeable future, current levels of U.S. forces and their configuration should be reexamined. It may be possible to reduce the visible aspects of the U.S. presence without reducing U.S. ability to project substantial military power in the Gulf.<sup>9</sup> Even before devising a more sustainable and affordable long-term strategy, the United States should reduce the forces to the minimum necessary and lessen their attraction as a target by:

- a) Carrying out an internal reassessment of the future of the forces in northern Saudi Arabia used to enforce the no-fly zone. Even if these forces might play a role in defending against an Iraqi invasion of GCC states, we must question whether the present configuration is essential.

b) Making publicly clear that most of the U.S. Air Force presence in Saudi Arabia is temporary and aimed at enforcing the no-fly zone in southern Iraq,<sup>10</sup> and linking this to an American intention to reduce these forces after the emergence of a government in Iraq that accepts and implements U.N. resolutions.

c) Although conventional military threats to oil market stability require a strategic response, including a U.S. military presence, long-term U.S. strategy must include maintaining some balance of power between Iran and Iraq. There is no other state or combination of states in the Gulf capable of matching Iran's and Iraq's power.<sup>11</sup>

## 5. Arab-Israeli Peace

The United States must continue its intensive efforts to achieve a comprehensive Arab-Israeli peace. A strong relationship exists between progress on that front and area-wide cooperation with the United States.

## 6. Burden Sharing

The United States should devise and implement a long-term strategy that relies less on the military budget and maintains public support for the U.S. deployment. Thus it should:

a) Negotiate larger financial contributions to support the U.S. military presence in the Gulf from the European countries and Japan.<sup>12</sup>

b) Educate Congress and the American public as to why the U.S. role as security guarantor in the Gulf will continue to be necessary.

## 7. Consultation

The United States must consult with both the GCC states and Israel on matters of policy toward the Gulf. We believe that Washington has not been sufficiently attentive to the need of pursuing close and frequent consultation about its Gulf policies with members of the GCC. To the extent that internal threats to security exist in GCC states and are not identical within each state, and to the extent that the states' attitudes differ even on issues of external security, it is essential that the United States consult with each state individually, and regularly, over the implementation of its policy in the Gulf.<sup>13</sup> Moreover, since developments in the Gulf, especially developing Iranian and Iraqi capabilities in weapons of mass destruction, affect Israeli security, the United States must regularly consult with Israel on matters of Gulf policy.

## 8. Promotion of Long-Term U.S. Commercial and Energy Interests

Given that Iran and a post-Saddam Iraq are major states that will eventually be re-integrated into the international community, it is important for long-term U.S. economic and strategic interests that American business not be kept at a significant disadvantage in international competition. The United States should follow the example of some

European countries in allowing U.S. companies to negotiate deals with Iran and a post-Saddam Iraq, on the understanding that these cannot be implemented until after the sanctions are removed.<sup>14</sup>

## 9. Political Participation

The United States has enjoyed close and mutually beneficial relations with the states of the GCC and their leadership for many years. It should do nothing even to imply a distancing from its security responsibilities as these leaders cope with the challenges of a new generation's expectations and a changed economic environment.

Internal economic and political challenges will confront the leadership of the GCC states with choices, either in the direction of further limiting political participation or that of more economic and political liberalization. Long-term American interests are better served by encouraging the latter. The United States must proceed with sensitivity and respect for these long-term friends and allies, and acknowledge that it cannot devise specific reform strategies but can still encourage reform through modest steps:

a) Encourage gradual political reform through the enhancement of the role of consultative councils in the GCC states and the parliament in Kuwait to address structural economic and political issues. The councils are consultative, not legislative, and members tend to be chosen by the rulers. The current structure of these councils makes them more useful for addressing personal grievances than broader political and economic problems.

b) Emphasize the need for economic reform, especially privatization of the economy. In particular, encourage GCC states to foster a climate that attracts more foreign investment—an essential step for economic growth. Foreign investors will, in turn, demand an environment of transparency and accountability.

c) Elevate the issues of political and economic reform on the agenda of discussions with Gulf leaders, emphasizing the mutuality of long-term interest on these issues. The United States must stress that the economic future of the region will be difficult if current population trends remain unchecked.

Members of the Study Group endorse the Statement and Recommendations except where their differing views are indicated in footnotes. Background information is provided in the Background Report that follows.

<sup>14</sup>The Study Group Statement, Recommendations, and Background Report were completed before the judgment of the German court in the Mykonos assassination trial. On April 10, 1997, the court ruled that Iran's highest government leaders gave orders to carry out the killing of three Kurdish dissidents at the Mykonos restaurant in Berlin in 1992. The ruling provided—and the impending conclusion of an investigation of the June 25, 1996, Al-Khobar bombing in Saudi Arabia may provide—powerful evidence of the direct involvement of the most senior Iranian leadership in international terrorism.

<sup>2</sup>Anthony H. Cordesman asserts that the use of GCC as short-hand for individual southern Gulf states implies that these states can be dealt with as a bloc and that the GCC is an effective enough organization to be dealt with as if it were the equivalent of NATO. He adds, "One of the key challenges the U.S. faces in the southern Gulf is that there are strong rivalries and differences in strategic interests between the individual southern Gulf states, and that the GCC is almost totally ineffective in achieving regional cooperation and is likely to remain so. U.S. relations with Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the U.A.E. must be tailored to different national needs, and conducted largely on a bilateral basis."

<sup>3</sup>John Duke Anthony opines that the same can be said of having been true as a result of U.S. forces in NATO countries (e.g., Greece, Italy, Spain, Turkey, et al.), and over a far longer period, with substantially greater overall numbers than the United States has deployed inside the GCC countries. Yet the criticism was never so great as to cause the United States to cut and run, nor did it (as in Libya) result in any premature eviction or drawdown of the forces employed.

<sup>4</sup>Secretary of State Madeleine Albright moved the American position closer to this recommendation in her remarks "Preserving Principle and Safeguarding Stability: U.S.

Policy Toward Iraq," at Georgetown University, March 26, 1997. But she stopped short of explicitly stating that the United States will never deal with Saddam Hussein.

<sup>5</sup>Cordesman disagrees. U.S. pressure and sanctions have confronted Iran with very serious problems in importing arms and dual-use technology for its weapons of mass destruction. Iran's military build-up and arms imports are a fraction of the level Iran planned in the early 1990s, and Iran is experiencing continuing problems in obtaining technology and material for biological, chemical, and nuclear weapons. U.S. policy has restricted Iran's freedom of action in its use of terrorism and has had a considerable impact in leading Europe to be cautious in its relations with Iran and in pushing our allies to maintain the "critical" in critical dialogue.

<sup>6</sup>James A. Placke believes that the outcome of the Mykonos trial presents both the justification and opportunity to attract the support of America's principal allies for more intensive isolation of the present Iranian regime. Robin Wright posits that the trial presents the justification and opening for joint action with our European allies in a number of ways.

<sup>7</sup>Gary G. Sick observes: "The lifting of some existing sanctions could serve as a positive inducement to secure improved Iranian cooperation in the WMD area." He also states that while the United States should maintain pressure on Iran in certain areas, it should be prepared to acknowledge and encourage moderate Iranian policies in other areas, such as Central Asia and Afghanistan. The United States should also be prepared to consult, directly or indirectly, on issues such as Iraq, where Iran has legitimate security interests and concerns.

<sup>8</sup>Cordesman points out that the "IAEA can only inspect declared nuclear facilities, and its normal method of inspection is limited largely to nuclear fuel cycle activities. The Study Group does not address the core issue of nuclear proliferation unless Iran agrees to vastly increase the scope of IAEA freedom of action, the IAEA organizes to conduct the same kind of intrusive surprise inspection it might use in Iraq, and/or Iran moves far enough along in the fuel cycle for reactor inspection to provide reliable results (assuming that the reactor design does not include a concealed irradiation chamber). There is a serious risk, in fact, that the IAEA inspections will simply appear to 'clear' Iran and legitimate its nuclear programs as 'peaceful.' Further, Iran has extensive chemical weapons, and the CIA reports that it has begun to deploy biological weapons. Iran must now be approaching a level of biotechnology where such weapons can be as lethal as tactical weapons. Accordingly, the Study Group recommendation may do more harm than good."

<sup>9</sup>Dov S. Zakheim adds that many of the Study Group's concerns about American presence (other than the problem of long deployments) could be ameliorated by a more maritime-oriented presence. Carrier-based tactical aviation, coupled with a maritime presence, could maintain both a credible deterrent and sustain the no-fly zones, at least in southern Iraq.

<sup>10</sup>Cordesman states that the reality is that close cooperation between the United States and Saudi air forces is critical to our war fighting capability in dealing with both Iraq and Iran, and that some form of U.S. air presence will be required indefinitely into the future. There should be no "cut and run" approach that will create more problems than it will solve, will encourage further attacks on U.S. forces throughout the Gulf, and will seriously undermine U.S. national interests.

<sup>11</sup>Cordesman finds that "there is no present need for a U.S. strategy to maintain a balance of power between Iran and Iraq. Iran and Iraq will have sufficient military strength to counterbalance each other indefinitely without U.S. intervention, and the need for intervention in the long-term balance will be highly dependent on the character of each regime and the specific military conditions at the time. The United States does have a strategic interest in strengthening the military forces of the southern Gulf states relative to both Iran and Iraq."

<sup>12</sup>Cordesman thinks that "there is little real-world prospect that our European allies and Japan will assume added burden sharing to maintain day-to-day U.S. capabilities, nor should they. This recommendation ignores the fact that U.S. defense spending will soon be roughly the same burden as a percent of our total GDP (2.7 percent) and federal budget (14 percent) as during the isolationist era at the end of the Great Depression. It costs money to be a superpower. There may be a case for trying to negotiate additional contributions in the case of a major build-up or significant regional conflict."

<sup>13</sup>Michael H. Van Dusen qualifies his support for this point. Consultation on security issues with GCC states is extensive. Because the United States has a large military presence and many military assets in the region, visits to the area by U.S. military leaders

are numerous. What is needed is more high-level U.S. diplomatic and political attention to complement what is done on the military side.

<sup>14</sup>According to Cordesman, the Study Group should have specifically addressed Iranian and Iraqi energy production and exports, and the gap between a U.S. policy of sanctions and dual containment and U.S. Department of Energy projections of massive increases in Iranian and Iraqi oil production. Iran has some 67-90 billion barrels of oil reserves (roughly 10 percent of total world reserves) and 620-741 trillion cubic feet of gas. This inevitably makes it increasingly critical to the world's oil supplies. Furthermore, the difference between energy security issues and military security issues should be addressed by U.S. policymakers. It may be possible to specify kinds of investment that do not provide Iran with sudden increases in cash flow which could affect its military spending, and to allow investment in Iraq under the same kinds of constraints enforced by U.N. Security Council Resolution 986. On the same point, Sick notes that increasing global demand for supplies of oil and gas in the 21st century will require additional production capacity in the Gulf and elsewhere. U.S. policy should promote, not obstruct, normal development of non-nuclear energy resources.

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## BACKGROUND REPORT OF THE INDEPENDENT STUDY GROUP

Access to Gulf oil at reasonable prices was identified as a vital U.S. interest in the Nixon administration, but American concern for security and stability in the Persian Gulf region has steadily increased since World War II. The United States now views assuring security and stability in the area as its global duty. Some American observers assume that the United States has no choice in the Gulf and that it will be able to play its present role indefinitely. The Study Group challenges this assumption and explains why a careful reassessment of current policy and the means available to secure American interests in the Gulf are necessary.

Washington formally succeeded London as the primary guarantor of Gulf security in 1971 but was not called on for military action until 1987. In the 1970s, the United States

relied primarily on the shah's Iran to balance power in the region. With the overthrow of the shah in 1979, Washington was forced to rethink its strategy. During the Iran-Iraq war that started one year later, the United States shifted its support back and forth between the two, while continuing to strengthen Saudi Arabia. The Iraqi invasion of Kuwait in 1990 once again brought an end to this type of thinking. Under the Clinton administration's policy of dual containment, Washington has worked to isolate Iraq and Iran, to block their acquisition of weapons of mass destruction, and prevent them from engaging in terrorism and subversion. This policy of isolation, while a reasonable stopgap in the wake of the Gulf War, does not provide an adequate basis for long-term security and stability in the region.

## THE CURRENT INITIATIVE

The United States has maintained a naval command in Bahrain for the past half-century and a military training mission in Saudi Arabia for almost as long, and has offered training opportunities to the other Arab Gulf states as well. It sold these states increasingly sophisticated military equipment. The six Arab Gulf states-Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman-established the Gulf Cooperation Council (GCC) in 1981 to improve coordination and better assure mutual security.

The Clinton administration, like every administration since Nixon, has publicly restated the position that the United States has vital interests in the Gulf. U.S. military strategy since the Pentagon's "Bottom-Up Review" of September 1993, which assessed U.S. defense needs in the post-Cold War era, has focused on maintaining the capability to fight two simultaneous regional wars, one them in the Gulf.<sup>1</sup> Military planning, weapons procurement, and training are influenced by the possibility that the United States will fight a major war in the Persian Gulf.

Since the invasion of Kuwait, U.S. policy in the Gulf has focused on four objectives: assuring access to oil at reasonable prices, supporting GCC states against regional threats emanating from Iraq and Iran, preventing the proliferation of weapons of mass destruction, and minimizing the threat of terrorism. The United States has been committed to the implementation of U.N. resolutions on Iraq. It has also asserted that a less authoritarian and more representative Iraqi government is an important American interest. Finally, the United States has continued to see the goal of attaining a just, durable, and comprehensive Arab-Israeli peace to be of central importance to American policy, and has sought to isolate states opposed to that peace.

In recent years the central instrument of American policy in the Gulf has been its military forces, present today in several GCC states and afloat in the Gulf. These forces are organized to support friendly states, deter potential adversaries, and, if necessary, fight to win against an aggressor. The enforcement of applicable U.N. Security Council resolutions and of the "no-fly zone" in southern Iraq, along with the deterrence of Iranian aggression are the primary goals. Forces for these tasks are largely naval, except for the

air force wing stationed in Saudi Arabia. An extensive joint exercise program deploys units stationed in the United States to the region for limited periods.

U.S. military strategy has been successful in deterring Iraqi and Iranian conventional threats, although it has been unable to deter Saddam Hussein from using his forces against his own people in Iraq. GCC fears stemming from the Iraqi invasion of Kuwait, combined with early U.S. successes in engineering progress in Arab-Israeli peace, eased GCC acceptance of the deployment of U.S. forces in the region. The deployment has greatly increased Washington's ability to deter hostile acts and quickly mobilize forces and equipment in the region as needed. Since the war, the United States has enhanced its naval presence in the region, positioned equipment for elements of two armed brigades in Kuwait and Qatar, and maintained a wing of combat aircraft in Saudi Arabia to enforce the no-fly zone in southern Iraq. The United States has also benefited from Turkey's permission to temporarily station additional American forces on its soil to carry out "Operation Provide Comfort" in northern Iraq. In addition, the United States is currently expanding American capabilities by establishing a division base set in the Gulf region. These deployments have helped deter Iraqi and Iranian conventional threats, and enabled the United States to respond rapidly as in October 1994 when Iraqi troop movements again threatened Kuwait. However, the events in northern Iraq in August 1996, when Saddam Hussein helped one Kurdish leader against another, showed that the Iraqi leader still has the military capability to seriously embarrass American policymakers.

Although labeling both Iraq and Iran "rogue regimes," the United States has, in principle, differentiated between them. The U.S. government has found it impossible to reconcile itself to the existing Iraqi government and has tacitly sought its demise.<sup>2</sup> Meanwhile, American policy makers have stated that "more normal relations with Iran are conceivable," although acknowledging that reconciliation will be difficult.<sup>3</sup> But the U.S. believes that the choice is Iran's and that American incentives are not warranted in the meantime. In 1996, however, House Speaker Newt Gingrich's call to undermine the Iranian government and President Clinton's signing of the Iran and Libya Sanctions Act, which punishes foreign companies that invest more than \$40 million in Iran's (or Libya's) energy sector, have blurred the distinction between Iran and Iraq in U.S. policy.

While U.S. policy has deterred external threats to GCC states and protected the supply of oil, it has not as yet fully achieved its goals. In Iran, despite the escalation of sanctions over the past two years, the American government asserts that Tehran has continued its sponsorship of terrorism and subversion, its efforts to acquire weapons of mass destruction, and its strident opposition to the Arab-Israeli peace process. In Iraq, the government that ordered the invasion of Kuwait remains entrenched in Baghdad and has extended its influence in northern Iraq. Generally speaking, the Gulf War coalition remains supportive of the primary objective of implementing U.N. resolutions, but has serious concerns about the increasing economic and political costs of current policies. U.S. policies toward Iraq, which were adopted in 1990-91, are causing friction with Turkey, the European allies, Japan, some of the GCC states, and, to a lesser degree, the Iraqi Kurds, some of whom have found it in their interest to cooperate with the Iraqi government. The coalition's reluctance to endorse the use of Cruise missiles against Iraq

in September 1996 signaled increasing strain. The GCC states worry that current policies may produce the undesirable consequence of Iraq's fragmentation. Provision of humanitarian relief under U.N. Security Council Resolution 986 may partially satisfy American allies, but even if Washington can maintain sanctions against Iraq indefinitely, humanitarian considerations make continuation of the status quo costly for the United States. We must fear the prospect of Iraq becoming a Humpty Dumpty that will be impossible to put back together.

Furthermore, current military strategy may prove too costly for both the United States and the GCC states to sustain over the long term. In 1995 and 1996, American troops were twice attacked in Saudi Arabia. As for the GCC states, the prevalent assumption is that they are rich, when in fact they are getting poorer. Saudi Arabia's average per capita income, for example, has declined by more than half in the past decade. Once states with enviable financial reserves, today Kuwait and Saudi Arabia have substantial domestic public debt. GCC states paid a high price to expel Iraq from Kuwait, and continue to pay hundreds of millions of dollars a year for the U.S. presence, in addition to their own substantial defense budgets. Unexpected costs have also been incurred, and not just because of external threats such as the 1994 Iraqi moves southward. The bombings against U.S. troops in Dhahran, for example, caused Washington to reposition American forces in Saudi Arabia, increasing the price of U.S. involvement.

The aggregate cost to the one-dimensional economies of the GCC states has raised concern in the region about the long-term effects of military expenditure on societies that sorely need to expand their physical and social infrastructure. This is especially troubling given the economic projections that show oil income is not likely to rise substantially for GCC states. Unemployment is an increasing problem, massive investments are needed to expand production capacities, and populations are increasing at the rate of 3.0-3.5 percent annually. This demographic explosion is a threat to the long-term economic and social well-being, and thus the stability, of the GCC states.

Washington's policies prevent American business from competing in Iran and Iraq. The human costs of the current American strategy are steep as well. Since only a few hundred service personnel and their families are permanently assigned in the region, personnel are assigned on a temporary basis, with most troops serving for three to six months away from home stations. Some personnel can expect to be away from home over 200 days a year. These deployments are often repetitive and take a toll on the troops because of their temporary nature, the harsh climate in the Gulf region, and the isolation that comes from living in a foreign culture. The burden is further increased since some military organizations have contingency commitments in as many as three theaters of operation.

While the Clinton administration's call to contain Iran and Iraq is continuing, international resolve to isolate the two countries is weakening. This trend is not surprising. Both states are important regional powers with significant strategic capabilities and important oil and gas resources for world energy supplies that make them hard to ignore. The bitter European reaction to the Iran and Libya Sanctions Act, the \$23 billion gas deal between Turkey and Iran, and the difficulty the United States had in

persuading Turkey in late 1996 to extend permission for the presence of U.S. forces needed for Operation Northern Watch, are measures of other countries' uneasiness with American policy.

U.S. efforts to improve the general efficiency of the armed forces of the GCC states and encouragement of expensive equipment sales have enabled opposition groups to exploit existing anti-Western sentiment by underscoring the negative aspects of the U.S. presence. They argue that this presence undermines the sovereignty of the GCC states. Attacks on American troops in Saudi Arabia in 1995 and 1996 and continued unrest in Bahrain suggest that there are internal threats in the region that U.S. military strategy has only indirectly addressed.

The conflict between Israel and Arab parties has often caused tension between two American priorities: Western access to Gulf oil at reasonable prices and commitment to the survival and security of the state of Israel. For even though the American commitment to the Gulf region has never wavered, at times the U.S. role in this area has been seen as subsidiary to its role in the Levant and the Arab-Israeli peace process. In recent years, the Gulf's reaction to the Iraqi invasion of Kuwait and U.S. identification with forward movement in the peace process have helped reduce, but have not entirely eliminated, the tension between these two objectives.

Setbacks in the peace process following the 1996 Israeli elections have stimulated greater interest in several Arab capitals in bringing Iraq back into the Arab community. With the recent change of government in Jordan, Amman may be repairing its ties with Baghdad; Egypt is urging the return of Iraq to the Arab fold; and the lower Gulf states are initiating dialogue with Iraq. Furthermore, continued conflict between Kurdish groups in northern Iraq is pushing the new government in Turkey to rethink its policy toward Iraq.

## THE NATURE OF AMERICAN INTERESTS

### IN THE PERSIAN GULF 1. Energy

Holding more than two-thirds of the world's current known oil reserves, the Persian Gulf region is strategically important for the United States. Early in the Cold War, American interest in the area stemmed from the fear that these valuable oil resources might fall into the hands of the Soviet Union. American strategy consequently focused on deterring the Soviet threat and defending the region against this threat. Events over the next 40 years were shaped by this concern and were also affected by the changing relations between oil-producing countries and the United States. The oil shocks of 1973 and 1979 illustrated American reliance on this resource and reinforced America's commitment to its vital interests in the region. The end of the Cold War eliminated further concerns about Soviet designs on the region. But the Iraqi invasion of Kuwait bolstered Washington's worries over Iranian and Iraqi challenges to the GCC states, which had preoccupied the United States in the Iraqi case since 1961 and in Iran's since the 1979 revolution.

While dealing with these challenges, the following factors about energy and the way that it affects American interests in the region must be kept in mind:

- All Gulf oil suppliers, including Iraq and Iran, will continue to rely heavily on their oil income. Oil-producing states vary in their view of oil markets. Some, particularly Iraq and Iran, have relished the periodic price spikes of the past more than Saudi Arabia, which has preferred long-term market stability.
- Long-term energy prices are determined more by market factors than by military strategy.
- Short-term disruptions in market stability are likely to continue to be caused by internal instability and threats from Iraq or Iran, especially if directed against Saudi Arabia.
- The recent return of Iraqi oil to the market has been reflected in the short-term price drop at the start of 1997. Oil prices are expected to remain relatively flat, and the region's real export revenues per capita are expected to be less than half those achieved during the boom years of 1975-82.
- The structure of the oil industry is changing because of technological innovation, resource availability, and competition. These dynamics should yield relative long-term oil price stability, despite growing consumption. Gains in technology are substantially reducing the cost of development and production. Consequently, the difference in the cost of oil produced by the GCC states and the non-GCC producers is declining.
- Current predictions for world production capacity of oil are much higher than estimates of a decade ago, and the Gulf's portion of this capacity will be smaller than had been expected.
- As for the United States, Saudi Arabia is no longer its primary crude oil supplier. It has been surpassed by Venezuela, and is being overtaken by Canada and Mexico. Transportation and inventory-storage costs are the key factors in this shift.
- East Asian demand for energy will have an increasing impact on the future of the world oil market. Economic development in India and China alone is likely to affect Asian oil demands significantly, sparking a dramatic increase. Average annual growth of Pacific Rim consumption for 1994-2015 is projected to be 4.6 percent; the projected rate for China is 2.6 percent.<sup>4</sup>Today coal is the primary energy provider in East Asia, but dramatic economic growth, industrialization, investment, and environmental concerns will certainly enlarge the demand for energy.
- Gulf oil represents only 8.5 percent of U.S. consumption but 23 percent of Europe's and nearly 70 percent of Japan's.<sup>5</sup>Globally, Europe and Japan are also much more dependent on oil imports than the United States.
- The world oil market is an integrated one, and price disruptions in one area ripple immediately through the system. This by no means diminishes U.S. interests in oil and the Gulf. When the United States imported globally even less oil in 1973, it still suffered all the inflation and economic dislocation generated by the Arab oil boycott of that year. The Gulf remains important because it is the world's "swing producer" of oil. It has 65 percent of the world's known oil reserves and at least

four million barrels a day in excess production capacity. In today's market that may not matter too much, but if supply or demand tightens in the future, events and decisions in the Gulf would affect the price of oil more than events and decisions elsewhere.

## 2. Limiting the Spread of Weapons of Mass Destruction

The United States will continue to place great importance on slowing the proliferation of weapons of mass destruction in general, and the growth of Iraqi and Iranian capabilities in particular. The United Nations Special Commission on Iraq (UNSCOM) has done outstanding work in investigating and destroying Iraqi weapons of mass destruction. The issue of WMD, however, involves other states in the region, including Syria, Egypt, Libya, and Israel. Further work on WMD will ultimately require a broader regional effort. This is unlikely to succeed so long as Iran and Iraq remain isolated. Similarly, only with significant progress in the Arab-Israeli process will serious attempts to curtail the proliferation of WMD be accepted in the region.

Such proliferation depends in part on the availability of supplies on the international market, and the United States has focused much of its efforts on limiting Iraqi and Iranian access to that market. However, the prohibitive cost of conventional military capability for states like Iran and Iraq has sharpened their desire to acquire cheaper non-conventional arms to counter U.S. power. Military and economic containment of the two states will probably require diplomacy directed toward providing them with incentives to discourage WMD, and creating regionwide regimes to regulate these weapons.

In early 1995 Israel informed Egypt of its readiness to discuss the establishment of a zone free from WMD two years after the establishment of a comprehensive and durable peace in the area. The proposal contained the provision that peace must include the achievement of bilateral peace agreements between Israel and all Arab League members, plus Iran. Egypt reportedly considered this provision unacceptable, arguing that Israel should limit its insistence on bilateral peace agreements to the "front-line" Arab states of Jordan, Syria and Lebanon. This, nonetheless, represented a change in Israel's stance from its earlier declaration that "it would not be the first to employ nuclear weapons in the area."

## 3. Fighting Terrorism and Subversion

Terrorism remains a threat to the stability of states in the Persian Gulf and to U.S. personnel and interests. Unlike conventional warfare, terrorism is relatively inexpensive to carry out, vitiating the assumption that economic sanctions will reduce its occurrence. Washington has asserted that Iran's sponsorship of terrorism has increased, despite escalation of U.S. economic sanctions on Iran in the past few years. Yet while this sponsorship continues, much of the terrorism facing the GCC states and the Arab world has domestic roots. If so, the problem cannot be addressed simply by military means or by the economic and political containment of Iran and Iraq.

While the United States can inflict much economic damage on the two countries, and Iranian and Iraqi forces are no match for their American counterparts, escalating the confrontation could lead to increased subversion within GCC states. It is clear, for example, that the disadvantaged Shi'ite majority in Bahrain has close religious and cultural links with Iran that Iran has exploited. Similarly, the smaller GCC states, which have large populations of foreign workers, are vulnerable to subversion. Although there is little evidence for such activity, the potential for terrorism concerns GCC leaders. In the United Arab Emirates, for example, foreign workers constituted 75 percent of the population in 1995. Abu Dhabi is uneasy about the possibility for subversive action among the many Iranian workers on U.A.E. territory. Complicating responses to subversive and terrorist threats is the difficult task of identifying the perpetrators, especially when there are no claims of responsibility.

#### 4. Arab-Israeli Peace

The U.S. commitment to Israeli security is a central component of U.S. policy. Peace and security in the Gulf would be strengthened by a comprehensive Arab-Israeli peace. In fact, security in both subregions is a prerequisite for peace because Arab-Israeli peace will not be assured if established only with the front-line states of Egypt, Jordan, Syria, and Lebanon. Fear of nonconventional threats to Israel from Iraq and Iran affects those formulating U.S. policy for the region. There can be no regional disarmament or long-run economic integration until this broader security is achieved.

Since the 1993 Oslo accords between Israel and the Palestine Liberation Organization, the Arab Gulf states have assumed that Arab-Israeli peace is achievable. However, the 1995 Alexandria Summit between Egypt, Syria, and Saudi Arabia sent a cautionary message to the smaller Gulf states that they should await further progress on the Syrian-Israeli track before normalizing their own relations with Israel. The delays in the peace process following the 1996 Israeli elections revived serious concerns within the GCC states, reflecting both fear of regional instability and popular concern for the plight of the Palestinian people. The goodwill that Prime Minister Benjamin Netanyahu garnered with the signing of the Hebron Protocol in January 1997 was depleted when he launched the Har Homa-Abu Ghneim settlement project in East Jerusalem. GCC leaders will closely monitor the way the Netanyahu government proceeds.

### THE U.S. MILITARY STRATEGY FOR ACHIEVING

#### U.S. POLITICAL OBJECTIVES

The Pentagon's strategic approach is "one of engagement, forward presence, and rapid response" that centers on "the maintenance and enhancement of our ability to protect our interest through military force."<sup>6</sup>The aims of the strategy are, first, to deter aggression, and second, should deterrence fail, to provide the capability to apply decisive force. Iran and Iraq are seen as the two likely aggressors. The Department of Defense has defined the following specific objectives with regard to them:

Iraqi compliance with all applicable U.N. Security Council Resolutions, the emergence of a government in Baghdad that respects human rights and does not threaten the peace and stability of the Gulf, and preservation of Iraq's territorial integrity. Simultaneously, the United States seeks to deter Iranian political and military adventurism; deny Iran access to sophisticated defense technologies and weaponry, particularly WMD; promote consensus among our allies and partners on the need to contain Iran; and counter Iranian-sponsored subversion and terrorism.<sup>7</sup>

U.S. military capabilities in the Gulf region have been substantially enhanced since 1990. There is now a larger naval presence and significant air assets are based in GCC countries. Of special note is the pre-positioning of a combat brigade set of equipment in Kuwait and the development of a similar set in Qatar. Additionally, several brigade sets of equipment are maintained afloat, available for use in either the Gulf or the Pacific region. These sets can quickly be made operational with the deployment of troops from the United States. Furthermore, the pre-positioned sets of equipment are combat ready, and forward-based naval and air presence allows for a more rapid response for emerging threats. A division base set now being established in Qatar will provide the logistical support base for the combat forces.

In assessing the relevance of U.S. military deployment for addressing the Iraqi and Iranian threats, the following factors must be taken into account:

- Iranian threats in the region include: the possible interdiction of Gulf shipping (at the Strait of Hormuz), subversion of neighboring states, support for terrorism, and a potential for intimidation that would grow should Iran acquire an operational WMD capability. A coalition campaign against Iran, in case of threat to commercial shipping, would be largely maritime in character and would not require a large ground force. Given the significant American deterrence capability and the fact that Iran itself stands to lose much with the disruption of shipping in the Gulf, subversion through psychological operations, active intelligence operations, and support for terrorism would seem to be the primary policy instrument available to Iran for use against the GCC states in the near future.
- The most serious potential military threat is still an Iraqi invasion of Kuwait. The United States maintains the capability to decisively defeat Iraq, as Operation Desert Storm demonstrated, and it would likely enjoy broad international support in employing it again should Iraq attempt another invasion. Currently, the U.S. deployment is aimed primarily at reducing response time of U.S. forces, increasing U.S. capability to defend Kuwait if invasion becomes imminent, and deterring Iraq by underscoring the American commitment to the region. Here again, the U.S. air and naval forces in the region accomplish much of that task although, the pre-positioned equipment for ground forces in Kuwait and Qatar unquestionably has value as an deterrent. The United States certainly cannot tolerate the capture of a "full brigade worth" of high-tech equipment by the Iraqi army in case of a surprise invasion-and the Iraqis must know this.
- Significant, but less visible, improvements in command, control, communications, and intelligence (C3I) capability in the Gulf has increased since (and in part due

- to) Operation Desert Storm. This often overlooked asset provides improved operational capability in the region.
- Since 1991, the Air Force presence in northern Saudi Arabia, which accounts for the majority of U.S. military personnel in the kingdom, has been primarily occupied with enforcing the no-fly zone in southern Iraq.

## REGIONAL TRENDS FACING U.S. POLICY

### IN THE PERSIAN GULF

#### 1. The Arab Context

Despite continued divisions within the Arab world, rivalries within the GCC, and differences between the interests of GCC states and those of other Arab states, the Arab context is still important in Gulf politics. It is unlikely that the Gulf War would have contributed nearly as much to the overall U.S. goal of regional stability without the participation of Egypt, Syria, and other Arab states. Since the war, the continued involvement of Syria and Egypt in discussions on Gulf security, together with new cooperation from Jordan, has facilitated the implementation of U.S. policy and arguably has muted criticism of the American military presence in the Gulf. Cooperation with Cairo and Damascus continues, but it is a political rather than a military effort.

While public opinion in the Gulf is not identical to that in the Levant or North Africa on issues of Iraq, Iran, Israel, and economic and social reform, many international matters tend to bring the Gulf states and their Arab brethren together, especially during times of tension. The broader the Arab world's consensus about American Gulf policy, the better. Unfortunately, even the GCC consensus on U.S. Gulf policy has diminished since Desert Storm because of frustration with the Arab-Israeli peace process, humanitarian concern for the plight of the Iraqi people, and other disagreements on policies toward Iraq.

All this makes shoring up the Middle East peace process even more urgent. The "two pillar" policy of the 1970s, constructing Gulf security on the pillars of the shah's Iran and Saudi Arabia, together with some of the GCC states, was reduced to a single pillar by the Iranian Revolution. Steps toward the construction of a new second pillar have been taken, as the 1996 deployment of U.S. Air Force aircraft to eastern Jordan suggests. But progress toward Arab-Israeli peace is essential if that pillar—which provides a vector through Jordan and Israel and to Iraq—is to be strengthened.

#### 2. Specific Threats

American military presence and planning deter threats of invasion by Iraq and Iran against the GCC states. But these small states cannot defend themselves against either potential aggressor without U.S. assistance. Moreover, they cannot try to balance Iraq's power with that of Iran—a state at odds with its GCC neighbors on many important issues. Threats to the GCC states by Iraq and Iran, of the sort that cause short-term fluctuations in the oil market, are likely to continue.

In the case of Iraq, international sanctions have taken their toll-especially on its people-and have made recovery from the Gulf war more difficult. The Kurds in the north and the Shi'ites in the south have paid the heaviest price. The vacuum of power created in the north, and the continued conflict between the two main Kurdish groups, the Patriotic Union of Kurdistan (PUK) and the Kurdistan Democratic Party (KDP), have helped both Iran and the Turkish Kurdistan Workers Party (PKK) to make inroads in this area. The Iraqi government's intervention on the KDP's behalf in the city of Irbil in August 1996, the PUK's solicitation of Iranian help, and Turkey's move to establish a "security zone" in northern Iraq highlighted the volatility of the status quo in the region.

Analysts have tracked a gradual disintegration of Iraqi society. There has been an outflow of up to three million people, mostly educated professionals. Iraq's GDP dropped from about \$60 billion in 1989 to \$18 billion in 1995. The official value of the Iraqi currency, the dinar, was \$3.20 before the Gulf War. It has since traded for as little as 3,000 to the dollar, but fluctuates around 1,000 to the dollar. In spite of this, Iraq has repaired much of its infrastructure, especially agriculture and light industry. If sanctions ease, Iraq could easily return to prewar oil production of three million barrels per day within two years.

The most serious burden the country faces is financial. Iraq is burdened with heavy international debts-it owes \$80 billion to European countries alone. In addition, claims from Kuwait total \$200 billion and there are Iranian demands for \$900 billion in compensation for the Iran-Iraq war, although full repayment of either claim is highly unlikely. In any event, even with oil production fully restarted, Iraq's economic recovery will be painstaking.

Militarily, international sanctions and implementation of U.N. resolutions reportedly have destroyed most of Iraq's WMD program, although some experts worry that Iraq is covertly continuing some aspects of its nonconventional weapons program. Recent reports by UNSCOM indicate continuation of an Iraqi pattern of attempting to deceive the United Nations about its WMD programs. Iraq's conventional capabilities have been substantially weakened because of the unavailability of spare parts and losses incurred during the Gulf war, but Iraqi forces have been reorganized and remain capable of defeating GCC neighbors-in the first instance, Kuwait-in the absence of American participation.

Despite an apparent upsurge in tribal and clan politics in Iraq, the regime of Saddam Hussein remains in charge. Some argue that Saddam's rule has recently been strengthened by his successful thwarting of a series of attempted ousters orchestrated from the outside. They assert that the United States must recognize that the only people capable of bringing about the fall of the top leadership are members of the ruling elite in Saddam's power base, which includes the Ba'ath party, the intelligence community, and the military.

As for Iran, which is only beginning to recover economically from the chaos of the revolution and the devastation of the eight-year Iran-Iraq war, it is also experiencing economic hardship. Much of the hardship results from the regime's economic mismanagement and corruption, and some from international sanctions-although

international cooperation with the United States on the sanctions has been limited. Iran's economic growth rate is reported to have averaged 2.7 percent over the last several years, but there has actually been a decline in per capita income because of rapid population growth. The country has been meeting its repayment schedules for foreign debt, and this has cut into its military spending. Yet, the United States maintains that Iran has increased its sponsorship of terrorism, and its drive to acquire weapons of mass destruction and the missiles that deliver them.

Stated U.S. policy toward Iran does not call for the removal of its Islamic government, although Washington still hopes for a more moderate regime. Washington did not view Iran's readiness in 1995 for a large oil development deal with an American oil company, its role in persuading the Lebanese Hizbullah militants to enter into a cease-fire with Israel in May 1996, or its apparent role in a deal with Israel on exchanging bodies of those killed on the fighting in southern Lebanon that July as signals warranting positive responses. On the contrary, Washington's own signals, including congressional allocations and publicly debated support for covert operations in Iran and the Iran and Libya Sanctions Act, have led many in Iran to believe that the overthrow of the government in Tehran remains an American objective.

Declared U.S. objectives for Iran include: discouraging it from sponsoring terrorism and subversion, preventing it from acquiring WMD, and ending its opposition to the Arab-Israeli peace process. In pursuit of these, the United States has gradually strengthened its economic sanctions against Iran. American strategy appears to operate on two basic premises: that there are no moderates in the Iranian government, and that depriving Iran of financial resources limits its ability to sponsor terrorism and seek weapons of mass destruction.

The United States is at odds with many of its allies over sanctions. This tension provides opportunities for others, such as China and Russia, to expand relations with Iran. U.S. incentives to alter Iranian behavior could produce dividends; the question is whether the time has yet arrived. Toughness alone is not likely to curb either terrorism or the pursuit of WMD, and U.S. isolation regarding many of its policies-combined with Iran's lackluster domestic situation-suggest that the time may be ripe for the United States to reconsider its current policy. However, existing sanctions and congressional views may constrain its ability to do so.

Some have expressed concern that Iran and Iraq, under pressure from the United States, might find common cause in ways that could be even more damaging to the Arab-Israeli peace process and Gulf security. This is unlikely. Deep mutual animosity remains. While there may be tactical alignments of policy, Baghdad and Tehran are unlikely to forge a lasting strategic cooperation.

### 3. Internal Security in the GCC States

Most outsiders believe that the GCC states face a challenging future. There is little chance that these states will develop economies not based on oil, and they currently

depend on oil and gas for more than two-thirds of their government revenues. Their populations are growing rapidly, and productivity and wages are flat or declining. Real oil prices are unlikely to rise substantially over the next decade. Yet, GCC states continue to spend 15 to 30 percent of state revenues on defense.

High public-sector employment has long been a tradition in the Gulf states. In Kuwait, for example, 80 percent of the indigenous work force is employed by the state. In Saudi Arabia, the figure is over 50 percent. The rapid growth of the indigenous labor force in GCC states-among the highest in the world-will continue to strain governments' capabilities and could lead to serious unemployment, particularly if the nationals persist in scorning jobs customarily filled by foreign workers.

Oil wealth has also skewed wages, further inhibiting the development of the labor market and the economy in general. The GCC states cannot control world oil prices, and outside the oil sector, Gulf states lack areas of comparative advantage that could jump-start the private sector. All these problems are compounded by the increasing scarcity of water available to burgeoning populations. Recently it has been said that more than \$100 billion dollars could be spent over the next 15 years in the Gulf building new power and water plants to meet the demands of the growing population.<sup>8</sup>

The Middle East as a whole has been unsuccessful in attracting foreign investment.<sup>9</sup> The Gulf region has attracted more than the rest of the Middle East but still not enough. Complicating matters is the fact that much of the private capital held by citizens in the region is invested outside the region, at a time when new investments-across the board, including in the oil industry-are essential.

Since the mid 1980s, the relative decline of state revenues in some GCC countries has caused the distribution of resources to shift. Resources that accrue directly to the state, such as oil earnings, have declined relative to sources of revenue that accrue to private individuals. In the early 1980s, Saudi Arabia held well over \$100 billion in foreign reserves and issued no government bonds. Today foreign reserves are around \$70 billion and the government has accumulated nearly \$100 billion in domestic debt.

In the past, GCC governments provided generous services and material rewards to their populations, but offered relatively little in the way of political participation. Faced with declining benefits from rulers and depressing economic forecasts, popular demands for political participation will likely increase. These pressures will elicit some sort of state response, which could range from an attempt to maintain the status quo to the granting of broader participation in decision making to moves to repress challengers of the regime. Each of these possibilities could be destabilizing.

#### 4. Political Challenges Within the GCC States

The absence of legitimate vehicles for opposition has channeled opposition forces underground or into the mosques in many Middle Eastern countries. In the GCC as a whole, there have generally been four interest groups that interact with the ruling

families: merchant families, the religious establishment, the tribes, and liberal technocrats. The oil boom brought merchants great wealth in exchange for continued loyalty to the ruler. As oil came to dominate the Gulf economies, the economic fortunes of the merchants depended heavily on the state. While today, particularly in Kuwait and Saudi Arabia, merchants rely less on government spending for their revenues, the government increasingly needs them to invest more in their country, but such opportunities have not been as lucrative as abroad. The merchants could, therefore, become a powerful and important group in this post-oil boom period, especially as the members of the ruling family and the merchant class vie for business opportunities that are so vital to the economy's expansion.

In most GCC states, the Islamic groups can be divided into three categories: establishment Islam, which supports the status quo; reformers, including some technocrats, who invoke Islam to fight corruption and urge a redistribution of wealth; and militants, who are hostile to the ruling families and seek their demise. These three categories should not be seen as completely distinct. Islamist militants emerge from "establishment Islam" educational institutions and frequently find employment in the states' extensive religious bureaucracies. All the GCC states have recently taken steps to reassert government control over these institutions as a way to monitor and control Islamist political dissent. The amount of public support the militants garner will depend in some measure on how positively the government responds to the demands of the reformers.

The other two groups, the tribes and liberal technocrats, are not nearly so influential or independent as the merchants and Islamic groups (although both of those are also tied to the ruling regimes in important ways). The GCC rulers have succeeded in maintaining an ideology of "tribalism" while gutting the independent power of the actual tribes. Tribalism remains a strong element of social identity in all these countries, but it has lost its previous, pre-oil power to serve as an independent political force capable of mobilizing people for or against the state. The governments have settled the tribes—there is scarcely any nomadism on the Arabian Peninsula today—and thus have more control over them. Tribal leaders have become de facto state employees, enjoying the patronage of the rulers but dependent on them for political influence and the material benefits that they then pass on to their tribesmen. The states can also bypass the tribal leaders, dealing directly with individual tribesmen by giving them jobs and material benefits. Tribalism is no threat to the stability of the GCC regimes.

The political clout of liberal technocrats is completely tied to the ruling regimes, which place them in their positions of influence and can choose whether or not to listen to their advice. While they are an influential group in Gulf policy debates, they hardly have the cohesion or organizational structures to act as a bloc in the domestic politics of the Gulf states. Only in Kuwait are they afforded the opportunity to organize and contest for parliamentary seats (the "Democratic Forum" group). As of now, while they include critics of corruption and mismanagement in the ruling circles, they generally see their interests as much closer to the rulers' than to the most serious challengers for political power, the Islamist movements. Therefore, liberal technocrats can generally be counted

on to support the political status quo. In the future, this social group might become more vocal in its demands for better participatory institutions, but as of now its political input is more on an individual than an organized group basis.

Many in the GCC states understand the need for American forces in the Gulf and see common interests with the United States on some regional security issues. However, suspicions of American intentions are strong, and public opinion opposes U.S. foreign policy on a range of political matters such as Bosnia, Chechnya, and the future of the Palestinian people, as well as cultural and religious matters. These contentious issues give opposition forces ammunition in their campaign to discredit GCC leadership. Thereby they create additional challenges for the American presence in the region. In sum, the greater the number of issues of contention, the larger the internal threat to the U.S. presence will be.

## THE INTERNATIONAL CHALLENGES FACING

**U.S. POLICY IN THE GULF** It is a mistake to conclude that with the demise of the Soviet Union, the United States will be the only important outside player in the region.

1. Asia is consuming a rising amount of Middle East oil, and this trend could affect the political and military strategies available to all Gulf countries and their consumers. Unable to compete with the United States in conventional military and security guarantees, the nature of the relationship between Asia and the Gulf will develop differently than the present Western-Gulf alliance. For example, many Asian countries (primarily China) are not as sensitive to Western concerns regarding Iran and Iraq and are, therefore, more likely to provide them with economic and military assistance. China's long-term oil needs and Iran's drive to acquire missiles and weapons of mass destruction might bring these states closer together. That said, an Asian collision with U.S. interests in the Gulf is not inevitable. It is logical to assume that as China's oil imports grow, China's interest in a stable global oil market and a stable Gulf region will grow along with it.

2. India, Pakistan, Russia, and Central Asian countries are becoming more active in trade and investment in the Gulf region. This may eventually bring about new regional coalitions. The construction of an important railway between Iran and Central Asia in 1996 may significantly increase economic links with Central Asia. The strategy of isolating Iraq and Iran has pushed both states toward Russia, which seeks repayment on Baghdad's substantial debt and which, despite U.S. objections, has moved to conclude financially lucrative nuclear reactor deals with Iran. Given the uncertainty about Russia's own future, these relationships could become significant problems for the United States. The role played by Russia in preventing a U.N. Security Council resolution condemning the Iraqi military operations in the Kurdish areas of northern Iraq in September 1996 is one example of the critical stances Russia may adopt in the future.

3. Nonetheless, the United States and the GCC continue to pay most of the direct costs of defending oil supplies. The United States is also the single largest importer of GCC oil

and has the lion's share of capital investment in the regional oil industry, research and development, production of oil pipeline construction, refinery construction, operations, and marketing.

For all these reasons, it will become progressively more costly and complex for the United States to pursue what are increasingly viewed as unilateral policies in the region.

## CONCLUSION

The Gulf is an integral part of the broader "New Middle East." Many links connect the Arab-Israeli peace process with "purely" Gulf issues. The security and stability of the Gulf region impacts global stability because of its vast energy reserves. The proliferation of weapons of mass destruction in the Gulf could also affect global security.

America's strategic interests in the Gulf are clear, and American forces will remain on duty in the region to support those interests for the indefinite future. This in itself guarantees friction between the United States and Iran and Iraq, the two claimants to Gulf hegemony. There may be ways to reshape our military presence, some that this report has sought to identify, which will enable Washington to continue playing its role as security guarantor just as effectively without being a target for hostile nationalist sentiment in the region.

The Gulf is a cockpit of contending ambitions and it encourages emerging challenges to the status quo. It behooves the United States, therefore, to keep its Gulf policy under careful review and be prepared to modify it as necessary. Any changes, in the implementation of America's Gulf policy, however, should be carefully weighed, and U.S. friends and allies, whose own security is directly involved, should be fully consulted.

<sup>1</sup>The Pentagon is currently drafting its quadrennial defense review for submission to Congress in May 1997. The two-conflict approach is expected to be retained in this review.

<sup>2</sup>In a March 26, 1997, speech on Iraq, Secretary of State Madeleine Albright virtually ruled out any dealings with Saddam Hussein's regime.

<sup>3</sup>Anthony Lake, "Confronting Backlash States" in *Foreign Affairs*, March 1994, pp. 45\_55. Last year, Assistant Secretary of State Robert H. Pelletreau, Jr., said: "We remain ready for an authorized, out-in-the-open dialogue when Iran's leaders are willing to discuss our differences face-to-face. There is no hidden agenda. Iran has never indicated an interest in such a dialogue however. We are ready to welcome Iran's return to the international community when it demonstrates that it is prepared to live by the same basic rules and international standards that other states do" (in a speech at the Council on Foreign Relations, May 8, 1996).

<sup>4</sup>Energy Information Agency, *Annual Energy Outlook with Projections to 2015* (Washington, D.C.: Department of Energy, 1996), pp. 178-80. The Pacific Rim refers to Hong Kong, Malaysia, Singapore, South Korea, Taiwan, and Thailand. The figure for the Pacific Rim (4.6 percent) is double every other world grouping except for China.

<sup>5</sup>Figures from 1996 in "The International Petroleum Statistics Report" (Washington, D.C.: Energy Information Administration, Office of Energy Markets and End Use, U.S. Department of Energy, January 1997).

<sup>6</sup>U.S. Department of Defense, "U.S. Security Strategy for the Middle East" (Washington, D.C.: U.S. Department of Defense, May 1995).

<sup>7</sup>*Ibid.*, p. 21.

<sup>8</sup>U.A.E. Minister of Water and Electricity Humaid bin Naser al-Owais, Dubai, January 1996. Desalination contributes more than half of the region's domestic and industrial water, but many existing desalination plants need upgrading. In 1990 it was estimated that \$30 billion was required to build desalination plants and that over \$20 billion will

be required after the year 2000 to replace the many aging plants built between 1975-85.

See Jamil Al-Alawi and Mohammed Abdulrazzak, "Water in the Arabian Peninsula: Problems and Perspectives," in Peter Rogers and Peter Lydon (eds.), *Water in the Arab*

*World: Perspectives and Prognoses* (Cambridge, Mass.: Division of Applied Sciences, Harvard University 1994), pp. 191\_92.

<sup>9</sup>The entire Middle East attracts less than 3 percent of all foreign investment in the developing world, comparable to Africa's share. This contrasts with 10 percent for Eastern Europe and Central Asia, 26 percent for Latin America and the Caribbean, and 58 percent for East and South Asia. See World Bank, *Claiming Our Future: Choosing Prosperity for the Middle East and North Africa* (Washington, D.C.: World Bank, 1995), p. 7.