

968

96th Congress }
1st Session }

JOINT COMMITTEE PRINT

ECONOMIC CONSEQUENCES OF THE
REVOLUTION IN IRAN

A COMPENDIUM OF PAPERS
SUBMITTED TO THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



NOVEMBER 19, 1979

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1980

54-066

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LETTERS OF TRANSMITTAL

NOVEMBER 13, 1979.

To the Members of the Joint Economic Committee:

I am pleased to transmit for the use of members of the Joint Economic Committee, other Members of Congress, and the interested public, a compendium of papers entitled "Economic Consequences of the Revolution in Iran."

This volume was initiated in late 1978 at the direction of the former chairman of the Joint Economic Committee, Representative Richard Bolling, and the former ranking minority member, Senator Jacob K. Javits. It is intended to provide an economic study of Iran in the wake of the political upheavals that have taken place, with special emphasis on the consequences for the United States, the West, and other regions of the world.

It should be understood that the views contained in the papers are those of the authors and not necessarily those of the Joint Economic Committee or individual members.

Sincerely,

LLOYD BENTSEN,
Chairman, Joint Economic Committee.

NOVEMBER 2, 1979.

HON. LLOYD BENTSEN,
*Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.*

DEAR MR. CHAIRMAN: I am pleased to submit a compendium of papers entitled "Economic Consequences of the Revolution in Iran."

The compendium, which was initiated by the former chairman of the Joint Economic Committee, Representative Richard Bolling, and the former ranking minority member, Senator Jacob K. Javits, comprises an economic study of Iran in the wake of the political upheavals that have taken place in that country.

The papers in the volume were prepared through a collaborative effort of the Congressional Research Service of the Library of Congress, the Political Science Department of George Washington University, and the staff of the Joint Economic Committee. Planning for the volume was conducted by Richard Kaufman and Bernard Reich. James Wooten coordinated the portions of the volume prepared by specialists at the Library of Congress. A special note of thanks is due to Bernard Reich who assisted in the overall coordination of the project.

Sincerely,

JOHN M. ALBERTINE,
Executive Director, Joint Economic Committee.

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SUMMARY

By James Wootten
Congressional Research Service

Prior to the departure of the Shah in January 1979, few saw clearly the seriousness of the swell of popular discontent under his rule. In retrospect it is easier to see that all of the elements of the revolution were present and there was little likelihood the Shah could have changed their course at that late date. The resultant concern about the rapid turn of events in Iran has generated a number of analyses. Many of these have focused on the question "who lost Iran" and many became outdated soon after their completion because they try to react to the events of the day and to predict their outcome. This study is more broadly conceived and seeks to provide an assessment of the revolution in Iran in terms of its more lasting economic effects. To arrive at this assessment it was essential to evaluate the changes and impacts to date within the context of continuing developments and those trends and constraints most likely to characterize the situation in the future rather than the fluid situation now prevailing. To a great extent the revolution will be judged not on its success in ousting the Shah and his regime but on the ability of its leaders and their successors to consolidate power and reassert control of political and economic processes. The restoration of stability is central.

The completed analysis is broadly conceived and deals essentially with three perspectives. One section examines future alternatives for Iran in terms of both domestic and foreign policy. Closely connected is a second perspective examining the hard realities of the Iranian economy and the alternative budgets that might be developed by successor governments in their efforts to solve the fundamental social and economic problems that accelerated the Shah's downfall. Whatever economic hope exists for Iran is totally connected with petroleum and gas production and the future role Iranian exports will play in the crucial balance between oil exporters and consumers. The third vantage of the analysis focuses on the impact of the revolution in various regions of the world.

Contributors to the compendium were asked to undertake two major tasks. First, they were to assess the immediate consequences of the departure of the Shah and the associated economic and political paralysis, touching upon the many international functions of Iran—provider of oil; purchaser of western weapons, technology and consumer goods; investor; site of United States intelligence operations; supporter of many U.S. diplomatic positions, etc. The impact of this first task was necessarily focused on the near term. The second task was directed toward the future: looking beyond the initial shock af-

fect, the authors were asked to explore possible alternative future and their potential effects upon Iran's role in its international setting. One alternative future was characterized by a continuation of political instability and ineffectiveness together with further economic dislocation. A second was characterized by gradual stabilization of an Islamic regime that accommodates the differences between the Ayatollah and the traditional and religious moderates, technocrats and politicians symbolized by Prime Minister Bazagar before his resignation. A third future was a variant of the first in which domestic instability and ineffectiveness led to the emergence of an authoritarian left wing regime that would draw external support from the Soviet Union or the PRC.

Taken together the authors applied a range of styles and expertise in their analysis of the different facets of the study. The result is a fascinating portrayal of the Iranian panorama. Professor Bernard Reich in his introductory overview draws upon the other reports to assess the net impact of the revolution upon U.S. interests and goals. He finds little to offset the apparent damage to U.S. political, economic, and strategic interests in the short run. In the longer term Reich believes much will depend upon the direction of future developments within Iran and the effect of external influences, particularly from the U.S. and its allies, the other countries of the region and the Soviet Union.

Professor Leonard Binder another consultant author describes in very precise terms the driving socio-economic, religious and political problems of Iran that demand relief if any government in Iran is to succeed. As a caveat, Binder holds that: "Whatever it is that is taking place in Iran, it certainly isn't over yet." In his analysis he deals with the component events that constitute the sum of what has happened in Iran prior to and since the Shah's departure, identifying the forces at work and the factions supporting them. Problems that led to the fall of the Shah are laid out in clear detail as well as the factors bearing upon them. They are considered in the context of the need for strengthening national political institutions and with attention to associated foreign policy considerations. Binder points out that to be judged successful any subsequent regime will have to deal with these matters. He goes on to identify five probable regime outcomes: (1) theocratic, (2) bourgeois parliamentary, (3) leftist, (4) military or (5) restoration monarchical. He describes these as not merely a classification of types of regime corresponding to five types of social forces arrayed against one another as though one would finally emerge victorious. Rather, Binder defines them as dialectically related in the sense that they might follow one another in time. His expanded analysis of each of these regimes illuminates current trends in the Iranian drama.

Immediately following Binder's article is an analysis of the Iranian budget and the economic realities facing the transitional government. In his treatment consultant Theodore Moran carefully examined past Iranian budgets and has projected them into the future with consideration for past mistakes that were the cause of most of the popular hatred for virtually all of the Shah's modernization programs. Professor Moran concludes that even minimal success for any future budget

will depend upon an export level of 3.5 to 4 million barrels of oil per day.

A following article explores the much wider implications of Iranian oil in the context of world energy needs and expectations and the impact of the Iranian interruption at the height of the revolution as well as the potential impact of further stoppages embargoes. Warren Donnelly, Joseph Riva, and Alfred Reifman all of the Congressional Research Service, conclude that "The Iranian revolution's principal implication for global oil and energy supplies is that it marks a point of no return for the world's major oil importing countries. No longer are they assured of ample, reliable, cheap supplies of oil. Now they are entering into a new, troublesome era of scarce, expensive and uncertain oil supplies at increasing prices and further subject to political conditions and risks . . . Unless large, and unexpected, new oil fields are found and brought into production, the world will have to use less rather than more oil by the 1990s, with prospects for only partial relief from higher priced energy alternatives."

Professor Rouhollah Ramazani in his analysis of Iranian foreign policy perspectives has provided an excellent basis for comprehending subsequent articles dealing with specific regional and international countries. He describes the undulating stages of Iranian capabilities in the international arena throughout this century which are directly related to a series of internal crisis periods interrupted by periods of stability, either real or enforced. Ramazani provides a detailed analysis of present trends and possible developments in Iran's external relationships.

Professor Edward Kolodziej has provided a far reaching analysis of the effect of the revolution upon western Europe and Japan and weighs the interdependence of the interests and objectives of these allies with those of the United States. Kolodziej's analysis of the Iranian episode reveals another rent in the fabric of a much worn relationship resulting from concerns for increased strategic threats and competitive pressures to capture markets and hamper penetration by outsiders. Kolodziej suggests that interdependence, the slogan of the day, is as much as invitation to competition and conflict as it is to cooperation.

In other regions the effects of the Shah's departure and the actions of the transitional government are not so pronounced. For the most part there is a balancing of political and economic gains and losses for the regional actors, although the United States appears to have suffered a net loss in terms of prestige and political-economic leverage. Consultants Bernard Reich, David Pollock, and Sally Ann Baynard have assembled a detailed analytic survey of the Middle East underscoring the shift of intrarelations among the regional states. In their paper the effects of the Iranian shift away from Israel are weighed carefully as are the concomitant realignment of the regional alliances based upon perceived threats or a chance to further their own interests. Although the stakes and motivations are quite different in each case this same balancing effect is borne out by William Cooper's analysis of the impact of the revolution upon the Soviet Union and Richard Cronin's same treatment of the South Asian countries neigh-

boring Iran to the East, notably Afghanistan, India, and Pakistan. Both Cronin and Cooper are members of the Service staff.

Broadly speaking, the aggregate analysis concludes that the revolution in Iran was the culmination of a range of forces, some superficial, others not easily identifiable, some spawned since the inception of the oil boom, others a residual product of centuries-old rivalries. For want of direction the revolution took on short term goals and formed alliances with little regard for future eventualities and the inevitable demands upon any successor government. Those loosely coordinated alliance groupings and plans failed to provide badly needed direction for the present government. As a result, the turbulence continues and may become worse.

The international community felt the shock more than the force of the direct and indirect damage caused to Iranian governmental and economic institutions. For some, like the United States and the western industrialized countries the immediate effects were almost totally negative; for some others like the Soviet Union and the Arab countries opposing the Sadat initiative, the Camp David Agreements and Egypt-Israel treaty, the occasion presented an opportunity to submerge old rivalries and redefine alliances. The longer term impacts upon Iran and all of the other members of the international community will depend upon the subsequent direction of events in Iran and the reaction of the others to those developments. Indeed, the analysis indicates that there will be the need for very urgent decisions on the part of the United States as long as this dangerous period of spasmodic change persists. The following study is intended to help the decision makers better understand the facts bearing on the problem and thus help identify the best decisions.

THE UNITED STATES AND IRAN: AN OVERVIEW

By Bernard Reich
George Washington University

The American interest in Iran is a vital one. Iran represents strategically, both in an economic and political sense, a vital cog in the collective Western economic and political system. Therefore, we have a considerable stake in the peaceful management of Iranian modernization.—Zbigniew Brzezinski, National Security Advisor.*

Iran's importance to the security of the gulf region, to the future of the Middle East, and to the production of oil give us as Americans a strong interest in a free, stable, and independent Iran.—Harold H. Saunders, Assistant Secretary of State.*

INTRODUCTION

Iran in the 1970's was widely regarded as a significant regional, if not global, power. The United States relied on it, implicitly if not explicitly, to ensure the security and stability of the Persian Gulf sector and the flow of oil from the region to the industrialized Western world of Japan, Europe and the United States, as well as to lesser powers elsewhere. The Shah seemed to be in effective control of his country, if not its people, and dominated its activities at home and abroad. No overt and significant opposition group could be identified within Iran or outside its boundaries. The Shah controlled Iran's governmental apparatus and had a large and powerful (and apparently loyal) military force at his disposal. Their strength was supplemented by his security police—SAVAK—whose omnipresence if not omnipotence was legendary within and outside Iran. He had met all significant challenges with little difficulty in the years since his restoration to power in the mid-1950's. He had also reasoned that Iran's oil wealth, which contributed the resources for military hardware, would provide the financial requisites for his White Revolution which was designed, in part, to prevent revolution from below. Thus, with domestic, social, and economic advance and his control of the instruments of coercive violence it seemed that the system was stable and reliable for an indefinite period, despite numerous factors suggesting some flaw with this analysis.

The system created by the Shah, and molded in keeping with his views and desires, was overthrown by a popular revolution within about one year of its inception. The Shah departed Iran on January 16, 1979. The Cabinet of Shahpur Bakhtiar was replaced on February 11 by a regime focused on Ayatollah Rouhollah Khomeini who has returned to Iran from 15 years of exile.

The revolution which toppled the Shah and his regime focused on one main theme: the removal of the Shah. It is clear that there was no broader plan for the establishment and functioning of the system

*House of Representatives, Committee on Foreign Affairs, Subcommittee on Europe and the Middle East, Hearing, U.S. Policy Toward Iran, January 1979, pages 1 and 3.

which would follow the Shah's ouster. No central ideology (except perhaps the broad and vague notion of an Islamic Republic) and no specific program or policy was elaborated for implementation by the new regime. The groups were loosely coordinated but not carefully linked in their central goal—the ouster of the Shah. This has become clear in the period since the Shah's departure—there is no central and effective government in Iran (there are instead several alternative "regimes" functioning within the country) and the ordinary and effective process of government and administration is not easily identified.

Despite the lack of an effective and identifiable regime in the country Iran continues to function and to influence regional and international developments.

The Revolution in Iran affects United States interests and policies in a number of ways. Perhaps most significant is the fact that a multifaceted and extensive relationship with the Shah that lasted for nearly four decades, and involved all Presidents from Roosevelt to Carter, has ended. To understand the significance of that rupture the nature of the pre-revolution relationship must be explored.

THE PRE-REVOLUTION RELATIONSHIP

Despite the current and substantial United States involvement in the Middle East it is important to recall that this is primarily a post-WWII phenomenon and developed even later in the Persian Gulf.

World War II converted and enhanced the American interest from its pre-war focus on commercial and philanthropic activity. During the War, American forces were active in the region and the United States developed political and strategic concerns. Iran was a route for supply of an American ally—the Soviet Union—to its north and Iran itself was declared eligible for lend-lease in 1942. The Persian Gulf Command (the forerunner of MIDEASTFOR) was created. Oil became a military/political concern and other factors made the strategic value of the area more obvious. Soviet and Soviet-sponsored activity in the northern tier immediately after World War II contributed to the United States concern and led to the formulation of policies designed to contain the perceived Soviet threat.

Iran became a focal point of this United States activity, which was reflected in various bilateral arrangements and agreements as well as in such concepts as the Truman Doctrine which, although it was formally linked to Greece and Turkey, was based on many of the same principles that animated and motivated the United States bilateral arrangement with Iran. A series of arrangements were devised with Iran which provided economic and military aid and the United States established important and close ties with the regime of the Shah.

The relationship with Iran underwent some modification in the early 1950's as the Shah came into conflict with the National Front under the leadership of Mohammed Mossadeq and the Anglo-Iranian oil crisis developed. The Shah was forced from Iran for a brief period before being restored to power by the Army with assistance from the CIA. Mossadeq was arrested.

After the Shah returned to power, Iran increasingly turned to the West and especially the United States. In the ensuing quarter cen-

ture the United States and Iran developed a substantial multidimensional relationship founded initially on a similar perception of threat (i.e., the Soviet Union) and continued on a basis of mutual utility, if not need. For Iran, the United States was a market for oil, a source of military equipment, a source of technology, and a political ally. The United States was seen as indispensable to Iran's White Revolution and the modernization of its military/security capability. For the United States, Iran was a source of oil, a market for goods and services, a market for arms, and a pillar of American policy in the region and the Gulf. Each seemed to benefit from the continuance of the relationship. There were other elements (especially indirect) which affected the ties of these two states¹ which took the form of economic assistance and Iranian participation in an American-conceived security defense pact, which eventually became known as the Baghdad Pact (later CENTO), which the United States never formally joined. United States economic and military assistance to Iran increased and the two states signed a bilateral agreement on March 5, 1959 in which the United States and Iran agreed that: ". . . the Government of the United States of America regards as vital to its national interest and to world peace the preservation of the independence and integrity of Iran. . . ." In support of this position the United States undertook to assist Iran in assuring its security and defense. This helped to reassure the Shah of United States assistance against external aggression and of aid in the development of his army and the securing of modern weaponry.

In the early 1960's, under prodding from the Kennedy administration, the Shah began to focus some of his attention on the process of change and development at home. Later, in the mid-1960's United States grant military aid began to be phased out and United States economic aid was terminated. At the same time the Shah's policy became increasingly independent. Relations between Iran and the Soviet Union improved as various trade deals were worked out.

The Shah's view that Iran should increasingly pursue an independent national policy, his view that Iran should assume greater responsibility for the region which bore his country's name, his increased expenditure for the armed forces of his country, coincided with the Nixon administration's view as articulated in the Guam (later Nixon) doctrine that the United States should undertake fewer commitments in world affairs and should assist local states in assuming responsibility for their own defense and that of their region. This provided a foundation for the new relationship between Iran and the United States as Iran was seen as the power to assist in assuring the stability of the Persian Gulf. It was in this period that the United States articulated its so-called "twin pillar" policy relying on Iran and Saudi Arabia in the Gulf region to help assure the flow of oil to the West. The new relationship was consummated in connection with the state visit of Nixon to Iran in May 1972. At that time agreement was reached to sell to Iran substantial amounts of military equipment including some of the most advanced and sophisticated in the United States inventory and to provide technicians and other advisors for

¹ These factors have been considered in detail in the several regional analyses.

the armed forces. The massive arms sales to Iran (as indicated in Table 1) were justified on the grounds that Iran was working for its own economic advancement and was prepared to make a significant contribution to its own defense. It was also argued that on major international issues the policies of Iran and the United States were parallel.

TABLE 1.—UNITED STATES-IRAN, MILITARY SALES AND SERVICES

[In thousands of dollars; fiscal years]

	Foreign military sales agreements	Foreign military sales deliveries	Military assistance program deliveries including military assistance service funded and excluding training	International military education and training program deliveries including military assistance service funded	Summary of students trained under international military education and training program, including military assistance service funded
1969	235, 821	94, 881	45, 343	3, 247	765
1970	134, 929	127, 717	12, 791	2, 447	504
1971	363, 884	78, 566	4, 290	2, 230	354
1972	472, 611	214, 807	6, 277	885	186
1973	2, 171, 355	248, 391	2, 621		
1974	4, 325, 357	648, 641	191		
1975	2, 447, 140	1, 006, 131	2		
1976 ¹	1, 794, 487	1, 927, 860			
1977	5, 713, 769	2, 433, 050			
1978	2, 586, 890	1, 792, 892			
1955-78	20, 751, 656	8, 715, 810	766, 733	67, 445	11, 025

¹ Includes transitional quarter.

Source: Foreign Military Sales and Military Assistance Facts (December 1978). Department of Defense, Security Assistance Agency.

This position was continued during the Ford and Carter administrations. The Shah visited Washington in November 1977, during which time Carter reaffirmed United States support for a strong Iran and pledged continued aid for Iran's economic and social progress and programs to help meet Iran's security requirements. These sentiments were rehearsed during a visit to Iran by Carter at the end of December 1977 and the beginning of January 1978. On departing Iran on January 1, 1978, Carter said:

Iran, under the great leadership of the Shah, is an island of stability in one of the more troubled areas of the world. This is a great tribute to you, Your Majesty, and to your leadership, and to the respect, admiration, and love which your people give you.²

The revolution began to gain momentum during 1978.

THE EFFECTS OF THE REVOLUTION

The primary initial effect of the revolution is the creation of uncertainty although the broad outlines of current and future policies and trends can already be identified (and have been examined in the papers of this compendium). The ultimate outcome of the revolution and its effects on the United States (and the Soviet Union) is unclear. Local turmoil and lack of central authority and dependable institutions pose problems not only for the United States but also for other powers in the region and beyond. In place of the Shah is a provisional

² Weekly Compilation of Presidential Documents, January 23, 1978, page 47.

and transitional government but Iran acts and speaks, at least for now, with several voices. The formal government headed by Prime Minister Mehdi Bazargan was largely irrelevant much of the time on major policy questions. In Qom, at the headquarters of Ayatollah Rouholiah Khomeini, more decisions of weight are made. Power is in the hands of Khomeini and the religious circle around him and in the komitehs (Islamic Revolutionary Committees). United States links with these groups are tenuous.

The tenuous relationship is a result of a number of factors including the uncertainty of the Iranian system and the course or direction it will follow. The revolution has eroded or destroyed the traditional elements of authority (such as the Shah—the monarchy—and the army) and their replacements have not yet been firmly established. The association of the United States in the minds of Iranians with the traditional elements of authority, with the now-hated and deposed Shah and the programs for which his regime stood, and the lack of confidence in the Carter human rights approach (which in their view did not bring about meaningful change in Iran) provide initial handicaps for the establishment of a new and far-reaching relationship. Many saw the Shah as little more than a creation of United States policy and his policies—whether economic, oil, or defense—as tailored to the benefit of the United States rather than the people of Iran. This suggests that opposition to the regime may well be carried over to the United States and will serve as an irritant exacerbated by a number of short-term issues such as the question of summary justice or the lack of due process in the period prior to stabilization. The apparent violation of the human or civil rights of large numbers of Iranian citizens and especially a sizeable number with international visibility brought about a revulsion in the United States and emerged as an issue of some consequence. Other minor irritants clouded the links of the new regime with the United States, but these were relatively insignificant given the broader range of concerns which emerged from the revolution.^{2a}

Doubt concerning Iran's future is widespread but several alternative directions may be posited and the effects of these variants have been examined in the papers which follow. One path would be characterized by a continuation of political instability and ineffectiveness and economic dislocation. Governments would be unable to command the support of major components of the society and make their will felt. Regional and urban institutions would exert extensive autonomy. Efforts at economic planning and central management would be ineffective, and the capacity of the system to produce reliable quantities of oil for export would be under serious question. The system, in short, would not impinge significantly on the international environment. Enough political activity would remain, however, to avoid the likelihood of external intervention. Foreign policy would be highly nationalistic, anti-Soviet and anti-American, and supportive of Islamic causes, but again, regimes would be incapable of significantly influencing world events because of lack of domestic stability and organizational capacity.

^{2a} The invasion of the U.S. Embassy and the holding of its staff hostage, an act of terrorism in violation of international law and practice, and sanctioned by Khomeini, brought the post revolution relationship to its lowest point in November and December 1979.

A second path would be characterized by gradual stabilization of an Islamic regime that accommodates the differences between the Ayatollah Khomeini and some of the more traditional and religious technocrats and politicians. Domestic politics would evolve mechanisms for representation of various interests and public policy would focus on a reduced pace of modernization and greater reliance on indigenous resources for technological, economic, and institutional developments. Oil production would be reestablished and export levels would be determined by domestic economic needs. Within OPEC, Iran would side with countries that were prepared to seek sizable price increases. Foreign policy would exclude both the United States and the Soviet Union from active roles in the domestic economic and political processes. The role of the military would be constrained and a posture of neutralism would be sustained. Support for other Islamic nations would be a cornerstone of foreign policy and the country would join with the more militant and radical Arab countries in many of their foreign policy positions.

A third path would be a variant of the first in which domestic instability and ineffectiveness led to the emergence of an authoritarian left wing regime that would draw external support from the Soviet Union or the People's Republic of China. A measure of economic capacity would develop, but it would be directed toward powers hostile to the United States, and the country would provide some measure of support for the military interests of such powers.

THE ECONOMIC EFFECTS OF THE REVOLUTION

The economic impact of the revolution was substantial and obvious. It affected oil supply and markets for goods and services. Pre-revolutionary Iran was a major exporter of oil to the industrialized West³ and an important factor in United States trade calculations. The Iranian economy was something of a bonanza for American businessmen and there were both military-defense contracts (See Table 1) and civilian sales. Iran was one of the major third-world markets for the United States. It imported substantial amounts of goods and services from the United States and the level of imports showed a rapid increase over the past few years. (See Tables 2A and 2B.) Sales to Iran were an important factor in reducing the United States trade deficit.

In late 1977 the U.S. Department of Commerce described business opportunities in Iran in these terms: "Iran's rapid economic growth has established a business climate characterized by expansion and keen competition, which should continue for several years to come. United States suppliers hold a leading position in the Iranian market . . . [and] excellent opportunities continue for sales of U.S. capital goods and services to Iran."⁴ The revolution suspended the United States-Iran economic relationship as the Iran market was closed to the United States and other trading partners.

³ Before the revolution Iran ranked as the world's fourth largest oil producer and the world's second largest oil exporter. See the paper by Donnelly, et. al.

⁴ U.S. Department of Commerce, "Iran: A Survey of U.S. Business Opportunities," October 1977, pages 1-2.

TABLE 2A.—IRAN TRADE PATTERNS, 1971-77

	[In millions of U.S. dollars]						
	1971	1972	1973	1974	1975	1976	1977
Iran—Exports:							
United States.....	136	199	344	2,133	1,398	1,483	2,756
Federal Republic of Germany.....	300	340	582	1,126	1,334	1,807	1,696
Japan.....	1,241	1,376	1,754	4,331	4,526	4,049	3,881
United Kingdom.....	242	282	532	1,083	1,412	1,709	1,245
France.....	136	174	284	651	1,150	1,309	998
European Economic Community.....	1,243	1,587	2,582	7,286	7,139	8,256	7,751
U.S.S.R.....							
Total.....	3,510	4,175	6,331	18,888	18,264	20,560	21,554
Iran—Imports:							
United States.....	530	614	474	974	2,051	2,133	3,004
Federal Republic of Germany.....	403	459	655	991	1,824	2,304	3,014
Japan.....	262	360	484	847	1,662	2,098	2,136
United Kingdom.....	209	318	338	450	877	992	1,256
France.....	101	135	163	217	415	630	751
European Economic Community.....	942	1,225	1,488	2,137	4,022	5,505	6,753
U.S.S.R.....	67	74	180	212	231	126	22
Total.....	2,205	2,770	3,379	5,426	10,346	12,887	15,742

Source: International Monetary Fund, Direction of Trade, annual 1971-77.

TABLE 2B.—IRAN TRADE PATTERNS, 1971-77

	[Percentage share of the Iranian market by major trading partners]						
	United States	Federal Republic of Germany	Japan	United Kingdom	France	EEC	U.S.S.R.
1971:							
Exports.....	3.9	8.5	35.3	6.9	3.9	35.4	.....
Imports.....	24.0	18.3	11.9	9.5	4.6	42.7	3.0
1972:							
Exports.....	4.8	8.1	33.0	6.8	4.2	38.0	.....
Imports.....	22.2	16.6	13.0	11.5	4.9	44.2	2.7
1973:							
Exports.....	5.4	9.2	27.7	8.4	4.5	40.8	.....
Imports.....	14.0	19.4	14.3	10.0	4.8	44.0	5.3
1974:							
Exports.....	11.3	6.0	22.9	5.8	3.4	38.6	.....
Imports.....	18.0	18.2	15.6	8.3	4.0	39.4	3.9
1975:							
Exports.....	7.7	7.3	24.8	7.7	6.3	39.1	.....
Imports.....	19.8	17.6	16.1	8.5	4.0	38.9	2.2
1976:							
Exports.....	7.2	8.8	19.7	8.3	6.4	40.2	.....
Imports.....	16.6	17.9	16.3	7.7	4.9	42.7	1.0
1977:							
Exports.....	12.8	7.9	18.0	5.8	4.6	36.0	.....
Imports.....	19.1	19.1	13.6	8.0	4.8	42.9	1.1

¹ Estimate.

Source: Calculation based on International Monetary Fund, Direction of Trade, annual 1971-77.

The military sales contracts were cancelled but the actual impact was not severe in the short run. Although future sales were lost, the contractors were protected to some degree by requirements of advance deposits and by pay-as-you-go provisions for delivery. Defense suppliers seemed thus not to suffer out of pocket losses. But, they would have to find alternative markets for future weapons sales given the loss of the large and lucrative market in Iran. Each of the alternative futures for Iran suggest that the market for military supply on a major scale would not be restored although some need for spare parts might develop.

Non-defense related sales to Iran were also important and these seemed to suffer more immediately. The extent of sales and the range of products was extensive and past sales were complemented by contracts for future deliveries. (See Tables 3A and 3B.) The range of items sold included such diverse items as telephone systems and agricultural products, but there were also contracts for construction of roads, schools and hospitals. Some of these seemed endangered, but others were likely to be maintained by the new regime. Uncertainty prevailed in the short run and over time it was unclear which alternative future would prevail and thus affect Iranian-United States business relationships. A left-wing alternative would suggest a turning to the Soviet bloc (or PRC) thereby precluding an extensive trading relationship with the United States. Otherwise some, though substantially less than that which existed prior to the revolution, sales potential would be retained.

TABLE 3A.—UNITED STATES SHARE OF SELECTED COMMODITIES IMPORTS TO IRAN, 1975-76

(In thousands U.S. dollars)

	Total	U.S. share	Percentage
Wheat.....	22,681	15,631	69.0
Rice.....	10,519	10,334	98.0
Pharmaceuticals.....	14,064	2,054	15.0
Tools.....	2,630	507	19.0
Mining and construction equipment.....	25,906	12,289	47.0
Tractors.....	7,955	3,408	43.0
Auto's.....	9,895	945	9.5
Agricultural equipment.....	2,571	261	10.0

Source: Department of Commerce, Overseas Business Reports Marketing in Iran, December 1977.

The new regime has begun to dismantle the modernization schemes of the Shah and to cancel numerous civilian projects (in addition to military purchases). Included in these are nuclear power plants, major road construction projects, industrial development plans, and other activities. These will, no doubt, result in the loss of markets and trade between Iran and the United States (as well as other states). But, there is also a longer term question of what stance Iran will take in the future with regard to the projects underway and plans in existence. Can Iran afford to dismantle existing development projects with the employment they provide and the economic and social benefits they generate? Or, will Iran need to move ahead, albeit more cautiously and less grandiosely than before, to maintain modernization programs within the limits of its system?

A related and immediate issue is the question of oil. In addition to the role of Iran in insuring the safety of transport of supply through the Gulf, Iran's role in the broader questions of international supply and price of oil was now uncertain. Iran was an important source of oil to the United States and the West prior to the revolution and with the increase in internal instability and turmoil that source of oil diminished, causing at least temporary dislocations on the world oil market and portending future complications of a more serious nature.

In his analysis of Iranian foreign policy perspectives included in the body of this paper, Professor Ramazani of the University of Virginia has suggested that should tranquility be established it is logical to

assume that economic nationalism would dominate and this would be characterized by reduced foreign expenditure especially for industrial projects. Domestic programs focusing on social services for the population and improvement in the agricultural sector would likely predominate. But, a new regime would still have to do certain things and these would require external relationships and assistance. Some oil experts will be needed to ensure appropriate production and some importation of foodstuffs and capital goods would also be needed. In all cases it seems likely that pre-revolutionary levels will not be restored.

TABLE 3B.—IRAN TRADE PATTERNS: IRANIAN IMPORTS, BY SECTOR FOR MAJOR TRADING PARTNERS
(In thousands of U.S. dollars)

	1973	1974	1975	1976 (estimate)
Total market for chemical industries equipment:				
United States	7,286	8,498	16,331	17,750
Federal Republic of Germany	5,962	13,585	25,006	.....
Total market for communications equipment:				
United States	20,009	23,696	61,812	60,197
Federal Republic of Germany	21,322	29,171	40,657	.....
Japan	9,054	16,153	33,752	.....
Total	113,605	139,753	233,681	236,356
Total market for construction equipment and materials:				
United States	68,322	102,217	352,198	296,580
Federal Republic of Germany	63,410	88,467	173,796	.....
United Kingdom	30,573	48,430	92,915	.....
Total	442,228	771,167	1,304,453	1,527,150
Total market for electrical equipment:				
United States	14,444	22,444	60,516	41,425
Federal Republic of Germany	27,911	39,227	88,524	.....
Japan	11,434	15,095	47,123	.....
Total	104,569	139,551	324,941	331,785
Total market for metallurgical and metal working equipment:				
United States	7,117	6,781	43,846	55,400
Federal Republic of Germany	19,429	35,367	70,450	.....
Total	51,136	75,817	197,796	484,000
Total market for petroleum and natural gas equipment:				
United States	28,245	51,518	102,399	136,922
Federal Republic of Germany	17,685	35,768	63,804	.....
Total	92,027	176,469	386,150	384,622
Total market for textile and textile product equipment:				
United States	4,086	6,850	4,185	10,510
Federal Republic of Germany	44,851	41,589	91,058	.....
Switzerland	10,105	13,681	19,307	.....
Total	85,878	107,706	211,608	215,200
Total market for road transport equipment:				
United States	43,239	101,857	290,398	187,425
Federal Republic of Germany	125,350	241,394	316,885	.....
United Kingdom	158,398	230,587	297,232	.....
Total	405,583	658,613	1,046,168	1,067,119
Total market for air transport equipment:				
United States	86,822	164,599	318,698	354,120
United Kingdom	6,892	10,229	16,636	.....
Italy	31,566	61,110	65,275	.....
Total	145,656	265,940	449,675	490,150

Source: Department of Commerce, Iran: A Survey of U.S. Business Opportunities, Country Market Sectorial Survey, October 1977.

The suggestion of both Professor Binder of the University of Chicago and Professor Moran on the faculty at Georgetown University in their analyses of Iranian policy and economic perspectives, respectively, is that Iran must continue to develop and while the revolution continues and generates uncertainty, modernization still remains a basic feature of the Iranian national structure and is likely to continue to do so. There will be cutbacks, under any of the alternative regimes, of what is deemed wasteful, unneeded or foreign inspired; but as Moran has also suggested the regime will need revenues no matter what avenue it follows. This need for revenue generates a requirement for exports and oil and petrochemical products are the only significant export product. Iran will thus be faced with the requirement for oil production and export if the revolution of change is to continue. Any Iranian government, no matter its political proclivities, that hopes to maintain domestic stability with a reasonable degree of popular support will have to have a public budget with appropriate expenditure. Moran has suggested that such a regime requires between 3.5 and 4.0 million barrels per day of petroleum exports. Four million barrels per day will thus likely be a floor for oil exports rather than a ceiling.

Iran's future need for oil exports does not portend a return to the cheap and dependable supplies that characterized the pre-1973 October War period. Total revenues can be maintained by high volume, low price sales or by high price, low volume sales and the latter seems increasingly to be the preferred method of those without much concern for the stability of the Western industrialized world. As Donnelly, *et. al.*, points out: "The Iranian revolution's principal implication for global oil and energy supplies is that it marks a point of no return for the world's major oil importing countries. No longer are they assured of ample, reliable, and cheap supplies of oil. Now they are entering into a new, troublesome era of scarce, expensive and uncertain oil supplies at increasing prices and further subject to political conditions and risk." The principal conclusion is that the world as a whole and the United States in particular will have to use less oil in the future and this no matter what the ultimate outcome of Iran's situation (although it might compound existing difficulties).

Thus, as Warren Donnelly of the Congressional Research Service suggests in his chapter on the energy aspects of the Iranian revolution: "A fundamental long-term implication of the Iranian revolution . . . for future economic policies of the United States and other nations is that their economies probably will have to function with less energy for their people in their work, in their travel, and in their homes." The result will be increasing and intense controversy within and between nations over the appropriate policies to follow and measures to take. The issues of control, decontrol, allocation, and appropriate responses to cartel prices and production controls all are at the heart of the discussion. Iran did not cause it and will only partially affect it no matter what the regime.

The economic consequences of Iran's revolution affect not only the United States but also the Soviet Union and the states of the Eastern bloc. Politically and strategically the Soviet interest will have an impact on the bilateral relationship with Iran as well as the broader in-

ternational relationship with the United States. In a strictly economic sense the Soviet bloc will be affected by the rupture of the gas supplies important to the economic progress of the bloc states, as discussed by William Cooper in his paper on the impact upon Soviet interests in Iran.

The United States has lost an important market and this, in turn, has affected its balance of trade and of payments with its attendant negative effects on the value of the United States dollar. Some of this will, no doubt, be recouped as the regime establishes its programs and consequent needs. The precise levels are indeterminate but the era of extensive economic (especially trade) relations is over.

THE STRATEGIC/POLITICAL DIMENSION

Iranian-American relations have focused on the strategic factor since after World War II. Originally, the focal point was the Soviet Union and the location of Iran on its southern border. In the 1970's the focus increasingly became the Persian Gulf and its oil resources and the Strait of Hormuz through which the bulk of Persian Gulf oil had to pass to reach its world markets. Iran provided the protection and stability for the flow of the oil. The revolution altered several elements of the United States strategic posture.

Questions concerning the quality of American intelligence and its failure to assess the revolution and its development were raised not only by foreign governments (especially the Israelis and the Saudis) but also by domestic critics of Carter administration policy. They argued that the United States diplomatic and intelligence community in Teheran was undistinguished and reinforced the existing stereotype of the Shah's regime rather than "develop a true understanding of Iranian society."⁵

Criticism of the United States role in the revolution and particularly in preventing the collapse of the Shah's regime, has also been voiced in the region and in the United States. Here too, there is no clear answer concerning the extent of action or the question of culpability. Professor James Bill has argued: "President Carter can in no way be blamed for this year of violence in Iran—but neither can he be praised for doing anything to help avert it. What he did accomplish was to further alienate those groups and classes in Iran who spent the year fighting the Shah."⁶ The sense of impotence and frustration of several of the regional states manifested itself in greater concern by them about the ability of the United States to deliver and the role of the United States as a dependable ally and friend. This was particularly acute in Israel and Saudi Arabia, but felt in other regional states as well.

Among the tangible issues is the security of American military equipment and secrets. Iran had sensitive American military equipment (See Table 4) and there was concern that this might fall into the hands of the Soviet Union or other foreign powers. The equipment

⁵ See James A. Bill, "Iran and the Crisis of '78," *Foreign Affairs* 57:323-342 (Winter 1978/79), especially page 339. Alternative views concerning the intelligence function and the quality of Embassy reporting do exist. See, for example, George Lenczowski, "The Arc of Crisis: Its Central Sector," *Foreign Affairs* 57:796-820 (Spring 1979), especially page 811.

⁶ James A. Bill, "Iran and the Crisis of '78," *Foreign Affairs* 57:323-324 (Winter 1978/79), page 339.

included that used by American agencies to monitor Soviet missiles and for electronic surveillance and the substantial amount of American modern weaponry sold to the Shah and available to the Iranian military.

TABLE 4.—MAJOR ITEMS OF MILITARY EQUIPMENT DELIVERED TO THE GOVERNMENT OF IRAN

	Quantity		Quantity
Aircraft:		Ground forces—Continued	
C-130.....	13	Armored personnel carriers.....	878
KC-707.....	13	Tanks.....	461
F-4.....	209	155-mm howitzers (self propelled).....	440
F-5.....	217	175-mm guns (self-propelled).....	37
F-14A.....	80	8-in howitzers (self-propelled).....	51
P-3.....	6	Munitions (missiles):	
RF-4.....	12	TOW.....	(1)
AH-1 helicopter.....	202	Dragon.....	(1)
UH-1 helicopter.....	56	Harpoon.....	(1)
Naval craft:		Hawk.....	(1)
Destroyers.....	5	Maverick.....	(1)
Patrol craft.....	20	Phoenix.....	(1)
Submarine.....	1	Sidewinder.....	(1)
Ground forces:		Sparrow.....	(1)
Armored cargo carriers.....	435	Standard (surface-to-air).....	(1)

¹ Quantities classified.

Note: The above list includes only major items sold and delivered to the Government of Iran under foreign military sales procedures. Additional quantities of some aircraft, in particular, were sold directly by private companies and are not included. Since delivery, attrition and usage have reduced the quantities available to Iran.

Source: House of Representatives, Committee on Foreign Affairs, Subcommittee on Europe and the Middle East, Hearings, U.S. Policy Toward Iran, January 1979, pp. 67-68.

The missile tracking equipment monitoring Soviet missiles was not of significant importance and its presence and activity is known to the Soviet Union and recognized as part of the SALT verification process. The basic question is the loss of the capability not the loss of the equipment and the secrets it represents. In question are two electronic listening posts in northern Iran—Takman I and Takman II—which were abandoned in February 1979 and which could monitor the Soviet Union's intercontinental missile testing base 600 miles away at Turatam. The posts were used to intercept radio signals broadcast by Soviet missiles during test firings which provided information concerning the Soviet Union's arsenal. The loss of these sites raised some questions concerning the ability of the United States to monitor compliance by the Soviet Union with the SALT agreement and raised questions about the ratification process in the Senate. Clearly there was concern that the loss of these monitoring sites would affect negatively the ability of the Carter administration to persuade the Senate to approve the new SALT agreement.

Although there is some disagreement concerning the importance of these sites and the ability to duplicate their intelligence functions with facilities in Turkey and through other means, much of the consensus suggests that these sites cannot be easily replaced. Some senators argued that the loss of these stations made it impossible for the Administration to monitor provisions in the treaty which would ban significant improvements to American and Soviet rockets. The administration argued it was devising a plan to compensate for the lost posts including the possible use of U-2 spy planes to monitor missile tests. Spy planes, new ground stations and advanced satellites were among the combination of alternatives suggested to replace the lost stations,

but some question concerning their availability in a short time period remained.

The electronic interception equipment is significant because it is part of a more complicated process of signal interception and general intelligence gathering. This was American property and American used and some of it was removed from Iran before the fall of the Shah. Its loss would affect the American intelligence process.

Armaments sold to Iran fall into a different category since they belong to Iran. These armaments include several items, such as the F-14, the P-3, and the Phoenix missile, which are advanced and their acquisition would be a worthy prize for a United States adversary, particularly the Soviet Union.

Regional security concerns were more directly affected. Despite its rhetoric concerning a twin-pillar policy which relied on Saudi Arabia and Iran for stability in the Gulf, the United States, in reality, focused on the Shah and the forces of Iran to ensure the security of the sector and the flow of oil. The United States seemed content with this and the Shah was willing to perform the task.

The United States recognition of the significance of Iran as a stabilizing force in the region was reflected in the substantial aid program which was established shortly after World War II and maintained to the mid-1970's. See Table 5. This aid not only assisted Iran in its economic and social programs but also contributed to its military strength. The financial contribution and technical assistance provided by the United States was instrumental especially in the 1950's and 1960's in assisting the regime to meet its own development goals. The training of large numbers of Iranian students in the United States also contributed to Iran's development and growth. Underlying this assistance was the view that a strong and developed Iran would be an important ally of the United States in response to Soviet machinations and, later, Gulf security threats.

TABLE 5.—IRAN: U.S. OVERSEAS LOANS AND GRANTS, OBLIGATIONS AND LOAN AUTHORIZATIONS

[U.S. fiscal years; millions of dollars]

Program	Post-war relief period, 1946-48	Marshall plan period, 1949-52	Mutual Security Act period, 1953-61	Foreign Assistance Act period				Total FAA period, 1962-78	Total loans and grants, 1946-78 ¹	Repayments and interest, 1946-78	Total less repayments and interest, 1946-78 ¹
				1962-75	1976	Transitional quarter	1977					1978
I. Economic Assistance, total.....	25.8	16.5	548.1	186.5	1	0.1	187.6	760.0	313.8	446.2	
Loans.....	25.8		197.0	80.3			80.3	295.8	313.8	-18.0	
Grants.....		16.5	351.1	106.2	1	.1	107.3	464.2		464.2	
A. AID and predecessor.....		14.9	507.5	95.7			95.7	600.2	265.7	334.5	
Loans.....			180.9	45.4			45.4	219.0	265.7	-46.7	
Grants.....		14.9	326.6	50.3			50.3	381.2		381.2	
Sec. supp. assistance.....			(166.0)	(44.5)			(44.5)	(205.3)			
B. Food for Peace.....		.1	40.6	71.7			71.7	112.4	43.9	68.5	
Loans.....			16.1	34.9			34.9	51.0	43.9	7.1	
Grants.....		.1	24.5	36.8			36.8	61.4		61.4	
Title I, total.....			22.0	34.9			34.9	56.7	43.9	12.8	
Repayment in dollar loans.....				17.6			17.6	17.6	17.4	.2	
Payment in foreign currency.....			22.0	17.3			17.3	39.1	26.5	12.6	
Title II, total.....		.1	18.6	36.8			36.8	55.7		55.7	
Emergency relief, economic development and WFP.....			12.0	21.1			21.1	33.1		33.1	
Vol. Relief Agency.....		.1	6.6	15.7			15.7	22.6		22.6	
C. Other economic assistance.....	25.8	1.5		19.1	1	.1	20.2	47.4	4.2	43.2	
Loans.....	25.8							25.8	4.2	21.6	
Grants.....		1.5		19.1	1	.1	20.2	21.6		21.6	
Peace Corps.....				19.1	1	.1	20.2	20.1		20.1	
Other.....		1.5						1.5		1.5	
II. Military assistance, total.....		67.2	500.6	844.7			844.7	1,404.8	515.1	889.7	
Loans.....				504.1			504.1	496.4	515.1	-18.7	
Grants.....		67.2	500.6	340.6			340.6	908.4		908.4	
A. MAP grants.....		66.0	430.8	269.8			269.8	766.7		766.7	
B. Credit sales—FMS.....				504.1			504.1	496.4	515.1	-18.7	
C. International military education training.....		.6	23.9	43.0			43.0	67.4		67.4	
D. Tran-excess stock.....		.6	45.9	15.1			15.1	61.6		61.6	
E. Other grants.....				12.7			12.7	12.7		12.7	
III. Total economic, military.....	25.8	83.7	1,048.7	1,031.2	1	.1	1,032.3	2,164.8	828.9	1,335.9	
Loans.....	25.8		197.0	584.4			584.4	792.2	828.9	-36.7	
Grants.....		83.7	851.7	446.8	1	.1	447.9	1,372.6		1,372.6	
Other U.S. loans.....			70.0	1,149.8	40		17.9	1,207.7	1,194.8	976.6	218.2
Ex-Im Bank loans.....			70.0	999.5	40		17.9	1,067.4	1,066.1	849.2	216.9
All other.....				150.3				150.3	128.7	127.4	1.3

¹ Values in these columns are net of deobligations.

The new regime, whatever its ultimate composition and probable orientation, will clearly not act as a pillar of American policy in the Gulf. It seems probable that Iran will focus its attention on domestic issues and concerns and confine its security activities to the defense of the country itself rather than seek to radiate its power beyond national boundaries.

The apparent turning inward of the Iranian revolution no matter which of the alternative regimes achieves supremacy suggests numerous effects on strategic problems in the region and beyond. Iran has already reduced its relationship with Turkey and brought about the termination of CENTO. Its military expenditure and capability will be reduced. It will no longer serve as a focal point and mainstay of Gulf stability and may well align itself more closely with destabilizing forces in the Gulf and the Middle East, such as the PLO. And unless a leftist regime succeeded it will intensify its links to Islamic states and regimes. No matter which situation prevails there will be an increase in the need for forces to assure the stability of the region and may well increase the need for a broader United States interest and capability in the Persian Gulf-Indian Ocean area. The establishment of a leftist regime would exacerbate these trends compounding the security issues and intensifying concern among the more moderate states of the region. (See the discussion in Cronin and in Reich, Pollock and Baynard.)

In light of this the United States position in the Gulf requires some redefinition and rearticulation. Bases and facilities to which the United States had access in Iran provided for defense capabilities and allowed planning assumptions which were seriously undermined with the revolution in Iran. The lack of assured access to air and naval facilities suggests the need for revisions in contingency planning and a search for alternative means to ensure United States interests and goals. Clarification of United States intentions and policies might well serve to reduce the ambiguity that would harm its position vis-à-vis local powers and the Soviet Union.

The question of Gulf security became a salient topic on the agendas of regional states. Oman was affected by the loss of support from Iran in opposition to the Dhofar rebels and in assuring the flow of oil through the Strait of Hormuz. The other Arab states of the Gulf sought to reestablish some stability through regional cooperation to replace the dominating and stabilizing influence of the Shah's regime. But the developments in Iran did not suggest a mechanism for local cooperation or response to threats, either domestic or regional.

One of the twin pillars of United States policy designed to ensure the stability of the Persian Gulf sector and the adjoining areas was pulled down with astonishing speed. While Iran was thus collapsing there were also dramatic changes in the ties with the other pillar as the United States and Saudi Arabia clashed over the nature of the Camp David Accords and the Egypt-Israel peace treaty and the future direction, course and pace of the Arab-Israeli conflict. A number of factors coincided to bring about a deterioration in the relationship with Riyadh. The Saudis saw themselves as loyal friends of the United States and, acting in their behalf, kept oil prices down and production up especially after the Iranian fields were shut

down. They argued that the United States was not acting in its own and Saudi best interests by not achieving a settlement which would effectively deal with the Palestinian problem. There was also some distrust of United States commitments given the failure of the United States to act forcefully in support of the Shah and concern about the possible spread of radical revolutionary forces in the region which might affect them. The developments in Tehran seemed to exacerbate already unhelpful trends in the region.

In many of the states of the Middle East (especially the more moderate Arab states of the Gulf and Peninsula) the Iranian revolution raised questions about the unreliability of American commitments, the expansion of Soviet influence, the possible spillover of ethnic-political insurgencies across national borders, the disruptive effects of modernization and Westernization, and the presence of large expatriate communities. There were concerns about the "failure" of American intelligence to foresee the situation in Iran and its course. The United States commitments to Iran were seen as substantial and yet the actions were viewed as weak. This raised questions in the region about American reliability and concern about its judgment, proposals and guarantees.

The northern tier has been affected more directly and significantly. The change in Iran's regime, the establishment of a pro-Soviet government in Afghanistan and the development of an anti-regime force, difficulties in Turkey, and the end of CENTO, all contribute to the disarray of the northern tier as a defense concept and as a reality of regional politics. There is, in the view of some, an increasing direct and indirect Soviet presence in the Middle East and neighboring areas. The "arc of crisis" concept suggests some of the broad outlines of that concern although not necessarily all of its details and specifics as discussed by Cronin.

The broader question of alliance links was also affected by the developments in and concerning Iran. The Iran revolution exacerbated, but did not create, tensions in United States relations with its Western allies. But, as Professor Kolodziej points out in his chapter dealing with Western interests, allied (i.e. United States, Western Europe and Japan) relations are "seriously flawed by internal stresses" and situations such as Iran create conditions for increased inter-allied conflict "with potentially damaging consequences for all participants". This is particularly true in the economic sphere where dependency on oil invites competition among the major industrial states and where the institutions and considerations of common interest and cooperation are not as strong as they would need to be to eliminate this tension.

ISSUES LIKELY TO FACE THE UNITED STATES CONGRESS

The revolution in Iran and its effects worldwide raise a number of issues for consideration by the United States. Among the more salient of these are the following:

(1) How can the United States assure and protect the uninterrupted flow of Persian Gulf oil in reasonable quantity and at reason-

able price to the United States and its allies? Can this be done through other than military means?

(2) How can the United States assure the stability of the Gulf sector with the loss of the major of the twin pillars?

(3) Under what circumstances might the United States consider the use of force to ensure its interests and assure the flow of oil?

(4) The relationship between the Arab-Israeli peace efforts and other issues in the Middle East has been made more clear. How can the United States approach an appropriate solution to the Arab-Israeli problem while still being concerned with repercussions in other sectors of the region?

(5) How can the United States encourage change (social and economic) without offending local sensibilities or affecting its relationship with the regime or its people?

(6) How does the United States recoup some of the prestige lost as a result of regional perceptions concerning an intelligence lapse and weakness of decision-making response to developments in Iran?

(7) How does the United States ensure increased Embassy potential in respect to the monitoring of regional developments?

(8) United States policy concerning sales of military equipment must be reassessed in terms of the loss of Iran's capability and the losses of equipment (and military secrets).

(9) United States economic and military assistance to regional states must be reassessed.

(10) Increasing inter-allied cooperation in the energy sphere is essential. There is a need to develop national energy policies and to coordinate them between United States and its allies.

(11) Overall coordination and cooperation between the United States and its Western allies must be reassessed in light of the regional economic and strategic shifts.

IRAN'S UNFINISHED REVOLUTION: POSSIBLE SCENARIOS

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PHASE ONE OF THE REVOLUTION

The concept "revolution" has been applied to such a range of historical and cultural phenomena that few would doubt that the linguistic coinage has become debased. It nevertheless appears that a great many are inclined to apply what has become a term of commendation to the events of this year in Iran. Yet, at least two caveats must be entered against such a consensus. The first is that whatever it is that is taking place in Iran, it certainly isn't over yet. The second is that even if we grant that what has occurred is a revolution, it does not follow that all revolutions are the same. These two issues bear further examination.

The most important parts of the old regime have been dismantled. The monarchy itself has been abolished, probably never to return. The systems of centralized policy control, of secret police and repression of opposition, and of outrageous social privilege have been severely damaged, perhaps beyond repair. The top ranks of the armed forces have been purged, the bureaucracy has been intimidated, and many parts of the economic apparatus have been severely disrupted. The press evidences somewhat greater variety if not freedom. A profusion of formerly seditious writings have appeared in book form or in pamphlets and are evidently freely available. The Marxist left has emerged into overt struggle. The mullahs have regained some of their traditional status and respect. The military have been humiliated. Western notions of modernity and the valuation of technological and scientific achievement have been brought into sharp question. Efforts have been made to replace close political identification with the West by closer relations with Islamic countries and especially those which are less closely allied with the West. Iranian petroleum production export and pricing have been adapted more to Iranian interests than to the needs of a world wide system of supply, finance and distribution. The changes are many, and it is perhaps reasonable to call the result a revolution.

Nevertheless this is a loose usage and it should not be taken to mean that the Iranian revolution has already passed through all the stages or phases or periods of a prototypical revolution. Much has happened very quickly. Not more than two years ago most observers would have thought that the actual events of the last twenty-four months were highly unlikely if not inconceivable. There were, however, several groups of revolutionaries who had been planning and hoping to overthrow the regime for a long time. We are, therefore, confronted by a

number of interpretive dilemmas. The most important of these is whether the rapid pace of events characterizing the breakdown is due to the concealed weakness of the ancien régime, the mere illusion that it was powerful, or was it due to the fact that opponents of the régime had a very clear notion of what they wished to accomplish. A second important dilemma is whether we are to take the swift establishment of an apparently elaborate governmental apparatus as the consequence of a very rapid process of stabilization or, again, as a catch as catch can utilization of available personalities and legitimating symbols in order to more completely destroy the old legitimacy in the short run.

It is probable that we are in the first stages of a revolutionary process in Iran, that many of the recent changes, but not all, are irreversible, and that insofar as civic order, the rule of law, human rights, freedom of expression and administrative effectiveness are concerned, matters will probably get worse before they get better. There are several possible scenarios.

A REVOLUTION HAS STRUCTURE AND DURATION

Most theorists of revolution agree that a revolution has both duration and structure. That is, most theorists believe that a revolution is not an incident or an event which can be identified with a specific point in time. However the revolutionary process is described, it is assumed to take place over a relatively long period, usually extending several years and sometimes decades. In the perspective of history, these events may come to be understood as a rather unique, unexpected, form of the continuation of the process of modernization and development of Iran, even though so many experts observers have hastened to argue to the contrary. Then again, maybe those who see this as the first step in an historical resurgence of a militant Islam are closer to the truth. Alternatively, there are also those who see in this only a tragic breakdown due to an overindulged penchant for development which is likely to be exploited by Marxist revolutionaries. In the short time that has elapsed, despite the many important things which have happened, no really decisive trend has been set. As a consequence it seems reasonable to assume that we are still at the beginning, in phase one of the Iranian revolution, but we do have some hints regarding phase two.

The idea that a revolution has structure argues that the phases of a revolutionary process have specific characteristics and these phases usually follow in some determinate order. Particular and idiosyncratic theories of revolution will not concern us here. The general idea, common to many theoretical efforts, is that a moderate, virtually reformist leadership emerges at first, but is gradually forced out or toward the radical extreme by leftists, by anarchists, and by the violent and desperate attempts of the remnants of the old régime to hold on. As the revolutionaries discover the tenuousness of their hold on the administration and as they see their popular following decline, the reign of terror, punctuated by public executions, begins and builds to a crescendo. The counter-terror follows in which the executioners are themselves killed and then political reaction sets in whereby the bourgeoisie grants legitimacy to, or shares power with, the younger officers of the military and the police. There may then follow a restoration of a

limited constitutional monarch, a bourgeois parliamentary system, or most likely of all, a bonapartist system. The Soviet experience adds the possibility of a single party dictatorship.

When taken thus as a composite of a number of theoretical orientations toward a number of historical ideal types, it follows that no one can expect the Iranian case to fit exactly to this model. Nevertheless there is the general idea that once things start to break down there is not much that the liberals can do to stop this process from continuing short of strengthening the apparatus of the state bureaucracy and security forces and devolving power to them. Presumably, it is sometimes possible to reverse the trend toward the breakdown of central authority, civic discipline and social control and sometimes it is not. Sometimes the liberals or the bourgeoisie or the middle class succeed in establishing a liberal state and sometimes they fail and are either forced to sustain the bourgeois state by military force or they lose out to the radicals.

The situation in Iran is greatly confused by the prominent political role played by the clergy and by Khomeini in particular. Many observers, especially those sympathetic to the old regime have been inclined to criticize this revolution as anti-liberal, anti-modern, anti-western, and anti-rational. Some see it as a reaction to too much modernization, too soon, and hence suggest that it is a violent historical readjustment, but like an earthquake that brings decades of stability. Some even argued that Khomeini should be judged by his liberal associates, but their conviction has faltered as the number of executions has mounted. Those who see the Iranian revolution as a classic bourgeois revolution under peculiar third world conditions will have no difficulty recognizing the growing reign of terror, and they must await the inevitable reaction. Those who see this as a resurgence of an Islamic militance are inclined toward the view that the revolution is complete and that what we are now witnessing is the stable pattern of a fanatical Islamic state.

Those who argue that a stable pattern has emerged may do so on two grounds. The first and less plausible is that the rulers of Iran are guided by a doctrine adumbrated by a charismatic leader, and this superstructural feature presently dominates over any substructural class or group interests. Hence no matter which individuals hold office they are bound to obey both Khomeini and the elaboration of his views in the forthcoming Islamic constitution. The second and more convincing ground would be the argument that an organized and stable power group has become crystallized in the form of an alliance of certain interests which are likely to stay together and give leadership to Iran for a substantial period. Let us examine each of these views more closely, and we start with the notion of a dominating doctrine expressed and applied by a charismatic leader.

ISLAMIC IDEOLOGY AND REVOLUTIONARY STABILIZATION

Although a great deal of publicity has been given to Khomeini's treatise on the Islamic state most commentators have been concerned to point out how antagonistic is the venerable cleric to Jews, Bahais, and some others. The more sensational treatments of Khomeini's thought

are meant to demonstrate that his political ideal is undemocratic, exclusivist, and irrational. Some have emphasized that Khomeini not only condones violence but even encourages it in some instances. It is, consequently, no wonder that the violent and often confused and disorderly events which have followed the February revolution have been attributed to the doctrines of Khomeini rather than to the natural historical phases of revolutionary violence. In any case, without denying that there are many statements in Khomeini's treatise which are offensive to the western liberal notions of justice, the most important aspects of Khomeini's doctrine lie elsewhere.

There is not much in Khomeini's treatise which contradicts the tradition of the Shi'i ulama of Iran, even though recently some efforts have been made to argue that the Shi'i ulama have no political aspirations. The main points of Khomeini's argument are that Islam itself requires the establishment of an Islamic state and that under no circumstances or any conceivable historical conditions is it acceptable that Muslims live under any other regime. An Islamic state is a political order in which the Sharica, or Islamic law, is upheld and in which, of course, Muslims and Muslim interests are protected against their enemies. An Islamic state will utilize all available scientific knowledge and technological innovations for both pacific and military purposes. In an Islamic state the law will be applied in an equalitarian manner. Because the use of state power and authority is guided by Islamic law, those who know the law are, in fact, the rulers of an Islamic state. Hence the ulama, or the fuqaha, those who become experts in the traditional Islamic legal sciences, are the real rulers in an Islamic state. The governors, the generals, the bureaucrats and all the rest must take their direction from the fuqaha. Since the government of Iran was not an Islamic regime it is incumbent on Muslims to try to change it, and in the meantime it is the responsibility of the ulama and the fuqaha to guide the people and to judge them in accordance with Islamic law rather than in accordance with the wishes of the rulers. The fuqaha have an additional responsibility under these circumstances. It is their task to teach the doctrines of the true Islam regarding politics and to win over workers, peasants, and university students and others to the revolutionary movement that will establish an Islamic state. The students of religion should not be misled into the belief that religion and politics are separate. They should not avoid danger in the belief that Shi'ite Islam condones dissimulation in order to save one's life if it is at the cost of Islam itself. They should not be discouraged if the revolutionary task takes many years. The religious classes must lead the revolution, they must not hesitate to confront force with force, and they are to be the actual rulers in an Islamic state.

When Ayatollah Khomeini was in exile in Paris and shortly after his return, rather much was made of the differences between him and other leading clergymen. It was generally thought that Khomeini was more radical and less willing to compromise than were other Ayatollahs. While some observers attributed Khomeini's hard line to his unfortunate personal experience with the Shah's government, others suggested that there might be important doctrinal differences between Khomeini and other religious leaders—that his theory of the Islamic state differed substantially from some widely accepted Shi'ite norms

or orthodoxy. The particular point at issue is whether Shi'ite doctrine can legitimate non-religious authority or a political authority which seeks justification as a matter of practical necessity rather than one which is derived from religious sources. This issue is central because, according to the Twelver Shi'ite faith which prevails in Iran, political authority ought legitimately to be exercised only by the Imams. The Imams are the religiously inspired descendants of the Prophet Muhammed. The Imams ought to have ruled in succession, although in point of historical fact, they were deprived of effective political authority by the Sunni Caliphs. There have been twelve Imams, recognized by the Twelver Shi'ites as having merited sovereign power, but the twelfth Imam, persecuted like the rest, has absented himself from society and from his followers since 878 A.D. The Twelfth Imam will reappear at some unknown time. Until then the Shi'ite community must be ruled by some substitute, and the question is what sort of substitute? Can any substitute enjoy religious legitimacy or must that substitute be secular and enjoy only the legitimacy of prudent expediency?

Ayatollah Khomeini's answer is that there can be and ought to be a religious legitimacy in the absence of the Twelfth Imam. That legitimacy is expressed in the maintenance of the Sharica through its interpretation by the fuqaha. The Pahlavi monarchy was not and could not have been legitimate in its own right, but only in terms of its relations with the fuqaha. In holding this position, Khomeini does not differ from the views held by a good many of the Iranian ulama, but he has expressed those views publicly and all too clearly. The Shi'ite ulama do not lightly encourage openly declaring an effective ruling authority illegitimate for fear of the socially disruptive consequences. Khomeini left nothing unsaid. Moreover, Khomeini went further than most of the ulama in his unequivocal attribution to the fuqaha of the right to rule (during the continuation of the great occultation) and his attribution to the theology students of the major responsibility to lead the revolution in Iran against anti-Islamic tyranny. Heretofore the ulama of Iran might have concerned themselves over whether to condone revolution or counsel against the risks of the disruption of social order. Khomeini demanded of them active participation in the role of organizers, agitators, and even combatants. This divergent innovation has not been openly contradicted, and, in fact, probably resulted in a number of tactical successes by which the ulama have attained the leadership of the revolutionary movement. It is particularly noteworthy that in urging the religious classes to take the revolutionary lead, Khomeini urged them specifically to try to win over the university educated, the scientists, and the technocrats. While he argued that Islam is not opposed to modern science and administration on the one hand, he also minimized the differences between his own position and that of the leftist opposition to the Shah by stressing his opposition to western imperialism, to western cultural influences, and to the dependence of the Iranian economy on western financial institutions. Hence, in addition to a more forceful statement of the Shi'ite political doctrine, Khomeini proposed a more active political role for the ulama and an alliance with both the technocratic and the leftist intelligentsia. The alliance of the traditional opponents of the Shah

and of the westernized but alienated educated classes grew stronger throughout the 1970's. The question now is, after the initial success of the revolution, is there enough in this doctrine to hold together all the disparate forces and to win acceptance of the guiding political role of the ulama under the new constitution?

As the doctrine of the Islamic state has been put forward it does not concentrate on specific social ills or economic problems. It is most concerned with the questions of legitimacy, of some minorities, of western imperialism, and with justice in the application of the law. Khomeini specifically denies the legitimacy of human legislation. It is, therefore, understandable that under Khomeini's leadership, the Iranian revolution should essentially seek to take over the state apparatus from the Shah, more or less intact. It may also follow that except for the consequences of political purges and the terror, including the occasional imposition of exemplary Islamic punishments, that little will be done to change the structure of society and economy. If such is the case then we shall have to see whether those who joined Khomeini in order to really change the social order will long accept his leadership and whether those who merely wished to rid themselves of the monarchy will long accept the arbitrary religious authority of Khomeini and his politically ambitious clerical followers.

REVOLUTIONARY STABILITY AND THE COALITION OF POLITICAL FORCES

The second argument that a stable pattern of revolutionary authority has already emerged in Iran holds that an alliance of political forces has expressed itself in a relatively cohesive organizational form and that this alliance seems to be in firm control. It is not easy to characterize this alliance in classic political terms since it has included all those who were opposed to the monarchical regime. While the extreme left has already moved into the position of the quasi-legal opposition, the regime remains a hodge-podge of intelligentsia, bourgeois, religious, radical and proletarian elements. Of course, we should not be surprised to see the gradual emergence of an alliance of the bourgeoisie and the clergy, but this classic pattern will then be confronted by the task of keeping the intelligentsia, the bureaucracy, and the military both subordinate and obedient in the face of leftist agitation. For the time being, at any rate, narrowing the alliance to any significant extent may have grave consequences.

If the interests represented by the revolution are diffuse, the organization of the revolutionary committees seems somewhat less so. We do not know much of the revolutionary committees but from what we can gather it appears that these committees were not created *ex nihilo* by converting individuals and forming them into cells. The basis of the committees is locality and in each case the core of the committees are the locally activist clergy—those who were in contact with Khomeini during the last two years or so—and others who either formed political alliances with the clergy or who, under normal circumstances, might be in touch with the clergy. Hence members of the teachers federation in many localities sought out the activist ulama and formed revolutionary alliances. Some representatives of leftist religious student groups did the same. The usual merchant and bazaari support of the

clergy and their neighborhood devotees would also remain in touch. It is, however, doubtful that the majority of the westernized intelligentsia either had much contact with the clergy or even sought them out during the crucial revolutionary period of 1978.

The local revolutionary committees have been set up alongside of the inherited administration. Presumably the task of the committees is to oversee and guide the administration while keeping a close watch on potential sources of counter revolution. The local committees are sustained by armed groups whose social composition is largely unknown so that we cannot be certain of the extent and direction of the influence of the leaders of these revolutionary militias. The strength of the local committees lies in that they are ubiquitous, locally rooted, composed to some extent at least of local notables and relatively independent of external control and direction. They have been, in fact, ideal instrumentalities of the revolution during a phase of the breakdown of central authority and the growing threat of anarchy. If, however, we are entering a phase of the concentration of authority and the rebuilding of the state apparatus these very local committees may constitute a grave obstacle to the progress of the revolution.

It seems highly unlikely that these local committees, important as they have been, constitute a stable political and organizational framework for the construction of a new revolutionary regime. Their locality and heterogeneity, their arbitrariness, the importance of personalities in their day to day activities, the limited control they can exercise over larger issues of economics, communications, health, and education must necessarily lead to efforts to reduce their influence and to strengthen the power of the central administration. If a stronger local government is established as a consequence of this revolutionary transition then perhaps some long run benefit may be gained, but even that is doubtful. We look in vain for stable political forces in the local revolutionary committees, even though they may be with us, in one form or another for a long time and even though they are likely to cause trouble to the present and possibly succeeding leaderships.

Paradoxically, the committees which have been one of the great strengths of the revolution, point to the greatest weakness of the revolution. In brief, the revolution was not the product of a social movement despite its mass support. We find no convincing evidence of either overt or covert movements of significant ideological content which show characteristic patterns of growth, diffusion, organization, or leadership and response to political events. The revolution was based largely on a package of effective symbols which had wide appeal, perhaps because they did not insist upon any fundamental change in Iranian society. These symbols included the negative presentation of tyrannical rule, cultural alienation, western imperialism, and incompetence as well as the positive symbols of Islamic legitimacy, Islamic solidarity, Islamic justice, and Iranian nationalism. These symbols evoked support without requiring joining an underground or paying dues or taking an oath. Of course there were clandestine, conspiratorial groups, and there were parties such as the Tudeh and the National Front, but these were not effective until Khomeini was able to make a mass appeal and until the intelligentsia and much of the un-

organized bourgeoisie decided to join the revolutionary effort. In particular, it is noteworthy that no widespread mass religious movement emerged in the period just before the revolution, nor is anything of the sort in evidence since. Though there were some religious stirrings among the middle classes and even among the radical students, these rather limited movements of urban educated persons cannot be taken as forerunners of a movement guided by the ideology adumbrated by Khomeini.

The Iranian revolution was an act of casting off illegitimate rulers, but it does not appear to have been a process of the total dissolution of the society, so that on the morning after the great event anything became possible. The strongest support of the revolution was the cohesion of the society and its relative conservatism rather than the domination of radicalism. But to the extent that the revolution did set out to make changes, it is obvious that it had to seek some point of leverage outside of the established social order. To the extent that it attacked the military and the bureaucracy as part of the tyrannical regime it had replaced, to that extent was it more difficult to use the favorite instrument of change of the old regime.

For the time being there is a real vacuum of power if not of authority. Thus far Khomeini has been able to fill the gap, with occasional resort to mass demonstrations, condoning executions of questionable political value, and limited use of armed force generally in locations distant from the Iranian heartland. The left and the more doctrinaire and younger religious groups have tried to fill the gap as have a few armed groups of urban militia, but, as yet, no one has shown the ability to threaten to seize power. The most important effort to fill the gap has been the basis of the more than tacit alliance of Khomeini and the Iranian bourgeoisie, and that is the attempt to sustain a bona fide constitutive process under the guidance of the Bazargan government and with the support of the National Front.

THE APPARATUS OF THE STATE AND INSTITUTIONALIZING THE REVOLUTION

The emphasis on political institutional development, or even a kind of parliamentary restoration, despite the emphasis on an Islamic constitution, is further evidence of the lack of determination to profoundly alter social structure and influence patterns in Iran. There is little doubt that many new faces will appear in the parliament and among them there may be some radical mullahs as well as a few militia leaders, but it is still likely that the bourgeoisie will comprise the majority. It is not clear whether the parliament will be organized in party factions nor even what it will be asked to do since Khomeini has explicitly stated that there is no legislation in an Islamic state. There may only be an elected, representative planning council. It is, therefore, likely that the parliament in an Islamic state will still be subordinate to the executive branch. The executive branch was quite rapidly reconstituted, after the revolution, but the state apparatus has been consistently complaining about the interference of both the local and the central revolutionary committees in its field of authority.

There are good reasons to believe that the revolutionary authorities will be forced, increasingly, to strengthen the state apparatus and to

rely on it more and more to maintain order, to implement policy, and to bring about any political and legal changes that it may decide are necessary. The first of these reasons is the need to cope with the economic situation and such matters of everyday existence as food supply, the availability of banking services, communications and education. While the previous regime was considered to be illegitimate it was not universally opposed until it proved itself incompetent in the face of the remarkable economic opportunities afforded Iran by the oil boom. For this reason it should have been expected that Iran would try to restore its level of petroleum exports to a relatively high degree despite some pockets of domestic opposition. If salaries are not paid, if savings are not available, if shops have no supplies and if it is dangerous to move about the streets, the middle classes will not long support the revolution. They will seek more radical solutions, or, in some cases, they will consider whether they could bear a restoration of the monarchy.

The Iranian economy and supply system is large scale and complex. It requires central direction and planning. It cannot be dealt with by a committee of eighty as one item among dozens dealt with during an all-night session. But the same can also be said of the task of maintaining the bureaucratic machine that has to do this work and the police and military organizations as well.

The second important reason for strengthening the state apparatus is the possibility of domestic opposition and above all of regional, ethnic, separatism. The challenge from Teheran's women was shocking because it was spontaneous, and because it revealed the depths to which liberal ideas had penetrated the middle class but did not deter the revolutionary regime. Its greatest significance was in demonstrating that all Iranians had not been reconverted to traditional Sh'ism overnight and that there might well be a showdown between the liberals and the mullahs at some future time. The persistent and growing opposition from the left has been more troublesome. During the last phase of the old regime many observers told us that the Tudeh party played little or no role. Since the Shah was overthrown the communists have been able to show that they are not as weak, as isolated and despised as had been thought. They seem to have been able to make alliances with other leftist elements, they have some friends if not comrades within Khomeini's inner circle, and they have managed to come forward as the only framework for the expression of critical and liberal opposition to the Khomeini regime. So far, the Tudeh, or the National Democratic party, has held its own against some erratic efforts at its suppression. It has not gone underground, or not completely anyway, but it has not become a real pole of attraction for the liberal intelligentsia in its opposition to Khomeini's political ideas. Presumably the National Democratic party has some influence among labor groups, especially in the oil fields, and that may account for the limited production among other causes. Clearly the full potential of the left for disruption and opposition has not been realized yet. It is also likely that Tudeh party policy will be coordinated to some extent with Moscow. It is in part because of the apprehension of Soviet reaction that the regime has been so cautious in reacting more than verbally to leftist challenges. It may also be noted,

that the Iranian "national bourgeoisie" has as yet no similar connection or channel of support from the United States, nor does it yet require such support.

Even more troubling than the expression of non-religious opposition in Teheran has been the rapid fire eruption of violent demands for autonomy by Kurds, Turcomans, and Arabs. There is little doubt that Azeri Turks and Baluchis will also be heard from. The first three groups mentioned were moved to overt armed opposition by the imposition of Iranian dominated local revolutionary committees which evidently threatened the existing social order. Clearly an Iranian dominated state apparatus was acceptable but not a local committee which symbolized the society itself. Thus far it appears that these challenges have been handled fairly easily by a combination of force and by the extension of promises for a greater degree of local autonomy. The amount of organized military force required does not seem to have been too great, so that even in its relatively muddled state the Iranian army has been able to carry out its responsibilities. Nevertheless, it is not clear whether these incidents have put away these ancient and difficult problems of Iranian national integration or whether they will arise again. Those who are inclined to read events in Iran as though we were witnessing a classic revolution on speeded-up film may consider these separatist incidents as closed. It is far more likely that they will recur in more severe form. If so, it is apparent that they will require, in the long run, a better organized, coordinated, and self confident armed force. In the same way, increased urban political challenges will require a stronger police force. The revolutionary regime first attacked those organizations and is still purging them and executing some officers who served the Shah too well. There is little doubt that this policy is gradually shifting to one of sustaining and strengthening the armed forces and the police. As far as we can tell, aside from the purges which may affect many hundreds of officers, there is no intention of taking the army apart and of rebuilding it from the ground up. To a large extent it is still going to be the same army, though many of the higher ranks will have gone.

The third reason for strengthening the state apparatus is the fact that both domestic leftist opposition and regional ethnic demands for autonomy encourage foreign intervention in Iranian affairs and may even lead to irredentist policies in neighbouring states. The gravest threat of this sort appeared in the recent outbreak of Arab nationalist demands in Khuzistan. The immediate, vigorous, and armed support given to these demands by Iraq must have caused some shock in Iran, and give ample warning that general statements of solidarity on the Palestine question will not alter what are thought to be Arab national interests. The fact is that Iran is in a weakened state now and it is far more likely that one can get away with attempts at partial dismemberment at this time rather than later. Temptation of this sort is especially great when Iran cannot count on any great power support.

The same sort of issue may arise again regarding Kurdish demands, although here, Iraq, is also opposed to encouraging Kurdish separatism. Nevertheless Iraq may decide to play off the Kurds against Iran or even to apply pressure in Kurdistan in order to gain a greater

advantage in Khuzistan. Before the Iran-Iraq agreement of 1975, the Iraqis also succeeded in inciting the Baluchis against Teheran.

It is not clear how the Soviets will react to an Iraqi policy of aggression on the minorities issue. Although there is a degree of cooperation between the Soviet Union and Iraq there is also much suspicion. It is unlikely that the Soviet Union would like to see an expansion of Iraqi power unless it thought that it might bring about a domestic crisis in which a leftist group could take power. Under such circumstances it is likely that the Soviets would encourage similar separatist movements in Azerbaijan and in the Turcoman country of Iran.

The central plateau of Iran is inhabited by a large majority of ethnic Iranians but most of the surrounding areas, on the borders, are inhabited by ethnic minorities. Iran is thus exceedingly vulnerable to external intervention when such intervention is linked to support for one of the potential separatist movements. There are a number of ways in which Iran can cope with these problems and none of them lead rationally to an intensification of revolutionary transformation. It seems to me that the best ways of dealing with these changes are: first, to set up a representative parliament and an efficiently decentralized administration; second, to strengthen the armed forces so they are capable of deterring limited external aggression as well as internal disruptions; and third, to develop a foreign policy that will reduce the potential threat and encourage promises of material and moral support in the face of foreign attack.

FOREIGN POLICY AND DEFENSE OF THE REVOLUTION

These are the kinds of policy that will have to be pursued regardless of whether the constitution is Islamic or not, regardless of whether legislation is enacted or discovered in revelation, and regardless of how religious minorities are treated. If these issues are neglected in favor of mass demonstrations and the manipulation of religious symbols, or if the terror is allowed to get out of hand, or if the army is thrown into confrontations for which it is ill-prepared, then we can expect further upheaval and changes in the revolutionary leadership.

Before examining the question of leadership change and the possible courses of the revolution, it may be well to reconsider what foreign policy options may be open to Iran at this time. International relations specialists are often fond of using the term national interest to express foreign policy necessities incumbent upon any government of a given state. It is an especially significant term when discussing potential foreign policy changes where there is a successor regime after a revolution or even after a decisive shift in party strength in a competitive democracy. The Iranian revolutionary leadership explained the Shah's foreign policy as an expression of his subordination to his imperialist protectors and the opposite of what was required by Iranian national interests. Of course they are inclined to formulate Iranian national interests in ideological terms in which Islamic brotherhood, anti-imperialism, third world solidarity and oil exporting interests are salient ideas. In part this was the natural result of the fact that opponents of the Shah generally received sup-

port from opponents of the Shah's foreign policy, or those who preferred a weaker rather than a stronger Iran. This circumstance led to impossible expectations whereby Iraq or the PLO expect Iran to devote itself entirely to their causes while Iran expects its new allies to abandon all their claims against the new Islamic state. American influence in Iran was very great indeed, but the Shah was neither a compliant puppet nor an efficient instrument of U.S. foreign policy. We were so close and yet so distant that each blamed the other for the mistakes that were the result of lack of coordination, lack of understanding, and arrogant self-confidence. We are still blaming one another. Yet, Iranian foreign policy under the Shah developed slowly and relatively independently of American preferences. The basic element in the alliance was our willingness to guarantee Iranian independence and territorial integrity. In our desire to minimize risks and costs we were only too willing to build Iranian armed strength and to support the notion that Iran could play a regulative role in the Gulf and even among its neighbours Iraq, Afghanistan, and Pakistan. None of this was impossible in international terms if Iran's domestic situation were better or if the Shah enjoyed a higher degree of legitimacy. Now the question is whether revolutionary Iran will return to this pattern of an assertive foreign policy or not. There is little doubt that the United States would welcome such a return whether directed by the Ayatollah or some substitute. In other words it is really up to Iran to choose its foreign policy path.

There is some evidence that Iran is seeking to improve relations with the Soviet Union, but that has been a long standing goal of Imperial Iran, aimed at achieving and maintaining Soviet non-intervention. Thus far the Soviets have been quite correct in this matter despite problems in Afghanistan. It is, however, doubtful that the revolutionary leadership of Iran which has so outspokenly attacked its own communists would be so ignorant of twentieth century history, and indeed of recent events in Afghanistan that it would believe that an alliance with the Soviet Union would be safe. An alliance with the USSR would make it difficult if not impossible for the United States to intervene to preserve Iranian independence, and one might suppose that it would be but a matter of time until the Islamic state would be overthrown.

Obviously, Iran's greatest problem after the Soviet Union is Iraq. Before the revolution, with American support and with superior armaments and larger armed forces, and with a tacit Israeli alliance and Saudi acquiescence, Iran was in a position to deal decisively with Iraqi threats. Now Iran finds itself vulnerable to Iraqi maneuvers. After the Israeli-Egyptian agreement and the Baghdad summit of the Arab States, Saudi Arabia has moved closer to Iraq. Iraq promises moderation on inter-Arab conflicts, except for Egypt of course, and hence is likely to receive support from even the so-called conservative Arab states in pressuring Iran. Iran can attempt to respond militarily, but it will take a great effort to rebuild its forces. Nevertheless some countries have found great military strength resurgent in a revolutionary movement. If Iran can add military success to its Islamic renaissance then, for a while at least, it would be able to proceed along a solitary international path. If it does not succeed in

creating a new and successful military machine and even then, it may be compelled to seek more distant foreign allies in order to maintain its territorial integrity.

Apparently the Shah was not so mad in desiring to have a powerful army, especially after the example of the level at which the October War (1973) was fought. The Middle East is a dangerous place to be without either an armed force or a great power protector. It is not unlikely that Iran will move back toward some facsimile of the Shah's foreign policy unless a fanatical ideological leadership prevents this. If that leadership turns out to be leftist we can expect a pro-Soviet tilt, but if it is Islamic or something else we can expect heavy military investments. As is well known, a strong army usually has significant if not decisive political influence in most parts of the world, and with this in mind we return to a consideration of the possible outcomes of the domestic political process in Iran.

TRANSFORMATIONS IN THE REVOLUTIONARY REGIME

To this point our agreement has stressed the view that whatever stability appears to prevail in Iran may well be illusory and that the rapid rise and demise of a variety of issues does not necessarily mean that the revolutionary regime has successfully dealt with these matters. If it is true that there may be important changes in the revolutionary regime then we might well examine what might be some of the most likely outcomes and what their circumstances may be. There are five probable regime outcomes of the present revolutionary process and they are: 1) a theocratic, 2) a bourgeois parliamentary, 3) a leftist, 4) a military or 5) a restoration of monarchical regime.

These five possible outcomes are not merely a classification of types of regime corresponding to five types of social forces arrayed against one another as though the strongest or the luckiest might, at the end of some complex process, emerge singly, victorious, and establish a government reflecting its own image. These five regimes are dialectically related in the sense that they may follow one another in time. The uncertainty upon which this analytical schema is based is comprised of two elements: our lack of knowledge of the magnitude and organization of social forces in Iran, and our incomplete information regarding the strategic thinking of alternate leaderships. Our fundamental assumption is that the Iranian revolution has not been the product of conspiratorial action by a group which contrived to overthrow the ancient regime and which succeeded in seizing power. The groups which agreed to collaborate in overthrowing the Shah have not yet sorted themselves out. Among them are those who would have preferred that revolutionary activity cease with the overthrow. Others would like to see a profound change in international orientation. Yet others prefer to see domestic changes. Some wish to transform Iranian society, some wish to restore its traditional patterns, and some would prefer to stabilize it. These views are not representative of the interests of specific social forces in the usual sense of ideologies. It is rather the case that many members of categorical groups like the clergy or the intelligentsia disagree profoundly over these matters. The disunity which characterizes all groups, from the ulama to the Marxists, is

one cause of the instability which manifestly threatens the revolutionary regime. This disunity is to be added to elements of cultural conflict, class conflict, ethnic conflict, regional conflict, and institutional conflict in assessing the probability and direction of political change in revolutionary Iran.

The five regime types are, consequently, suggestive of a pattern of possible change which will be the outcome of at least three processes: the revolutionary dialectic between the moderates and the extremists, the secular tendency to strengthen the apparatus of the state, and the conflict among interested groups or distinguishable social forces which are characterized by diverse levels of political, organizational, and ideological integration. In attempting to predict the most likely pattern or sequence of change we start from the second assumption that the revolution is more the product of modernization than a reaction against it. The involvement of what are usually thought of as traditional forces, especially the ulama and the urban masses, is no more an anomaly than was the emergence of a monarch, claiming traditional legitimacy, as the outstanding symbol of modernization. Such contradictions are problematic from the viewpoint of the liberal-economic school of development theorists, but conservative theorists, crisis theorists, and Marxian theorists, each have their own explanations for this more or less expected phenomenon, and each have their own views about the extent to which the political involvement of non-modernized social forces may shape or even halt the process of modernization. In Iran it appears that the complex and multidirectional processes of modernization cannot be held back unless convinced traditionalist forces gain relatively complete and concentrated power. This condition is highly unlikely because the ulama are not unalterably opposed to modernization in every sphere and because it is impossible to win such a degree of power in Iran without the support of the bureaucracy and military even such as they are after the revolution has begun.

AN ISLAMIC STATE

While the present government of Iran is dominated by religious authority, and even though some sensational restrictions on women's rights and some consummatory laws regarding alcoholic beverages have been enacted, that government cannot be regarded as a perfect model of an Islamic government in either an institutional or a practical sense. The limitation is not only due to the need to enact Islamic laws in many areas even though in some others Islamic law may be regarded as already in effect, but also to the fact that the apparatus of the state has been largely inherited from the ancien regime. Even if it may be argued that there is nothing inherently un-Islamic about such bureaucratic and security apparati, the consequences are that many of the established attitudes and instrumentalism, scientism, technologism, and professionalism still prevail, and that it is reasonable to draw the conclusion that Islamic political ideas are neither comprehensive nor pervasive. Here again it is important to note that the revolutionary coalition which overthrew the Shah would not have been as easily possible had it been supposed either that Khomeini would actually rule or that his conception of the Islamic state would be so comprehensive and so pervasive that bourgeois ad-

ministration and competitive political participation would be precluded. Hence the first alternative, that of an Islamic state, is not what presently prevails, but what may emerge if the present coalition breaks down.

In considering such an eventuality it is well to remind ourselves that Khomeini's appeal was threefold at least, calling for political freedom, for the application of Islamic law, and for an anti-western foreign policy. None of these three goals has been achieved, nor is it likely that any one of them can without limiting the achievement of the remaining goals. The present government alternates between balancing these three elements of policy against one another and against the challenges of social conflict and external pressures and pressing one of the three values against the other two. The common thread in what otherwise appears to be a meandering policy is a continuous effort to retain power and to maintain a degree of implementive capacity. Hence, in order for an effort to be made to establish a radically theocratic regime, in which the ulama will dominate rather than coordinate and only occasionally determine, there will have to be a major breakdown of cooperation between the clergy and the bourgeoisie as represented (however poorly) by the Bazargan government.

It is difficult to foresee what such a theocratic state would look like. Ayatollah Khomeini has been more concerned with the process of establishing such a state rather than with its institutional structure. The essence of the struggle to create an Islamic state is, of course, militance, preaching, teaching, organizing, mobilizing, and repressing anti-Islamic elements. The target groups against whom such activities would be carried out would be the very same bourgeois, intellectual, and leftist allies of the clergy. In order to succeed in this effort a new organizational and bureaucratic instrument would be needed, and one is inclined to think of precedents such as the "cultural revolution" in which students, workers, and soldiers were encouraged to bring pressure to bear on bureaucrats, professors, and military administrators. It is unlikely that the successful mobilization of such a mass movement in Iran could be stopped short of the use of military force and perhaps even short of Iran's international boundaries.

Thus, the distinctive aspects of a theocratic regime might be exclusive religious authority, a mass organization of religious enthusiasts, a militant campaign of purification, and a possible jihad. But it is important to remember that this is an extreme version of the Islamic state, and one that might emerge only under the threat of the elimination of religious influence from Iran's political life. This is not the pattern that Khomeini has sought and it is incompatible with his highly significant symbolic action of removing himself from Teheran to Qum. Yet, as we have witnessed, hybrid forms of regime such as exist in Pakistan and presently in Iran, in which much authority is wielded by the bourgeoisie and by the military may freely attribute to themselves the title of Islamic state with the acquiescence of the ulama.

A BOURGEOIS REGIME

The present government in Teheran might as easily be identified as a bourgeois government as an Islamic one. A bourgeois regime may

appear in many forms and may be identified with a variety of political theoretical themes. The most importantly relevant idea is that members of the bourgeoisie, that is, *not* members of the aristocracy, peasantry, or proletariat, predominate among the rulers. The bourgeois is often identified with capitalist enterprise and with individualism. The bourgeoisie has been identified with the demand for equality before the law and with the expansion of political freedom. The temporary allies of the bourgeoisie may be the intelligentsia, the technocrats, and the professionals. Bourgeois revolutions are generally believed to be progressive, to have enhanced freedom, equality, rationality, and economic well being wherever they have occurred. Usually a bourgeois revolution can occur only when the bourgeoisie has infiltrated the great state institutions of the bureaucracy, the military, the church, and the universities. Thus these institutions may be transformed into bourgeois institutions along with the legal system and even the system of land tenure. The term bourgeois institutions refers at once to the nature of the interests served and to the principles of equality, rationality, legality, and publicity which prevail in the organizational, institutional and administrative cultures.

The primary characteristic of a bourgeois regime is that it serves the interests of the bourgeoisie and its allies. The most significant secondary historical characteristic is that the modern democratic pluralist parliamentary regime is a product of the bourgeois revolution. It is, however a baleful fact of twentieth century history that bourgeois regimes have come into being exhibiting the primary characteristic but not the secondary characteristic. Non-democratic bourgeois regimes which ignore the principle of the universality of civil and political rights may have been aided in gaining power by the support of other bourgeois states, by means of an alliance with members of one or more of the great state institutions, and/or by means of a mass movement which utilizes religious or nationalist symbols. Historical experience argues that a bourgeois regime is a necessary condition for the achievement of democracy as we in the West know and appreciate it, but it is not a sufficient condition. Moreover, the weakness of the Iranian bourgeoisie, its dependence on the members of the state apparatus and on the intelligentsia, and above all its agreement that its own political ideals be defined in Islamic terms, all contrive to limit the probability that the present government of Iran will succeed in establishing a democratic, pluralist, representative regime which will sustain the principles of equality and political freedom. In this regard it is not likely that the bourgeois leadership and the religious elite will clash over issues of mass political participation and the desirability of social structural change. It is more likely that they will differ regarding the scope of influence, the autonomy, and the integrity of the groups allied to the bourgeoisie—groups such as the students, the intellectuals, the bureaucracy, the technocracy, and the professionals which are likely to demand a share of political power and admission to political participation.

It is possible that the present arrangement will continue without fundamental change; and the Iranian revolutionary regime will continue to regard itself as an Islamic state while external observers will

be inclined to view it as a non-democratic bourgeois regime which relies heavily on religious and nationalist symbols in order to maintain mass support and to intimidate the liberal and generally secularist sectors. In the short run both sides will have much to lose if the coalition between the bourgeoisie and the religious elite breaks up, but there is considerable ideological tension in this alliance that may render the present arrangement ultimately instable.

If we start from the assumption that great efforts will be made to hold together the existing loose coalition of ruling forces, in which such a substantial investment has been made, that coalition may develop into a form of bourgeois parliamentary regime. The executive branch has been given over, for the most part, to bourgeois liberal leaders. A legal structure based on Islam will be superimposed on the earlier legal system, but a legal system will remain established and it will not be profoundly changed. The army and the bureaucracy may be strengthened after being purged but they will also not be profoundly changed. Iranian society, education, and culture are not likely to be changed much in the short run. The economic system may be affected if the Islamic prohibition on interest is applied in an unsophisticated manner, or if the Sharica taxes in their traditional percentages are arbitrarily and exclusively applied. But it is not likely that Islamic law will be applied in such a mindless manner. Officially the parliament will plan rather than legislate, but the result may be the same. There will be some Islamic practices that will be enforced, although most feast days and fast days were already state holidays under the old regime. Mullahs will be more noticeable in the parliament and in the courts and there will be one or more boards of mullahs to supervise the work of the parliament. The areas of greatest tension are likely to be those of the freedom to form political parties and freedom of expression, both cultural and political on the one side and the inclination of a group of the highest clergy sitting perhaps in the form of a clandestine committee, to issue commands to the prime minister or to proscribe various public figures for anti-Islamic activity. If the clergy will be willing to restrict their political activity to quasi-legal functions where they have not actually been elected or appointed by constituted authority, then there will be clashes between the liberal leadership and the ulama, of which a variety of groups may attempt to take advantage.

It is conceivable that a substantial number of mullahs will be unwilling to give up their new political and administrative tasks. They may fear that religion itself will lose its newly regained prestige and that they will not be able to maintain the influence they have recently enjoyed. Some may try to keep things as they are by strengthening the local revolutionary committees and by making alliances with local radicals and armed militias or peoples' police. At the center, the danger of bourgeoisification and routinization may well be recognized and those who desire a profound psychological and moral transformation in the consciousness of Iranians may believe that the dissolutive process should continue for a while until Islam alone remains the only cohesive force in Iran. Such a policy would require increased challenges to the civil administration, and continued attacks on the bureaucracy, the police, and even the military. It is likely that those so motivated will prefer to see the terror extended and intensified and/or responses to

foreign threats or separatist demands escalated into a jihad. This kind of pressure would tend toward the establishment of a theocratic regime which is run by mullahs in the name of God and in which most policies are justified as following the direct commands of God. In its most extreme form it may take on the guise of the early Arab Muslims, an armed camp on the move, in which almost all wealth and authority was vested in the state itself. There is no doubt that such a regime will have a profound effect on the Iranian economy and on its petroleum exports. It is likely to become embroiled in wars with its neighbors. Some religious minorities, probably the Bahais, will be singled out for harassment or worse. It is doubtful that such a development will occur or that it will last long in Iran because of the size and strength of the modernized classes and because of the absence of any large scale lay religious movement. On the other hand, given the key role that the ulama are now able to play, it is not unreasonable to assume that some seek to extend that role rather than restrict it when the middle class begins to call for constitutionalism and due process.

The gravest danger point will arise when and if the bourgeoisie and the ulama come to a parting of the ways. Of the two, the ulama are a more cohesive group organizationally but not necessarily ideologically. The bourgeoisie, and especially its intellectual segment are only poorly and indirectly represented by those chosen by Khomeini to man the key administrative offices. It is conceivable that Khomeini and his close advisors will try to get rid of the National Front and other liberal political types in favour of a cabinet and administration of technicians. Such technocrats may be more responsive to theocratic authority and less concerned with civil rights and political freedom, but it is uncertain whether their appointment will appeal to educated Iranians as a provision for a rational administration or whether it will offend them as an encroachment on their freedom. Probably the majority will respond along the lines of the former and the minority will respond along the lines of the latter.

A LEFTIST REGIME

If such a clash between the ulama and the liberals comes about we can expect that the Marxist left, if not the Islamic left, will side with the liberals in demanding political freedom. The religious leadership may respond by encouraging mob action or local revolutionary committee action, but for the most part it will likely pursue the method of relying on selected technicians including specialists in the technology of violence. If the National Democratic Front should gain the tactical leadership of an opposition movement demanding greater political freedom, and if they have enough influence over organized and unorganized labor in the oil fields, and if they can gain both Soviet support and ethnic minority support, it is possible for an anti-religious coalition to come into power in which the left will play an important, possibly a decisive, role. If that should occur, it is uncertain what might then be done to prevent the deterioration of such a regime into a Castro-like satellite.

In retrospect, it may turn out that the greatest failure of the old regime was its neglect of the matter of income redistribution. It is

largely true that most groups of Iranians benefitted, directly or indirectly from the rapid increase in national income. There were, however, great economic dislocations, important differentials in the impact of inflation, and increasingly obvious gaps between richer and poorer. These economic stresses enhanced the sense of alienation between the modern, educated, and relatively affluent classes and the traditional, less educated and relatively poorer classes. As it turned out, the traditional classes were mobilized and politically directed by the mullahs and by traditional notables, merchants, and even secondary school teachers. The Marxist and Islamic left evidently had no more than a marginal impact on the political mobilization of the traditional poor and on the urban proletariat. There is, further, little doubt that in Khomeini's appeal for Islamic justice, there is a large economic component as far as the Iranian lower classes are concerned. They expect both more material benefits and more equality. There is hardly any question that this revolutionary regime will be judged in the medium to long run by its performance in both maintaining economic prosperity and achieving a more just redistribution of the income which is largely the result of petroleum exports. Should it become clear that the revolutionary government has failed in these areas, or should it appear that the regime is unwilling to press for income redistributive policies that are likely to result in restructuring Iranian society, then the Marxist left is likely to find its best opportunity to increase its power.

The prospects for the seizure of power by a leftist group are not very great because of the division among leftist groups themselves, because of the fate of the leftist government of Afghanistan, because of the overt opposition of the religious establishment and because of the identification of important segments of the left with the Soviet Union. The revolutionary left is not without significant political resources, but it is unlikely that these resources can be exploited unless extremely favorable political conditions are produced as a consequence of the revolutionary process. If events fall out in a manner favorable to a leftist takeover, the resultant regime will be heavily dependent on Soviet support but it is likely at first to look like the Nasser regime of Egypt. It is probable that any regime that is able to establish itself in Iran in the foreseeable future will find it prudent to appeal to more than a single principle of legitimacy, just as does the present coalition. As a consequence, it will not be easy to determine whether a truly leftist regime has been established nor will there be a high degree of certainty whether a moderately leftist coalition is likely to evolve in the direction of a Castro type government or follow the Algerian model. Each of the preceding propositions will bear some further elaboration.

The most important divisions among the leftist groups have been, on the one hand, that between the Islamic Marxist students and the secular Marxists, and on the other hand, that between the Moscow oriented Tudeh Party and the student Marxist parties. Since the revolution relatively little has been heard of the Islamic Marxists, while the Tudeh Party has emerged somewhat from obscurity and opprobrium to overt political action and to a degree of cooperation with the student Marxist group known as the Fidayan-i-khalq. It is premature to

argue that the left is swiftly uniting its disparate forces under pressure, and it is probable that the regime will strive to split the left or to keep it divided. Nevertheless, the left is trying to forge a broader coalition by making an issue of civil rights. The divisions among the leftists will not be as crucial if they can increase their numbers, but that task appears to be very difficult in the face of religious opposition just now. For the moment, the left is on the defensive. Their efforts to hold their own have been relatively successful, and they have suffered no grievous political injury as yet.

The problematic fate of the leftist revolutionary regime in Afghanistan may not be relevant to the Iranian situation, yet that example must raise questions about the optimum timing and conditions for an attempt to seize power. The particular circumstances in Afghanistan are the underdeveloped character of the country, the limited capabilities of the old regime, the willingness of the old regime to cooperate with groups of Marxist intellectuals and even to allow the growth of their organization and their assumptions of certain administrative responsibilities, the proximity of the Soviet Union and the absence of any serious alternative competitor for influence in Afghanistan. At the time of the April 1978 coup in Afghanistan it appeared as though the Soviets had simply picked up one of their own chips with the intention of raising the stakes in the Middle East competition. What has surprised most observers has been the ability of tribal, rural, and ethnic groups to resist the concentration of revolutionary power, to unite under the banner of Islam, and to develop effective sustaining arrangements with foreign elements hostile to the expansion of Soviet influence in the region. Conditions in Iran are not the same, but it is difficult to judge whether the greater development of Iranian transport and communications would complicate or facilitate the task of a minority Marxist government. If it is rather more likely that a leftist regime could make an effective appeal to the ethnic minorities, or to some of them, then one must count much of the Iranian majority against them. Iran is even more accessible to foreign intervention than is Afghanistan, and its pro-Soviet Marxist party is faced with serious rivals on the left as well as the right. All in all, the recent experience of Afghanistan should have a dampening effect on any inclinations on the part of the Soviet supported left to seize power. Should conditions change in Afghanistan, the Tudeh party and the Soviets may be encouraged to take chances, especially if they feel pressured to counter some Western initiative.

Since his return to Iran, Khomeini has made several statements critical of the Marxist wing of the revolutionary movement. It is, however, obvious that Khomeini has welcomed the support of the left and that he and his closest advisors do not wish to precipitate a political showdown with the left. The revolutionary government and the Marxists have worked out areas of common agreement in foreign policy, in petroleum policy, and in restructuring domestic economic institutions. There will be increasing friction in the areas of social policy, freedom of the press, political participation, and the role to be assigned to the state apparatus. Thus far, the left has demonstrated against but has not violently opposed the Bazargan government. For its part, the government has not violently repressed leftist demonstrations although it

has not protected such demonstrations either. Khomeini has apparently sought to control the left by means of issuing public statements asserting that the Marxist Left is anti-Islamic and hence anti-revolutionary. By this means, Khomeini is preparing public opinion in case there will be a need to confront the Marxists, and he has also managed to keep the Marxists off balance.

While clearly in the minority, the Marxists have significant resources which may be employed under favorable circumstances. There are no public statistics on the membership of various leftist groups, and it may even be doubted that we know all of the groups which presently exist in Iran. Above all, we do not have good information regarding the links between the diverse leftist groups nor about the numbers of committed Marxists to be found in the military or in the bureaucracy. For the most part the left is visible as a student faction. Despite this lack of information it is possible to offer some assessment of leftist strength in terms of social support, ideological position, and potential international backing. The Marxists can count on the support of a small segment of the educated classes, a large segment of the students, some key groups of workers, and a sprinkling of educated members of the minority counterelites. This reliable support is hardly enough to sustain a conspiracy let alone a mass movement, but under suitable conditions their potential social support can be much wider. The key to the wider potential support of the Marxists is to be found in their ideological position. The Marxists have positioned themselves well as exponents of freedom of expression, democratic political participation, equality for women and members of ethnic minorities, of the secularization of government, of equality in income distribution, and of the nationalization of the financial and industrial institutions of Iran. Whenever the revolutionary government falters in any one of these areas, the Marxists stand to gain social support if not members. Internationally, the potentiality of Soviet support is probably more of a handicap than an advantage at present and the invocation of Soviet intervention is a matter of strategic subtlety. But even beyond Soviet support, foreign opponents of the revolutionary regime, which might include Iraq, Saudi Arabia, and Turkey, and even segments of the Palestinian movement, could lend support to the Iranian left, especially in matters of ethnic politics.

The circumstances in which a leftist move to gain a larger share of power will occur are likely to be complex, involving both an intensification of revolutionary radicalism within and rather special international conditions in which Iran will become more isolated from other Muslim states. The intensification of revolutionary radicalism is a high probability event, likely to result from administrative failures as much as from opposition successes. It is virtually certain that the achievements of the revolutionary government will fall far short of expectations, and it is not unlikely that important differences will arise among the ruling factions. In a power struggle, one of the factions is likely to insist on ideological purity and on a repressive response to opposition. The more the ruling factions isolate themselves from significant social forces, the more likely is it that oppositional elements will regroup under the banner of a leftist rather than an Islamic interpretation of the revolution. The left will then be able to offer either the

protection of Russian support at the price of accepting organizational discipline or the alternative of a loosely organized liberal and secular popular front. The latter alternative is likely to be more successful in capturing power, but the Marxists would have to share that power with other groups. Still the task of gaining exclusive power might appear to be less formidable if the religionists and the bourgeoisie were divided. The popular front strategy will probably be preferred because it will diminish the likelihood of western intervention, it will reduce the probability of military intervention, and it may win over elements of the bourgeoisie and the intelligensia.

In the context of the Iranian revolution the popular front strategy has greater credibility than elsewhere in the third world. In most third world revolutionary situations, the military have played a significant role and in the long run their influence has been anti-Marxist even though they may traverse a period of close cooperation with Moscow. In Iran, the army has been so weakened by the revolution that it is possible to conceive of a situation in which it would not intervene to save the present government even though it might be clear that a group of Marxists might play a significant role in a successor regime. The military coup which introduces middle ranking army officers as trustees for a radical revolution may be the dialectical response to a leftist infiltrated popular front, but the Iranian officer corps is not yet in a position to present themselves as trustees of the political will of the nation. It is more likely to be not less than a clear and present danger of a Communist take over, real or apparent, that will justify a military intervention—and when only in cooperation with other political forces.

A MILITARY REGIME

It is likely to be the prospect of such a process, rather than the success of an anti-religious or even a secular movement that will bring the military into Iranian politics once more. It is, in fact, almost inconceivable that such a powerful and socially well-situated group should long be excluded from political affairs. Moreover, there are so many reasons why any regime in Iran will desire to strengthen and reinvigorate the armed forces that even in the absence of their own initiative the military will be brought back into the picture. For the most part the officer corps can be considered as part of the bourgeoisie, but probably not the liberal segment of the bourgeoisie. They will be more concerned with domestic order, with separatist movements, with foreign threats and with sources of military supply. It is not likely that such a powerful group, so strategically placed, will play only a passive role responding only to the orders of Khomeini or of Bazargan or of some equivalent. Still, unless the army is restored to its former cohesiveness it will not even be able to respond, much less act on its own. Even if the army is able to take some initiative it will not likely step forward as did the Egyptian army in 1952 and claim to be the virtual representative of the people. The army will have to use either the cover of the religious classes or the cover of the liberals and nationalists, or more likely both.

It is most likely, in view of the internal and external circumstances of Iran that a tension increases between the liberals and the clergy.

elements of the military will step forward or be thrust forward to produce a government of national safety which will claim to be at once Islamic, nationalist, socialist, and democratic. The major task of such a government will be to hold the country together, to defend against foreign attack, to get the oil flowing, and to prevent a leftist takeover. Under some circumstances, a military takeover could lead to a jihad against neighboring countries. Under other circumstances it could lead to a form of Bonapartism not unlike the Nasser regime in Egypt. Under yet other circumstances the pages of history might be turned back and we may find an Iranian general in power who wishes to be king. This last possibility is not very likely, for even though Reza Shah "the Great" became king in part because the clergy feared that a presidential system might lead to secularism, Khomeini's doctrine of an Islamic state excludes kingship explicitly.

There are, of course, more than a few Iranians who regret the end of the Shah's rule. Some of those who now regard the demise of that regime with regret actively opposed it when it was in power. Some doubtlessly feel that they were freer or economically better off, or less threatened in their daily lives. But it will take more than moments of remorse to restore the Shah, and anyone who has any of the power to do so will have to consider how limited was the political competence of the Shah to manage the new political force of Iran which he himself helped to create. It would be unwise, indeed, to attempt to restore the Shah and only the desperate will consider it seriously. There are, of course, more than a few who are desperate now. Nevertheless it is most likely that, after some passage of time, we will have an Islamic, nationalist, socialist, democratic, military regime in Iran.

The plausibility of this cautious conclusion rests on a number of reasonable assumptions. It may be assumed that there will be important disagreements between the mullahs and the secular elite as well as among the mullahs themselves. The mullahs may be able to help maintain discipline and can sustain a limited communication system, but they do not have a comprehensive program and they cannot implement one. The looseness of the organization of both the liberals and the mullahs makes it difficult to formulate a compromise and to enforce compliance. Some kind of an arbiter may be found useful, especially one that will not take sides and above all one that will not permit any strengthening of the Moscow oriented left. The recent experience of African and Asian countries offers examples of such regimes in the form of non-democratic, bourgeois, technocratic governments, in which authority is entrusted to military leaders in the name of an eclectic combination of principles which together represent the ideal of national integration, the reduction of inter-group conflict, and closing the gaps between the rich and the poor, the educated and the uneducated, and the center and the periphery. In the absence of an established and institutionalized democratic process, and in the absence of a numerous class of educated persons well practiced in participatory skills, democracy itself is reduced to an aspiration of which the possibility of the future fulfillment commonly must be safeguarded. From the point of view of the liberal bourgeoisie, the task of a military regime is precisely to preserve the future possibility of establishing a liberal regime. The more immediate task is, however,

to preserve national unity, to restore national pride and self-confidence, to construct an inner-class coalition, and to repress divisive elements. It is also possible that a military regime will be found preferable by both the mullahs and the bourgeois elite because of the need to make difficult decisions in the areas of foreign policy, oil production, and military policy.

It is apparent that any deviation from the most general third world solidary orientation in Iran's foreign policy is bound to elicit a strong negative response from some factions. In particular, any obvious attempt to restore the close relationship previously maintained with the United States, even under conditions of menacing Soviet pressure, will meet with significant domestic opposition.

In the area of oil production, Iran has managed to restore somewhat more than one half of its former contribution to world supply. This policy of keeping production well below capacity is based on the desire to conserve resources, to abstain from competition with Saudi Arabia on the setting of world market prices, to separate oil export levels from international political considerations, to convince the oil workers that Iranian oil is being used for the welfare of the Iranian people only, and, of course, to produce much needed income to run the government during this trying period. Present production levels represent a compromise among a variety of groups and political and economic priorities. The compromise has been facilitated by the rapid increase in the price of oil, so that the pressure to increase production in order to produce more short run income has not been as great as it might be. There is, further, little doubt that the Shah pressed Iranian oil production beyond reasonable limits both in terms of Iranian needs and the technical and physical capacities of the Iranian oil industry. Nevertheless, Iran, even without large scale arms purchases is more capable of absorbing increased petroleum income for domestic economic and welfare purposes than most other petroleum exporting countries. One can only expect that pressures for increased production will mount, but it is doubtful that the present coalition can change current policy very much in the near to medium future without having to confront vigorous opposition and possibly even an oil field strike.

Most recently we have been able to observe a sharp dispute over military policy between the Bazargan government and the entourage of Ayatollah Khomeini. The issue was over the relative emphasis on the revolutionary guard, i.e. domestic security forces, versus the regular combat forces that might be arrayed against regional ethnic risings or even against Iraq. This issue was complicated by the fact that strengthening the regular combat forces was deemed to require foreign advice and assistance, especially from the United States. Initially, at least, the revolutionary guard won out over the army, and a general who is Khomeini's close associate won out over the general staff. For the moment the issue does not appear to be crucially related to immediate foreign policy or military decisions, but should there be any deterioration in the security situation the Iranian government will have to make a difficult decision, or perhaps call into being an alternative government that can do so.

These are good reasons to believe that the present coalition will not last and that a military leadership may be installed in order to preserve the revolution and Iranian independence. It is, nevertheless, preferable both from the Iranian point of view and our own that the present coalition hold on as long as possible, that it become stronger and provide its own political infrastructure, and, hopefully, become transformed into a liberal, democratic regime which will at once respond to the interests of the Iranian people and also play a responsible and independent role in international affairs.

BUDGETARY AUSTERITY IN IRAN: REVENUE NEEDS, EXPENDITURE OPTIONS, AND OIL EXPORT POLICY FOR THE EARLY 1980's

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SUMMARY

Senior officials in the government of Prime Minister Mehdi Barzagan and figures around the Ayatollah Khomeini announced when they assumed office that they intend to cut wasteful and unneeded programs initiated under the Shah, especially the acquisition of expensive foreign military equipment and the construction of grandiose economic and infrastructure projects. With the lower revenue needs that resulted, Iranian leaders asserted that they would limit the export of Iranian oil to a level of 2.5–3.5 mbd and that they would “never” return to previous export levels of 5 mbd or higher. The sixty percent rise in Iranian oil prices since the crisis that toppled the Shah could lead to an even lower export target depending on the revenue figure used as a guide.

What are the basic revenue needs of the new Iranian government? How far can Iranian authorities comfortably allow public spending to drop? What are the implications for Iran's oil export policy?

The answers to these questions are unknowable in any precise fashion. Indeed, as long as chaos reigns within the ruling groups, within the government ministries, and within the oil fields, it is extremely difficult to make even broad estimates. During the first year of the revolution, the ability of the government to appropriate public funds, to spend public monies, and to raise public revenues has been minimal. Even the most uncontroversial programs (e.g. providing jobs for some of the 1–3 million unemployed) were in disarray. Using whatever means were closest at hand, various authorities undertook ad hoc measures (subsidizing imported food, granting wage increases, nationalizing foreign businesses, sending forces to quell regional uprisings) that could help ensure public order. The new government set a budget of \$32 billion for the fiscal year 1979–80, but was unable to disburse funds for many of the programs in an orderly fashion.

This paper tries to identify, on the basis of social demands built up under the Shah and in the year since his departure, what the expenditure needs of the new government are likely to be, and asks what the Iranian budget might look like in 1980–81 if the country's authorities gain the capacity (gradually) to administer a spending program aimed at meeting these needs. On the basis of a line-by-line dissection of Iranian budgets and budgetary plans, this study constructs three

hypothetical "cutback" budgets for the new Iranian government beginning with the fiscal year in March 1980 and ending one year later: a drastic cutback budget, an austerity budget, and a belt-tightening budget. In each case, the popular targets (defense spending, nuclear programs, large scale industrial projects, superhighways, the IGAT II pipeline, the Tehran metro) are pared back dramatically or halted entirely. At the same time, social programs are built back up to the levels of recent years (1977-79), and in some areas such as food subsidies and low cost housing are expanded.

It should be noted, however, that the budget constructs presented here are formal simulations. They do not constitute prediction that political tranquility will return to Iran by mid-1980.

The cost of the drastic cutback budget (in 1979 dollars) is \$30.6 billion. The cost of the austerity budget is \$34.2 billion. The cost of the belt-tightening budget is \$37.1 billion. These compare with the official proposed 1979-80 budget of \$32 billion. This suggests that any Iranian government that wants to maintain domestic stability with a reasonable degree of popular support will face strong internal pressures to build public expenditures up to a level between \$31 billion and \$37 billion.

On the revenue side, this study postulates (arbitrarily) that political stability is rapidly established in Iran in 1980 with an end to strikes and disturbances that disrupt both economic activity and the collection of taxes. It also assumes that some popular anti-tax pledges (e.g. raising the level of the tax exemption for individuals, or excusing public servants from the income tax) are NOT made into law. Finally, it assumes that the government's ability to borrow in domestic and foreign markets returns in relatively robust fashion by mid-1980. Tax collections will then equal approximately \$5.6 billion for the 1980-81 budgetary period, excluding oil income.

The result is a gap of \$25-32 billion that will have to be filled by oil revenues. This will require petroleum exports at an average price of \$21 per barrel ranging from 3.3 mbd to 4.2 mbd.

In reality, there are likely to be larger one-time start-up costs in the reconstruction of the Iranian economy than what is postulated here. And there will be demands for more public spending and more public subsidies (e.g. a freeze on utility prices) than what is included in these calculations. In years after 1980 these should increase.

The conclusion is that, barring new real price increases for OPEC oil, Iranian authorities may come to accept an export level of 3.5 mbd more as a floor than a ceiling. Over the medium term, they may in fact push toward export levels of 4.2 mbd (production levels of 4.8 mbd) although the technical feasibility of this without foreign expatriate assistance is questionable. At the same time, of course, Iranian representatives will probably remain price hawks within OPEC.

I. INTRODUCTION

The regime of the Shah has been roundly criticized for the inefficiency, corruption, and extravagance embodied in the headlong rush toward modernization since the early 1970s. Similarly, its vast accumulation of sophisticated and expensive Western armaments has been

attacked on both economic and military grounds.¹ The earliest statements of the government of Prime Minister Mehdi Bazargan and the Ayatollah Ruhollah Khomeini declared that the new revolutionary regime would cut back government spending associated with unneeded and unwanted public programs, and live within a much more modest budget.

The following analysis takes the declarations of the Iranian government about the desire to eliminate unpopular fiscal programs at its word. It attempts to create three alternative budget-cutting scenarios of varying severity: a drastic cutback scenario, an austerity scenario, and a belt-tightening scenario. Each runs from March 1980 to March 1981 (the Iranian fiscal year), and assumes a framework of fundamental political stability within the country.

In the drastic cutback budget (see detailed analysis, p. 55), new military equipment purchases are cut to zero (with the F-14s and Phoenix missiles sold back to the United States) and on-going operations and maintenance are kept well below the levels needed in 1979 to deal with domestic disturbances; all twenty-four nuclear reactors are cancelled (including the four contracts with Framatome and Kraftwerk Union that have already been let); the Tehran metro and the expansion of the Tehran airport are stopped; the Tehran-Qom-Bandar Shapur and Astara-Gorgan superhighways are halted as is the Chah Bahar port improvement; the Bandar Abbas and Bandar Shapur port modernization are greatly stretched out; capital expenditures for international telecommunications are cut to zero, as are capital allocations for tourism; public expenditures for six or seven major petrochemical projects are halted, as are official allocations of capital to two vehicle assembly operations (joint ventures with Peugeot and Volkswagen); the copper and steel industries are tightly limited; the modernization of the railroads is scaled down dramatically, as is the expansion of the conventional power system (TAVANIR) and the telephone service. IGAT II (the new natural gas pipeline to the Soviet Union) remains cancelled. Expenditures on major social services are held to their 1977-78 levels, except for urban potable water, sewage, low-cost housing and rural development, which are expanded (from the 1978-79 allocations) by about \$650 million. In addition, \$250 million is given in new agricultural subsidies to help in restocking animals and animal feeds. General government subsidies on food at the retail level equal \$1.4 billion, or slightly more than was spent before the crisis for 1977-78 (\$1.1 billion).

In the belt-tightening cutback, purchases of new military equipment are held to \$200 million (with the F-14s and Phoenix missiles sold back to the United States) while expenditures for on-going operations and maintenance are held at about 1979 levels; all twenty-four nuclear power plants are cancelled; the Astara-Gorgan superhighway is cancelled, but the Tehran-Qom-Bandar Shapur highway goes ahead with four lanes; the Tehran airport, the railroad expansion, and the Chah Bahar, Bandar Abbas, and Bandar Shapur port modernizations are all stretched out in comparison to capital budgets for both 1977-78 and 1978-79; the Tehran metro remains cancelled; petrochemical and steel

¹ See Theodore H. Moran, "Iranian Defense Expenditures and the Social Crisis". *International Security*, Vol. 3, No. 3, Winter 1978/79.

projects are stretched out, as are public contributions to the vehicle joint ventures; capital expenditures on international communications and tourism are again set at zero, and telephone service is expanded less rapidly than planned in either 1977-78 or 1978-79. IGAT II remains cancelled. Expenditures on major social services are allowed to run at the level of their 1978-79 allocations, with \$1,050 million added for urban potable water, sewage, low-cost housing, and rural development. In addition, \$250 million is given in new agricultural subsidies to help in restocking animals and animal feeds. General government subsidies on food at the retail level run to \$2.2 billion.

The austerity budget falls between these two.

The costs of all three (in 1979 dollars) remain high: \$30.6 billion for the drastic cutback budget; \$34.2 billion for the austerity budget; and \$37.1 billion for the belt-tightening budget.

The principal reasons why budgetary outlays remain so high are (1) the public sector wage increases that the Iranian government has committed itself to; (2) the fact that many multi-billion dollar projects (the 24 nuclear plants, the Tehran metro, some of the superhighways and industrial parks) had not yet commanded large annual fiscal outlays by the time the Shah was deposed, meaning that their cancellation brings savings only in terms of what "might have been"; and (3) the need to respond to the complaints of lower and lower-middle class sectors in urban and rural areas for social services (education, medical, sewage, water), for inexpensive food, and for housing which limits the ability of Iranian authorities to cut the social budget and which in some instances requires added outlays to respond to problems that the new regime has publicly identified as priorities for concern.

Looking at the revenue side of the Iranian fiscal equation, corporate and income tax collections will be relatively weak (indeed, must be relatively weak) for the next year or two as the economy attempts to restart itself. The ability of the government to borrow in domestic and foreign markets will be constrained not only because of wariness on the part of lenders but (in the domestic case) because of the need to maintain liquidity in the banking system. While both non-oil revenues and borrowing capacity will improve in 1980 if political stability has returned and the economy is recovering, the highest total for non-oil revenues by 1980 is likely to be no more than \$7.6 billion (annual rate) with \$5.6 billion the actual collections for 1980-81 (March to March).

To understand the pressures that sustain the levels of public spending and that constrain the levels of non-oil revenue, one must go back and reexamine the pattern of economic growth and the build-up of social tensions in Iran in the 5-7 years preceding the Shah's downfall.

II. THE LEGACY OF ECONOMIC GROWTH AND SOCIAL DISINTEGRATION

The four-fold increase in oil prices in 1973-74 nurtured the idea that Iran could do all that was needed for modernization simultaneously.²

² For an analysis of precrisis budgetary planning in Iran, see Theodore H. Moran, "Oil Prices and the Future of OPEC: The Political Economy of Tension and Stability in the Organization of Petroleum Exporting Countries" (Washington, D.C.: Resources for the Future, 1978).

Early in 1974, investment targets for an already ambitious Fifth Development Plan (1973-78) were doubled, from \$36 billion to \$70 billion (including defense expenditures). The sudden infusion of petro-dollars and petro-rials caused the Iranian GNP to surge by 34 percent (in real terms) in 1974 and by 42 percent in 1975.³ Despite clear evidence of waste and inefficiency, the Shah encouraged a sense of urgency in planning the country's modernization for two reasons: first, the country's oil production was expected to plateau near 7 mbd in the early 1980s, requiring the domestic economy to become the generator of future growth; second, he wanted the country to be firmly on the path toward becoming a middle level industrial power before he passed his throne to his son. The "all-out" approach was reinforced by early predictions that Iranian planners would have enough financial resources to modernize the economy, satisfy rising social expectations, multiply the size of the military establishment, underwrite a large foreign aid effort, and begin a board program of foreign investments and acquisitions simultaneously.

The non-oil sector responded vigorously at first, with industrial production, for example, expanding 14 percent in 1974 and 21 percent in 1975. But by 1976 non-oil sector growth began to dip (industrial production rising 14 percent in 1976 and 9 percent in 1977) with both physical and social bottlenecks becoming more evident.⁴ The 1976-77 budget shifted for the first time from surplus to net deficit (\$0.4 billion), even after foreign aid had been cut by 40 percent to \$1.4 billion.

Some infrastructure problems had been apparent since the earliest days of the economic expansion in Iran. Most notable was the congestion in port areas with delays of up to three months in off-loading cargo. Early efforts to expand handling capacity in the ports, however, only revealed further problems downstream in the relatively primitive road, railroad, and other transportation facilities.

The most serious in the new wave of infrastructure difficulties that emerged in 1976-77 centered on the domestic power grid.⁵ OPEC's second largest oil producer suffered its own "energy crisis" with Tehran blacked out for up to six hours a day during parts of 1977, more than 1,000 plants suffering substantial losses, and industrial production roughly halved. The U.S. embassy reported that the cutback in electricity was reducing the output of Iran's sole aluminum smelter in 1976-77 to half of the level of the previous year. An Iranian government study reported capacity utilization in textiles at 61 percent, in brick making at 46 percent, in the motor industry at 69 percent, in the tractor industry at 32 percent.

The 1976-77 period also saw emergence of a growing list of social problems. At the beginning of the 1970s more than half of Iran's population of 34 million still lived in rural areas, and nearly half of the country's work force of 10 million were still employed in agriculture.⁶ Male illiteracy was estimated at slightly over 50 percent with female

³ Foreign Economic Trends and their Implications for the United States: Iran. (Washington, D.C.: Department of Commerce, prepared by the US Embassy of Tehran), May, 1976, p. 2 (Hereafter, FET: Iran.)

⁴ FET: Iran, May, 1976 and December, 1977.

⁵ For the following statistics, see FET: Iran, May, 1977: "Land of the Shah: Growing pains in Iran Create Political, Social and Economic Strains," Wall Street Journal, November 4, 1977.

⁶ FET: Iran, December, 1977, p. 6.

illiteracy at 75 percent, again concentrated in the rural areas. The oil boom had not only an unsettling, but also, in many ways, a negative impact on this large semitraditional agrarian population.⁷ Price controls on the principal agricultural products (sugar, milk, eggs, wheat, vegetable shortening, potatoes, onions, chicken, and mutton) without corresponding controls on the price of fertilizers, pesticides, and seeds compressed farmers' margins. At the same time, boom conditions in the cities bid away doctors, teachers, and others who provided social services at the village level. In a final irony, while farmers were required to sell their output at fixed prices to government purchasers for sale to urban consumers elsewhere, enforcement of price controls was less vigilant outside the major cities than in Tehran, meaning that village dwellers had to pay higher prices for the food they bought than city dwellers did. In all, the economic boom led to both a relative and, in some cases, an absolute decline in the rural standard of living. By 1976-77 the gap between urban and rural incomes was estimated at 5 to 1, and widening.⁸

The squeeze on farmers and farm life accelerated a process of internal migration that was already well underway.⁹ Between 1971 and 1977 the movement of rural inhabitants to urban centers reached 1.1 million persons annually (mostly unskilled young males), or more than 6 percent of the total rural population each year.

When these migrants settled and found work, they came to earn a median income several times higher than they had left. But they also faced an extreme shortage of housing, potable water, sewage and medical services, and had to cope with a rate of inflation that ran as high as 34 percent per year in 1976 for some basic necessities (such as housing).¹⁰

Most of the migrants were employed in construction where the boom propelled wages for unskilled labor upward at more than 36 percent in 1976 (earlier it had been 50 percent).¹¹ In 1977 construction activity began to taper off. By 1978, some reports indicated that the average daily wage for unskilled workers in the construction sector had declined 30 percent from levels of a year earlier.¹² And the first riots in May of 1978 that brought the poor of South Tehran into the streets with conservative local religious leaders had a distinct economic cast to them, with demands for inexpensive housing, sewage, and water featured prominently.

III. THE PAST AS A PERSPECTIVE ON THE RECONSTRUCTION OF IRANIAN ECONOMY AND SOCIETY

The combination of physical bottlenecks and social tensions that began to build up during 1977 led the Shah to shift his fiscal priorities

⁷ FET: Iran, December, 1977; "Iran Agricultural Situation and Policy", Foreign Agricultural Service, US Department of Agriculture, February 19, 1978.

⁸ The ratio 5 to 1 is given in the Foreign Economic Trend Reports: Iran, and "Iran: Agricultural Situation and Policy". In November 1977 Nehdi Sanli, President of the Agricultural Development Bank, put the gap at 5.5 to 1. Wall Street Journal, November 4, 1977.

⁹ Cf. Iraj Vahidi, "A Profile of Iranian Agriculture", in Abbas Amiri and Hamilton A. Twitchell, eds., Iran in the 1980s, (Tehran: Institute for International Political and Economic Studies, 1978).

¹⁰ FET: Iran, May, 1977, p. 4.

¹¹ Ibid.; FET: Iran, February, 1979, p. 7.

¹² "Little Joy Greets Shah's Birthday". Washington Post, August 20, 1978.

for economic development toward the strengthening of infrastructure and social services. (The share available for military expenditures remained untouched.) In addressing his new cabinet in August 1977, the Shah admitted that rapid growth had produced "dislocation and backlash."¹³ He directed his Ministers to draw up budgets that would meet the new societal needs in the prospective Sixth Plan (1978-83).

The immediate response was a list of programs costing two to three times the most optimistic estimates of available resources. The publication of the Sixth Plan was repeatedly delayed, and only informal (but apparently authoritative) presentations of the government's precrisis balance sheet for coping with its internal problems are available.¹⁴

There is no way of measuring, of course, how far the expenditure programs included in precrisis estimates might have gone to alleviate infrastructure problems or dissipate social tensions. Nor can one estimate accurately the amount of waste and graft they might have contained. (In point of fact, however, the ratio between current operating costs and capital costs in the Sixth Plan was estimated at 1.4 to 1 in comparison to a ratio of 1.6 to 1 for the Fifth Plan, indicating a hypothetical strengthening of administrative efficiency.) One should assume that the allocations projected for the Sixth Plan, had the Shah remained in power, would have been fully spent. Whereas budgets prior to 1977 had customarily been underspent (e.g. the consolidated budget for 1976-77 was \$7.2 billion or 16 percent underspent at the end of the fiscal year), the 1977-78 allocation was \$1.7 billion or 5 percent overspent.¹⁵

As a background to understanding the fiscal problems faced by the *new* revolutionary government two points from the analysis of the *old* planning agenda stand out: First, taxes levied upon the non-petroleum sector were expected to average nearly twice as much as contemplated in the 1977-78 budget (\$11.8 billion per year v. \$6.0 billion) and nearly two and a half times collections in 1976-77 (\$4.9 billion).¹⁶ This is based, in part, upon the assumption that domestic business investment would expand at 16.1 percent per year from 1977 to 1984. Now, of course, the new revolutionary government will have to coax at least \$4 billion in Iranian capital back into the country and restore business confidence before it can even repeat the 1976-77 performance. Second, there are three major problems that past planning efforts have addressed only in cursory fashion: (1) The need to expand agricultural production and slow the migration to the cities by raising incomes earned by small farmers. Since the new government faces strong popular pressures to control inflationary food prices in the cities, this will require substantial new subsidies. (2) The need to provide technical training and jobs for migrants who have already arrived, and who will continue to arrive, from rural areas. This will necessitate a new emphasis on lower level vocational education. The most obvious areas for job creation lie in continuing or extending

¹³ FET: Iran, December, 1977, p. 4.

¹⁴ Firouz Vakil, Undersecretary of State, Iranian Plan and Budget Organization "Some Macro-Economic Considerations," in Iran in the 1980s. The Official use of this budgetary scenario is confirmed in FET: Iran, July, 1978.

¹⁵ FET: Iran, July, 1978, p. 6.

¹⁶ The Budget 2537 (1978-19): A Summary; Vakil, p. 135.

programs of publicly financed housing and road building."¹⁷ (3) The need to extend social services (especially urban amenities such as water, sewage, and electricity), medical services, and social security to poorer groups of workers. These benefits have been limited to the middle classes, the military, and government employees.

It is within this setting, then, that the following simulations of the Iranian budget-cutting exercise must be viewed.

IV. IRANIAN BUDGET OPTIONS FOR 1979-80

The following analysis consists of three hypothetical budget calculations for the Iranian government during 1980-81 for a fiscal year beginning in March 1980 (the Iranian fiscal year begins on March 21). The drastic cutback budget is governed by the objective of cutting back immediately and totally in those areas popularly identified as wasteful, unneeded, and/or foreign inspired. In some cases, the cutbacks may appear unrealistically severe, i.e. capital expenditures stopped and workers dismissed on projects half-way completed. In other cases, cutbacks have been hypothesized for projects that the various Iranian government officials have indicated the new regime intended to proceed with. At the same time, programs have been expanded only very modestly in areas where government officials have stated they wanted to concentrate their future efforts (i.e. rural development, urban low-cost housing). In the belt-tightening cutback more consideration has been given to stretching programs out (although here too many are eliminated completely), to preserving employment (especially through construction of infrastructure and housing), and to expanding programs to help the poor (especially recent migrants) in rural areas and in the cities. The austerity budget falls between the other two.

In calculating the costs of continuing programs at given levels, current costs for 1979-80 incorporate wage increases of 22-23 percent in 1978 in 12.5 percent in 1979. This may be too conservative since many ministries doubtless rely on private sector subcontractors where wages rose 30-50 percent in 1978 alone. It should be noted that while much has been made in the non-Iranian press about wage increases granted public sector employees in 1978-79, the incomes of government workers have in fact consistently lagged behind their private counterparts.

For most purposes, the 1977-78 budget has been chosen as a standard of reference rather than the 1978-79 allocations since there is some doubt as to how seriously the latter were ever to govern actual spending.¹⁸ In general, this analysis assumes that there is a devaluation of the rial (or the creation of a new currency) before the first quarter of 1980 that approximately offsets the internal inflation rate since the crisis intensified in the fall of 1978. This is estimated to be 42 percent over eighteen months, which corresponds to a new rial-dollar conversion rate of 100 to 1.

A. General Affairs

This category includes most of the costs of central government administration, plus the construction of government buildings, plus the

¹⁷ As of February 1979 unemployment was estimated to be 3.5 million or at least 35% of the labor force. It was concentrated most massively in construction. FET: Iran, February 6, 1979. Later estimates ran from one to three million. New York Times, August 5, 1979; FET: Iran, July, 1979.

¹⁸ FET: Iran, February 6, 1979, p. 5.

operations of the state's internal security organizations. In the drastic cut-back budget, central administrative costs are held to the 1977-78 level (with wage adjustments) except for "court expenses" which are reduced to zero. Construction of state buildings is reduced to zero. Internal security expenses are reduced by two-thirds (with the continuing threat of civil unrest, this last reduction may be far too great). The austerity budget is the same except that costs of internal security are reduced by half. The belt-tightening budget is also the same, except that the costs of internal security (including police forces and the administration of federal prisons) are only reduced by one-third. In total, capital expenditures under the "General Affairs" category are reduced to 23 percent of the 1977-78 budget and 53 percent of the 1978-79 budget allocations, under all three cutback scenarios.

B. Defense

Of the six budget categories in the Iranian defense budget, the one labelled "preparation, production, reconstruction and essential inspection" appears to consist mostly of equipment purchases. The others are "army personnel", "operations and maintenance", "real estate and construction", "civil defense", and "special activities". In the drastic cut-back budget, "preparation, production, reconstruction, and essential inspection" is cut from \$4.9 billion in 1977-78 and \$6.0 billion in 1978-79 to zero to signify a halt in new equipment purchases. In actuality, this would probably encompass more than equipment purchases, and in any case require the payment of penalties for contract termination. The anticipated resale of F-14s back to the United States is expected to cover maintenance and upkeep costs on Iran's fleet of F-4s, helicopters, and transport aircraft. "Special activities," "real estate and construction", and "civil defense" are also cut to zero, even though it is difficult to know what all is included under these headings. The "operations and maintenance" and "personnel" categories are cut approximately 20 percent below estimated outlays to maintain public order in 1979.¹⁹ In the austerity budget, equipment purchases, special activities, construction, and civil defense are again set at zero. "Operations and maintenance" and "personnel" are cut approximately 10 percent below estimated outlays in 1979. The belt-tightening budget maintains the aggregate level of defense spending at the 1979 level. Equipment purchases are given a nominal \$200 million, with all other expenditures at \$100 million.

While there is no public breakdown into capital and current expenditures in the Iranian "Defense" category, the drastic cutback budget is, in the aggregate, 60 percent of the 1977-78 outlay and 48 percent of the 1978-79 allocation; the austerity budget is 68 percent of the 1977-78 outlay and 54 percent of the 1978-79 allocation; the belt-tightening budget is 75 percent of the 1977-78 outlay and 60 percent of the 1978-79 allocation.

¹⁹ The director of the Plan and Budget Organization in the new government, Ali Okbar Moinfar, indicated that military spending in 1979 would equal \$6 billion per year. *New York Times*, August 5, 1979.

C. Social Affairs

The largest expenditures in this category are education, health and nutrition, social security, urban development, rural development (mostly infrastructure), and housing. Other categories include culture and art, physical training and scouting, environmental conservation, and regional development operations. In the drastic cutback budget, capital expenditures in the major areas are held at the 1977-78 level except that urban potable water is expanded from the 1978-79 allocation of \$17 million to \$100 million, urban sewage is expanded from \$3 million to \$100 million, low cost housing is expanded from \$12 million to \$300 million, and rural development is expanded from \$18 million to \$200 million. Social Security is held at the 1978-79 allocation (both income and payout). All other capital expenditures are cut by 75 percent of their 1977-78 level. In the austerity budget, the capital expenditures of the major areas are allowed to rise to the level of the 1978-79 allocation, with urban potable water, sewage, low cost housing, and rural development going beyond the 1978-79 level to the targets indicated above. All other capital expenditures are cut by 75 percent of the 1978-79 allocation. In the belt-tightening budget, the expenditure pattern is the same as in the austerity budget except that urban potable water is at \$200 million, low cost housing is at \$400 million, and rural development is at \$300 million.

All together, the capital expenditures for "Social Affairs" in the drastic cutback budget equal 117 percent of the 1977-78 outlays and 119 percent of the 1978-79 allocation. In the austerity budget they equal 113 percent of the 1977-78 outlays and 116 percent of the 1978-79 allocation. In the belt-tightening budget they equal 128 percent of the 1977-78 outlays and 131 percent of the 1978-79 allocation.

D. Economic Affairs

1. *Agriculture.*—The major expenditures in the past in the agricultural sector have included price supports for key products and credits for agricultural development and animal husbandry. In the next 1-2 years, the agricultural sector will face two new problems: an immediate need to rebuild stocks of feed (feed grain, oil cake and meal) that have been almost totally depleted; and a need to restore the populations of livestock and poultry that have been slaughtered during the feed shortage and economic crisis of the past two years. In the past the government has aided farmers by absorbing freight and financing costs for the import of animals and feed. The following budgets project that this will continue. (In addition, the Government of Iran subsidizes the price of critical food items to consumers. For the strengthening of this program in the rural areas, see the section on Commerce.)

The drastic cutback budget repeats the 1977-78 budget, except for cutting out expenditures for land reform, and adds \$250 million in subsidies for restocking feed and animals. The austerity budget also repeats the 1977-78 budget, except for ending land reform expenditures, but adds \$450 million in subsidies for fertilizers, herbicides, and pesticides and for restocking feed animals. The belt-tightening budget is based on the 1978-79 allocation, except for the end to land reform

expenditures, and adds \$450 million in subsidies for fertilizers, herbicides, and pesticides and for restocking feed and animals.

In all, the drastic cutback budget represents 138 percent of the capital outlays during 1977-78 and 90 percent of capital allocations during 1978-79. The austerity budget represents 169 percent of capital outlays during 1977-78 and 109 percent of capital allocations during 1978-79. The belt-tightening budget represents 224 percent of capital outlays during 1977-78 and 145 percent of capital allocations during 1978-79.

2. *Water*.—In all three budgets capital expenditures are kept at 1977-78 levels.

3. *Electrical power generation*.—There are two principal electrical power items in the Iranian budget. TAVANIR (the National Iranian Power Generation and Transmission Corporation) for conventional power generation and the National Iranian Organization of Atomic Energy for nuclear power generation.

The drastic cutback budget assumes that the atomic energy program is halted; that is, not only are the 24 nuclear reactors (cost \$20-40 billion) pared back to the four contracts let to Framatome of France (2) and Kraftwerk Union of Germany (2), but the latter four are cancelled, as well. The capital budget of the Iranian Energy Organization drops from \$2.0 billion in 1978-79 to zero in 1979-80. It further assumes that despite the problem of recurrent power blackouts in 1977-78 the TAVANIR capital budget will be cut back in 1979-80 to the 1977-78 level or 58 percent of the approved 1978-79 figure.

The austerity and the belt-tightening budgets also cancel all atomic energy contracts but have the TAVANIR budget left at the 1978-79 appropriation.

With regard to total capital expenditures, the drastic cutback budget equals 32 percent of the 1977-78 figure and 22 percent of the 1978-79 figure. The austerity budget and the belt-tightening budget equal 55 percent of the 1978-79 figure and 38 percent of the 1978-79 figure.

4. *Industry*.—Three of the largest sectors in the Iranian government's industrial grant program are metal and metal smelting industries, chemical and petrochemical industries, and vehicle industries. In the drastic cutback budget, the plans for the expansion of the Iranian National Steel Mill Corporation and the Shah Reza Industrial Park (a joint venture of the Organization for the Expansion and Renovation of Iranian Industry and Krupp of West Germany) are brought to an orderly halt, with capital expenditures of \$60 million in 1979-80 in comparison to \$567 in 1977-78. The finish of the Sar Chesmeh copper complex is stretched out with capital expenditures of \$118 million in 1979-80 in comparison to \$259 million in 1977-78. In the austerity budget, the Shah Reza Industrial Park with Krupp is again cancelled; the development of the Iranian National Steel Mill Corporation is continued, but much more slowly (\$101 million in the 1979-80 capital budget in comparison to \$402 million in the 1977-78 budget); and Sar Chesmeh copper is again stretched out (\$176 million in the 1979-80 capital budget in comparison to \$259 million in 1977-78). In the belt-tightening budget, the Shah Reza Industrial Park goes ahead but at half the anticipated rate: the Iranian National Steel Mill receives half the 1977-78 capital allocation; and Sar Chesmeh copper continues to completion according to its previous schedule.

With regard to petrochemicals, in the drastic cutback budget, the completion of the Iran-Japan Petrochemical Company is stretched out, and government contributions of capital to other state entities in this sector cease (Iran Fertilizer Company; Abadan Petrochemical Company, a joint venture with B. F. Goodrich; Shapour Chemical Company; Kharg Chemical Company, a joint venture with Standard Oil of Indiana; Iran Carbon, a joint venture with the Cabot Corporation; and the Iran-Nippon Petrochemical Company). This implies a capital allocation of \$60 million in 1979-80, in comparison to \$240 million in 1978-79. In the austerity budget, the completion of the Iran-Japan Petrochemical Company proceeds at half the 1978-79 pace but other chemical projects remain at a standstill, with a total capital allocation of \$120 million. In the belt-tightening budget scenario, the Iran-Japan Petrochemical Company continues at its scheduled development rate while the modernization and expansion of other projects are stretched out. This requires a capital budget of \$180 million, in comparison to \$240 million scheduled for 1978-79.

With regard to the vehicle industries, the drastic cutback budget has the Iranian government making no contribution whatsoever in 1979-80, leaving the joint ventures with Peugeot-Citroen and Volkswagen to continue on their own. In the austerity budget the government of Iran makes capital contributions at one-fourth the 1977-78 rate (15 percent the 1978-79 allocation) or \$26 million in comparison to \$105 million. In the belt-tightening budget, capital expenditures reach one-half the 1977-78 level.

In toto, capital allocations under the drastic cutback budget equal 52 percent of the 1977-78 outlay and 51 percent of the 1978-79 allocation. In the austerity budget they equal 64 percent of the 1977-78 outlay and 62 percent of the 1978-79 allocation. In the belt-tightening budget they equal 79 percent of the 1977-78 outlay and 77 percent of the 1978-79 allocation.

5. *Oil*.—The drastic cutback budget keeps the budgets for exploration, extraction, refining, transmission, and distribution at 1977-78 levels. The austerity budget adds \$100 million for extra work-over and start-up costs. The belt-tightening budget adds \$200 million for extra work-over and start-up costs.

6. *Gas*.—All three budget scenarios keep gas expenditures at the 1977-78 level, allowing IGAT I to be restarted and IGAT II to proceed a year behind schedule.

7. *Mines*.—In the drastic cutback budget expenditures for extraction and exploitation are cut in half in comparison to 1977-78 (from \$247 million to \$124 million in keeping with the slowdown of Sar Cheshmeh in the industry category above. In the austerity budget, they are kept at the 1977-78 level. In the belt-tightening budget they are raised to the 1978-79 allocation (\$366 million).

8. *Commerce*.—Almost the entire amount allocated to "commerce" is in fact the subsidy afforded to food consumers on basic products such as flour and bread, sugar, vegetable shortening, milk, eggs, chicken and mutton. During 1979 the government subsidized very large amounts of food imports as the easiest way to use oil revenues to help keep domestic social peace for authorities whose administrative capabilities were minimal. The drastic cutback budget sets these subsidies at \$1.4 billion for 1980-81, or a little more than what was spent in 1977-78 before

the crisis (\$1.1 billion). The austerity budget raises this to \$1.8 billion, and the belt-tightening budget to \$2.2 billion.

9. *Transportation and communication.*—The transportation and communication sector includes a diversity of infrastructure projects, including airports, roads and highways, railroads, and ports.

In the drastic cut-back budget, the expansion of the Tehran airport is halted; the Tehran-Qom-Bandar Shapur superhighway is cancelled; the Astara-Gorgan superhighway along the Caspian Sea is cancelled; the capital expenditures on the railroad system are cut to 25 percent of 1977-78 levels (13 percent of 1978-79 allocations); the Chah Bahar port modernization is halted; the Bandar Abbas port expansion is severely cut back; the Bandar Shapur port improvement is stretched out. The construction of secondary airports and roads is stretched out.

In the austerity budget, the expansion of Tehran airport is again halted; the Tehran-Qom-Bandar Shapur and Astara-Gorgan superhighways are also cancelled; capital expenditures on railroad modernization are held to 50 percent of 1977-78 levels (26 percent of 1978-79 allocations); Chah Bahar is halted, and Bandar Abbas and Bandar Shapur are stretched out. More work is done on secondary highways and airports than in the preceding budget.

In the belt-tightening budget, the Tehran airport expansion is stretched out but continued with capital allocations for airport construction at 75 percent of the 1977-78 levels; the Astara-Gorgan superhighway is cancelled but the Tehran-Qom-Bandar Shapur highway is allowed to proceed with four lanes (capital expenditures at 1977-78 level, or 12 percent of 1978-79 allocations); railroad expansion takes place with 75 percent of the 1977-78 capital expenditures; and Chah Bahar, Bandar Abbas, and Bandar Shapur are all stretched out with 75 percent of the 1977-78 level of capital outlays.

All together, the capital expenditures in the drastic cutback budget are 54 percent of the outlays for 1977-78 and 28 percent of the allocations for 1978-79. In the austerity budget, they are 71 percent of the outlays for 1977-78 and 37 percent of the allocations for 1978-79. In the belt-tightening budget, they are 87 percent of the outlays for 1977-78 and 45 percent of the allocations for 1978-79.

10. *Post, Telephone and Telecommunications* (including radio and television).—The drastic cutback budget cuts the capital budget for international telecommunications to zero, and pares the general telecommunications capital budget to 25 percent of its 1977-78 level (10 percent of its 1978-79 allocation). It puts the capital budget for telephone systems at one-third the 1977-78 expenditures. The austerity budget also sets the capital budget for international communications at zero, but allows capital expenditures for general telecommunications to continue at one-half the 1977-78 level (37 percent of the 1978-79 allocation). Capital expenditures for telephone systems run at one-half 1977-78 levels. In the belt-tightening budget capital expenditures on international telecommunications are again zero, with general telecommunications capital allocations at one-half the 1977-78 figure. Telephone capital expenditures are three-quarters of the 1977-78 level. In each of the three scenarios, other capital items (telegraph, post, administrative services, and research) are held at the 1977-78 level. All three of these scenarios imply the cancellation and/or cutback of contracts that have already been awarded to ATT and GTE.

Over all, capital expenditures in the drastic cutback budget run at 40 percent the 1977-78 level and 41 percent the 1978-79 level. Capital allocations in the belt-tightening budget run at 71 percent at 1977-78 level and 73 percent the 1978-79 level.

11. Tourism.—In all budgets capital expenditures are cut to zero.

For all of the category "Economic Affairs" capital expenditures in the drastic cutback scenario equal 64 percent of the 1977-78 budget and 46 percent of the 1978-79 budget. In the austerity cutback scenario, they equal 80 percent of the 1977-78 budget and 58 percent of the 1978-79 budget. In the belt-tightening scenario, they equal 91 percent of the 1977-78 budget and 66 percent of the 1978-79 budget.

V. REVENUES

Next to income earned from petroleum and gas exports, corporate taxes constitute the largest source of government income. Under the best foreseeable circumstances, corporate taxes are estimated to reach by 1981 a rate equal to one-half the 1977-78 level. For the entire year, however, it is doubtful they could equal more than one-third the 1977-78 total. Personal income and wealth taxes are estimated for the entire 1980-81 year at one-half the 1977-78 level. (A proposal put before the Parliament in 1978 more than doubled the amount of tax exemptable income for individuals, and there were indications of a move to exempt all public servants from the income tax.²⁰ The passage of these or other such measures would make the above calculations too high.) Government sales of goods and services are estimated to reach 1977-78 levels by the first quarter of 1981, although populist pledges already made (i.e. to freeze utility prices) may prevent this. This revenue forecast assumes that during 1980-81 the Government of Iran will be able to borrow \$1 billion. The constraints on official borrowing include not only lender uncertainty but the need to keep the domestic banking system liquid (80 percent of the local bond offerings are purchased by banks to meet reserve requirements, and reserve requirements have had to be lowered during the economic crisis).

VI. IMPLICATIONS FOR OIL EXPORT POLICY

The drastic cutback budget leaves a revenue gap of \$25.06 billion to be filled by petroleum exports. The austerity budget leaves a gap of \$28.61 billion. The belt-tightening budget leaves a gap of \$31.57 billion. To fill these requires oil exports of 3.3 mbd, 3.8 mbd, and 4.2 mbd respectively at a price of \$20 per barrel for Iranian heavy and \$22 for Iranian light (for an average of \$21 per barrel).

These calculations are based on an estimated production cost of 40¢ per barrel in comparison to a pre-crisis cost of 30¢. The previous discount of 22¢ per barrel to the Consortium, however, has been eliminated as has the \$2 billion that some analysts have hypothesized was paid annually by NIOC to the Pahlavi Foundation.

In all probability, Iranian budgetary pressures are likely to be greater than those represented here with fiscal outlays growing faster if stability returns (or as stability returns), which will push

²⁰ FET: Iran, February 6, 1979, p. 5.

Iranian oil exports above 4.2 mbd to the extent that this is technically feasible in the early 1980s.

TABLE 1.—IRANIAN GOVERNMENT EXPENDITURES

(Dollar amounts in billions)			
	Official budget (1977-78)	Official allocations (1978-79)	Planned allocations (1978-83, per year)
1. Social welfare.....	\$7.7	\$9.8	\$9.9
2. Economic.....	12.7	17.1	17.3
3. Defense.....	8.0	9.9	10.0
4. General and miscellaneous.....	5.5	4.8	4.9
Total.....	33.9	41.6	42.1

TABLE 2.—IRANIAN GOVERNMENT REVENUES

(Dollar amounts in billions)			
	Official budget (1977-78)	Official allocations (1978-79)	Planned allocations (1978-83, per year)
1. Oil and gas.....	\$20.4	\$21.9	\$25.7
2. Taxes.....	6.0	8.7	11.8
3. Government borrowing.....	3.5	5.7	2.1
4. Miscellaneous.....	4.0	5.3	2.5
Total.....	33.9	41.6	42.1

Note: Rial/dollar conversion rate equals 100 to 1 (or new currency equivalent).

Sources: The official budget for 1977-78 and the official allocations for 1978-79 are taken from The Budget 2537 (1978-79): A Summary (Tehran: Plan and Budget Office). The planned allocations for 1979-84 are calculated by dividing the PBO forecast of \$42,100,000,000 per year in revenues (Vakil, p. 135) by the proportion each category occupies in the 1978-79 budget. (Note: The official budget for 1977-78 is in 1977 dollars; the official allocations for 1978-79 are in 1978 dollars; the planned allocations for 1979-84 appear to be in 1977 dollars.)

TABLE 3.—CAPITAL ALLOCATIONS

(Dollar amounts in millions)					
	1977-78	1978-79 (approved)	Drastic cutback	1980-81 (1979 dollars)	
				Austerity cutback	Belt-tightening cutback
I. General affairs.....	\$1,015	\$439	\$232	\$232	\$232
1. Administration.....	231	313	231	231	231
2. Internal security.....	2	2	1	1	1
3. Construction.....	782	124	0	0	0
II. National defense.....	NA	NA	NA	NA	NA
1. Personnel.....					
2. Operations/maintenance.....					
3. Supply and preparation.....					
4. Special activities.....					
5. All other.....					
III. Social affairs.....	2,751	2,693	3,219	3,122	3,522
1. Education.....	668	871	668	871	871
2. Health/nutrition.....	171	334	171	334	334
3. Social security.....	41	54	54	54	54
4. Urban development.....	387	429	567	609	609
5. Rural development.....	99	166	281	348	448
6. Housing.....	1,258	677	1,446	865	965
7. All other.....	127	162	32	41	41
IV. Economic affairs.....	10,320	14,300	6,626	8,248	9,415
1. Agriculture.....	651	1,006	901	1,101	1,456
2. Water.....	709	893	709	709	709
3. Power.....	2,813	4,087	895	1,543	1,543
4. Industry.....	1,741	1,786	906	1,108	1,374
5. Oil.....	1,631	2,285	1,631	1,731	1,831
6. Gas.....	403	240	403	403	403
7. Mines.....	247	366	124	247	366
8. Commerce.....	1	0	0	0	0
9. Transportation/commerce.....	1,631	3,157	880	1,159	1,418
10. Post/telecommunications.....	442	432	177	247	515
11. Tourism.....	51	48	0	0	0

Note: Rial/dollar conversion rate equals 100 to 1 (or new currency equivalent).

TABLE 4.—CAPITAL ALLOCATIONS

[Percentage of 1977-78 budget]

	1977-78	1980-81 (1979 dollars, percent)		
		Drastic cutback	Austerity cutback	Belt-tightening cutback
I. General affairs.....	\$1,015	23	23	23
1. Administration.....	231	100	100	100
2. Internal security.....	2	50	50	50
3. Construction.....	782			
II. National defense.....	NA	NA	NA	NA
1. Personnel.....				
2. Operations/maintenance.....				
3. Supply and preparation.....				
4. Special activities.....				
5. All other.....				
III. Social affairs.....	2,751	117	113	128
1. Education.....	668	100	130	130
2. Health/nutrition.....	171	100	195	195
3. Social security.....	41	132	132	132
4. Urban development.....	387	147	157	209
5. Rural development.....	99	284	352	453
6. Housing.....	1,258	115	69	77
7. All other.....	127	25	32	32
IV. Economic affairs.....	10,320	64	80	91
1. Agriculture.....	651	138	169	224
2. Water.....	709	100	100	100
3. Power.....	2,813	32	55	55
4. Industry.....	1,741	52	64	79
5. Oil.....	1,631	100	106	112
6. Gas.....	403	100	100	100
7. Mines.....	247	50	100	148
8. Commerce.....	1	0	0	0
9. Transportation/commerce.....	1,631	54	71	87
10. Post/telecommunication.....	442	40	56	71
11. Tourism.....	51	0	0	0

Note: Rial/dollar conversion rate equals 100 to 1 (or new currency equivalent).

TABLE 5.—CAPITAL ALLOCATIONS

[Percentage of 1978-79 allocation]

	1978-79 (approved)	1980-81 (1979 dollars) (percent)		
		Drastic cutback	Austerity cutback	Belt-tightening cutback
I. General affairs.....	\$439	53	53	53
1. Administration.....	313	74	74	74
2. Internal security.....	2	50	50	50
3. Construction.....	124	0	0	0
II. National defense.....	NA	NA	NA	NA
1. Personnel.....				
2. Operations/maintenance.....				
3. Supply and preparation.....				
4. Special activities.....				
5. All other.....				
III. Social affairs.....	2,693	119	116	131
1. Education.....	871	77	100	100
2. Health/nutrition.....	334	52	100	100
3. Social security.....	54	100	100	100
4. Urban development.....	429	132	142	189
5. Rural development.....	166	169	210	270
6. Housing.....	677	214	129	143
7. All other.....	162	20	25	25
IV. Economic affairs.....	14,296	46	58	66
1. Agriculture.....	1,006	90	109	145
2. Water.....	893	79	79	79
3. Power.....	4,083	22	38	38
4. Industry.....	1,786	51	62	77
5. Oil.....	2,285	71	76	80
6. Gas.....	240	168	168	168
7. Mines.....	366	34	67	100
8. Commerce.....	0	0	0	0
9. Transportation/commerce.....	3,157	28	37	45
10. Post/telecommunication.....	432	41	57	73
11. Tourism.....	48	0	0	0

Note: Rial/dollar conversion rate equals 100 to 1 (or new currency equivalent.)

TABLE 6.—TOTAL BUDGET EXPENDITURES

[Dollar amounts in millions]

	1977-78	1978-79 (approved)	Drastic cutback	1980-81 (1979 dollars)	
				Austerity cutback	Belt-tightening cutback
I. General affairs	\$2,867	\$2,757	\$1,490	\$1,624	\$1,756
1. Administration.....	1,285	1,572	1,224	1,224	1,224
2. Internal security.....	799	1,060	226	400	532
3. Construction.....	783	125	0	0	0
II. National defense	7,958	9,934	4,800	5,400	6,000
1. Personnel.....	1,876	2,546	3,000	3,300	3,450
2. Operations/maintenance.....	509	707	1,800	2,100	2,250
3. Supply and preparation.....	4,877	6,035	0	0	200
4. Special activities.....	687	642	0	0	100
5. All other.....	9	4	0	0	0
III. Social affairs	7,744	9,771	10,692	11,210	11,610
1. Education.....	3,281	4,277	4,265	4,986	4,986
2. Health/nutrition.....	1,100	1,427	1,448	1,654	1,654
3. Social security.....	1,218	2,295	2,339	2,399	2,399
4. Urban development.....	397	440	580	622	822
5. Rural development.....	114	181	301	366	466
6. Housing.....	1,269	688	1,560	979	1,079
7. All other.....	365	463	199	204	204
IV. Economic affairs	12,687	17,105	10,864	12,737	14,273
1. Agriculture.....	1,075	1,496	1,463	1,663	2,108
2. Water.....	813	1,061	852	852	852
3. Power.....	3,029	4,429	1,192	1,898	1,898
4. Industry.....	1,875	1,964	1,087	1,292	1,558
5. Oil.....	1,631	2,497	2,497	2,597	2,697
6. Gas.....	403	353	353	353	353
7. Mines.....	255	375	142	257	377
8. Commerce.....	1,141	909	1,400	1,800	2,200
9. Transportation/Commerce.....	1,833	3,383	1,588	1,695	1,802
10. Post/telecommunications.....	571	581	278	318	416
11. Tourism.....	61	57	12	12	12
V. Miscellaneous	1,307	1,069	780	900	1,000
1. For job creation.....	964	780	780	900	1,000
VI. Interest	940	1,207	1,207	1,207	1,207
VII. Repay loans	830	778	778	778	778
VIII. Aid	1,134	1,134	0	300	500
Total	35,467	43,755	30,611	34,156	37,124

Note: Rial/dollar conversion rate equals 100 to 1 (or new currency equivalent).

TABLE 7.—REVENUES

	1977-78	1978-79 (approved)	1980-81	Jan. 1, 1981 (annual rate)
I. Tax revenues	\$5,969	\$8,712	\$3,576	\$4,647
1. Corporation taxes.....	1,838	2,591	613	919
2. Income taxes.....	753	1,129	377	506
3. Tax on wealth.....	217	200	145	160
4. Import tax.....	2,521	3,876	1,800	2,521
5. Sales tax.....	641	917	641	641
II. Oil and gas revenues	20,369	21,870	-----	-----
1. Oil.....	20,296	21,767	-----	-----
2. Gas.....	73	103	73	73
III. Government monopolies and enterprises	430	579	300	430
IV. Government sales	397	482	200	397
V. Miscellaneous	943	2,041	100	200
VI. Other	3,546	5,674	1,000	1,500
1. Internal loans.....	2,128	3,546	600	800
2. Foreign loans.....	1,418	2,128	400	700
VII. Interest from investment abroad	288	302	302	302
Total	31,942	39,660	5,551	7,649

TABLE 8.—IRANIAN GOVERNMENT EXPENDITURES

[Dollar amounts in billions]

	Official budget (1977-78)	Official allocations (1978-79)	Planned allocations (1978-83 per year)	Drastic cutback budget (1980-81)
1. Social welfare.....	\$7.7	\$9.8	\$9.9	\$10.7
2. Economic.....	12.7	17.1	17.3	10.9
3. Defense.....	8.0	9.9	10.0	4.8
4. General and miscellaneous.....	5.5	4.8	4.9	4.2
Total.....	33.9	41.6	42.1	30.6

TABLE 9.—IRANIAN GOVERNMENT REVENUES

[Dollar amounts in billions]

	Official budget (1977-78)	Official allocations (1978-79)	Planned allocations (1978-83 per-year)	Estimated revenues (1980-81)
1. Oil and gas.....	\$20.4	\$21.9	\$25.7	\$3.6
2. Taxes.....	6.0	8.7	11.8	1.0
3. Government borrowing.....	3.5	5.7	2.1	1.0
4. Miscellaneous.....	4.0	5.3	2.5	1.0
Total.....	33.9	41.6	42.1	5.6

IRAN'S FOREIGN POLICY: PERSPECTIVES AND PROJECTIONS

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FOREWORD

On the eve of the New Year 1978 President Carter told the Shah in Tehran that Iran was an "island of stability." The President might have added that Iran was also perceived to be the most powerful state in the Persian Gulf and a leading regional power in the adjacent areas of the Middle East, South Asia and the Horn of Africa and generally a potential middle power in world politics. By the end of that same year, however, Iran was teetering on the verge of economic collapse, was threatened by political chaos and was rapidly losing its capacity in world politics. In January the Shah left Iran, apparently never to return.

The Shah's foreign policy was in shambles even before he left Iran. His last Prime Minister, Dr. Shahpur Bakhtiar, told American officials before taking office that Iran should no longer play the "policeman" role in the Persian Gulf. Few, if any, observers, believed that the standing orders for massive purchase of arms from the United States in particular would be carried out; that plans for the construction of some twenty nuclear power stations by 1994 with French, German and American assistance would be implemented; or that numerous grandiose civilian projects involving billions of dollars' transactions with foreign firms would survive the crisis.

The United States, however, paid the highest toll for the Iranian revolution. Within months after the revolutionary seizure of power, the United States interests in Iran, nurtured over nearly four decades of ever-expanding relations with the Shah's regime, seemed in serious jeopardy: some \$6 billion of American exports to Iran in one year preceding the revolution was lost; the number of American citizens in Iran was reduced from some 45,000 to about 3,000; the American Embassy in Tehran, which once numbered 1,500 officials plus dependents, dwindled to only 75 officials.

To assess the impact of the revolution on the future course of Iran's foreign policy requires deep understanding of Iran's own experiences with respect to foreign policy during previous historical periods under both unstable and stable conditions. That experience goes far back in centuries but it is only its manifestations in the twentieth century that should concern us here. The current revolutionary crisis is in a real sense the sixth one of its kind in this century, and it has much in common with the five crises that preceded it. An examination of these five religio-nationalist crises should therefore provide a deeper perspective on Iran's future foreign policy assuming that

the present unstable conditions persist. But in the event that stability is achieved alternative futures would also be placed in clearer perspective by examining Iran's actual foreign policy experience in tranquil conditions during three different periods of this century.

For purposes of this study the significant political periods in Iranian history during this century prior to the 1978 revolution can be divided as follows:

Crisis	Tranquility	Summary of events
1905 to 1914.....		The constitutional revolution.
1914 to 1921.....		Foreign military intervention.
	1921 to 1941.....	The rule of Reza Khan.
1941 to 1951.....		World War II and its aftermath.
1951 to 1953.....		Nationalism and internal political strife.
	1953 to 1961.....	An enforced tranquility: Increased ties with the United States.
1961 to 1964.....		Foreign pressures and political reform.
	1964 to 1978.....	An artificial calm before the revolution.

THE EVOLUTION OF IRANIAN FOREIGN POLICY DURING ALTERNATIVE PERIODS OF CRISIS AND TRANQUILITY

I. (1905-1914) *The First Crisis: "The Constitutional Revolution"*

Iran's capacity for effective action in international affairs was reduced to a minimum during the first crisis of the century (1905-1914). The "Constitutional Revolution" that marked the beginning of the crisis period was theoretically ended with the forced adjournment of the Second Majlis (second parliamentary session) in 1911; but the internal and external forces of instability prevailed until the outbreak of World War I and the beginning of a new crisis. The forces that undergirded Iran's relative incapacity in foreign affairs were as follows:

The revolution was rooted in widespread religious and lay dissatisfaction with the consequences of domestic and foreign policies of the Qajar dynasty, particularly during the decade and a half preceding the outbreak of the crisis.

The popular opposition to the Qajar monarch at the time was supported largely by some of the religious leaders (the ulama), elements of the modern-educated groups, and sections of the Bazaar merchants. The reasons and rationales for the opposition were mixed and found expression in the cry for Islam, liberty and independence. For the ulama the previous royal attempts at secularization as well as the perceived domination by the secular element posed a threat to Islam and, of course, their clerical power and interests. For the educated intellectuals the overriding perceived threat lay in foreign control and internal tyranny, both regarded as detrimental to their share of political power as well as their ideals. And for the Bazaar merchants the main threat was the increasing encroachment by the government and newly-emerging entrepreneur class on their economic interest as well as on their attachment to Islam.

Throughout the crisis period no single group or individual held control over the government and no government was capable of maintaining central power over the provinces. The first two sessions of the

Majlis were destroyed in the struggle between the constitutionalists and the royalists, each side supported by different armed groups such as the Mujahedin (Muslim fighters) and the Bakhriari tribesmen who helped the nationalists and the Russian-commanded Cossacks Division that stayed with the Shah.

During the period, external no less than internal conditions sapped Iran's capacity for action in foreign affairs. The Russians helped to close down the Majlis by means of naked military intervention. No cabinet was formed or dispersed without Anglo-Russian interference and the Russians and the British set aside their traditional rivalry in Iran in their common efforts against the extension of German power into the Middle East. This entailed for Britain and Russia dividing Iran into spheres of influence by a convention signed in 1907.

The government's capacity in foreign affairs was reduced to rhetorical opposition to the great powers. The Majlis managed to hire an American financial adviser, Morgan Shuster, but even this single major foreign policy decision of the constitutional regime was foiled by Russian intervention with British acquiescence.

II. (1914-1921) *World War I and Foreign Military Intervention*

Iran's capacity for action in international affairs was as limited during the second crisis period as it was in the first. Contrasted with the first, the second was the product of foreign military intervention. The earlier Constitutional Revolution sprang from within the Iranian society, but the second crisis was triggered by World War I. The main elements of instability during the second crisis (1914-1921) were as follows:

The same internal factors that characterized the first crisis prevailed after 1914, but they were aggravated during the second crisis for the following reasons: there was no unified power center in government; the seventeen-year old Ahmad Shah spent his time abroad, as had the Regent before him; thus removing a possible element of stability; the deputies of the Third Majlis were dispersed between Teheran and Qom and divided between the so-called "Moderates" and the "Democrats"; and finally, cabinets rose and fell with sensational speed in tandem with the factional and personal struggle for power and the vicissitudes of the war.

Iran's territorial integrity was in jeopardy, not only because of battling foreign troops on its soil, but also because of various tribal, provincial and ethnic uprising, as mentioned below.

The capacity of the government, or rather governments, to maintain the so-called foreign policy of neutrality proclaimed by Prime Minister Mostowfi al-Mamalik at the outset of the war was virtually absent. The dispersed deputies of the Majlis most of the Democrats and some of the Moderates, openly sided with the Central Powers, and their armed supporters fought internal battles, with German and Turkish aid, against the Russian forces on Iran's territory. The major tribes such as Bakhtiari, Qashqa'is, Baluchis, Hazaras and the Khamsah all took up arms in favor of one or another foreign power. The Azerbaijani Mujahedin sided with the Turks and the followers of the Bolshevik-supported Jangali movement fought against the British forces.

III. (1921-1941) *A Period of Tranquility Under Reza Khan*

The first period of tranquil conditions stretched from Reza Khan's military coup in 1921 until, his abdication in 1941. Iran's increasing capacity for effective action in foreign affairs was basically the result of a combination of imposed tranquility and favorable external environment.

Domestic tranquility was achieved step by step through the imposition of authoritarian control over the government and the entire political system. First, Reza Khan managed to control, unify and strengthen the motley armed forces inherited from the past. The only major force in existence then was the Cossack Division which, as Army Chief, he commanded after the coup. He outmaneuvered two Prime Ministers, Sayyed Zia and Ahmad Qavam, in order to control the Ministry of War and bring the Gendarmerie and the police under its jurisdiction. Second, he established the control of the central government over rebellious provinces, mainly by the force of arms. For example, in Azerbaijan he crushed the local Gendarmerie forces led by Lahuti Khan and the Kurds led by Simko. He also destroyed the Bolshevik-supported Republic of Gilan led by Mirza Kuchek Khan. Third, he appeased and then controlled the religious leaders by a complete volte-face in the city of Qom where his idea of establishing a "Republic" as in Turkey was opposed. Finally, he cajoled and outmaneuvered his political opponents such as the clerical deputy Muddares and the nationalist Musaddiq in the Fourth Majlis. He also overcame the power of such veteran statesmen as Qavam, Mostowfi and Mushir ed-Dowleh in the Cabinet. Eventually he got himself installed as the Shah and the founder of the Pahlevi dynasty by the Fifth Majlis.

Iran's capacity for effective action in foreign affairs under the Shah was as much the result of favorable external circumstances as it was of his ability to impose his will on the country. To date, the nationalists believe that the British government orchestrated the coup that swept him into power. Although this is not supported by historical evidence, there is no doubt that the British provided encouragement. Besides the generally benevolent attitude of the British, at least at the beginning, his regime was not opposed by the new government of Russia. Soviet Russia as well as Britain favored a strong central government in Teheran. The Soviets were preoccupied with the problem of power consolidation themselves, and the British, having failed to impose a protectorate on Iran before the coup, turned their attention to the post-war problems of the British empire.

Iran's increased capacity for action in foreign affairs was attested by the Shah's ability to win for Iran an unprecedented degree of independence from Britain as well as the Soviet Union. The capitulations system was abolished: the British control over southwestern Iran through the Arab leader Sheikh Khaza'l was largely eliminated; the Russian colonization of northern Iran was ended; and Iran's relations with its neighbors such as Turkey, Iraq, and Afghanistan were placed on a far more satisfactory basis. The main failure of the Shah's British policy was that, although he canceled the British oil Concession in 1932, he signed a new one for an even longer duration a year later. The main failure of his Russian policy was his inability to in-

duce the Soviets to cancel their so-called right of unilateral military intervention in Iran under the 1921 treaty.

In his quest to maintain his regime in power and simultaneously resist British and Soviet pressures, the Shah relied upon Germany, both as a means of modernization and as a counterweight to the other two great powers. But neither the stability of his regime nor the capacity of Iran in world affairs could be maintained indefinitely by such means. For example, his dictatorial control over the Majlis, the press, the political groupings, the trade unions and the educational system alienated the growing middle class and the politically awakened elements regardless of ideology. His forcible secularization, for example, ranging from the abolition of the veil to hasty and superficial adoption of numerous modern legal codes from the West without sufficient concern for indigenous values, life-styles and traditions alienated many different groups. His coercive sedentarization of tribal groups and the imposition of the Persian language on the Azeris, the Arabs, the Kurds and other minorities as the universal medium of communication and learning further fueled the quest for autonomy rather than helping the processes of national integration. His deep-seated sense of mistrust of the British, and more so the Russians, also made his foreign policy vulnerable because he relied too heavily on Germany by the end of his rule. The excessive German presence there was used as an excuse by the Allies for their invasion of Iran, thus hastening the downfall of the regime, and another period of increased international power based largely on imposed domestic tranquility and fortuitous external circumstances collapsed overnight.

IV. (1941-1951) *The Third Crisis: World War II and Its Aftermath*

The third crisis, like the second one, was sparked by foreign military intervention in Iran and lasted from 1941 to 1951. Quite apart from the Allied powers' need of Iran as a route for supplying arms to the Soviet Union in the prosecution of war against Germany, Reza Shah's own foreign policy described above contributed to the Allied invasion of Iran. The Shah underestimated the heightened Allied need for Iran's cooperation once Germany invaded the Soviet Union. The Shah's miscalculation of the Allied strategic predicament was largely the result of his authoritarian rule and his dominant foreign policy-making role. Despite the Allied invasion and occupation of Iran, the Iranian capacity for formulating and implementing foreign policy decisions was not wholly destroyed, but it was considerably limited for the following reasons:

The young twenty-two year old Mohammad Reza Shah, who took the throne in the wake of his father's abdication in 1941, was aided by numerous experienced Prime Ministers, especially by Ahmad Qavam and for a very short period of time by General Razm-Ara. Furthermore, he himself was far better trained as a military man than Ahmad Shah during World War I, and showed consistent determination to deepen and broaden American interests in Iran both as a means of strengthening his rule through military and economic modernization and as a device to resist the British and particularly Soviet pressures on Iran.

The abdication of authoritarian Reza Shah resulted in a sudden burst of relatively uncontrolled political activities. The liberal nationalist elements wishfully characterized the early post-Reza years as "the era of revived constitutionalism," and after the release of political prisoners from the old Shah's prisons and the return of exiles the nationalists competed with the communists and the Muslim fundamentalists for power. The Iran Party became the core of what later on developed into the National Front led by Dr. Mohammad Musaddiq. The Muslim fundamentalists gathered partly around the personality of Sayyed Abolghasem Kashani, a religious leader in exile, who returned to Iran. The communists assembled the well-organized Tudeh Party. While factionalism, cliquism, personalism as well as nationalism, Islam and communism permeated political activities, the net effect of these forces on the Majlis was for the most part positive and the Majlis emerged as an actor of some substance despite the surrounding chaos.

Another positive element in the scene was the increasing strength of the armed forces as the primary object of the young Shah's modernization efforts. The military had been dispersed, paralyzed and demoralized as a result of its humiliating defeat in attempting to resist the combined British and Russian forces that invaded Iran. Yet, the Shah's efforts, aided by the United States, made it possible for the military to recover its strength rather rapidly. Its performance under the Shah's direct supervision against the rebel forces in Azerbaijan and Kurdistan further added to its image despite the fact that the collapse of the rebel regimes was mainly the result of Ahmad Qavam's successful diplomacy with active British and particularly American support. Nevertheless, as a result of the weakness of the central government as well as the conditions of war and occupation, Iran's territorial integrity was threatened by provincial and tribal demands for autonomy. The Qashqa'is, the Kurds and the Azeris, especially the latter two, created difficult problems for maintaining domestic political stability and external security.

Although Iran's capacity for action in international politics was severely limited by internal divisions and external interference, a combination of skillful diplomacy and external support enabled the Iranian government to surmount the grave difficulties posed by the Soviet Union. For example, in resisting Soviet pressures for oil concessions, the Shah and his Prime Minister were fully supported by the United States externally, and by the right-wing nationalist leader, Sayyed Zia, and the veteran Iranian nationalist leader Dr. Musaddiq internally. The pro-Soviet Tudeh party on the other hand vehemently opposed the government's oil policies in 1944 and again in 1947; in both instances the Soviets failed to acquire oil concessions. The government's relative capacity for action was revealed in its successful efforts to pressure the Soviet Union to withdraw the Red Army troops from Iran and to withdraw its support from the communist puppet regimes in Azerbaijan and Kurdistan. In this instance too, the internal and external forces combined in favor of the otherwise weak government of Iran. The Tudeh Party once again opposed the government's policies toward the Soviet Union, but the nationalist elements as well as Britain and the United States supported it. These were classic examples of how an

internally weakened government could nevertheless undertake foreign policy initiatives successfully as long as there was enough domestic and particularly external support to sustain its actions.

V. (1951-1953) *The Fourth Crisis: Nationalization and Internal Political Strife*

While a combination of sufficient domestic and external support enabled Iran's relatively weak government to act effectively in foreign affairs during the third crisis, combined domestic and external opposition to the government's foreign policy led to its failure in the fourth crisis (1951-1953), which was largely the product of domestic pressures. Diverse political forces coalesced for a brief time under the leadership of Dr. Musaddiq, the leader of the National Front, to push laws through the Majlis for the nationalization of the Anglo-Iranian Oil Company (AIOC) against the resistance of the company, the British government and the Iranian government under the Shah and Prime Minister Razm-Ara. A handful of National Front deputies of the Majlis, who enjoyed widespread social support, defeated the government-supported supplementary oil agreement in the Sixteenth Majlis. Its Oil Commission, under the chairmanship of Dr. Musaddiq, initiated the adoption of the oil nationalization laws. Just before the enactment of the single-article principal of nationalization, Khalil Tahmasebi, a member of the militant Muslim Fedayeen, assassinated the Prime Minister Razmara. The Shah reluctantly appointed Dr. Musaddiq as Prime Minister, who relentlessly sought to implement the nationalization laws. This was the most important foreign policy issue of his regime since it involved not only the AIOC, but the British government on its behalf and the United States initially as an "impartial" mediator between Iran, Britain and the AIOC. In the process, however, Dr. Musaddiq lost the capacity to implement his policies as a result of mounting domestic and external opposition that eventually destroyed his regime in 1953.

Domestically, Dr. Musaddiq's loss of support included all the major groups that had initially supported his crusade against the AIOC. The communist Tudeh Party supported him until he accepted President Truman's offer of Mr. Averell Harriman's mediation. The National Front itself split as some of Dr. Musaddiq's close associates became increasingly disenchanted with his solo performance and unproductive diplomatic battles with the AIOC and Britain. He also lost the support of a large segment of the religious elements as a result of differences with his former staunch supporter, the Ayatollah Kashani. The Prime Minister's largest domestic problem, however, was the Shah. His efforts to weaken the Shah's powers in the name of the Constitution, particularly his abortive attempts to weaken the Shah's hold on the military through budgetary manipulation and finally through placing the Army under civilian control, sharpened the contest for power and led to the downfall of his regime.

Externally, Dr. Musaddiq's government lost the capacity to implement his nationalization policy because the erosion of his domestic support at home paralleled the rise of foreign opposition. There is no doubt that at the beginning of the crisis the United States attitude

toward Dr. Musaddiq's government differed significantly from the British view. The Democratic Administration in the United States, especially Dean Acheson, the Secretary of State, counseled British as well as Iranian moderation in attempts at settling the prolonged dispute. The United States continued its technical assistance and military advisory programs in Iran and offered its mediation and good offices. As a result, Dr. Musaddiq's inability to compromise with the British; the deteriorating economic conditions of Iran; the rise of the Tudeh power; the American Cold War fear of the possibility of a "communist coup" in Iran; and particularly the coming into power of the Conservatives in Britain and the Republicans in Washington, the long-standing British call for the overthrow of the Musaddiq government began to find a more sympathetic ear in Washington. The CIA assisted the Shah and his supporters in overthrowing the Musaddiq government and bringing back the Shah who had fled the country.

VI. (1953-1961) *An Enforced Tranquility: Increased Ties With the United States*

Iran's capacity in foreign affairs increased substantially between 1953 and 1961 again as a result of imposed internal cooperation and favorable external support.

Mohammad Reza Shah, as his father, relied on a combination of naked force and military modernization as a means of strengthening his regime after his return to the throne in 1953. The power of the Tudeh Party was suppressed by the arrest of some ninety-one communist dissidents in 1953, the destruction of the Tudeh network in the Army in 1954, the execution of Khusrow Ruzbeh (the so-called Lenin of Iran) in 1957 and similar acts. The National Frontists fared no better. Hussain Fatemi, Musaddiq's Foreign Minister, was executed and the activities of the National Resistance Movement were smashed. Mass arbitrary detention and imprisonment of nationalist elements followed. The death sentence of Musaddiq was reduced to confinement. After 1957 the Shah's main instrument of repression and torture was the State Security and Intelligence Organization (SAVAK). It was established with the aid of the CIA and cooperated with Mossad, the Israeli intelligence service.

Iran's capacity for foreign policy action increased also because of external support of the regime by the United States in particular. As early as 1942 the Shah had begun to cultivate American friendship both as a means of strengthening his regime through military modernization and as a counterweight to the Soviet Union, which was the Shah's bete noir as much as it had been his father's. American oil companies acquired a share in Iranian production capacity for the first time in 1954 (40 percent); and the United States was accorded an unprecedentedly favorable climate for private investment and commerce in Iran under a treaty in 1957. American firms in Iran constituted about one-third of all foreign firms and accounted for more than a third of all the foreign capital invested outside oil before the Shah's fall in 1979.

Bolstered by an alliance with the United States, the Shah's regime demonstrated an increased capacity to deal with Soviet pressures and

enticements. It responded favorably to Soviet overtures of "peaceful coexistence" by attempting to settle long-standing financial, boundary and commercial problems, and at the same time resisted Soviet pressures through propaganda against Iran's alliance with the West and its favorable oil relations with multi-national corporations under the international consortium agreement. The Shah's regional policies reflected his alliance with the United States and defiance of the Soviet Union. He tried to counter the power of the Nasser regime by cultivating friendship with the more conservative regimes in the Middle East. He also favored discreet relations with Israel, largely as a pro-Western and anti-Soviet power in the area.

VII. (1961-1964) *Foreign Pressures and Political Reform*

The Shah's domestic and foreign policy both seemed in brief trouble in 1961 when the last crisis of the twentieth century before the current revolution broke out. It lasted until 1964 when the Ayatollah Ruhollah Khomeini was exiled. At first glance, the crisis is a contradiction because it was brought on apparently as a result of the Shah's attempts at liberalizing domestic politics at a time when his regime seemed strong after years of consolidating power after the downfall of the Mussaddiq government in 1953.

In fact, the Shah's attempt at so-called political liberalization was itself primarily in response to external pressures. The prospects of Democratic presidential success in the U.S. worried the Shah and, once in office, President Kennedy categorically opposed further military aid to the Shah's regime and insisted on social and economic change. The Shah's choice of the reputedly pro-American reformist Dr. Ali Amini as Prime Minister was in deference to Washington as was the Shah's short-lived tolerance of the National Front. The pressure from Moscow was far more severe. The Soviet leader, Nikita Khrushchev, twice verbally attacked the Shah, blaming him for the breakdown of negotiations for a long-term nonaggression treaty between Teheran and Moscow that had started in 1958. He especially resented the Shah's conclusion in 1959 of a bilateral defense agreement with Washington in the wake of the breakdown of Soviet-Iranian negotiations.

Token royal political liberalization emboldened the opposition and led to widespread teacher's strikes without either impressing Washington or easing pressures for political permissiveness intended to help the Communists in Iran. There had to be a way of preventing a dangerous coalition of external and internal forces against the regime and its capacity for making and executing effective foreign policy decisions in the near future. The Shah's answer to the two-fold problem was a program of social and economic, rather than political, reforms and a new look in foreign affairs. At the time, and for a number of years afterwards, until the outbreak of the current revolution, both attempts seemed to pay off handsomely.

The Shah decided in September 1962 to pledge to the Soviet Union that Iran would allow no foreign missile bases on its territory. The gesture was taken by both countries as a watershed of a new era in their relations. As a matter of fact, it caused an immediate change

of Soviet attitude toward the Shah's regime. The Soviet propaganda machine immediately ceased its years of attacks on the regime, the opponents of the Shah were decried as "reactionaries," and the Iranian attempts at land reform, which only a few months earlier had been called a device to "strengthen the rotten monarchical regime," were now characterized as "pioneering."

The Shah's decision to launch his land reform in January 1963 not only brought Soviet praise, but was also hailed by President Kennedy. Domestically, however, it aroused the wrath of some of the religious leaders, especially the Ayatollah Khomeini. Once again the nationalist and religious forces in alliance opposed the Shah's regime in a minor uprising in June 1963. They were crushed brutally by the royal government and when Khomeini spoke against the regime again in 1964 his words were directed at the United States as well. Under the prodding of the U.S. Defense Department the Majlis passed the Shah's bill to grant diplomatic immunity to American military personnel. The bill was seen by the Shah's opponents as an attempt to reestablish foreign capitulations in Iran that had existed for a century until they were abolished in 1928. Khomeini characterized the bill as a document that placed Iran under "American bondage." The Ayatollah's adamant refusal to be threatened or to moderate his opposition to the Shah's domestic or foreign policies led to his exile in 1964 from which he was not to return until after the Shah's exile in early 1979.

VIII. (1964-1978) *An Artificial Era of Tranquility Brought About by Huge Oil Revenues: The Shah Fails to Take Advantage of his Opportunities*

Following these divisive events Iran's international power potential and activity increased to an unprecedented degree between 1964 and the revolutionary crisis that began in 1978. It might appear paradoxical that the revolution should have followed such a period of domestic tranquility and international capability. However, it is necessary to understand the fragility of the Shah's regime on the one hand and its capability for effective international action on the other. Furthermore, a distinction must be made between the nature of the regime's strong international activity during 1964-67 and the turn-about during 1968-78.

Domestically, the Shah's suppression of the June 1963 uprising and the exile of Khomeini a year later marked the beginning of his subsequent efforts to further consolidate power. Politically, the main tactics of consolidation were the same as during much of the 1950's—suppression of political opposition; control of party politics through the facade of a two-party system, previously through the Mardum and Mellyum Party and then through the Iran Novin and Mardum; control of the Majlis and the press and, of course, all this being possible through the instrumentality of security forces, most particularly the SAVAK. Economically, however, the Shah's so-called "White Revolution" which, at its inception was partly politically-inspired in response to foreign and domestic pressures, did for a short while contribute to an unprecedented rate of economic growth and such useful programs as the Literary Corps. There were.

however, many shortcomings, most particularly skilled manpower shortage and maldistribution of wealth. By 1967 some observers believed that Iran was reaching the economic "take-off" point and the United States, buoyed by the visible upturn in the Iranian economy, terminated its long-standing economic assistance program. Even a leftist critic of the Shah's regime observed subsequently that "whatever qualifications are made, there can be no doubt that Iran's record is both a substantial one and, in any comparative sense, exceptional. Iran, now one of the most developed such states [capitalist states], has had one of the highest sustained growth rates of any third-world country, capitalist or communist."¹

Externally, the less polarized international environment in general and the superpowers' attitudes toward the Shah's regime aided its capability for a more active role in world politics. As already mentioned, the normalization of relations with the Soviet Union began after the Shah's pledge to Moscow about prohibiting foreign missile bases in Iran. Iran's trade and economic and technical relations with the Soviet Union improved significantly as evidenced by the Soviet construction of Iran's first steel mill and the Trans-Iranian Gas Pipeline. In fact, the Soviets were contributing to the success of the Shah's "White Revolution." The American attitude was equally helpful, now less critical than before, due in large part to pre-occupation with the war in Vietnam, and the more permissive stance of the Johnson Administration toward the Shah's regime, sending it the first major post-Kennedy American arms aid in 1964.

The dramatic change in Iran's capacity for international activity, most particularly regional, derived primarily from three separate developments: First, Britain announced its historic decision (1968) to withdraw its forces from the area "east of Suez," including the Persian Gulf, by the end of 1971. Its prolonged negotiations with the Shah's regime with respect to the future of the Gulf islands of Abu Musa and the two Tunbs were inconclusive, except for the Shah's controversial agreement with the Sheikh of Sharjah permitting the landing of Iranian forces on Abu Musa, another island close by. However, the Shah also landed troops on the two Tunbs in defiance of the claim of the Sheikh of Ra's al-Khaimah to these islands. This move at the time seemed to establish Iranian control to the entrance of the Persian Gulf and the strategic Strait of Hormuz through which oil tankers carried some 57 percent of the world oil trade. Iran justified its move in terms of both its historical claims and strategic requirements of the time.

Second, the United States adoption of the Nixon Doctrine (1969) as applied to the Persian Gulf meant that as the most strategically located, the most populous, and the most economically and militarily advanced Gulf state, Iran was an "ideal of the Nixon Doctrine." Washington's reluctance to act as the British legatee made this seem all the more plausible, although some spoke of a so-called "twin-pillar" policy, meaning that the Gulf security and stability should be protected by Saudi Arabia as well as Iran. Britain and the United States underwrote the Shah's ambition of acting as the Gulf "police-

¹ See Fred Halliday, "Iran: Dictatorship and Development" (Middlesex, England: Penguin Books Ltd., 1979), p. 138.

man" by aiding Iran's military buildup to an unprecedented extent. The American support of the Shah's determination to create a "credible deterrent" in the entire region was finally crowned in May 1972 by President Nixon's assurances to the Shah, on his way back from the Moscow summit, to sell Iran sophisticated American weapons. To be sure, the indiscriminate application of these assurances was a major cause of Iran's subsequent massive, wasteful and expensive arms purchases; however, by themselves they would not have had such grave consequences had it not been for the explosion of Iran's oil revenues afterwards.

This brings us to the third major development. Following the Arab-Israeli war of October 1973 Iran's oil revenues increased in 1974 to about \$22 billion from a mere \$194 million in 1972. The Shah's dream of a "Great Civilization" appeared to be suddenly at hand. Economically he wished to transform Iran into an industrialized state equal to Britain and West Germany in a matter of years, and militarily he aspired to change it to one of the world's five major non-nuclear powers. Subsequently, Iran's military expenditures surpassed those of the most powerful Indian Ocean states, including Australia, Indonesia, Pakistan, South Africa and India. The Shah also planned to spend an estimated \$33 billion (some experts say probably three times as much) for the construction of some twenty nuclear reactors by 1994. If constructed with German, French and American aid, they would have made Iran the largest producer of nuclear energy in the entire Indian Ocean area.

The spectacular rise in oil revenues during 1974 and particularly what the Shah's regime did with them domestically and internationally was a "disaster in disguise." Domestically, the wasteful and grandiose economic projects, the ever-increasing maldistribution of wealth, widespread corruption, the over-heating of the economy and myriad other problems destroyed the relative balance between the material benefits of modernization and the social, psychological and cultural costs, a balance which was maintained somewhat during the mid-1960's. Politically also, the excesses of political suppression reached a new height after 1974. The creation of the *Rastakhiz* Party and the destruction of even the facade of a two-party system in 1975 symbolized the height of political intolerance. Even after the launching of the so-called program of "political liberalization" and fruitless talks about revamping of the single-party system well into the year of crisis in 1978, no real efforts were made to accommodate the forces of political opposition, including the more moderate ones. As late as August 5, 1978, for example, the Shah tarred the moderate National Frontists and the communists with the same brush. The elements of the religious opposition were characterized as "Islamic Marxist." In the last analysis, the Shah's attempt at political liberalization at this time, as in 1961-62, was primarily a token gesture toward Washington for its continued support of his regime.

The Shah's foreign policy also contributed to the "revolution of rising alienation." He characterized his foreign policy as an "independent" policy, a label actually borrowed from the opposition groups in the early 1960's. As a matter of fact he did attempt to deal with the superpowers pragmatically; and despite his alliance with the

United States, he attempted to normalize relations with the Soviet Union. But his subsequent regional policies in the Persian Gulf and the adjacent areas of the Middle East, South Asia and the Horn of Africa intensified tensions between Teheran and Moscow and simultaneously deepened the Shah's reliance on the United States, particularly after 1974. The opposition, of course, perceived the American-Iranian "special relationship" in a very negative light. The Tudeh members and sympathizers on the left saw it from their historical pro-Soviet and anti-American ideological standpoint. The National Front centrists saw it largely against the background of American aid to the destruction of the Musaddiq government in 1953. And the religious fundamentalists viewed it against the backdrop of the bloody suppression of the Qum uprising in 1963 and the exile of Khomeini in 1964. But they all believed in common that the Shah's foreign policy had made Iran utterly subservient to Washington.

IX. (1978-1979) *The Sixth Crisis of the Century: The Shah's Departure and the Evolving Transition*

The Shah lost control of the government in the final months of 1978 and in the face of tremendous pressures from both inside and outside Iran left the country in mid-January 1979.

The seizure of power by revolutionary forces on February 10-11, 1979 was followed by the inability of their leaders to consolidate power swiftly. As a result, power and authority were dispersed among a multitude of diverse forces. Prime Minister Mehdi Bazargan aptly characterized the crisis as a situation with a "thousand chiefs." The real question at this point is whether this sixth Iranian crisis of the twentieth century is any different from the other five discussed before. Some argue that it is quite unlike any other crisis in Iran's modern political history because: it destroyed rather than supplemented the monarchy for the first time and severed its traditional ties with the armed forces; it had the most widespread base of popular support; it involved more cost in human life and material wealth than the sum total of all previous twentieth-century crises; and because it produced more far-reaching international repercussions than all the previous crises. Yet, the current crisis has a number of features in common with the historical crises. One is especially relevant: that the fundamental problem is the establishment of an effective governmental authority in Iran. Today, as ever before, this is the one condition that will most likely influence the government's ability to cope effectively with a multitude of economic, social, constitutional and other problems besetting the entire political system.

The first obstacle to the establishment of governmental authority and hence Iran's capacity for effective international action will be the transfer of real power from Ayatollah Khomeini and his religious entourage to the provisional government under Prime Minister Bazargan. Contrary to his own as well as others' expectation Khomeini has so far not been able to confine his role to "spiritual" guidance in government, and has in fact acted as the defacto head of the state.

Iran's capacity to act effectively in foreign affairs will depend significantly not only on the transfer of power from the Khomeini groups

to the government, but on the ability of the government to centralize and unify the disparate armed forces. This basic problem has three related aspects. First the reconstruction of the armed forces is likely to be one of the most difficult problems for the government. The seizure of power by the revolutionary forces in Teheran in February severed, for the first time, the traditional alliance between the monarch and the military. The Shah's hated SAVAK had been disestablished by the Bakhtiar government before the seizure of power by the revolutionary forces, but the 413,000-man armed forces have been paralyzed and demoralized ever since, despite reports to the effect that the basic structures have remained "intact" in varying degrees in the Army, Navy and Air Force. The subsequent purge, mass dismissal of high-ranking officers, and executions have added further to the problems of military reconstruction. Second, the government faces the problem of disarming a multitude of motley forces that captured arms in the chaotic conditions surrounding the seizure of power from the military. The third aspect of the problem is the competition of various groups with both the government and the Khomeini followers. The government believes that the armed forces have already been sufficiently "purified" and should be reconstructed as they used to be. While informally the armed forces are under control of the government, Khomeini followers and other groups have already penetrated the armed forces and probably are competing for their control.

In addition to the Bazargan government and Khomeini revolutionary committees, two major groups in particular are competing for control of the armed forces. The largest group is the Islamic "People's Mujahedin of Iran" which generally follows the Khomeini line, but is quite independent and lies to the left of the Ayatollah. Complicating that, it placed itself under the general supervision of Ayatollah Taleqani, who was actually one of the founders of the National Front, although he was only associated with it and not formally a Front leader. The Mujahedin have already recruited some members of the armed forces and are competing for the control of the Army's lower ranks, particularly with the Marxist "People's Fedayeen of Iran." The Fedayeen group strives for radical changes within the armed forces as a means of creating what it calls a "People's Army" run by soldier committees and elected officers.

Khomeini, however, does not seem to believe that the infiltration of the armed forces by the armed elements of his revolutionary committee is sufficient for protecting the revolution and has subsequently created the new Revolutionary Guards. The Bazargan government believes that the Guards should obey its orders, but actually the 6,000 man force has been placed under the direct control of the secret Council and is headed by one of the closest associates of Khomeini, Ayatollah Lahuti. According to its formal charter, the aim of the Guard is "to protect the revolution in Iran and to spread it in the world in keeping with genuine Islamic principles." The stated responsibilities of the Guards range from aiding the maintenance of internal security, to combatting counterrevolutionary activities, to implementing the orders of the revolutionary courts, to supporting "just liberation movements of the down-trodden masses of the world under the leadership of the revolution and in consultation with the government." to

defending against foreign aggression, and providing "moral, ideological and military training for army officers."

FUTURE FOREIGN POLICY IN CRISIS CONDITIONS

Should the existing conditions of instability continue what is likely to be Iran's foreign policy in the next two to five years? In trying to address this question, the following general assumptions are made:

1. Khomeini and Bazargan would continue their respective roles.
2. The economic conditions would be more or less the same. Oil production would be maintained. It would not be disrupted by lengthy strikes, or by acts of sabotage of major oil terminals, refineries or by hostile interdiction of oil tanker traffic.
3. The struggle for power between the extremes on the right and on the left would continue without leading to sustained armed conflict.
4. The agitation of regional autonomy by various minorities would continue, but would not lead to sustained armed insurrection against the provisional government.
5. The relations with some regional states would remain tense without armed conflict of any significant duration.

Besides making the above assumptions, Iran's past international relations would be borne in mind as a means of making the discussion more relevant to the problems of change and continuity in Iran's future foreign policy.

RELATIONS WITH THE UNITED STATES

Iran's relations with the United States have undergone revolutionary change since the downfall of the Shah's regime. The reliance of the Shah on the United States, dating back to World War II and especially to the fall of Musaddiq in 1953, skyrocketed after the British departure from the Persian Gulf and the fourfold rise of oil revenues in 1973-74. This reliance identified the United States government with all that the Shah did or failed to do in the eyes of the forces of opposition. While this legacy of long association between the United States and the Shah's regime is in and of itself an influential factor in the attitudes and policies of the revolutionary regime toward the United States, it has become all the more important because it is now reinforced by ideological influences.

One of the most powerful ideological influences is based on a particular Shi'i Muslim interpretation of the contemporary world. To be sure, this interpretation is used by some elements of the conservative religious leaders to rationalize their quest for power, but it would be a mistake to leave it at that. There are other religious leaders, including Khomeini himself, who probably see the world through that ideological perspective. They are sincere believers, and we must take them at their word.

Briefly stated, this particular interpretation starts with a specific verse in the Koran. It was first used by Khomeini and has ever since been invoked by his associates in expounding the Islamic ideological basis of their attitudes and actions, ranging from summary trials and executions by the revolutionary courts to the view of revolutionary

leaders on world politics. Khomeini's Koranic inspired sentence is: "the down-trodden must triumph over the dominant elements" (*bayad mostazáfin bar mostakberin ghalabelh konand.*) The translation is, of course, inadequate for understanding the two key concepts of "most-aza 'fin" and "mostakberin." The first concept is not confined to those who are simply "impoverished" since this usual, but wrong, rendition in English connotes those who are economically downtrodden, whereas according to this Shi'i interpretation the concept includes those who are not only exploited economically, but are also mistreated socially, or deprived culturally or oppressed politically. The second concept is also open-ended. It means not only those who are "dominant" economically, but also those who are so socially, or culturally or politically. Furthermore, the two concepts are stretched to include not only groups and individuals, but also states and governments in world politics.

From such a perspective, domestically the masses in Iran are "down-trodden" while the deposed Shah, former Prime Minister Abbas Hoveyda and other former high-ranking civilian and military officials are viewed as the "dominant" elements. Within this perspective the summary trials and executions have been fulfilling Khomeini's Koran-based call for the triumph of the "downtrodden" elements. From such a perspective at the international level, the superpowers, large cartels, trusts, multinational corporations and in a word "capitalist imperialism and socialist imperialism" constitute the "dominant elements" as do their "Zionist, Phalangist and Fascist" instruments. In this context the fundamental goal of the Koran is the creation of a "united people" (*ummat-e vahedeh*) and in such a justice and equality-oriented Islamic order all the problems associated with dichotomy and imbalance between the dominant and the downtrodden elements will disappear. This account is based on the view of an unknown member of Khomeini's Revolutionary Council, but it is a perspective that is probably shared by many of his associates.² It is also a perspective that is reflected in the so-called "theories" of Dr. Abdol-Hassan Banisadr, a lay radical economist who is regarded by his sympathizers as the "Islamic thinker" (*mutefakker-e Islami*) of the revolutionary regime. He theorizes, for example, that during the last 25 years of the Shah's rule Iran was rapidly integrated into the world economy by means of the export of oil and import of goods produced by the industrial nations and as a result Iran was becoming "ever more a tributary of foreign economies."³ Given Iran's oil revenues, those who divided up the funds constituted the dominant classes and these were "in reality only the agents" for the world dominant or hegemonic classes of the West and the multinational corporations. Thus real emancipation of Iran requires the emasculation of the country's dependency relationship with the West and the multinational firms. Ever since the seizure of power by the revolutionary forces, Banisadr has repeatedly called for the nationalization of banks and insurance companies and expounded his radical views in books, articles and many lectures.

² For details see Ettala'at. (In Persian). No. 15826, April 10, 1979.

³ See Abdol-Hassan Banisadr and Paul Vieille, "Iran and the Multinationals" in Ali-Reza Nobari, (ed.), *Iran Erupts* (Stanford: the Iran-America Development Group, 1978), pp. 24-33. The most complete views of Banisadr, however, are to be found in Persian, especially in his *Naft va Sulteh ya Naqsh-e Naft dar Tosea'h-ye Sarmayeh-dari dar Pahneh-ye Jahan va Zaman* (Presumably, Tehran: Entesharat Mosaddiq, 1977).

The identification of the United States with the Shah's regime and the ideological stance of Khomeini and his close aides are not the only factors influencing their attitude toward the United States. The Ayatollah also takes a limited view of Iran's actual need for the United States. In his angry denunciation of the United States over the Senate resolution condemning the executions in Iran, he categorically stated, "We have no need for the United States; it is they who need us as a source of oil, for which their greed never ceases."⁴ The anti-American and anti-Western attitude of the Ayatollah has surfaced repeatedly in his charges against the complicity of American agents in the assassination of Ayatollah Motahhari and the attempt against the life of Ayatollah Rafsanjani. There is little doubt that many of his vitriolic charges against the United States are for domestic political consumption, especially trying to beat the leftist groups at their anti-American game. Radical statements are also a reflection of the unsettled revolutionary situation in Iran. Yet these considerations should not be exaggerated. Anti-Americanism, ideological influences and a limited view of American utility to the revolutionary regime are real factors. In the long run, however, what is more important is the actual behavior of the revolutionary regime, which, as already seen, is divided between Khomeini and his close associates on the one hand, and the provisional government of Prime Minister Bazargan on the other. The former has so far had the dominant power.

There are a number of constraints on the regime's attitude toward the United States. One is the very existence of the more moderate technocratic and modern-educated elements in the Bazargan government. The Prime Minister has so far avoided vituperative statements and actions against the United States, although he is concerned about the pro-American charges against him. For example, he revealed in an interview that when he pressed for the suspension of summary trials and executions such a charge was levelled against him. Another constraint is the age-old strategic predicament of Iran. Khomeini is fiercely anti-communist and anti-Soviet. Furthermore, historically no Iranian government has ever been able to ignore the Russian problem; it is a geopolitical reality. To be sure, the Shah and his father exaggerated the Soviet threat, but even the highly nationalistic Dr. Musaddiq, who was the leading advocate of a nonalignment strategy for Iran, never trusted the Soviets. A third constraint on the revolutionary regime's anti-American attitude is a deep concern with the perceived atheistic leftist groups, whether the Marxist Fedaveen or the revived Tudeh communist party. Finally, the revolutionary regime will have to cope urgently with mounting economic and security problems both inherited from the Shah's regime and produced by the revolutionary crisis. Iran will need American markets for its oil exports, American military and economic know-how for security and development, and American military spare parts and capital goods. The following discussion of the specific issues in the present and near future relations of the revolutionary regime and Washington should shed more light on these points.

Military.—In the military field the relations of the two countries are likely to concern a number of issues. First, there is the problem of

⁴ New York Times, May 21, 1979.

insuring the security of some 80 American-built F-14's equipped with highly advanced radar and Phoenix missiles. The Iranians bought these for a total of \$3 billion and wish to sell them back to the United States. They have cancelled orders for 160 F-16 fighter bombers; an airborne warning and control system (AWACS) involving seven planes at \$1.3 billion; two Spruance-class destroyers; two Tang-class diesel electric submarines and various missiles. Successful negotiations for sale of the F-14's should have a salutary effect on the revolutionary regime's overall relations with the United States. Second, there is the problem of secret American listening posts in Iran. The revolutionary government has already declared its intention to discontinue these operations from Iranian territory. The settlement of this problem, too, could provide a practical step in the direction of improving United States relations with the revolutionary regime.

More importantly, in regard to the settlement of three other military-related problems there will be an opportunity to put the relations of the two countries on a new and constructive basis. One will be Iran's future need for American defense contract personnel. Maj. Gen. Mohammad Vali Gharani, Iran's late armed forces chief, did not deny the possibility of the return to Iran of such personnel, although he indicated that his government would prefer to employ other experts from "friendly countries." However, Iran's potential need will remain because it is believed that the regime will not be able to find a sufficient number of qualified non-American defense contract personnel to help operate and maintain all the sophisticated weapons. Even if the United States buys back the F-14's, Iran would probably need some American technicians because it has decided to keep a large force of F-5 and F-4 fighters and at least some of the 900-1000 military helicopters, most of which have been grounded because of maintenance problems. The other problem is the revolutionary regime's decision to cancel the agreement for diplomatic immunities and privileges of the American military personnel. With drastic cutbacks in the American military presence in Iran, the need for such an agreement may be moot anyway. But given the stigma attached to this agreement in Iranian eyes since its conclusion in 1964, the United States should openly welcome its demise as a step in building constructive relations with the revolutionary government.

Finally, it was a foregone conclusion that the revolutionary regime would disavow the Shah's alliance with the United States. It has already done so by withdrawing Iran from CENTO, which the Shah's regime had joined in 1955, but with which it had never been fully satisfied. The revolutionary regime has also already indicated its intention to cancel the Iran-United States bilateral defense agreement of 1959. The intention was mentioned by Dr. Ibrahim Yazdi, the Foreign Minister, in a press conference in the wake of Iran's outrage against the May Senate resolution.⁵ The revolutionary regime could at least use the treaty as a bargaining chip to extract from the Soviet Union the cancellation of its unilateral "right" of military intervention in Iran under its 1921 treaty. All Iranian statesmen have historically been intent on cancelling this anachronistic Soviet privilege. Dr.

⁵ See Ettela'at (in Persian), No. 15859, May 21, 1979.

Yazdi's notion of a new foreign policy of "positive neutralism" will otherwise become a one-sided positivism.

Economic.—The ill fate of the Western oil consortium, including 40 percent American shares, has not yet adversely affected Iranian oil exports to the United States. The Shah's regime had been unhappy with the consortium long before the revolution. In a display of revolutionary zeal the chairman of the National Iranian Oil Company (NIOC) signaled on February 28, 1979, what was a foregone conclusion; the revolutionary regime, he said, no longer would deal with the consortium. In all probability Iran will cut almost all its ties with the consortium, but it will deal with other American companies as it did with Ashland Oil Company, the first non-consortium American oil company to purchase oil from Iran under the revolutionary regime. The regime has even sold oil to a member of the consortium, British Petroleum, and is likely to sell to other members of the Consortium as well.

The two main oil-related issues that have already adversely affected American interests, however, are the cutback in Iranian oil production and the oil price. As late as mid-May, 1979 the NIOC claimed that it was holding the production down to 3.2 million barrels a day, about half the production under the Shah's regime. This report was at variance with a mid-April report to the effect that the production had increased to 4.7 million barrels, with 4 million barrels destined for export. Regardless of the exact level of production, it is unlikely that the revolutionary regime will be able to hold down the level to half that of the pre-revolutionary period. My own guess is that the low level of production at the moment is probably related more to the overall paralysis of the economy than a deliberate effort to hold the production level down as a newly-set normative ideal, although there is little doubt that the pre-revolutionary level of production will not be attempted by the regime. A real drop or even complete stoppage of oil production could, of course, occur because of strikes, for example, either called by the extremists on the left or by Arab leaders seeking autonomy. The Arab oil workers response to such a call would put great pressure on the government.

The oil price policy of the revolutionary regime will be no less cause for concern among American and other major oil-consuming nations. Pre-revolutionary Iran was no oil-price dove. But given the higher level of production before the revolution, the world oil market was not so tight. In a matter of weeks in April and May 1979 and shortly after the resumption of production the revolutionary regime showed the propensity to earn more oil revenues with less production. The unilateral surcharges added during that time impacted on the escalation of OPEC oil prices while making Iranian oil one of the most expensive in the world. In a sense the huge American exports to Iran, about \$6 billion annually before the Shah was deposed, significantly helped the trade deficit. Most of the earnings from these exports was the result of the Shah's enormous purchases of American arms. Although that market is quite obviously unlikely to recover, the demand for American capital goods and technology is likely to improve, depending on the nature of the overall relations of the two countries, and the revolutionary regime's discovery of the real limits of economic

and commercial relations with countries of Western Europe, particularly France.

Diplomatic.—In a move intended to improve relations with the revolutionary regime, the Carter Administration decided to replace William H. Sullivan, the U.S. Ambassador who became closely identified with the Shah during his final days in Iran. Charles W. Nass, the Chargé d'affaires in Tehran, had regular contacts with Iranian officials, but post-revolutionary tensions between Tehran and Washington did not subside. In the meantime efforts were made to send a new Ambassador to Tehran. Walter L. Cutler was appointed and confirmed by the Senate as Ambassador and the Iranian government agreed in April to receive him. On May 17, however, the Senate unanimously approved a resolution, sponsored by Senator Jacob K. Javits, condemning summary trials and executions in Iran of former supporters of the Shah and decrying Ayatollah Khomeini's call for assassination of the Shah.

Khomeini's reaction to the Senate resolution was the most fierce of its kind against the American government. He referred to the United States as a "defeated and wounded snake," adding "if our ties with the U.S. become strained, may God let it happen."⁶ In the context of Khomeini's perception of the world in terms of the "dominant" (mostakberin) and "downtrodden" (mostaza'fin) dichotomy that I outlined before, it is interesting to note its application to the United States and Iran in this dispute. He asked: "Why must we have any relationship with them?" He then added, "Our relationship with them is that of a tyrant (zalem) with an innocent (mazlum), that of a ravaged victim (gharat-shodeh) with a plunderer (gharat-gar). We don't need America; it is they who need us. They want our oil."⁷ The Senate resolution had followed the execution on May 9 of Habib Elghanian, an industrialist who was a leader of the Jewish community in Iran and had been charged by the Revolutionary Court, among others, with fundraising for Israel. Deputy Information Minister Mehdi Momken, alluding to this fact stated: "They have paid more attention and expressed more worry about this one than the sum of all the other executions. The form and composition of the U.S. Senate is that they always support Israel and Zionists, and the people of the third world have always been suppressed by them."⁸ Mr. Momken's view is not typical of everyone who serves in Prime Minister Bazargan's government, but it is interesting to note how the hardline Muslim fundamentalist view of international politics and those of lay radical nationalists sometimes coincide.

Officially the Iranian government regarded the Senate resolution as a "clear interference" in Iranian affairs and told the United States on May 20 to delay sending the Ambassador-designate to Iran. Nevertheless, Foreign Minister Ibrahim Yazdi appeared to take a more conciliatory line than Khomeini and said on the following day that Iran hoped to have "friendly relations between the people of the two countries."⁹ This distinction between the American people and gov-

⁶ New York Times, May 21, 1979.

⁷ In this statement Ayatollah Khomeini also attacked President Carter. For the full text in Persian see Ettala'at, No. 15858, May 20, 1979.

⁸ New York Times, May 21, 1979.

⁹ Washington Post, May 22, 1979.

ernment was also noted in Khomeini's denunciation of the Senate resolution. The Foreign Minister, however, had been vulnerable to the leftist accusations that he was everything from a CIA agent to a U.S. government plant. He demanded that the United States withdraw Walter Cutler as ambassador-designate to Tehran, rationalizing this reversal of Iran's previous acceptance of Cutler in terms of alleged American intervention in Africa where Cutler had been lastly Ambassador to Zaire. The United States rejection of the Iranian demand, to the surprise of the Iranian officials, put the relations of the two countries in a deep freeze for the time being.

The wisdom of the timing of the Senate resolution may be questioned on two grounds. First, it followed too closely the execution of Elghanian, a Jewish Iranian millionaire who had been in trouble previously with the Shah's government as well. Second, the Senate resolution was passed only three days after Secretary Vance wrote the Iranian government that he "wanted to broaden relations with our country and help Iran in the economic, social, cultural and other fields, including military aid,"¹⁰ and at a time when the Administration was attaching great significance to the assignment of a new Ambassador to Tehran as a means of clearing up past "misunderstandings." But such an argument would seem too superficial unless placed in the context of the more fundamental problems of the revolutionary regime.

To be sure, the Iranian revolutionary crisis today would appear, at least to some observers as mentioned before, to be unique in Iran's political history. Yet, the similarities are more profound. By comparing the current revolutionary crisis with the previous five crises of this century, it would appear that one of the most important guidelines for prudent formulation of our present and future policy toward Iran must be the following: The statements and actions of a great power, such as the United States, are bound to produce far-reaching effects in Iran's internal politics, the cost and benefit of which must be seriously weighed under all kinds of circumstances, particularly under such explosive revolutionary conditions as those prevailing now. The basic problem with the Senate resolution was the failure of both the Senate and the Administration, which by its own admission did nothing to delay its approval, to realize that any such action, no matter how meritorious in intent, is bound not only to postpone our urgently needed high-level U.S. representation in Iran, but, far more importantly, to further polarize the deeply divided Iranian government and political groups, especially when it may well place the future of moderate elements in Iran in jeopardy. It was no coincidence that the moderate elements of the National Front and of the left-centrist National Democratic Front of Dr. Hedayatollah Matindaftari employed for the first time the harshest language in denouncing American "imperialism" as did the Muslim fundamentalists in the Islamic Republican Party on the right and the communist Tudeh Party members on the left. It was also no coincidence that Khomeini for the first time openly denounced the moderate modern-educated intellectuals for their Western ideas and ideals of "democracy" and "republican-

¹⁰ Ibid.

ism" at the height of this diplomatic crisis with the United States. There also is no doubt that this untimely *public* example of open-mouth diplomacy did polarize the domestic politics of Iran to the great disadvantage of moderate elements. Khomeini told them in no uncertain terms shortly afterwards that they would be "destroyed by the same fist that destroyed the Shah."¹¹

RELATIONS WITH THE SOVIET UNION

The prospects of the revolutionary regime's relations with the Soviet Union would appear to be bright. First, pronouncements by the Khomeini group regarding the Soviet Union while occasionally associating it with Western countries, Zionists and Israel, hardly resemble the repeated vitriolic denunciations of American imperialism. Khomeini himself has characterized the United States as "the principal enemy" (*doshmañ-e āsli*). Second, the very fall of the Shah's regime and the demise of his long-standing alliance and extensive economic relations with the United States would appear to be a definite gain for the Soviets as, for example, their age-old goal of undermining CENTO has already been achieved and their long-standing opposition to Iran's bilateral defense agreement with the United States is already under consideration for cancellation. Furthermore, the age-old Soviet goal to undermine the Western consortium of oil companies' operation in Iran has also been attained without any effort on their part.

Third, the regional attitudes and policies of the revolutionary regime all would seem to coincide with the Soviet position, as Moscow has gleefully acknowledged. The rupture of diplomatic relations with Israel; the apparent embracement of the PLO; the disengagement from Oman and the general reversal of the Shah's Persian Gulf policy, which was opposed by Moscow from the beginning; the rupture of diplomatic relations with Egypt; the establishment of contacts with South Yemen and Libya; and the withdrawal of Iran's support for American peacemaking efforts in the Middle East would all appear to show the coincidence of Soviet and Iranian interests. On the basis of these and similar considerations it would be easy therefore to conclude that the revolutionary regime's relations with the Soviet Union are likely to improve and might even favorably tilt eventually toward Moscow.

Yet, there are equally strong indications to the contrary. First, the revolutionary leadership is highly suspicious of the Soviet Union despite its less frequent denunciation of Moscow. The Soviet Union had enjoyed, to begin with, no comparable position in Iran to that of the United States since World War II. On the contrary over half a century during the Pahlavi dynasty and one and a half centuries from the Russian imposition of the humiliating Treaty of Turkomanчай (1828) to the downfall of the Shah's regime, Iran as a state had most often had bitter experience and limited relations with Russia. This is an aspect of what I call Iran's "diplomatic culture" that Ayatollah Khomeini has not been, and is not likely to be, able to escape. To be

¹¹ For a detailed statement in Persian of Khomeini against his Western-educated critics, see Ettel'sat, No. 15868, May 31, 1979. See also Washington Post, June 6, 1979.

sure, Iran already has an Ambassador in Moscow (Mohammad Mokry) and the Soviets have an envoy in Tehran (Vladimir M. Vinogradov) and the Soviet Ambassador was the first foreign envoy who was received by the Ayatollah Khomeini.

But what did all this amount to? Khomeini told the Soviet Ambassador, for example: "This is an Islamic Government under the supervision of Islamic leaders,"¹² and according to his spokesman he added that Iran would defend its independence and territorial integrity against any power and asked all foreign powers "not to interfere in our domestic affairs." More interestingly he spoke to the Ambassador about Iran's future economic and commercial relations only. These were the only real relations developed with Moscow before the revolution. Even these limited relations would be conducted, he said, "only with Iran's interests in mind." Suspicion of the Soviets surfaced even more clearly during the Kurdish uprisings when, for example. Ahmad Sadr, Minister of the Interior, told newsmen private that "the Soviet Union pretends to be a friendly country, but we are quite aware that they are trying to cause troubles with agents."¹³ He personally thought that Moscow was helping in April to exploit Iran's age-old security problems with the Turkomans and Baluchi, Kurdish and Arab minorities.

Second, the revolutionary leadership's hostile attitude toward communism is not merely an expression of Islamic fundamentalism. It is more an expression of Iran's own concrete experience with the communist Tudeh Party. In the Iranian political culture the party is generally considered a "political leper." The deep distrust of the party is a product of its perceived subservience to Moscow. The party has been revived and its Secretary General, Nouredin Kianuri, returned to Iran after twenty-five years spent in exile mostly in the Soviet Union and Eastern Europe. The Tudeh leaders consider their party legal in defiance of the negative attitude of Prime Minister Bazargan and other officials of his government. They tended to view it as still illegal under the pre-revolutionary laws. From Moscow's perspective Kianouri's return, his party's open activities, and the publication and open dissemination of the Tudeh official paper, *Mardum* (People), for the first time in 37 years point to a significant and potential target of Soviet opportunity in Iran.

But most Iranian groups, including the Marxist Fedayeen, keep their distance from the Tudeh Party. From its revival after abdication of Reza Shah in 1941 until its effective suppression in 1954 and again a decade later, on more than one occasion the party is believed to have revealed its real spots. It sang the tune of Moscow unabashedly in the 1944 oil concession crisis in the 1945-46 Azerbaijani crisis and in the 1951-1953 oil nationalization crisis when upon the Shah's departure from Iran in defiance of the Musaddiqists it prematurely celebrated the establishment of the "People's Republic of Iran" with the complete approval of Moscow.

Third, the revolutionary regime's crusade for Islam is likely to concern the Soviets in the future as it has already. In this respect the

¹² See New York Times, February 26, 1979. On June 12, 1979 in an unusually sharp exchange with the Soviet Ambassador, Khomeini charged that the Soviet Union was possibly interfering in Iran, see New York Times, June 13, 1979.

¹³ See Washington Post, Royland Evans and Robert Norvak, April 9, 1979.

liberal Ayatollah Shariatmadari, who does not hold any official position, but who enjoys immense popularity in the Soviet-Iranian border province of Azerbaijan, has been quite outspoken. The Ayatollah, for example, told the correspondents of Pravda, Izvestia and Tass in Tehran that the Soviet Union must accord a greater freedom to its own forty-five million Muslims, and should not allow the pro-Soviet government of Afghanistan to suppress Afghani religious leaders and intellectuals. Although the interview was not published in Moscow, it was printed in the Iranian newspapers with jubilation. The problem of Islamic-inspired political "contagion," according to Fred Coleman of Newsweek who visited Muslim areas in the Soviet Union, is best exemplified in Baku, an oil center on the Caspian Sea which abuts Iran and the Soviet Union. The 1.5 million Muslim population of the capital city of the Soviet Azerbaijan Republic has the closest link to the Muslim protest movement that swept the revolutionary forces to power in Iran.

Finally, the future relations of the revolutionary regime with Moscow are likely to be adversely affected by differences over concrete issues in their economic and commercial transactions as they were repeatedly prior to the revolution. The Shah's regime not only constructed the Trans-Iranian Gas Pipeline to the Soviet Union, but was seriously considering the building of a \$2.5 billion additional pipeline designed to carry extra natural gas to the Soviet Union which would send gas to West Germany, Austria, Italy and Czechoslovakia in return for 17 billion cubic meters of Iranian supplies a year piped to the Soviet Union's southern republics. It appeared almost certain in May 1979 that the revolutionary regime would cancel the plan. Many Iranians have criticized the Trans-Iranian Gas Pipeline and have demanded that Iranian natural gas be kept for domestic consumption. The reduced level of oil production by the revolutionary regime has not only made the world oil market tight and more expensive for the West, but also has resulted in curtailed gas deliveries to the Soviet Union and has forced the Soviets to make costly redistributions of energy supplies for industries in the Transcaucasian region. Moreover, the price of Iranian natural gas piped to the Soviet Union has been disputed by the new regime as it was prior to the revolution. Even the much publicized Soviet-built steel mill at Isfahan is likely to be in trouble; at least the revolutionary regime is unlikely to proceed with the Shah's plan to triple its capacity.

REGIONAL RELATIONS

The revolutionary regime's regional relations are likely to be far more complicated than its relations with the superpowers. Superficially, the sudden disintegration of Iran's military power should have been generally welcomed by the Arab states of the Persian Gulf if for no other reason than for the elimination of the perceived expansionist potentials of the Shah's regime or at least out of resentment of Iran's predominant military power since the British departure in 1971. But just as Iran's pre-revolutionary military power was not necessarily viewed negatively by all the Gulf states, the demise of its power is not universally celebrated. Prior to the revolution, Oman, the United Arab Emirates and after 1975 even Iraq tolerated, if not

welcomed, Iran's power in varying degrees and for various reasons. For example, the Omani Sultan depended on the Shah's forces to defend his regime against the Dhofari rebels. The UAE on the whole looked to Iran across the Gulf as a military deterrent against the perceived designs of the larger Arab states. Having settled their ancient dispute with the Shah's regime in return for his abandonment of support of the Kurds as a leverage against the Iraqi central government, Iraq welcomed Iran's relative power as a preventive shield against future Kurdish infiltration from across the Iranian border.

Potentials for future conflict and accommodation between the revolutionary regime and the other Gulf governments are present today as they were before. With respect to the lower part of the Persian Gulf, Iran's stated intent as well as reduced military capability would seem to promise the settlement of the Arab-Iranian dispute over the future of the three Gulf islands. The Iranian troops left Oman even before the revolutionary forces took over, but there is no indication that they have done so with respect to Abu Musa and the two Tunbs. This would be an interesting test of the revolutionary regime's stated dislike of Iran's policeman's role in the Gulf. Should the notion prevalent in some revolutionary circles that the Shah's regime had no right to abandon Iran's historic claim to the Bahrain archipelago escalate into a policy position of the revolutionary regime a serious new source of tension and conflict would be likely to develop. Furthermore, the Shi'i connection with Bahrain could also become a new source of conflict or cooperation with that island depending on whether the connection is viewed from Tehran as a friendly cultural tie or as an ideological spearhead for the spread in Bahrain of the Khomeini brand of puritanical Islam.

With respect to the relations between the revolutionary regime and Baghdad, they are likely to improve or deteriorate depending on the balance between the following negative and positive considerations. Iran's diplomatic rupture with, and denial of oil to, Israel, its denunciation of the Camp David accords and the Egyptian-Israeli peace treaty and its militant verbal support of the PLO could help improve the relations between Tehran and Baghdad. On the other hand, the relations may well deteriorate because of Iraq's concern with the adverse impact of the Iranian events on its own Shi'i majority under the minority Sunni rule; its apprehension over the rise of communist activities in Iran and its encouraging effect on the Iraqi communists; its fear of a possible Khomeini grudge against it because of the expulsion of the Ayatollah from his refuge in Iraq; and, above all, the ripple effect of the Iranian Kurdish demands for autonomy on the Iraqi Kurds. The seriousness of the last concern was clearly revealed in May 1979 when Iraqi planes, apparently in pursuit of the Kurds, bombed targets within Iran. This event substantially increased the existing tensions between the two countries.

The Gulf state most concerned about the revolutionary conditions of Iran, however, is Saudi Arabia. Behind an appearance of correct relations, the Saudis lean toward the Bazargan government rather than the Ayatollah. The Saudi sources of concern are a perceived rise of the leftist threat in Iran in general and the communist Tudeh Party in particular; the destruction of pro-Western and moderate

elements through summary trials and executions, which they have unofficially deplored repeatedly; and the fear that the revolutionary events in Iran may have adverse effects on the other conservative states of the Gulf and the Arabian Peninsula and hence create a regional environment more hostile to Saudi Arabia and favorable to South Yemen. Of course, the biggest concern of all is the fear that the events in Iran may undermine Saudi Arabia's own fragile stability from within.

Iran's official attitude toward Saudi Arabia remains largely inarticulate. Muslim zealots, however, tend to characterize the Saudi political system as not quite compatible with Islam, despite the obvious significance of Islamic law (Shari'a) in the Saudi society. The Iranian critics of Saudi Arabia assert that royalty contradicts basic Islamic political precepts and some would even go so far as to envisage the downfall of the royal family. It is unlikely that such a radical stance would have any significant influence on Iranian future policy toward Saudi Arabia. Nor are the Shi'a inhabitants of Saudi Arabia in such number and discontent as to pose a kind of fifth column threat to Saudi stability.

Iran's friction with Saudi Arabia is likely to develop over oil prices. The revolutionary regime is likely to be more hawkish on oil prices than the Shah's regime. The Shah's hardline stance was tempered by such considerations as higher level of oil production, voracious appetite for U.S. arms, greater similarity of attitude toward Western welfare between Tehran and Riyadh and, of course, the conservative nature of the two regimes. Such considerations made it possible for the two leading oil-producing states to set the tone on oil prices within OPEC and even agree, as they did in 1977, to freeze oil prices. The revolution in Iran in effect tilted the balance of influence within OPEC in favor of hardline states. Saudi Arabia's diminishing influence surfaced during the OPEC meeting in June 1979. The revolutionary regime's attitude toward oil prices is likely to resemble more Iraq's than Libya's. Nevertheless, Iran's attitude is likely to clash with Saudi Arabia's oil policy more often under the revolutionary regime than during the Shah's regime, assuming that Riyadh would continue its moderate position on oil prices in the future.

Frictions between Tehran and Riyadh can also develop over the nature of the Palestinian association with the revolutionary government in Iran. This is unlikely as long as that association is confined to the PLO and that will be the case while Khomeini dominates the political scene. But if the Marxist Fedayeen should gain power, the regime's relations would shift to close association with the PLFP instead of the PLO. George Habash's recent visits to the oil-rich, largely Arab-inhabited province of Khuzistan displeased the Iranian government, and should have pleased the government in Riyadh.

The revolutionary regime's future policies in the Arab-Israeli zone of conflict are likely to reflect Iran's reduced capacity for action under crisis conditions and its correspondingly increased ideological tendencies. An obviously overjoyed Yasser Arafat was the first foreign official to arrive in Iran after the revolution. He probably was not invited by then Foreign Minister Karim Sanjabi. The revolution itself was no doubt a psychological and possibly a political boost to the PLO, but this should not be exaggerated. Pre-revolutionary Iran, beginning

as early as 1947, increasingly supported the Palestinians within and outside the United Nations, except the Marxist Popular Front for the Liberation of Palestine (PLFP). George Habash had fiercely opposed the Shah's regime and aided his opponents, especially the Marxist Fedayeen. The PLO, however, detested the Shah's balancing act of discreet relations with, and oil sales to, Israel. The importance of Israel to the Shah derived from its perceived strategic utility to his regime, both as a counter to radical Arab states and factions and as a friendly, powerful and particularly anti-Soviet and pro-Western regional state.

The revolutionary regime is likely to continue support for the PLO, as distinct from the PLFP, within important limits. The support is likely to take political and moral and, at the most, logistical forms. It is unlikely that the revolutionary regime would either enter a new Arab-Israeli war against Israel by sending combat troops, or would directly assist terrorist activities against Tel Aviv. Some individuals from the Islamic Mujahedin, of course, may volunteer to aid the PLO. Nor is it likely that the revolutionary regime would embargo Iranian oil supplies to the United States in the event of an Arab call for it. The constraints on the revolutionary regime are likely to be far more complicated than simply its domestic problems, although these are important. The external environment is also likely to impinge significantly on its behavior. The nature and extent of its relations with the United States as well as the Soviet Union are likely to weigh heavily in its Palestinian policy. On balance, friendly relations with the United States could have a greater effect on that policy than the correct relations with Moscow.

FUTURE FOREIGN POLICY IN TRANQUIL CONDITIONS: AN OUTLINE

Should conditions of tranquility become established what is likely to be Iran's foreign policy in the next two to five years? In trying to address this question, the following general assumptions are made:

1. Governmental authority would be transferred to a unified central government resembling more or less the present provisional government, namely, modern-educated, technocratic, religiously-inclined and right of center.

2. Domestic politics would evolve institutions for representation of various interests.

3. Economic nationalism would dominate, resulting in reduced foreign economic activity in general and industrialization in particular. Social services and the agricultural sector of the economy would receive the lion's share of expenditures. Military development would concentrate on maintenance of the less sophisticated military equipment.

4. The regular armed forces would be strengthened and armed elements of the revolutionary committees and the Revolutionary Guards would be phased out. All other armed groups would be disarmed.

5. The demands for regional autonomy would be pacified and no major insurrection would break out.

6. There would be no major crippling strike in the oil industry, or disruption of oil shipments.

The other alternative scenario would assume an authoritarian left wing regime that would draw support from the Soviet Union. Other-

wise, all the other major assumptions listed above would hold as both these alternatives share the basic assumption of established tranquility in the next 2 to 5 years.

Iran's relations with the United States, the Soviet Union and major regional states would be discussed as in the previous section, except that both alternatives would be deployed with respect to each set of relations, namely, stable right-of-center government and stable left-wing regime. Furthermore, since the details of these relations have been already considered under crisis conditions, here they will be only outlined in order to avoid repetition.

RELATIONS WITH THE UNITED STATES

Under Alternative I (conservative, right-of-center government), the relations between Iran and the United States would generally improve with the following results.

1. Although anti-American pronouncements would not disappear, the ideological overtones would significantly diminish.

2. Military spare parts needed to maintain American equipment already in existence would be purchased. Some American military personnel would be hired under stringent criteria for short durations, especially if equivalent expertise could not be obtained elsewhere.

3. All aspects of the alliance relationship would be wiped out, but implicitly Iran would ultimately look to the United States as the protective shield of its security specifically against the Soviet Union.

4. Consortium as well as non-consortium American companies would be able to purchase Iranian oil, although the preference would be accorded to non-consortium companies.

5. The level of production would not reach the pre-revolutionary period, but the maximum level of production would be adjusted to about two-thirds of pre-revolution production.

6. A handful of American oil experts would be hired, preferably those who did not work with the consortium.

7. The import of American foodstuffs and capital goods would increase, but nowhere near the pre-revolutionary levels.

8. American know-how for civilian projects would be sought outside oil as well.

9. Diplomatic relations would be placed at the ambassadorial level in Tehran and Washington.

10. American cultural and educational activities in Iran would be resumed and in some instances might even be expanded.

Under Alternative II (left-wing authoritarian regime), the relations with the United States would generally deteriorate with the following results:

1. Ideological content of policy statements would increase substantially with distinct anti-imperialist and anti-capitalist overtones.

2. Attempt would be made to sell back to the United States the military equipment that would otherwise require spare parts and maintenance assistance only from the United States.

3. The policy of nonalignment would be espoused, but in fact foreign policy would tilt significantly toward the Soviet Union and East European countries.

4. Opportunities for American economic activities in Iran would be reduced significantly.

5. Cultural and educational exchanges with the United States would be maintained at a reduced level because of tension between inadequate opportunity in Iran's own higher education on the one hand and ideological attraction of Moscow to a leftist regime on the other.

6. Diplomatic relations would be resumed at the ambassadorial rank because even a leftist regime would not be able to disregard totally Iran's bitter historical experience with Russia. High level diplomatic relations with the United States would be regarded as a symbolic counterweight to the U.S.S.R.

RELATIONS WITH THE SOVIET UNION

Under Alternative I, relations with the Soviet Union would be maintained with the following results:

1. Relations with Moscow would have all the appearance of strict nonalignment. They would be more correct than cordial.

2. Military ties with the Soviet Union would not be developed.

3. Economic, technical and commercial relations would be maintained in general. No second gas pipeline would be constructed. The steel mill at Isfahan would be somewhat expanded, but probably not tripled in capacity.

4. Opportunities for Soviet cultural and educational activities would either be kept at the existing level or reduced.

5. Diplomatic relations would be maintained at the ambassadorial level.

6. The Iranian representatives at regional, functional and international organizations would often vote with the non-aligned moderates.

Under Alternative II, the relations with the Soviet Union would improve significantly with the following results:

1. Iran's nonaligned policy would be officially kept, but it would in effect tilt toward Moscow.

2. Military equipment and personnel from the Soviet Union would be sought.

3. Soviet technical and material aid would be invited to new areas of oil exploration and exploitation. Natural gas exports to the Soviet Union would increase.

4. Trade would be significantly augmented, probably making the Soviet Union Iran's leading nonoil trade partner in the world.

5. Cultural and educational exchanges would increase significantly.

6. In regional, functional and international organizations Iranian representatives would generally follow the pro-Soviet line.

7. The steel mill expansion project would be carried out and economic cooperation with the Soviet Union would surpass that with any other country.

REGIONAL RELATIONS

Under Alternative I, Iran would generally seek to limit its regional activities with the following results:

1. Generally Iran's security role in the Persian Gulf area would diminish to the point of confining its perimeter to its own maritime boundaries.

2. The government would seek to settle the dispute with the Sheikh of Sharjah over Abu Musa and with the Sheikh of Ra's al-Khaimah over the two Tunbs.

3. Relations with Iraq would improve in contrast with the period of instability largely because of the easing of the Kurdish problem under more stable conditions. Tension between Tehran and Baghdad would continue, however, partly as a result of former rivalry and Shi'i-Sunni antagonism.

4. Relations with Saudi Arabia would also improve as contrasted with unstable conditions largely because of a reduced threat of communist takeover in Iran. Power rivalry and Shi'i-Sunni hostility, however, would continue.

5. Some of the pro-Palestinian militancy would be subordinated to the larger interest of Iran in peace in the Middle East, although fraternal ties would be kept and Iran would support the PLO within and outside the United Nations. Under this alternative, however, as under unstable conditions mentioned before, Iran's aid would be logistical.

6. Iran would not enter armed conflict in case of the outbreak of an Arab-Israeli war. Nor would it impose an oil embargo against the United States even if the Arabs and the Palestinians call for it. Iran's perceived interests would not be such as to require armed conflict with Israel. Nor would its overall interest in the United States justify such extreme action as an embargo.

7. Iran's attitude toward Israel would significantly depend on the settlement of the Palestinian problem. If in fact the Egyptian-Israeli peace treaty were followed by the creation of a Palestinian entity on the West Bank and Gaza, Iran would have less resentment against Israel.

8. Tensions between Kabul and Tehran would continue as long as the pro-Soviet anti-clerical regime is in power in Afghanistan.

9. The prospects of some favorable change in Iran's policy toward Egypt would be possible, particularly depending on the progress toward the solution of the Palestinian problem.

Under Alternative II, Iran's relations with several regional states would immediately improve, while they would deteriorate with others.

1. Iran's relations with Afghanistan would significantly improve, assuming the Taraki or another pro-Soviet government would be in power in Kabul.

2. The relations with Baghdad would be easier to improve than under Alternative I. Nevertheless, some tension and power rivalry in the Gulf would continue.

3. Assuming no change in the Saudi Government, relations with Riyadh would initially deteriorate. The Saudi fear of Iran would increase substantially and the prospects of regional security by regional powers' cooperation would become even harder to achieve.

4. The dispute over the three Gulf islands would become more amenable to settlement.

5. The Popular Front for the Liberation of Palestine (PLFP) would be welcomed in Iran, although this would ruffle feelings on the part of the PLO leadership. Iran's attitude toward Israel would draw much closer to that of the rejectionist Arab states.

6. Relations with South Yemen, Ethiopia and Syria would also be placed on a significant new basis.

7. Relations with Egypt would probably deteriorate considerably.

CONCLUSIONS

On the basis of the foregoing discussions what are the principal propositions that may be suggestive in thinking about Iran's capacity for action in world politics in crisis situations? More particularly, how does Iran's capacity in the current revolution compare with the previous major crises? And, most importantly, what are the salient lessons of the Iranian situation for American policy toward Iran and the closely related issues in the Persian Gulf and the Middle East?

In all the major crises of the past the crucial variables were two: the degree of consolidation of domestic political power and the nature and extent of foreign intervention. The first variable would include such major problems as territorial integrity, functioning economy, proliferation and polarization of political forces and political participation and institutionalization. The second variable would refer to foreign intervention in support of, or in opposition to, the central government.

As contrasted with most previous crises, Iran's capacity for action in world politics is likely to be greater in the current revolution. It is likely to be greater than in the first crisis (1905-14) because the degree of domestic consolidation of power would be relatively higher and the extent of adverse foreign intervention relatively lower. Recall the combination of nearly total breakdown of governmental authority and repeated adverse British and Russian military intervention and political interference against the Constitutional regime. As contrasted with the second crisis (1914-21), the same proposition would hold true. Recall the dispersion of the government and the Majlis and the armed operations on Iranian soil of the Entente and Central Powers. As contrasted with the third crisis (1941-51), again the same proposition would generally hold true. Recall frequent government crises throughout the World War and in its aftermath, despite the governments of a few skillful Prime Ministers (Foroughi, Sa'ed and Qavam. Razmara was strong, but his term was too short). Insofar as adverse foreign intervention and interference are concerned, remember the international problem of Soviet reluctance to withdraw the Red Army troops from Iran and Soviet support for separatist regimes in Azerbaijan and Kurdistan.

The ability of this revolutionary regime in foreign affairs is likely to be greater than that of the Musaddiq regime (1951-53) as well because of the same basic considerations. Musaddiq's authority crisis was, as seen, compounded by the combined British and American opposition to his government. Even if the consolidation of power in the current revolutionary crisis should turn out to be as serious, the problem of foreign intervention might not arise. Despite all Iranian charges of intervention by the superpowers, particularly the United States, the current revolutionary regime at the moment faces no threat of great power intervention comparable to that in all previous crises of the twentieth century.

Yet the external environment facing the revolutionary regime might change dramatically. Recall the change in American policy toward the Musaddiq government from an impartial, if not supportive, role to the one of opposition. The primary reason for that change of attitude was the fear of a communist coup in Iran. That fear is by no means absent today, but the main concern of the United States is secure access to Persian Gulf oil supplies in adequate amounts and at equitable prices now and in the near future. The Iranian revolution has intensified that basic concern which is shared significantly by other Western industrialized societies, Japan and numerous oil-poor developing states that are generally more dependent on Gulf oil than the United States. That basic concern undergirds the potential reversal of the American post-Vietnam hands-off policy in the Persian Gulf as evidenced by increasing talks about the possibility of U.S. military intervention in the event of extremely adverse circumstances threatening the uninterrupted flow of Gulf oil supplies to world markets. Adverse circumstances could arise presumably from any source, ranging from local conflicts, and Soviet covert and overt intervention, to domestic turmoil.

This brings us to the salient lessons of the Iranian revolution for American Gulf policy in general and U.S. policy toward Iran in particular. Elsewhere it has been pointed out what would seem to be the advantages and disadvantages of Defense Secretary Harold Brown's formula for Middle East security and to suggest, alternatively, a new concept of security.¹⁴ That concept would require American determination to cooperate fully with the Gulf states in their own efforts to maintain regional security, but the United States should include the OECD countries in such an approach rather than engage in a solo performance. The basic idea involved is twofold: First, in the long run our vital interests would be better served by taking into account authentic and organic regional and internal developments in the Gulf and the Middle East and the needs and sensitivities of our Western allies and friends. Second, in the short run those very interests would be better protected if we could avoid compensating for our excessive reticence of yesterday by unbridled intervention tomorrow. The latter posture would be perceived as an attempt to turn the Gulf into an American lake, just as the Shah's position was perceived as aiming at transforming it into a Persian lake. The latter did, the former would, run afoul of the region's cultural, social, political and economic values and interests as a whole.

In every previous crisis of the twentieth century in Iran the external environment, as seen, had a profound effect on the outcome of the crisis. In the recent crisis, our indecisiveness might have had as much to do with the Shah's downfall as did his own mistaken policies. But it would be as superficial to blame his downfall on the Carter Administration (as Henry Kissinger seems to do) as to attribute it to the Kissinger-Nixon decision in 1972 to sell the Shah whatever arms he wanted (as George Ball seems to suggest). Our basic failure dates back to 1953 when the United States helped to return the Shah to power without realizing that his imposed tranquility in Iran would be no substitute in the long run for genuine social and economic development and most particularly for real efforts toward the institutionalization of

¹⁴ See R. K. Ramazani "Security in the Persian Gulf". *Foreign Affairs*, Spring 1979, pp. 821-835.

political change and participation. When the Shah took the throne in 1941 the British and the Russians endorsed his government contingent on his respect for the constitution of Iran. No such assurance was sought or granted in 1953.

Perhaps the single most important lesson of the Iranian experience is that imposed tranquility is neither a substitute for genuine political stability nor for real regional security. As seen, Iran's international capacity increased perceptibly during three periods of imposed tranquility under two authoritarian Shahs (1921-1941; 1953-1961; 1963-1978). For the Iranians today the fundamental question is whether or not Iran can escape, for the first time in history, still another return to domestic authoritarian tranquility and consequently a new facade of external capability. For the United States, the Iranian experience raises an equally important question. Can the United States develop, for the first time since World War II, a new concept of stability for the Middle East that would transcend the traditional confines of the notion of preserving the status quo in an era and area of unprecedented social, economic, political and foreign policy change? ¹⁵ So far the American reaction to the far-reaching impact of the Iranian revolution would seem to have found primary expression in the search for military solutions to an extremely complex situation. The post-Shah Middle East situation would seem to demand first and foremost constructive and comprehensive economic, political and diplomatic initiatives. As a matter of fact, the need for a comprehensive American conception of the Middle Eastern situation became abundantly clear after the Arab-Israeli war of October 1973.¹⁶ The increased need for contingency plans for military initiatives today must not be allowed to becloud the fact that the post-Shah situation in the Middle East poses multifaceted, interlocking and region-wide challenges to American foreign policy. As such they would require not only a new conception but also an imaginative strategy that would prominently call for the employment of a whole range of economic, political, diplomatic and cultural means. The military means must complement these other means under extremely adverse circumstances. There are times in the relations of states when force must be used in defence of vital interests and there is no substitute for it.

¹⁵ As early as 1964 I pointed out the need for such a new concept; it is all the more needed now. See Rouhollah K. Ramazani, "Changing United States Policy in the Middle East," *Virginia Quarterly Review*, Vol. 40, No. 3 (1964), pp. 369-382.

¹⁶ This was fully and critically pointed out in Rouhollah K. Ramazani, "Beyond the Arab-Israeli Settlement: New Directors for U.S. Policy in the Middle East" (Cambridge, Mass.: Institute for Foreign Policy Analysis, Inc., September 1977).

GLOBAL OIL AND ENERGY IMPLICATIONS OF THE IRANIAN REVOLUTION

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OVERVIEW

The Iranian revolution's principal implication for global oil and energy supplies is that it marks a point of no return for the world's major oil importing countries. No longer are they assured of ample, reliable, cheap supplies of oil. Now they are entering into a new, troublesome era of scarce, expensive and uncertain oil supplies at increasing prices and further subject to political conditions and risks. The Iranian revolution, with its initial cutoff of oil production and subsequent resumption of exports at a much lower level marks a growing world preoccupation with access to oil supplies, with the risks of international tension and conflict arising out of competition for what oil is available, and with prospects of a chronic dampening effect upon those economies and societies that have come to depend upon ever-increasing oil imports. Unless large, and unexpected, new oil fields are found and brought into production, the world will have to use less rather than more oil by the 1990s, with prospects for only partial relief from higher priced energy alternatives.

For the United States, future energy supplies into the 1990s can be adequate—if not generous—as long as imported fuels keep flowing. But this does not mean that supplies always will be adequate at every place and time. The motor fuel situation of the summer of 1979 and prospects for possible shortages of home heating oil for the winter of 1979 are likely harbingers of future intermittent shortages and provide reason to expect that the United States will have to learn to live with less energy in the future. Since World War II, Americans have relied upon excess oil production capacity and increased oil imports to cope with sudden surges of demand or supply cutoffs. Now that cushion is gone and we must expect to feel the constraint of supply limits from time to time.

How bad is the U.S. energy situation? There is no simple, unequivocal answer. It all depends upon the assumptions made. If the Middle East should be a more reliable and reasonable supplier of oil than many now expect, then the industrial nations of the world could have a decade or two to prepare their economies and societies for the long era of scarcer and more expensive energy expected in the 21st century. If major new oil supplies outside the Middle East become available, such as Mexico's, then the effects of uncertainties of Middle Eastern oil supplies could be reduced. If unexpected advances in alternative energy technologies or energy conservation are made and brought into

commercial use, if our economy and society learn to do with less oil and energy, then dependence upon oil imports could be reduced. On the other hand, some analysts are more pessimistic. Economic depression, social unrest and risk of international conflict are forecast if oil continues to increase in price, if political unrest or intervention by other nations disrupts oil production in the Middle East, if the oil-importing nations are unable to curb their oil imports voluntarily, or if development of alternative energy sources and national policies that cause their use should fail.

Together with its allies and other nations, the United States faces the perplexing problem of what to do about oil supply and use now and in the future. Conventional wisdom points toward reducing use of oil by conservation, by doing without, by substituting other fuels or energy sources, or by increasing oil production in the United States and in other countries outside the Organization of Petroleum Exporting Countries (OPEC) oil cartel. Unfortunately, each option faces opposition from one or another part of society. Consumers object to prospects of reducing their use of gasoline, diesel fuel or heating oils; or of having to spend money to get better use of the fuels they buy. Oil companies are blamed by some as conspirators who have contrived the oil shortage to drive up their prices, but are castigated by others if they try to move into the supply of coal, solar energy or uranium. The oil companies for their part complain that their rate of return on investment lags behind that of other industries. Proponents of alternative energy sources, most notably nuclear power and expanded use of coal, find themselves assailed by those who express fears for the public health and safety and for the environment, and who call for a utopian smallness in government, enterprises, facilities and cities. Solar energy, wind, tidal power, ocean energy, the burning of crops or trees, alcohol fuel made from grain or wood, and hydrocarbons produced from growing plants are some of the alternatives advanced by dedicated supporters. Government agencies, however, see little hope that these sources, even if proven economically competitive, could supply much of U.S. energy needs until well into the next century. Moreover, ideological struggles abound over who should bring these technologies to the market place. For example, some advocates of solar energy press hard to keep this technology out of the hands of large enterprises, particularly the oil companies.

The aftermath of the Iranian revolution has heightened the controversy between those who opt for conservation and elegant frugality in life, and those who opt for increased supply of fuels and energy. This controversy has inevitably fogged the issues and weakened the ability of business and government to respond quickly and decisively. How long this malaise and indecision will last cannot be guessed. A fresh warning signal of the need to face up to long-term constraints on oil supplies came from Kuwait on June 11, 1979, when Sheik Ali Khalifa al-Sabah, Kuwait's oil minister, said that petroleum prices must rise fairly sharply to encourage the industrialized nations to adopt conservation measures and to develop alternative energy sources.¹

¹ He said, "The sooner the shock is introduced, the lower the final price will be." Reported by James M. Markham from an interview with the oil minister. New York Times, June 13, 1979: A1, D6.

While in some respects the United States is better able to cope with the situation because of its large coal and other energy resources, it faces a special situation that sets it apart from other nations. An assessment of this situation by George L. Perry of the Brookings Institution in 1974 remains pertinent. At that time he wrote:

... Three facts account for the special situation in which this country finds itself. First, the United States is not only the world's largest consumer of petroleum, it is also the world's largest producer, and it still supplies two-thirds of its own petroleum needs. Second, the United States appears to be the non-Communist world's main potential supplier of significant energy substitutes for petroleum in the somewhat longer run: it has enormous reserves of coal and shale oil and the capacity to generate large amounts of nuclear power. Third, the United States has a special relationship with Israel that commits it, in some ill-defined but well-established sense, to the support of that country in its conflicts with the Arab states that surround it.^{2, 3}

PLAN OF ANALYSIS

The following analysis of the implications of the Iranian revolution for global oil and energy supplies opens with consideration of world demand and supply for oil, moves to the U.S. energy situation, with special attention to oil imports, and then considers the effects of the revolution on oil supplies. Next comes discussion of the effects of oil import reductions on the United States, drawing upon effects of the 1973/74 oil embargo and the more recent effects of the Iranian cutoff and limited resumption of exports. The analysis concludes with discussion of the implications of the revolution for global oil and energy supply and for U.S. economic, energy and foreign policy. The discussion makes the point that transition into the new energy era will require national policies to be meshed together which heretofore have been largely independent of one another.

THE WORLD OIL AND ENERGY SITUATION

The implications of the Iranian revolution for global oil and energy supplies can best be seen against a backdrop of the present energy situation. Since oil is the kingpin of energy supply in the closing decades of this century, some background information on international petroleum consumption is pertinent.

Petroleum consumption by the 19 member nations of the International Energy Agency averaged 35.0 million barrels a day in 1978, up 2.0 percent from 1977 and 5.5 percent more than in 1976. The United States was the IEA's largest consumer, averaging 18.7 million barrels a day, followed by West Germany at almost 2.6 million barrels a day. France, which is not an IEA nation, used an average of almost 2.1 million barrels a day. Table 1 gives details for the 5-year period 1973 through 1978.

² The United States is no longer the world's largest oil producer.

³ George L. Perry. *The United States*. In Edward R. Fried and Charles L. Schultze, eds. *Higher Oil Prices and the World Economy: The Adjustment Problem*. Washington, D.C.: The Brookings Institution, 1975, p. 71.

TABLE 1.—PETROLEUM CONSUMPTION FOR MAJOR FREE WORLD INDUSTRIALIZED COUNTRIES EXCLUDING THE UNITED STATES

[1973-78, average, thousands of barrels per day]

Year	Total IEA	Japan	West Germany	France ¹	United Kingdom	Canada	Italy ²
1973.....	33,600	5,000	2,693	2,219	1,974	1,597	1,525
1974.....	32,390	4,872	2,408	2,094	1,857	1,630	1,521
1975.....	31,235	4,568	2,319	1,925	1,633	1,595	1,468
1976.....	33,180	4,786	2,507	2,075	1,607	1,647	1,503
1977.....	34,300	5,015	2,478	1,973	1,638	1,668	1,476
1978.....	35,000	5,122	2,595	2,077	1,667	1,685	1,543

¹ Not a member of IEA.² Principal products only.

Source: U.S. Department of Energy. Energy Information Administration. Monthly Energy Review, May 1979, p. 100.

The MIT-WAES analysis of global energy prospects.—In 1977, the MIT Workshop of Alternative Energy Strategies reported on the results of 2½ years of study by its international group of energy experts on the potential supply and demand of principal fuels through the end of the century.⁴ The workshop reached the pessimistic conclusion that world oil production is likely to level off—perhaps as early as 1985—and that alternative fuels will have to meet growing energy demands. Large investments and long lead times will be required to produce these fuels on a scale large enough to fill the prospective shortage of oil which is the fuel that now furnishes most of the world's energy. The problem facing the world will be to manage a transition from dependence on oil to greater reliance on other fossil fuels, nuclear energy, and, later, renewable energy systems.⁵ Some of the WAES's specific conclusions included the following:

The supply of oil will fail to meet increasing demand before the year 2000, most probably between 1985 and 1995, even if energy prices rise 50 percent above current levels [1977] in real terms. Additional constraints on oil production will hasten this shortage, thereby reducing the time available for action on alternatives.

Demand for energy will continue to grow even if governments adopt vigorous policies to conserve energy. This growth must increasingly be satisfied by energy resources other than oil, which will be progressively reserved for uses that only oil can satisfy.

The continued growth of energy demand requires that energy resources be developed with utmost vigor. The change from a world economy dominated by oil must start now. The alternatives require 5 to 15 years to develop, and the need for replacement wells will increase rapidly as the last decade of the century is approached.⁶

The Workshop cautioned that failure to recognize the importance and validity of its findings and to take appropriate and timely action

⁴ Carrol L. Wilson. *Energy: Global prospects 1985-2000*. Report of the Workshop on Alternative Energy Strategies. New York: McGraw-Hill, 1977. 291 p.

⁵ The Project Director, Professor Carroll L. Wilson, was more pessimistic. He wrote that world oil will run short sooner than most people realize. Unless appropriate remedies are applied soon, the demand for petroleum in the non-Communist world will probably overtake supplies around 1985 to 1995. Petroleum demand could exceed supply as early as 1983 if the OPEC countries maintain their present production ceilings because oil in the ground is more valuable to them than extra dollars they cannot use. "We don't have much time to learn how to replace, or decrease our dependence on the fuel that for three decades has fed the expansion of western living standards and the hopes of all nations for material betterment. Time is our most precious resource. It must be used as wisely as energy." WAES Report, op. cit., p. xi.

⁶ WAES Report, op. cit., pp. 3-5.

would almost certainly result in a world different from the one projected. "Failure to act could lead to substantially higher energy prices as the supply/demand imbalance becomes more apparent—with the depressant effects on the economies of the world and the consequent frustration of the aspirations of the less developed countries. The major political and social difficulties that might arise could cause energy to become a focus for confrontation and conflict."⁷

The French Petroleum Institute (IFP) forecast of world oil supply.—One of the subjects addressed by the Conservation Commission of the World Energy Conference in 1977 was oil. The French Petroleum Institute reported on a poll it conducted on world oil supply. Because of the difficulties of estimating ultimate worldwide resources of crude oil and the limits of annual production, a Delphi-type poll was carried out among world energy experts.⁸ Forty-two questionnaires produced 29 replies. For purposes of the implications of the Iranian revolution or global oil and energy supplies, the most significant indications from the poll were the following :

Ultimate worldwide conventional petroleum reserves are about 260 to 300 billion metric tons, or about 1.7 to 2.1 trillion barrels of oil.^{9 10} These 260 billion metric tons include about 100 billion metric tons of proved and probable reserves already discovered, and 160 billion metric tons of reserves still to be discovered.

The 260 billion metric tons are considered likely to be divided among various regions as follows: The United States and Canada, 11 percent; western Europe, 4.5 percent; the Soviet Union, China and the socialist countries, 23 percent; the Middle East and North Africa, 42 percent; Africa south of the Sahara, 4.5 percent Latin America, 9 percent; and South and East Asia, 6 percent.

For comparison, world petroleum consumption in 1977 was about 3 billion metric tons. The experts estimated that at the end of the century discoveries will not provide for the renewal of reserves at the present level of consumption. "The need to call massively on nuclear electricity and coal is thus clearly shown."

The analysis indicated that the years 1985 to 1995 will be critical for world oil production. During this time, production capacities are likely to level off in almost every forecast. If the demand for petroleum still continues to grow at that time, there will probably be a shortage and oil prices are likely to rocket uncontrollably.¹¹

The Trilateral Commission's survey of forecasts.—As would be expected, many forecasts have been made of world oil supply and demand. Most are pessimistic and see demand outstripping supply. Re-

⁷ *Ibid.*, p. 5.

⁸ Pierre Desprairies, *World Petroleum Supply Limits. In World Energy Resources 1985-2020. Executive summaries of reports on resources, conservation and demand to the Conservation Commission of the World Energy Conference.* New York. ITC Science and Technology Press, 1978, pp. 1-30.

⁹ One metric ton of crude oil is about 7 barrels.

¹⁰ Of this, the report said: "Ultimate recoverable resources worldwide remaining to be produced as of 1977, supposing the present recovery rate of 25 percent is raised to 40 percent toward the end of the century, have been estimated by all the 28 experts at 260 GT approximately, without counting deep offshore and the polar regions, which are still classified as unconventional petroleum; including these, the estimate is 300 GT. [One GT=1 billion metric tons.]

¹¹ Desprairies, *op. cit.*, pp. 8, 9, 14.

cently the Trilateral Commission¹³ surveyed these forecasts in a report of its Energy Task Force.^{13 14}

Despite differing assumptions about economic growth, pricing and production by producing countries, and countervailing conservation and other actions by consumer nations, these forecasts coincided in their expectation that the United States will continue to be a major consumer and importer of oil. All underscored the importance of Saudi Arabia's willingness, and ability, to expand its production above its self-imposed ceiling 8.5 million barrels a day. Some suggested that Saudi Arabian production might have to rise to 11 to 13 million barrels a day by 1990 to meet expected growth in world oil demand. The task force itself expected that world oil supplies would remain in rough balance at current or gradually rising real prices for five to ten years. This anticipation could be upset, however, were Saudi Arabia or other major producers to restrict their current oil production for political, resource conservation, or other reasons, and thereby cause new shortages in supply and a further rise in prices. Absent such actions, the most probable oil future seen by the task force is one in which the North Slope adds 1.2 million barrels a day to U.S. production, the North Sea adds 3 million barrels per day to European production by 1980, and Mexico supplies at least 2 million barrels per day to the international market by 1985, with non-OPEC production continuing to expand into the 1980's.¹⁵ These additions should be adequate to meet oil demand growth of 2 to 3 percent a year and to offset declining production from older fields, so that the need for additional OPEC production for the next several years should remain comparatively modest.

By the 1990's, things will change. At that time, virtually all the OPEC producers are likely to be producing at, or near their sustainable capacity, or at officially imposed limits. Non-OPEC oil production will begin to taper off, and the world will have to look to Saudi Arabia to provide still more oil. OPEC members are likely to continue to press for limitations on their oil production, arguing that this will conserve their oil resources and also make oil importing nations face up to the longer-term problems of how to live with less oil. With OPEC oil still priced below the estimated price of fuels produced from shale oil or from coal, and with short-term conversion to such alternative fuels difficult because of the time and expense of building large new industrial facilities, oil prices could continue to rise unrestrained by competition from available alternatives.¹⁶

¹² Organized in 1973 as a private policy-oriented body, the Trilateral Commission has a membership of about 200 citizens drawn from the United States, Europe and Japan. It seeks to develop practicable proposals for joint action for the renovation of the international system. While there has been some controversy in Congress about the Commission, its recent analysis includes a useful comparison of forecasts for world oil supply and demand.

¹³ The Task Force consisted of John C. Sawhill, President of New York University and a former ranking energy official of the Nixon and Ford administrations; Keichi Oshima, professor of nuclear engineering from the University of Tokyo; and Hanna W. Maull, European secretary of the Trilateral Commission.

¹⁴ John C. Sawhill, Keichi Oshima and Hanna W. Maull, *Energy: Managing and Transition*. Report of the Trilateral Energy Task Force to the Trilateral Commission, New York: The Trilateral Commission, 1978, 92 p.

¹⁵ Trilateral Commission, *op. cit.*, p. 12.

¹⁶ The Commission notes that recent estimates by the Department of Energy show that, for the United States, the 1985 cost of producing either synthetic crude oil or high-Btu gas from coal will be at least 50 percent more than the price of oil at that time, even if real oil prices rise by as much as 50 percent.

As for oil prices, the critical factors include Saudi Arabia's willingness to expand production, and the possibility that other OPEC nations—notably Abu Dhabi, Qatar and Libya—might be able to cut back their oil production correspondingly without damage to their internal economy. If oil demand increased as little as 2.5 percent per year, and if new non-OPEC oil supplies continued to expand, the Task Force thought it unlikely that there would be any sharp and sudden upward movement in real prices for the next decade. However, if world oil demand should grow at 3 to 3.5 percent annually and non-OPEC suppliers did not increase their production as now expected, oil prices could rise rapidly.

Considering the political situation in the Middle East, it seemed prudent to the Task Force that oil importing nations should plan for a future of gradually rising real oil prices, perhaps at an annual rate of 2 to 5 percent, beginning in the early- or mid-1980s. They should also develop contingency plans to deal with sharper and more rapid price changes which could result from an unexpected supply curtailment or the reaching of production limits by Iran or other Middle East oil suppliers.¹⁷

An OECD assessment.—In a recent assessment of the world energy situation, Mr. Emile van Lennep, Secretary General of the Organization for Economic Cooperation and Development, warned the United States and other industrial nations that the world oil shortage may already have condemned them to prolonged economic downturn with rising unemployment and high inflation.¹⁸ Because increasing energy production involves heavy investments and long lead times, he cautioned OECD members not to let the immediate difficulties distract their attention from the medium prospects. And OECD growth of only 3.5 percent a year through 1985 would increase demand for OPEC oil by about 5 to 6 million barrels a day, which he doubted would be available. Of this, he said :

Events over the last six months suggest the need for considerable caution in assessing future production levels, as OPEC countries revise their assessment of revenue needs and reconsider their pricing and sales policy. I think it is appropriate to say that there is reason for serious doubt whether this amount will in fact be available.¹⁹

Secretary of Energy Schlesinger echoed Mr. van Lennep's warning that the industrial nations might face a prolonged shortage of oil, and said that the Iranian crisis and the supply cutback it caused had brought forward the day of reckoning, and that there is no leeway for any other political upheaval even in a small oil-producing country. In his view, two years ago the OPEC countries were expected to produce 44 to 46 million barrels of oil per day by 1985; now it seems unlikely that OPEC will exceed 33 to 36 million barrels per day.

Optimism and pessimism in oil forecasts.—Oil forecasts used by those who must grapple with the implications of Iran's revolution clearly reflect differing degrees of optimism and pessimism. Optimists see an orderly transition into a new energy future. Pessimists see dark

¹⁷ *Ibid.*, pp. 12–14.

¹⁸ Opening statement by Emile van Lennep to the meeting of the Governing Board at ministerial level of the International Energy Agency. OECD press release A(79)26, May 21, 1979.

¹⁹ *Ibid.*

visions of economic stagnation, social tensions and perhaps upheavals, together with risks that competition for scarce oil resources can endanger peace and even threaten nuclear war. To better illustrate the role of optimism and pessimism in forecasting oil supply and demand, some fifteen factors affecting future oil supply and demand are listed in Table 2, together with brief statements of optimistic and pessimistic assumptions. This comparison shows that those who would use forecasts as a basis for policy and legislative decisions need to keep in mind the effect of optimism and pessimism, and, therefore, to search out and identify key assumptions used. Note, too, that three of the four factors affecting supply can be expected to be affected by the shock waves of the Iranian revolution.

THE U.S. OIL AND ENERGY SITUATION

The United States is the world's largest producer, and largest consumer and importer of oil; and consequently, it has wider flexibility than most countries. Nevertheless, a shortage of gasoline and diesel fuel in the summer of 1979, and fears of shortages of heating oil for the winter underscore the perils of continued dependence on imported oil. Concerning the latter, at the recent Tokyo Economic Summit Conference, President Carter, on June 29, 1979, committed the United States to keep its oil imports through 1985 at levels not above those of either 1977 or the adjusted U.S. target for 1979, that is, 8.5 million barrels a day. The European Community said at the conference that it would restrict oil consumption to 10 million barrels a day and keep its oil imports for 1980 through 1985 at an annual level not higher than that for 1978.²⁰ More recently, in his energy speech of July 15, 1979, the President set a clear goal for U.S. energy policy: "Beginning this moment, this Nation will never use more foreign oil than we did in 1977—never."²¹

TABLE 2.—LIST OF FACTORS AFFECTING OIL FORECASTS

	Optimistic	Pessimistic
Affecting supply:		
Iranian production.....	Iran will be a reliable producer and return to prerevolution output.	Iran at best will produce 2,000,000 bbl/d less than before the revolution and is likely to experience future interruptions because of internal disorder.
Saudi Arabia's production.	Saudi Arabia will resume production at 10,000,000 bbl/d.	Saudi Arabia, for economic and political reasons, and to sustain the strength of OPEC, will keep production at 8,500,000 bbl/d or less.
OPEC.....	Other OPEC nations will sustain or increase their production and drop their prices.	Other OPEC nations will restrain production to keep prices high.
Non-OPEC supplies....	Mexico, Alaska, and other suppliers outside OPEC will develop new oil resources in substantial quantities.	Oil discoveries and development in non-OPEC supplier countries will not meet present hopes, for geological, economic and political reasons.
Affecting demand:		
Prices.....	International oil prices will stabilize and perhaps decline because of the economic effect of past increases and possible new production.	The OPEC suppliers will be able to preserve their internal discipline and keep supply less than demand so as to sustain or increase present prices; OPEC may index oil prices to inflation.

²⁰ The text of the joint declaration appears in Energy Users Report, July 5, 1977, pp. 47-48.

²¹ In 1977 the U.S. imported an average of 6,595,000 barrels of crude a day, in comparison with an average of 6,054,000 barrels a day in 1978, and 6,339,000 barrels a day for the first 3 months of 1979. Cf. U.S. Department of Energy, Monthly Energy Review, May 1979, p. 30.

TABLE 2.—LIST OF FACTORS AFFECTING OIL FORECASTS—Continued

	Optimistic	Pessimistic
Affecting demand—Continued		
Economic activity.....	The world and U.S. economies will be able to adjust to uncertain supplies of higher priced oil without causing more unemployment or other adverse effects.	The world and U.S. economies will be unable to adjust to uncertain and higher priced oil supplies with the stabilizing depression as a result.
Relation of energy to economies.	The world and U.S. will be able to decouple energy supply from their economies.	The world and U.S. will be unable to separate energy supply from their economies.
Alternative energy supplies.	Alternative energy supplies; coal, uranium, solar, can be expanded quickly and economically to reduce the demand for oil.	Alternative energy supplies will be delayed and/or fall short of present hopes.
Conservation.....	Energy conservation will work effectively.	Energy conservation will fall short of present hopes.
Societal accommodation.	The societies of the U.S. and other nations will adjust to the new energy era without dangerous and destabilizing tensions and conflicts.	Shortages of fuels and energy will cause societal reactions, tensions and conflicts that may interfere with government plans for life in the post-Iranian revolution era.
Weather.....	Mild winters and summers will restrain peak energy demands and ease the transition into the new era.	Unusually hot or cold weather will impose dangerously high peak demands for fuel and energy.
Affecting both supply and demand:		
International relations and cooperation.	Oil consuming nations will cooperate effectively in oil conservation and import reduction, will present a united front to OPEC, and can keep rivalry for scarce oil under control.	Oil consuming nations will be unable to cooperate effectively but, rather, will compete strongly for available oil, with resulting tensions and perhaps weakening of alliances that can fracture a common front toward OPEC.
Soviet Union's actions....	The Soviet Union will not try to take advantage of the situation by stirring up trouble in the Middle East and will not have to come into the world market for oil for its own use.	The Soviet Union will take advantage of the situation and try to foster ferment in the Middle East and perhaps even threaten sea transport of oil. It will become a major buyer of oil in the 1980's.
Third World response.....	The developing nations of the Third World—India, Brazil, Argentina—will find ways to adjust to short and expensive world oil supply.	The developing nations will seek ways to get more of the world's oil supply for their economies at a special price.
World peace.....	International cooperation will prevent tensions caused by scarce oil supplies from threatening world peace, with the catastrophic effect that would have upon oil supply.	Competition for scarce oil supplies will weaken U.S. alliances and encourage Soviet adventures that could cause war, with disruption of international oil supply.

In addition, the President set the further goal of cutting U.S. dependence on foreign oil by one-half by the end of the 1980s, a reduction of 8.5 million barrels of imported oil per day from previously projected needs for 1990. To insure that the United States would meet these targets, the President announced he would set oil import quotas to hold net U.S. oil imports below the ceiling of 8.5 million barrels a day agreed to at the Tokyo summit. For 1979, the quota will limit net U.S. imports to 8.2 million barrels a day, or 300,000 barrels a day below the level agreed at Tokyo. The import quota for 1980 also will be below the Tokyo ceiling, with the precise level to be determined later.²²

Ever since the Civil War and the start of the American industrial revolution, the United States has radically changed and increased its use of energy. A century ago, wood was a principal source of energy, with the use of coal beginning to expand. Coal became the mainstay of the United States in the early decades of this century. Then, after World War II, its use dropped precipitously as cheap natural gas and cheap oil became available. By 1978, crude oil and refined products supplied 48.5 percent of U.S. energy consumption.

²² The quotas are to be set under the authority of Section 232(b) of the Trade Expansion Act of 1953, which permits the President, upon a finding of the Secretary of the Treasury, to limit any imports which threaten national security. On March 14, 1979, the Secretary of the Treasury made a finding that current levels of oil imports constitute such a threat. The President may set these quotas without further legal or procedural requirements.

The implications of the Iranian revolution and its effects upon supplies of oil and energy are highlighted by the realization that within 3 decades following World War II, the United States lost its energy independence and became the world's largest importer of oil. For many decades, U.S. energy use has grown steadily each year. In 1978, the United States consumed energy equivalent to 78 quadrillion British thermal units (Btu).²³ Close to half of this energy came from petroleum.²⁴ As for users, in 1978, 37.5 percent of the energy consumed in the United States went to residential and commercial purposes, 36.1 percent to industry, and 26.4 percent to transportation.

U.S. oil imports and their prices.—During 1978, the United States imported an average of about 5.6 million barrels of oil a day from OPEC countries, with 2.9 billion barrels a day from Arab members. For the first 2 months of 1979, U.S. imports from OPEC averaged 5.7 million barrels per day, of which 3.3 million came from Arab members.²⁵ Table 3 lists the top eight OPEC oil exporters and their daily export rates to the United States for 1978.

TABLE 3. *The top eight OPEC oil exporters to the United States—1978*

	<i>Thousand barrels/day</i>
Saudi Arabia.....	1, 137. 4
Nigeria.....	902. 9
Libya.....	642. 7
Venezuela.....	633. 0
Algeria.....	628. 0
Iran.....	544. 7
Indonesia.....	530. 4
United Arab Emirates.....	368. 4

Source: U.S. Department of Energy. Energy Information Administration. Monthly Energy Review, May 1979.

The estimated cost of crude oil (FOB) imported by the United States in December 1978 ranged from \$12.42 per barrel from Venezuela to \$14.29 per barrel from Nigeria.²⁶ The latest OPEC price action, taken at Geneva on June 28, 1979, raised the average price of oil by 16 percent. Under a complicated formula, oil prices will range from a minimum of \$18 to a maximum of \$23.50 per barrel.²⁷

More detailed statistics on the U.S. energy situation, including oil imports, appear in the Appendix to this chapter.

The Congressional Budget Office, in its recent report to Congress on the economic outlook, discussed the increase in prices for imported crude oil as follows:

The OPEC price for crude oil was raised to about \$20 a barrel at the cartel's June meeting. This is an increase of nearly 60 percent since last December. But

²³ For comparison, a barrel of oil contains about 6 million Btu, depending upon quality; a ton of coal contains from 23 to 27 million Btu, again depending upon quality.

²⁴ Coal supplied 18 percent, natural gas 25.4 percent, oil 48.5 percent, hydro 4.0 percent and nuclear 3.8 percent (rounded figures).

²⁵ U.S. Department of Energy. Energy Information Administration. Monthly Energy Review, May 1979, p. 34.

²⁶ *Ibid.*, p. 78.

²⁷ In its communique at the end of the ministerial meeting, OPEC said, in part:

In an endeavor to bring some stability to the market, the conference decided on the following:

1. Adjust the market crude price from the present level to \$18 a barrel.
2. Allow member countries to add to the price of their crude oil a maximum market premium of \$2 a barrel over and above their normal differential, if and when such a market premium was necessitated by market conditions.
3. The maximum price that can be charged by member countries shall not exceed \$23.50 a barrel, whether on account of quality and location advantage or market premia.

It was also agreed that member countries would take steps to limit transactions in the spot market in a collective effort to stop the present price spiral. (Cf. The New York Times, June 29, 1979, p. D4.)

the rise occurred less abruptly than the changes in the official benchmark price suggest. Before the OPEC meeting, the effective price with surcharges was already in the neighborhood of \$17, up more than 30 percent from the end of last year. The sharp increase in petroleum prices early this year originated in the drop in Iranian production of crude oil.²⁸

Looking to the future, the CBO did not expect energy prices to continue to rise at recent rates. However, the Administration's policy of decontrol of domestic oil prices, along with the likelihood of a continuing tight supply situation at least in the near term, should keep energy prices rising at a pace greater than the average rate of inflation for the economy as a whole.²⁹

Oil from Iran.—What the Iranian revolution implies for global supplies of oil and energy depends upon how much oil Iran produces and exports, and who uses it.

Before the revolution, Iran ranked second in capacity among the top five OPEC producers.³⁰ Nearly 68 percent of Iran's prerevolutionary oil production went to the 24 nations that comprise the Organization for Economic Cooperation and Development (OECD), and accounted for 16 percent of OECD crude oil imports and about 11 percent of its total supply.³¹ The imports from Iran by OECD are shown in Table 4.

TABLE 4.—USERS OF IRANIAN OIL

Importer	1978 percent of—	
	Users' oil supplies	Iran's output
Japan.....	17.2	16.0
United States.....	5.6	15.9
West Germany.....	13.0	6.2
Italy.....	16.0	5.0
Netherlands.....	62.4	4.7
United Kingdom.....	13.5	4.2
France.....	9.0	3.6
Belgium.....	32.7	2.7
Canada.....	7.6	2.3

Source: Petroleum Intelligence Weekly, Jan. 22, 1979, p. 8.

PRINCIPAL OIL SUPPLIERS, 1976 AND 1980

[In millions of barrels per day]

	1976	1980
Saudi Arabia.....	11.5	15.0
Kuwait.....	3.5	3.5
Iraq.....	3.0	6.0
Iran.....	6.5	7.0
Libya.....	2.5	2.5
Others.....	11.0	11.0
Total.....	38.5	45.0

Note: Cf. Organization for Economic Cooperation and Development. World Energy Outlook. Paris, 1977, p. 87.

EFFECT OF THE REVOLUTION ON IRANIAN OIL PRODUCTION

The immediate effect of the Iranian revolution was a temporary disruption of its oil production and the resumption of oil exports at a

²⁸ U.S. Congress. Congressional Budget Office. The Economic Outlook for 1979-1980: An Update. July 1979, p. 4.

²⁹ Ibid.

³⁰ The OECD in 1977 estimated OPEC production capacity as follows:

³¹ Petroleum Intelligence Weekly. January 22, 1979, p. 8.

much lower level. Since the progress of the revolution provides a powerful example of the effects of internal political change upon oil exports by a leading supplier nation, some background on the events of the revolution follows.

As political unrest peaked in Iran late in 1978, sporadic strikes disrupted oil production until, on December 26, 1978, all oil exports stopped. On February 11, 1979, the new Khomeini regime took over and appealed to workers to end the strikes. The oil workers went back to work on February 17, and on February 26 the Government announced that exports would resume on March 5. By late March, Iranian oil production was about half of its pre-revolution level.

Iran resumed oil exports on March 5, 1979, at about 1 million barrels a day. Production increased during the spring of 1979 to about 2.5 million barrels a day, of which about 1.8 million was available for export. More recently, the national Iranian Oil Company announced, on May 14, 1979, that production had increased to 4.1 million barrels a day, of which 3.4 million were available for export.³²

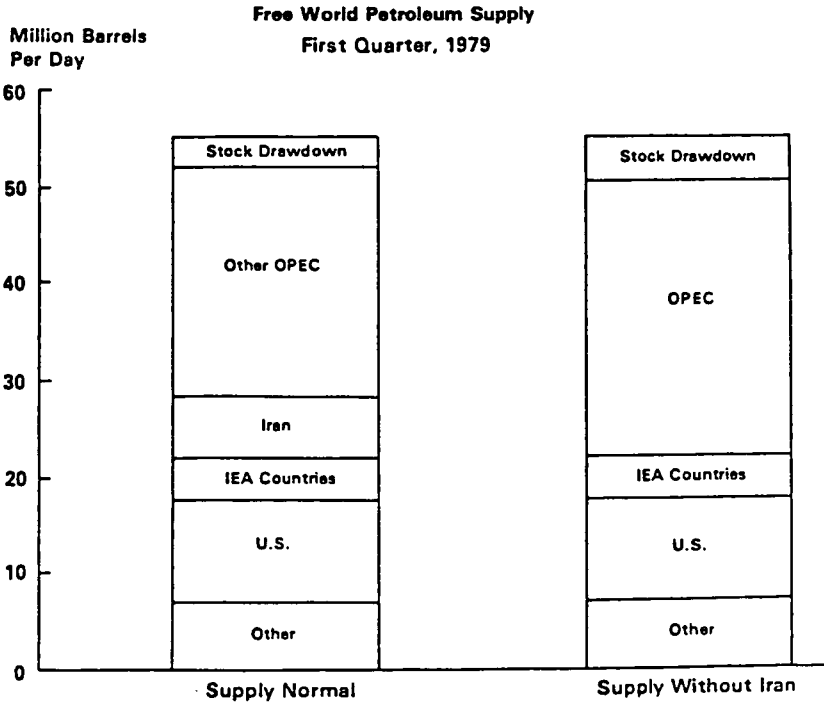
OFFSETTING THE IRANIAN OIL SUPPLY REDUCTION

As Iran's oil production fell because of the revolution, and its exports plummeted, other major oil exporting countries increased their production. In particular, Saudi Arabia increased its production by about 1.4 million barrels a day, while Kuwait, Iraq, Venezuela and Nigeria also upped their exports. Data on these increases from the Department of Energy appears in Table 5. Note that production increases by these other suppliers offset about 3 million barrels a day of the 5 million barrels a day lost from Iranian exports. As estimated by the Department of Energy, oil supplies for the free world were about 51 million barrels a day, or about 2 million barrels a day below previously projected levels for early 1979. Figure 1 also suggests the moderating effect of these oil exports upon the cutoff of Iranian oil exports. In April 1979, the DOE warned that continuation of this higher level of production could not be relied upon and that Saudi Arabia and other Arab oil producers who had contributed most of the increased production had indicated their intention to cut back their production beginning in April 1979.

Once Iranian exports resumed, production by most of the other oil suppliers tended to return to pre-revolution levels. Since Iran did not return to its earlier export levels, there was some tightness in world oil supplies that led to higher prices, especially as countries bid up the price of crude oil and refined products on the spot market. To reduce this pressure, the Department of Energy tried early in 1979 to discourage U.S. importers from buying on the spot market. This DOE policy did not last. It was relaxed after oil on the spot market which normally came to the United States began to flow to Europe. The United States' subsequent decision to allow a \$5-per-barrel rebate on heating oil imported from the Caribbean marked a reversal of policy that caused subsequent complaints from the governments of France and West Germany.

³² Broadcast on Iranian radio as reported by the Foreign Broadcast Information Service, May 14, 1979.

FIGURE 1



Source: U.S. Department of Energy. Response Plan: Reducing U.S. Impact on the World Oil Market, April 1979, attachment I, p. 3.

Saudi Arabia announced in early July that it would substantially increase its production of crude oil by one million barrels a day from 8.5 to 9.5 for an indefinite period of time, possibly for the balance of 1979. This increase is considered enough to eliminate the bulk of the world's immediate shortage.³³

³³ The New York Times, July 10, 1979, p. A1.

TABLE 5.—DEPARTMENT OF ENERGY'S ANALYSIS OF THE IMPACT OF IRANIAN CURTAILMENT ON FREE WORLD OIL PRODUCTION ¹

[In millions of barrels per day]

	4th quarter 1978			1st quarter 1979		
	Prior project	Actual	Change	Projected before curtailment	Projected after curtailment	Change
OPEC:						
Iran.....	6.2	3.8	-2.4	5.9	² 1.1	-4.8
Saudi Arabia.....	9.2	10.2	1.0	8.7	10.1	1.4
Iraq.....	2.7	3.1	.4	2.7	3.1	.4
Nigeria.....	2.2	2.3	.1	2.2	2.4	.2
Kuwait.....	2.3	2.4	.1	2.0	2.6	.6
Libya.....	2.1	2.1	-----	2.1	2.2	.1
Venezuela.....	2.3	2.4	.1	2.2	2.4	.2
Other OPEC.....	5.6	5.8	.2	5.6	5.8	.2
Total, OPEC.....	32.6	32.1	-.5	31.4	29.7	-1.7
Non-OPEC:						
United States.....	10.3	10.3	-----	10.8	10.7	-.1
Canada.....	1.6	1.7	.1	1.7	1.8	.1
North Sea.....	1.7	1.7	-----	1.7	1.8	.1
Other developed countries.....	.8	.8	-----	.9	.9	-----
Mexico.....	1.5	1.4	-.1	1.5	1.5	-----
Other LDC's.....	3.5	3.5	-----	3.5	3.5	-----
Net OPE exports.....	1.0	1.0	-----	1.0	1.0	-----
Total, non-OPEC.....	20.4	20.4	-----	21.1	21.2	.1
Total production.....	53.0	52.5	-.5	52.5	50.9	-1.6

¹ Includes natural gas liquids and processing gains.² Production at 600,000 bbl/d from Jan. 1 to Mar. 3, rising to 2,500,000 bbl/d by Mar. 13, maintained at 2,500,000 bbl/d for rest of month.

Source: U.S. Department of Energy. Response plan: Reducing U.S. Impact on the World Oil Market. April 1979, attachment 1, p. 2.

IRANIAN OIL RESOURCES AND PRODUCTION ³⁴

Before the revolution, Iran ranked as the world's fourth largest oil producer and the world's second largest oil exporter. This production drew upon resources estimated at 350 billion barrels of oil, of which 330 billion barrels are located in the southern area (Khuzestan). A recovery factor of about 18 percent places recoverable Iranian reserves at 60 billion barrels, more than double that of the United States.³⁵ The richness of Iran's oil resources is indicated by the fact that Iran has produced over 5 million barrels of oil a day, using only 550 wells drilled in 36 major fields. In comparison, U.S. production of about 8.5 million barrels a day comes from over 500,000 wells. Iranian wells have averaged over 9,000 barrels of oil a day while U.S. wells average about 17 barrels a day. The ratio of oil reserves to production, which is a critical indicator for future production, was about 33 to 1 for Iran before the revolution, in comparison with 9 to 1 for the United States. However, over recent years, Iran's oil fields have shown some signs of declining.

Declining Iranian production.—The recovery of petroleum depends on the pressure within the reservoir, either natural or induced by gas

³⁴ Prepared by Joseph P. Riva, Jr., Specialist, Science Policy Research Division, Congressional Research Service.³⁵ Fesharaki, Feridun. Iran's Energy Perspective in the 1980s. Middle East Economic Survey, Nov. 13, 1978, p. 4.

injection or water flooding.³⁶ Maximum hydrocarbon yield is obtained by releasing this pressure in a controlled fashion. In general, this means that it is not possible to produce more than about 10 percent of total recoverable petroleum reserves in any one year without reducing the total amount of petroleum that can eventually be recovered.

The Iranian oil industry planned for 1978 to be a year of activity to halt declining oil production. The National Iranian Oil Company budgeted \$2 billion for exploration and development, with the bulk allocated for gas injection and pressure maintenance, mainly in the onshore oil fields along the Persian Gulf. Water injection was planned for a number of offshore fields. Iranian production of oil had peaked in 1976 at 5.88 million barrels per day and had declined to below 5.5 million barrels per day in early 1978. Production had reached 8 million barrels per day for a few days in 1977, but this could not be sustained without increased pressure maintenance and gas reinjection.³⁷

Oil production was halted in Iran for over two months at the end of 1978 and the beginning of 1979, and many foreign petroleum technicians were expelled. Production has begun again, with an upper limit of 4 million barrels per day imposed by the new revolutionary government. The National Iranian Oil Company apparently feels that it can produce 4 million barrels per day without the help of foreign technicians and appears to be under strict instructions from the new regime to keep the oil industry an all-Iranian operation.³⁸ There are doubts, however, that this level can be maintained. Output has been fluctuating as decisions on pressure maintenance have not been made.³⁹

If nothing is done to Iran's oilfields, the present 4-million-barrels-per-day production will decline because of decreasing pressure and aging wells. However, a number of gas reinjection efforts were being planned in 1978, and also a secondary recovery program. If these are continued (for which outside experts probably will be needed), production could be maintained or even increased. An alternative method of holding or increasing production would be to drill new wells in between existing ones. Drilling additional production wells on closer spacing in Iran's giant fields can allow higher rates of production and also, if pressures are maintained, could result in total field recoveries greater by 50 percent or more than estimated in the reserve figures.⁴⁰ Developmental drilling could thus be useful in increasing production, but finding major fields (over 1 billion barrels) is unlikely. Even with offshore drilling, proven Iranian reserves are unlikely to rise more than 10 to 20 percent in the future.⁴¹

Production in Iran, even under the former government, did not approach a 15-to-1 ratio of reserves to production often associated with an oil producing area under development. Instead, Iranian production

³⁶ In order to maximize the recovery of oil from a reservoir, it is necessary to maintain underground pressure (pressure maintenance). This can be done either by injecting natural gas into the gas cap above the oil (gas injection) or by injecting water below the oil in a reservoir (water injection).

³⁷ Middle East: The Focus is on Boosting Productive Capacity. World Oil, Aug. 15, 1978, p. 196.

³⁸ Iran Sets Crude Export Ceiling at 3 Million Barrels per Day. The Oil and Gas Journal, May 7, 1979, p. 43.

³⁹ Vielvoje, Roger. No Relief in Sight for Crude Supply, Prices. The Oil and Gas Journal, May 21, 1979, p. 20.

⁴⁰ Nehring, Richard. Giant Oil Fields and World Oil Resources. R-2284-CIA, June 1978, p. 144.

⁴¹ Fesharaki, Fereldum, op. cit.

was less than half this rate, suggesting that, with more efficient exploitation, the 60-billion-barrel Iranian oil reserve could support the production of as much as 10 million barrels per day. While the reserve would not last as long under such full development, a larger amount of oil could be recovered with more drilling and the use of advanced petroleum production techniques.

INTERNATIONAL OIL ALLOCATION

One indication of the limited effect of the Iranian revolution upon global oil and energy supplies is that it did not trigger the international mechanism for oil allocation of the OECD's International Energy Agency (IEA).

It will be recalled that one U.S. response to the oil embargo of 1973 was to cosponsor creation of the Agency which, in turn, devised an oil-sharing scheme to prevent dissension among the oil importers and to discourage panic bidding on the world market. The United States takes part in the Agency through an executive agreement, and Congress has authorized the President to take part in the oil-sharing scheme.⁴² Under the scheme, the allocation system may be triggered in either of two ways. First, by a member state's loss of more than 7 percent of its normal oil supply; and second, by general loss of oil supply by all members. Operation of the scheme could mean that under some circumstances, the United States would have to share some of its imports with other IEA members, perhaps as much as 150,000 barrels a day.⁴³

The Comptroller General, in his March report to Congress on the effects of the Iranian oil shortfall, noted that the amount of the shortfall, which was about 5 percent of the IEA member nations requirement, was not large enough to reach the 7 percent threshold to trigger the oil sharing program. Although some nations did experience shortfalls of above 7 percent, they were reluctant to involve the oil sharing plan.⁴⁴ The Comptroller General warned that pressure to activate the plan could build up by the early summer if the Iranian cutoff were to persist.

COMPARISON OF THE EFFECTS OF THE ARAB OIL EMBARGO OF 1973 AND THE IRANIAN REVOLUTION OF 1978

Within the past six years, there have occurred two notable reductions in world oil supplies caused by actions and events in the Middle East.

⁴² While Congress took no part in the negotiations that created the IEA, it later authorized the President to carry out the U.S. oil-sharing obligation in the Energy Policy and Conservation Act of 1975. This authorizes the President to take such action as he determines to be necessary to carry out U.S. obligations for international allocation. His authority applies to any oil subject to U.S. jurisdiction, including any destined, directly or indirectly, for import into the United States or any foreign country. However, the President may not issue any rule under this authority until he: (1) transmits it to Congress; (2) finds that it is required to fulfill U.S. obligations; and (3) transmits this finding to Congress together with a statement of the effective date and manner of exercise of such rule. To date, the President has not submitted such rules to Congress.

⁴³ U.S. General Accounting Office, *Analysis of the Energy and Economic Effects of the Iranian Oil Shortfall*. Report by the Comptroller General of the United States, March 3, 1979, report EMD-79-38, p. 3.

⁴⁴ The Comptroller General mentioned several reasons for such reluctance, including domestic political consequences, and the setting of a precedent that many nations may prefer to avoid.

"Being a recipient of international aid now to cover a fairly small current deficit would limit a nation's freedom to react in the event of a more serious situation—especially a politically motivated embargo—in the future against the United States." (*Ibid.*, p. III-2.)

One was the Arab oil embargo of 1973/74. The other was the Iranian revolution of 1978. Both produced shortages on the world market. Both led to large increases in the price of oil, although the approximately 50-percent increase following the 1978 Iranian revolution has yet to match the 400-percent increase of the earlier embargo. In each instance, the oil importing countries were unable to bring the price down. The 1973 embargo is credited with causing a severe world recession, with increased unemployment and lower economic growth. As after-shocks of the Iranian revolution are still being felt, some analysts see signs of recession in the United States, caused in part by scarce and high-priced oil. All oil importing countries have had severe inflation since 1973, and many fear that inflation will go still higher if oil prices continue to increase.

There is one substantial difference. In 1973, the oil embargo was viewed as a temporary inconvenience and everyone expected oil production to resume and increase once the problems with Israel and the Arabs were settled. Today it is different. In 1979, few expect an ever-increasing oil production from the Middle East for the benefit of the oil importing nations. Instead, there is gloomy speculation on the effects of possible limitations of oil production upon nations that are still growing in population and that wish to further expand their economies.

The Arab oil embargo of 1973-74.—The surprise attack on Israel, on October 6, 1973, at first appeared mainly a threat to peace. Only gradually did its effect upon world oil supply emerge. On October 16, 1973, the Persian Gulf oil exporting countries—OPEC members, including non-Arab Iran—acting as a pricing committee for OPEC, unilaterally increased their posted price for oil from \$3.07 to \$5.12 a barrel. Other oil exporters soon did likewise as the market readily absorbed the increase. The real troubles began on October 21, 1973, when several Arab oil-exporting countries embargoed oil shipments to the United States and the Netherlands, which were regarded as too sympathetic to Israel. More important, all the Arab oil exporters except Iraq simultaneously cut their oil production by 5 to 10 percent and announced that deeper cuts would be made unless Palestinian Arabs received “justice.” On November 4, 1973, participating Arab countries further announced they would cut oil production to 25 percent below the September level.

Most of the reduction was aimed at the United States and other “unfriendly” countries. The remainder was to come out of exports to countries that the Arabs regarded as neutral. The United Kingdom, France and other “friendly” countries were to be assured normal supplies. The Arab states’ plan was frustrated because the shortage was spread among oil importing countries by the international oil companies who shifted their non-Arab oil to customers who might have been denied all or part of their usual Arab oil. For this reason, and because in late December 1973 the Arabs raised production to 85 percent of the September level, the oil shortages caused by use of the “oil weapon” were much less severe than had at first been feared. As the U.S. peace initiatives took effect, the Arab producers began to relax their production restrictions and the embargo, and by March 1974, the embargo was over. What remained was the great increase in oil prices that the Arab oil-supply restrictions had made possible.

As later summarized by the Federal Energy Administration, by January 1974, U.S. imports were down by 2.7 million barrels a day, reducing the total petroleum supply 14 percent below consumption expected by the Agency. As for oil prices, these had jumped to unheard of levels, rising from about \$3 per barrel in September 1973 to over \$11 per barrel by January 1974. Although massive unemployment, black-outs and other major disruptions were avoided, the embargo still had an appreciable impact, which will be discussed presently.

Economic effects of the Arab oil embargo.—Another way to look at implications of the Iranian revolution for U.S. economic policy is to consider the effects of the 1973–74 Arab oil embargo and the subsequent price increases.⁴⁵ The following discussion draws upon two of the many studies of these effects: one by the Brookings Institution⁴⁶ and the other by the Congressional Budget Office.⁴⁷

As seen by the Brookings Institution, “No event of the period following the Second World War has so sharp and pervasive an impact on the world economy as the series of shocks to the oil market that followed closely on the outbreak of the Arab-Israeli war on 6 October 1973.”⁴⁸

In 1973, Arab countries supplied more than 40 percent of the oil consumed in non-Communist countries. The embargo was directed against the United States and the Netherlands but not all Arab countries participated and, most important, oil was reallocated by the oil companies so that importing countries shared fairly equally in the cutback. The international energy program of the International Energy Agency today is intended to assure that a future cutback in oil exports would be shared fairly equally by the importing countries.⁴⁹

More important than the cutback in Arab oil exports in 1973–74, was the quadrupling of price.⁵⁰ Supply interruption and price increase went hand-in-hand. After the embargo ended, the price increase persisted and has been enhanced.

The Brookings study estimates that the cut in U.S. GNP—real income—in 1973–74 was about 2.5 percent, equivalent to \$30 billion in 1973–74 and to \$45 billion in current prices.⁵¹ To this sum must be added the costs incurred in the following years and still being paid today. Brookings estimates that by 1980 the U.S. economy will have adjusted to the events of 1973–74, and the impact on the domestic economy will be a loss of slightly more than one percent of GNP per year.⁵² This depressing effect will continue, but decline in percentage as the GNP grows.

The Congressional Budget Office study confirmed the Brookings results by finding that the 1973–74 embargo and price increase saw

⁴⁵ This section and the next are based largely upon a recent report by Alfred Reifman, CRS senior specialist in international economics. Cf., Alfred Reifman, *Economic Impact of an Arab Oil Embargo and Price Increase*. Washington, D.C.: Congressional Research Service, the Library of Congress, May 7, 1979, 7 p. (Processed.)

⁴⁶ Edward R. Fried and Charles L. Schultze, eds., *Higher Oil Prices and the World Economy*. Washington, D.C.: The Brookings Institution, 1975.

⁴⁷ U.S. Congressional Budget Office, *The Economic Impact of Oil Import reductions, A report for the Senate Committee on Energy and Natural Resources*, December 1978, 31 pp. (committee print, publication no. 95–158).

⁴⁸ Fried and Schultze, op. cit., p. 1.

⁴⁹ The international energy program calls for the emergency sharing of oil internationally, should there be a serious shortfall in supply. All major developed countries except France are parties to the agreement.

⁵⁰ Even without the cutback in Arab oil supplies, the price would have risen, given the changed political and economic strength of the Middle East.

⁵¹ Fried and Schultze, op. cit., p. 21.

⁵² Fried and Schultze, op. cit., p. 47.

“real GNP and income decreased by several percent and, by 1975, unemployment increased by almost 2 percent” over what it would otherwise have been.⁵³ For years after 1973–74, the CBO study would put the costs of the 1973–74 price hike above Brookings’ one-percent estimate. Rough calculations by the Congressional Research Service estimated the cost at roughly \$65 billion per year.

Many different economic effects resulted from the price increases that accompanied the embargo. These included :

1. The higher price of oil imports siphoned off domestic purchasing power—much as an excise tax does—exerting a downward pressure on total demand and, consequently, on income and output in the United States.

2. The price increase had a multiplier effect on all prices as the price of domestic energy rose sympathetically (as price controls allowed) and as the overall higher cost of energy affected wages and prices of other goods and services. Moreover, government attempts to limit these price rises through dampening demand (by tighter fiscal and monetary policies) only deepened the U.S. recession in 1974–75.

3. The higher oil prices resulted in a transfer of U.S. resources to foreign producers. However, there were differences of opinion over the size of the overall effect. Dr. Thomas R. Stauffer,⁵⁴ of Harvard University, estimated that, through about 1977, the effect on the U.S. balance of trade was at worst only slightly negative, with most of the negative effect due to increased quantity of oil imports since 1973, and not to higher prices. In his analysis, between 1973 and 1977, higher oil prices added perhaps a half billion dollars to the U.S. annual balance of payments deficit. However, the increase in oil imports from 230 to 39 million metric tons per year added \$12 billion to the payments deficit by 1977.⁵⁵ The Brookings study put this cost at 0.7 percent of GNP by 1980, or some \$17 billion.⁵⁶ Rough Congressional Research Service calculations put this figure higher, at about \$30 billion a year.⁵⁷

4. The higher price of imported oil increased domestic production of higher cost energy, energy which would not have been produced at lower prices. One result was an increased drain on domestic resources to produce higher priced energy, with fewer resources available for the production of other goods. The Brookings study would put this at 0.2 percent of GNP or \$5 billion in 1980.⁵⁸

5. The higher price induced a lower consumption of energy and imposes an additional cost on consumers. At higher prices, they used less energy or other goods (since energy costs take a larger share of their incomes) than they otherwise would. This might amount to 0.4 percent of GNP or as much as \$10 billion in 1980.⁵⁹

⁵³ CBO study, *op. cit.*, p. 1.

⁵⁴ Dr. Thomas R. Stauffer, analyst on energy questions and lecturer in the Department of Economics and research associate in the Center for Middle Eastern Studies, Harvard University.

⁵⁵ Thomas R. Stauffer, *Oil and the U.S. Balance of Payments*, Middle East Economic Survey, vol. XXII, February 19, 1979, p. 1.

⁵⁶ Calculated from the Brookings study, *op. cit.*, p. 47.

⁵⁷ The cost is calculated as the product of the increase in the price of imported oil (\$9 per barrel), times imports in 1980 (9 million barrels per day), times 365 days in a year, for the \$30 billion.

⁵⁸ Calculated from the Brookings study, *op. cit.*, p. 47.

⁵⁹ *Ibid.*

6. Finally, higher prices of domestic energy involved additional transfer of income from domestic consumers to domestic producers of energy. This might amount to 2 percent of GNP or some \$50 billion in 1980.⁶⁰ (Calculations by the Congressional Research Service put these transfers at \$25 billion.) This transfer, however, was not a net loss to the economy since it could be, and was, taxed by the government and, in any event, remained the property of American nationals. It did, however, represent a real economic burden for certain groups in the American society (as well as a benefit to other groups in the form of dividends paid by the oil companies).

To sum up, the cited studies found that the cost to America of the Arab oil embargo and the price increase of 1973-74 amounted to an initial cost of some \$45 billion a year, followed by annual costs of some \$30 to \$45 billion per year.

The GAO's analysis.—On March 5, 1979, the U.S. Comptroller General released a report on the effects of the Iranian oil shortfall, which had been requested by Senator Jackson for the Committee on Energy and Natural Resources.⁶¹ Concerning the size of the shortfall, the report said:

The net world shortfall, after increased production from Saudi Arabia and other countries, appears to be about 2.5 million barrels per day—about 5 percent of free world consumption.

The U.S. share of the shortfall appears to be about 500 thousand barrels per day (mb/d)—about 3 percent of U.S. consumption.

The apparently small shortfall could become more serious, however, in that it would take only one million barrels per day of additional cutbacks from any source to trigger the general IAEA oil sharing agreement.

The potential impacts of the Iranian situation on price are more serious than those resulting from the production shortfall.

Several members of the International Energy Agency could have a shortfall greater than 7 percent. Japan, Italy, Belgium, the Netherlands, Spain, and New Zealand are particularly dependent.

Small U.S. importers and refiners appear to be experiencing more difficulty than larger companies in obtaining oil supplies.

The most common Iranian crude oil imported into the U.S., Iranian light, is a moderately light oil that can be refined into a wide range of products. We do not expect that any particular industries or consumers will be disproportionately affected by the Iranian oil cutoff. However, slightly less gasoline and somewhat more residual oil may be produced.

Potential effects of a future oil embargo and price increase.—There is no simple way to forecast the impact of a future oil embargo and associated price increase. So much would depend upon how much of the supply is interrupted, and how long the cutoff might last. One difference between the 1973 embargo and a future one is that in 1973 the OPEC states were not sure they could succeed, having failed in previous embargo attempts. Also, oil was greatly underpriced in 1973, and the oil companies were in a far more powerful position than they are today. The impact of a future embargo would depend too upon U.S. counter-actions, the state of the economy at the time, the price increases for oil still available, and the amount of oil in the U.S. strategic petroleum reserve.

⁶⁰ *Ibid.*

⁶¹ U.S. General Accounting Office. *Analysis of the Energy and Economic Effects of the Iranian Oil Shortfall*, March 5, 1979 (Report EMD79-38), 47 pp.

TABLE 6.—IMPACT OF A 1-YR REDUCTION IN U.S. OIL SUPPLY UPON GROSS NATIONAL PRODUCT, UNEMPLOYMENT, AND INFLATION¹

Amount of reduction in oil supply and size of strategic petroleum reserve	Petroleum shortfall (million barrels) ²	Change in real GNP ³ (billions)	Change in GNP ³ (percent)	Change in unemployment rate (percent)	Unemployment rate 1982 (percent)	Change in inflation rate (percent)
Case 1: Oil supply reduction of 3,000,000 bbl/d; strategic reserve at 500,000,000 bbl	8	-\$45	-2.8	+1.0	6.1	+1.3
Case 2: Oil supply reduction of 3,000,000 bbl/d; strategic reserve at 250,000,000 bbl	11	-65	-4.1	+1.4	6.5	+1.8
Case 3: Oil supply reduction of 4,000,000 bbl/d; strategic reserve at 500,000,000 bbl	13	-112	-7.1	+2.3	7.4	+3.0
Case 4: Oil supply reduction of 4,000,000 bbl/d; strategic reserve at 250,000,000 bbl	16	-155	-9.8	+3.2	8.3	+4.3

¹ In comparison with CBO's baseline economic forecast.

² The amount of petroleum lost to the economy after accounting for the strategic petroleum reserve.

³ GNP in 1972 dollars.

Source: Congressional Budget Office study, op. cit., table 2, p. 14.

The CBO study examined various possibilities in some detail, as shown in Table 6. In CBO's view, given a 500-million barrel strategic petroleum reserve, the effect of a 1-year cutback on oil imports of 3 million barrels a day⁶² would reduce U.S. real output by 2.9 percent and increase the unemployment rate by about 1 percent above that forecast for 1982.⁶³ If the strategic reserve were only 250 million barrels, the same cutback in U.S. oil imports would reduce GNP by 4 percent.⁶⁴ Clearly, the difference in effect of the two cases is enormous and illustrates the importance of an adequate strategic petroleum reserve.

With a more severe cut of oil imports, of 4 million barrels a day, or about the same as the 16-percent shortfall in oil supply experienced during the 1973-74 embargo, with a strategic reserve of 250 million barrels, U.S. GNP would drop 9.8 percent and the unemployment rate would be 3.2 percent above CBO's base case in 1982.⁶⁵

The CBO analysis indicates that a larger reduction in oil supply can be expected to have a disproportionately greater effect on the GNP than a smaller reduction. This follows because of limits to what can be done through conservation and use of alternative fuels.

Looking further at the CBO analysis, it indicates that in the first year of a new embargo, if one were to occur in 1982, the cut in the GNP would vary from \$45 to \$155 billion, the unemployment rate could rise by 1 to 3 percent, and inflation could increase by 1 to 4 percent. Assuming resumption of supplies after a year, the economy would recover from the most severe effects. However, the recovery would be slow, and real output, or real income, would remain below economic projections without an embargo, while unemployment and inflation rates would be higher.

⁶² A reduction of 3 million barrels per day would represent a reduction of about 8 percent in domestic oil consumption, or about half the reduction experienced during the 5-month interruption of the 1973 embargo. There is a discrepancy which we cannot explain between the 7-percent cut in consumption estimated by Brookings to have taken place in 1973-74, and the 16-percent estimated by CBO for that period.

⁶³ CBO study, op. cit., p. 2.

⁶⁴ Ibid., table 2, p. 14.

⁶⁵ CBO study, op. cit., p. 20.

THE EUROPEAN COMMUNITY'S RESPONSE ⁶⁶

Continued uncertainty on the world's oil market in the wake of the Iranian political crisis, and rapidly escalating oil prices have given impetus to the European Community's review its energy policy. At the March 12 EEC summit meeting in Paris, European leaders reaffirmed their IEA commitment to reduce the Community's oil consumption by 5 percent in 1979. Later, EEC Energy Commissioner Guido Brunner announced specific new measures to further restrict oil consumption, to encourage the development of new sources of energy, to improve consultations with oil-producing states, and to work toward convergence of EEC member states' different energy policies.

Given the variance in consumption patterns and dependence on Iranian oil by individual members of the Community, convergence of policies will not be easy. It has been estimated that the disruption in Iranian oil production would cut the EEC's oil supply by 6 percent in the first half of 1979. EEC oil stockpiles are already one-sixth lower than normal because of the unusually severe 1978 winter. Nonetheless, fears of a continued shortage and what to do about it are perceived differently among the Community members.

Britain, for example, now satisfies two-thirds of its oil needs from North Sea production, and exports an average of 600,000 barrels per day. Now that it will be able to reap some of the economic benefits of higher oil prices, Britain may be reluctant to agree to a harmonized energy policy which could require it to share some of its new-found oil wealth. As a signatory of the IEA's oil-sharing arrangement and a party to the EEC's energy-sharing agreements, Britain would have to share some of its oil in the event of a crisis or a prolonged shortage.

Belgium, France, the Netherlands and Luxembourg, on the other hand, seem to favor a Common Market energy policy. They are worried that if the present shortage continues, their oil supplies may be diverted to purchasers in West Germany who can pay higher prices. Recently, these countries all instituted export licenses to monitor oil flows.

Meanwhile, West German Chancellor Helmut Schmidt attempted to play down the dangers of the Iranian cutback. He has expressed a desire to avoid an EEC-wide ceiling on the total volume of Community oil imports as favored by the French.

Despite these differences, real or perceived, the Europeans have at least two good reasons to work toward convergence of policy. The first reason for a harmonized energy policy is based on national interest, to make certain that member states can resist Iranian pressures for further bilateral supply and price deals, which could interfere with the cost and availability of Iranian oil to other member states. The second reason is a common EEC concern about the U.S. response to the post-revolution oil situation, and specifically, doubts that President Carter will be able to live up to his pledge to reduce U.S. oil consumption by 5 percent in 1979. The Europeans have long voiced dissatisfaction over the inability of President Carter to get a comprehensive

⁶⁶ Prepared by Charlotte A. Phillips, analyst in West European Affairs, Foreign Affairs and National Defense Division, Congressional Research Service.

energy program through Congress, and they link the weakness of the dollar and the high rate of inflation in western industrialized nations in part to the failure of the United States to devise and enact such a program.

Whether or not these concerns will be strong enough for the Community to forge a workable energy policy of its own remains to be seen. The EEC's dependence on imported energy has dropped from 63 percent in 1975 to 56 percent in 1979. This decreasing reliance probably has more to do with North Sea oil, a mild recessionary trend, and national conservation programs than with any efforts of the EEC. But in the wake of the Iranian crisis, the EEC has thus far managed to agree on a \$200-million package of energy projects that had been deadlocked since last April.

In summary, it appears that an additional 10 percent OPEC price hike will cost the Community \$5 billion a year, add 0.45 percent to its inflation rate, and cut the rate of growth by 0.4 percent.⁶⁷ This situation has provided new incentive for European nations to agree upon energy-saving measures, to plan for the development of alternative energy resources and to prepare programs that will enable them to avert or better cope with future energy crises.

IMPLICATIONS OF THE IRANIAN REVOLUTION FOR GLOBAL OIL AND ENERGY SUPPLIES

By itself, the temporary cutoff and subsequent resumption of oil imports from Iran, although at a lower level, has not been a catastrophe for global and U.S. supplies of oil and energy. This effect of the Iranian revolution has been manageable, although difficult and somewhat painful to oil importing countries and their peoples.

The implications of the Iranian revolution, however, go far beyond this comparatively small perturbation of the world's oil market. The revolution provides an ominous reminder of the basic changes that are occurring in oil supplies available on the world market, and recalls again the signals from the Arab oil embargo of 1973-1974. The political uncertainties in the Middle East arising out of the revolution translate into questions of reliability of future Middle East oil production and supplies. The revolution strengthens prospects that OPEC states are likely to limit or even reduce production of oil for the world market so that they can charge much more for whatever amounts they decide to export. World oil importers also face prospects that some oil exporting nations may attach political conditions to their future supply of oil and its products. The inability to date of the oil importing nations to counter the cartel behavior of the oil supplier states suggests that OPEC's policy of charging more for less may be met with little more than pleas for moderation and mercy, and predictions of economic consequences that could hurt OPEC interests.

Some optimists look to the possibility of finding oil outside the ambit of OPEC nations. The discoveries in Mexico are cited as a

⁶⁷ Energy : Getting Warmer. *The Economist*, March 31, 1979, p. 39.

prime example. Others look for a world shift away from oil as competition appears from other energy sources.⁶⁸

The effects of the Iranian revolution upon world oil supplies lend support to the pessimistic conclusion of many analysts that the era of ever-increasing use of cheap oil and energy has come to its end and that within a few decades, world oil resources will have been so much used up that oil will become too scarce and expensive for many—perhaps most—of its uses today. This line of thought sees little time for nations, their societies and economies, to prepare for a perpetual era of scarce and expensive oil and other sources of energy. Considering that under present ways of doing things it takes a decade or more to build a large oil refinery, or an electric power plant, or a synthetic fuel facility, there are fears that the oil importing nations, and the United States in particular, may not act quickly enough and thus will face wrenching changes in their economies and standards of living early in the next century.

What effect the revolution and its aftermath will have upon development and use of alternatives to oil is a controversial question. Some analysts would increase domestic production of oil, transform oil shale and tar sands into useful fuel supplies, turn more to uranium and perhaps thorium as future energy sources, and, if we are lucky, use energy from the fusion of deuterium. Others would try to reduce or even reverse the historic trend of using more oil and energy each year. They propose stringent measures to make use of oil and energy more efficient, turn to solar energy in its various forms, and transform the society and its economy so as to markedly reduce per capita use of oil and energy. Underlying these differences of opinion and approach is the realization that, while large amounts of oil, gas and coal can still be found and produced, even these large amounts would have a relatively short life if the historic exponential growth in energy consumption should continue. So there is agreement on the impossibility for continuing historic patterns in energy use and upon the need to do something about it. What that something should be marks the parting of the ways. Two years ago, Vincent E. McKelvey, one of the leading scientists of the U.S. Geological Survey summed up the situation as follows:

The era of readily available, cheap fossil fuels is closing and a high order of human ingenuity will be required to extend it and to bring into use another energy resource base. The time necessary to complete these tasks depends not only on the vigor and imagination with which new sources are sought but on the wisdom and restraint exercised in the use of the old.⁶⁹

SOME IMPLICATIONS FOR U.S. ECONOMIC POLICY

A fundamental long-term implication of the Iranian revolution and its aftermath for future economic policies of the United States and

⁶⁸ For example, a recent analysis by three energy experts in the Harvard Business Review proposes that by the end of this century there will be eight significant oil production areas and forecasts that growing competition from alternative sources will reduce the role of oil for world energy supplies. They wrote: "In 1975, oil supplied 46 percent of the world's needs, solid fuels 29 percent, natural gas 18 percent, hydroelectric power 6 percent and nuclear power 1 percent . . . by 2000 the share of petroleum is expected to have dropped to 35 percent, and the share of nuclear power to have arisen to 11 percent." Cf., John P. Henry, Jr., V. Eugene Harless, and Jay B. Kopelman, *World Energy: A Manageable Dilemma*, Harvard Business Review, May/June 1979, p. 158.

⁶⁹ Vincent E. McKelvey, *World Energy—the Resources Picture*, Case Western Reserve Journal of International Law, vol. 10, summer 1978, p. 605.

other nations is that their economies probably will have to function with less energy for their people in their work, in their travel, and in their homes. The natural desire to minimize the effects of uncertain oil supplies at increasing prices, which characterizes this era of a successful international cartel of oil supplying nations, has generated intense controversy over what economic policies and measures to take. Powerful advocates call for the decontrol of oil and energy prices, and say the workings of the market will provide the best way to accomplish the transition into the new energy future. Other powerful advocates prefer government economic action in the form of price controls, allocation, rationing and other measures, all in the name of equity and fairness. At the heart of the matter is struggle over which part of society will have first access to whatever oil and energy may be available, and which will have to do with less.

The economic effects of the Arab oil embargo of 1973/74 and the Iranian cutoff of 1978/79 have underscored the role of fuels and energy in the American economy, while the Administration's reaction to OPEC oil price rises has been to emphasize the cause and effect relation of energy to the economy, the extent to which they can be decoupled (as has been cogently advocated by S. David Freeman⁷⁰) and how to accomplish such decoupling.

SOME IMPLICATIONS FOR U.S. ENERGY POLICY

Six years after the shock of the Arab oil embargo of 1973/74, the declared aim of U.S. policy is still to reduce dependence on imported oil. This was the policy of Presidents Nixon and Ford, and is the policy of President Carter. Yet between then and now, U.S. oil imports almost doubled and have come to supply half of the Nation's oil. Should past trends continue, the United States would become even more dependent on imported oil in the 1980s. The aftermath of the Iranian revolution implies that future U.S. energy policy decisions, whether made with deliberation or through benign neglect, or in a frantic response to crisis will have to grapple with the difficult matters of how much oil and other fuels and electricity should be supplied from what sources, how they will be used and by whom, and what prices will be paid. All of these decisions will be influenced by the realization that OPEC after six years stands as strong as ever despite forecasts of its early collapse into squabbling and internal competition. Energy policy for the 1980s will have to help smooth the transition of the U.S. economy and society from the generous use of energy characteristic of past decades into a new era of constraints and uncertainties of energy supply. There is consensus that oil and energy supplies, indeed, are finite, and that at present rates of use, oil reserves are likely to be sub-

⁷⁰ S. David Freeman, now chairman of the board for the Tennessee Valley Authority, wrote of this idea in 1974 as follows:

Our research indicates that energy growth could be reduced while growth continues in the output of goods and services—without sacrificing national economic goals. This appears possible, particularly in the industrial sector of the U.S. economy, where most of our energy is consumed. Current studies indicate that the same is likely to be true for the household, commercial and transportation sectors. (Cf., S. David Freeman, *A Time to Choose*, Report of the Energy Policy Project of the Ford Foundation, Cambridge: Ballinger Publishing Co., 1974, 511 pp.)

stantially depleted within a decade or so. What is controverted, often to the point of acrimony, is the choice of policies to accomplish the necessary energy transition. As the recent report of the Harvard Business School cogently states, it seems clear that domestic oil, gas, coal and nuclear power cannot quickly deliver vastly increased supplies, although it is equally clear that these cannot be ignored.⁷¹

Two fundamentally different schools of thought mark off the range of possible options. One looks to big business and government to find ways to continue an ever-increasing supply of fuels and energy use through dramatic technological achievements in production of oil from domestic sources, manufacture of fuels from oil shales, coal, tar sands and perhaps grain, expanded use of uranium and perhaps thorium to fuel nuclear power plants, and, ultimately, the tapping of virtually limitless potential energy of the deuterium in the seas. Increased supply is the motto of this approach. The other widely separated school would emphasize conservation, use of solar energy in various ways,⁷² and changes in the U.S. economy, society and way of living to deemphasize and reduce the use of fuels and energy. This school looks to small enterprises and individuals to provide the needed equipment and abhors the thought of big business's getting into solar energy. Mr. Amory Lovins, an articulate advocate of this approach, calls for elegant frugality in the use of energy and has given each school a name which already has become a convenient reference: the hard and the soft energy paths.

President Carter's initial approach to energy policy was to emphasize conservation of energy rather than expanded production of fuels. Now, in July 1979, he has shifted his emphasis to an approach favored by many Members of Congress, which is to expedite production of fuels from alternative sources.

Thinking and decisions about energy policy in the past tended to be leisurely. Except for the brief disturbance of the 1973-74 embargo, the issues seemed academic and removed from real life, and there was little sustained sense of urgency. Now, with the health of the U.S. economy closely dependent upon political stability in the Middle East, with the disappearance of tucked away surplus oil capacity, U.S. energy policy makers for the 1980s will be driven by a new sense of urgency, and by the realization that the United States will have to skate on thin ice for many years to come, even if measures now pending before Congress are carried out as intended.

SOME IMPLICATIONS FOR U.S. FOREIGN POLICY ⁷³

The longer-term implications of the Iranian revolution for global supplies of oil and energy have added a new dimension to U.S. foreign policy. In an era when the United States imports about half of the oil it uses, an increasingly important function for that policy is to

⁷¹ Robert Stobaugh and Daniel Yergin (eds). *Energy Future*. Report of the Energy Project at the Harvard Business School. New York: Random House, 1979, p. 216.

⁷² The various forms of solar energy advocated for quick use include generation of electricity from solar cells, wind, ocean heat, solar heating and cooling, and production of fuels from plants, trees, and possibly marine plants.

⁷³ Prepared by Charlotte Phillips, analyst in West European Affairs, Foreign Affairs and National Defense Division, Congressional Research Service.

assure reliable access to foreign oil supplies. That this new function can conflict with other foreign policy considerations is well demonstrated in Arab reaction to U.S. peace efforts in the Middle East. Another implication is the possibility, even probability, of tensions between the United States and its allies, and with other countries, arising out of competition for oil on the world market. Whether increasing competition or some kind of international oil allocation by user nations will emerge, and what U.S. foreign policy can do to influence the choices of other nations, remains to be seen. The allocation system of the International Energy Agency has yet to be tested. In terms of relations with individual countries, prospects for large oil production in Mexico opens new vistas for U.S. foreign policy, with similar requirements or opportunities for new policy development if proposed efforts to find oil in non-OPEC states should succeed.

Viewed from abroad, the U.S. response to the oil supply situation as aggravated by the Iranian revolution is perceived as faltering, ineffective and confused. Common sense indicates that the United States can choose among three options. It can increase, reduce, or maintain the current level of oil imports. Whatever choice is made, deliberately or by default, it will have important ramifications both for U.S. domestic energy policy and U.S. foreign policy.

The Iranian revolution and its aftermath have brought into question among western industrial governments whether energy planning can give them greater control over short-run oil supply interruptions, a control they lacked during the 1973 oil embargo. The revolution also has underscored how delicate is the balance between supply and demand for energy, and how easy it would be for future events in oil producing states to interfere with oil supplies and disrupt the economies of the industrialized world.

Central to free world planning to deal with the uncertainties and problems of Middle East oil supply is the domestic response of the United States. While the American public appears to favor delay in decontrol of the price of oil and gasoline because of their immediate price impact, as the urgency surrounding the present oil shortfall becomes more apparent, it could raise public awareness of measures to reduce oil imports. The European and Japanese Governments have long urged the United States to lift energy price controls, to reduce its oil imports, and so to reduce the U.S. trade deficit and restore the stability of the dollar. Foreign reactions to what some governments see as floundering U.S. policy is unfavorable. Europe and the Third World countries show signs of increasing impatience with the United States' seeming inability to make and carry out basic energy decisions that would reduce strains on the world oil market.

Here again is an interaction of foreign and domestic policy. Foreign policy supports oil allocation. Domestic energy policy has been indecisive because so many decisions are highly politicized.

IN SUMMARY: A FUNDAMENTAL TEST

In summary, the United States faces a dilemma. If it keeps oil imports near current levels, domestic users will not feel the pinch of additional shortages, but foreign reaction would be unfavorable to

U.S. failure to reduce imports. If the United States acts to sharply reduce its oil imports, the American society and its economy will have to get along with less oil, with effects that probably would be politically disadvantageous at the outset of the 1980 presidential campaign. Our allies, however, would be gratified by lessened U.S. competition on the world oil market. If the United States increases its oil imports, the public will be happier with more oil and gasoline, but unhappy about increased prices. The Europeans, Japanese and Third World nations could be expected to react unfavorably to increased oil imports to the United States, probably to the detriment of U.S. foreign policy objectives. Whatever path is followed, the future holds disagreement, dissension and conflict, as various national and private interests here and abroad feel the squeeze of short oil supplies. For U.S. domestic and foreign policies, the principal implication of the Iranian revolution is the end of a comfortable era of cheap and reliable oil supplies. Like it or not, the United States and other nations will have to find ways to live with the new uncertainties or risk grave danger of economic and other effects that could lead to military adventures and even to war.

Whether or not the United States by deliberate action can lessen its dependence upon imported oil, use energy more efficiently and more conservatively, and/or develop new energy sources and expand existing ones, remains to be seen.

THE IRANIAN REVOLUTION AND INTER-ALLIED RELATIONSHIPS: THE UNITED STATES, WESTERN EUROPE, AND JAPAN

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INTRODUCTION

This paper explores the implications of the Iranian revolution for American policy viewed from the perspective of its actual and potential impact on the relations of the major industrialized states of the non-Communist world. It is principally concerned with those countries that are members of NATO, the European Community (EC), or, as in the case of Japan, the Organization for Economic Cooperation and Development (OECD). Within these groups, the primary focus will be on the behavior and policies of the major states—West Germany, France, Great Britain, Italy, and Japan.

The discussion seeks to specify the range of issues and problems confronting Western Europe and Japan as a consequence of developments in Iran. Of particular interest is the impact of economic, social, and political changes in Iran on Western Europe and their actual and potential repercussions on European-American relations. Three questions, posed at increasingly higher and broader levels of analysis, will be addressed. First, how is the Iranian upheaval related to the major economic, security, and political interests and objectives of the West European states and Japan in the Middle East? Second, what is the compatibility of these interests, objectives, and the strategies pursued by these states toward the region with those of the United States. Third, how do these patterns of relations affect current and emerging trends in inter-allied Western cooperation, conflict, and competition?

These questions attempt to go beyond the specific bilateral relations of the states under review. They focus instead on the over-all relations between the states of the Middle East and the principal developed states of the non-Communist world and the impact of these relations—especially as they have been or are likely to be affected by the Iranian revolution—on the relations of the developed states. The task facing the United States is to develop a set of external relations within and between these regions that promote and advance its interests and objectives or, at a minimum, that permit it to profit from those developed by other nations. The three questions provide a useful scheme by which this larger global and regional task can be understood and addressed although this approach, which aggregates specific intra- and inter-regional relations among and between states, necessarily simplifies and even distorts our grasp of the complexity of the relations that are being described and explained. These risks

are run in order to place the Iranian revolution in as broad an international context as possible and to view it against the background of similar events that have occurred since World War II. Only from such a setting can the ramifications, real and possible, of this upheaval be fully understood.

The analysis below furnishes provisional responses to the three questions posed above. As for the first, the significance of the Iranian crisis for Western Europe and Japan is the increased strain that it places on them in coping with their substantial dependency on Middle East oil. If Europe and, to a lesser extent, Japan are in a better position today than in 1973 to adjust to the cutback in oil production and the 10 percent increase in oil prices announced by OPEC in December, 1978, with more to come, the limits of these states to absorb such shocks, singly and collectively, are being gravely tested. Decreased world oil supplies and increased prices for what is available feeds inflation, decreases economic growth, fosters unemployment and heightens domestic, social, and political tensions that can be the sources of widening international conflict, and the conditions for decreased cooperation among the Western States.

Against this background, the compatibility of Western objectives, interests, and strategies in the Middle East—the second question guiding this analysis—is cast in doubt. New strains are added to those already felt in previous and prevailing attempts to develop common approaches to the Arab-Israeli conflict, to the oil and energy problem, and to collateral issues of trade, monetary and investment policy, and arms sales.

Enlarging prospects of conflict and competition in the Middle East between the developed states overlay and reinforce several adverse trends in inter-allied relations. Placed in further relief by the Iranian revolution is a widening gap between an increasing interdependence among states and peoples and their capacity, and will, to cooperate in solving common problems. The increased number of actors in the international system, accompanied by the decentralization of political authority and the diffusion of power, accentuates divergencies between states, international organizations and multinational corporations; inhibits the identification and the promotion of mutual interests; provides opportunities for mischief and disruption by unsatisfied groups (e.g. the PLO) and states (e.g. the Soviet Union); and enfeebles successful systems of cooperation (NATO, EC, OECD, etc.) and emerging efforts to advance common interests.

The overriding conclusion to be drawn from the discussion below is that American-European and American-European-Japanese-Middle Eastern relations are seriously flawed by internal stresses that, under sustained and accumulating tremors like those set off in Iran, create the conditions for increased conflict between allied states with potentially damaging consequences for all participants. The dependency of the European Community, Japan, and the United States on the oil producing states of the Middle East, particularly on the decisions, policies, and demands of the OPEC states, invites competition among the major industrial states of the non-Communist world. Countervailing considerations of common interest, while still present, are less clear and compelling than a decade ago, partly due to the crippling impact of a series of international crises, like the Iranian revo-

lution. If this devolutionary picture is etched in the events of the recent past, the means by which to develop cooperative arrangements among these divergent peoples—divided by culture, language, religion, interest, and history—remain less clear, however urgent the need or persuasive the arguments in favor of cooperation. Meanwhile, the institutional mechanisms and habits of multilateral cooperation previously relied upon to resolve Western differences are weaker, and in many cases less apt in responding to this increasingly more difficult task under new conditions of international turmoil and tension between East and West and North and South.

INTERESTS AND OBJECTIVES OF THE EUROPEAN STATES AND JAPAN IN THE MIDDLE EAST

The European states and Japan have critical interests in the Middle East in general and a significant stake in good relations with Iran in particular. Geography compels these peoples to interact politically, to trade and to develop economic ties, and to rely on each other for support of their security. While the specific modalities of these relations may change over time, the imperatives of developing some kind of relationship between the peoples in both regions cannot be ignored. Oil profoundly deepens this traditional need. What is new is the dependence and weakness of the European states (and Japan) in their approach to the Middle East states. The implications of these circumstances may become clearer if the need of the European Community states and Japan for Middle East oil and close economic ties is first sketched.

Oil and Dependence

The Iranian crisis abruptly ended the glut in world oil supplies created in 1978. The halt of Iranian exports of up to six million barrels per day (m b/d) was only partially compensated by increased production from Saudi Arabia (by approximately 3mb/d) and other Persian Gulf suppliers. Japan, the largest importer of Iranian oil, has been able to raise stocks in the first quarter of 1979 to about 85 days by heavy purchases in November and December of 1978.¹ It is estimated that Japanese stocks will still be below normal levels unless Iranian exports are resumed at previous levels.^{1a}

In Western Europe, Britain has been among the states most immediately affected by the Iranian situation since it is a heavy importer of Iranian crude (about 20 percent of its oil imports in 1977), the British Petroleum, the principal developer of the Iranian fields, had to cut crude deliveries up to 45 percent.² The Netherlands faces difficulties, too; in 1977, 23 percent of its oil imports were from Iran, the largest percentage of any European state. Germany reported large stockpiles and has been able to weather the storm. Like Italy, however, it confronts a possibly severe shortage of heating oil in the winter if some of the Iranian losses are not filled by other producers.

Over-all, Europe received 16 percent of its oil imports from Iran, contrasting with 10.6 percent for the United States. The Euro-

¹ Appendix 1 lists total oil imports of the United States, Japan, and key European countries for 1977 from the principal oil exporting states of the Middle East.

^{1a} Paul Kemezis, "Will the Latest Oil Crisis Bring Economic Disaster and/or a Real Energy Policy?" *Europe*, No. 212 (March-April 1979), p. 5.

² European Community Telex No. 1421, June 8, 1979.

peans have been able to adjust to this shortfall so far, but its continuation or deepening would have serious implications for the European and Japanese economies. The Europeans are not likely to be able to cut their imports of oil much below 500 million tons, their present level.

Table 1 presents a snapshot of European-American-Japanese dependency on Middle East oil, including Iran. For 1977, the range of dependence on oil from this region in relation to total imports runs from 55 percent for Denmark to over 83 percent for France. Japan weighs in at 71 percent; the U.S., at 55 percent (column 7). Another significant ratio is that between imports to the total domestic production of a country plus imports (column 5). It reveals the degree to which the oil needs of a state are dependent on foreign sources. For eight of the 10 countries listed, well over 90 percent of the oil consumed comes from abroad. The United States and the United Kingdom are exceptions. Column 6 presents the relation between oil from Arab sources and Iran to imports from all sources plus national production.

TABLE 1.—TOTAL OIL PRODUCTION AND IMPORTS OF SELECTED OECD COUNTRIES, 1977¹

Country	[In thousands of metric tons]						
	National production (1)	Imports (2)	Imports from Arab States ² (3)	National production plus imports (4)	In percentages		
					(2)÷(4) (5)	(3)÷(4) (6)	(3)÷(2) (7)
United States.....	453,040	374,256	206,152	827,292	45.24	24.91	55.08
Japan.....	594	236,508	168,116	237,102	99.75	70.90	71.08
France.....	1,764	117,502	97,757	119,266	98.52	81.99	83.19
Denmark.....	503	7,404	4,078	7,907	93.64	51.57	55.07
Germany.....	5,399	101,994	76,818	107,393	96.65	71.52	75.31
Italy.....	1,135	106,079	87,173	107,214	98.94	81.30	82.17
Netherlands.....	1,598	58,929	45,947	60,527	97.36	75.91	77.97
United Kingdom.....	38,011	70,698	57,574	108,709	65.03	52.96	81.43
Sweden.....		15,083	10,198	15,083	100.00	67.61	67.61
Switzerland.....		4,594	3,500	4,594	100.00	76.18	76.18
Belgium.....	Nil.....	36,541	(³)	(³)	(³)	(³)	(³)

¹ Sources: O.E.C.D. Quarterly Oil Statistics, 2d quarter, 1978, (France, 1978), passim.

² Includes: Abu Dhabi, other United Arab Emirates, Algeria, Iran, Kuwait, Libya, Qatar, and Saudi Arabia.

³ No details available.

Table 2 suggests the critical position of Saudi Arabia as an oil supplier. A rupture of supplies from Saudi Arabia would have an even more damaging effect on the European states and Japan than from Iran. Chart 1 confirms these observations. It depicts the evolving dependency of the West European states on oil from exterior sources between 1960 and 1975. Saudi Arabia and Iran bulk especially large in the 1970s.

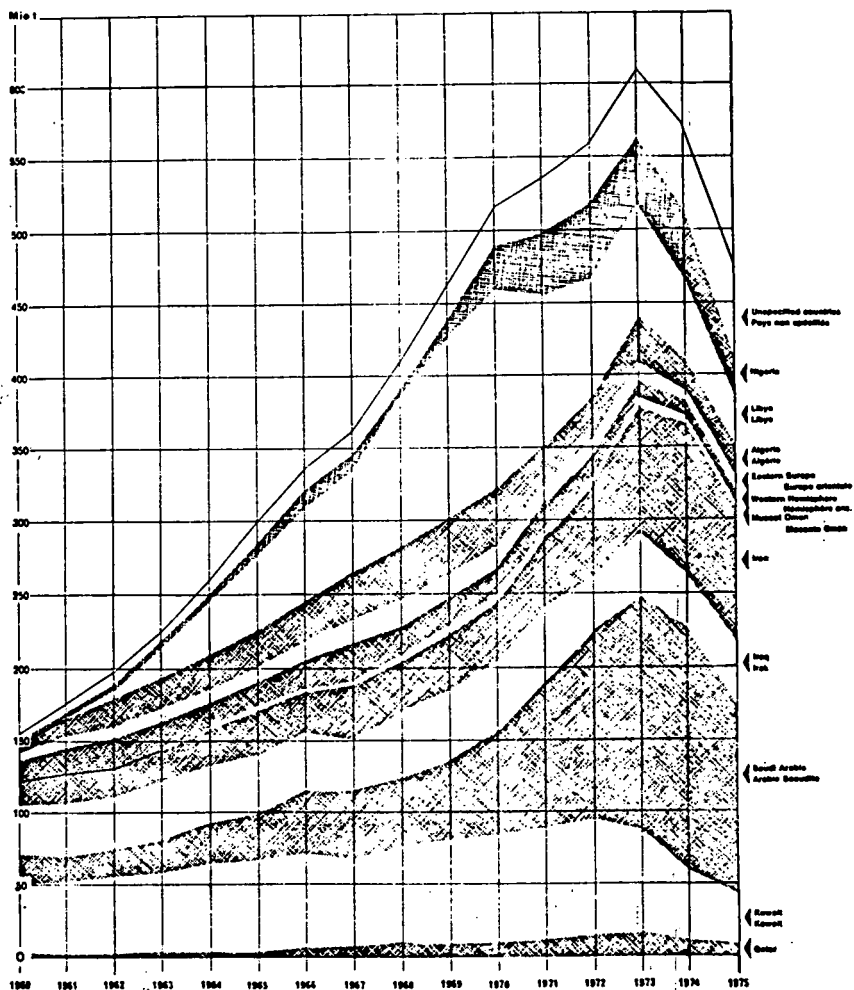
TABLE 2¹.—Saudi Arabian oil exports to selected EC states, United States, and Japan, 1977

Country:	[In thousands of metric tons]	Percentage of total imports
United Kingdom.....		27.2
West Germany.....		18.5
France.....		36.9
Italy.....		29.4
Japan.....		30.7
United States.....		18.5

¹ Source: Appendix 1.

CHART 1

IMPORTS FROM THIRD-PARTY COUNTRIES
IMPORTATIONS EN PROVENANCE DES PAYS TIERS



Source: European Commission, *Energy Statistics Yearbook/Annuaire de Statistiques de l'Énergie* (Brussels: 1976), p. 122.

The immediate problem of accessibility of supply is overshadowed by the rise in oil prices for which the Iranian crisis is only partially responsible. The OPEC announcement of a 10 percent increase in prices during 1979 is estimated to add \$5 billion to the EC's oil bill in 1979 and \$2.5 billion in balance of payments deficits. These initial forecasts have been subsequently overtaken by surcharges applied by producer states, partly to compensate for increasing production to fill the void left by Iran. The Iranian shortfall has also led to speculative spot pricing on the Rotterdam and Genoa markets. Prices for spot

sales, some approximately double those of long-term contract prices, herald the re-structure of oil prices. Moreover, these spiraling prices have diverted oil from the Caribbean, a traditional U.S. supplier of heating oil, and provoked a dispute between the United States and the European Community over the American decision to provide a \$5 entitlement for distillate oil. The objective of this measure was to equalize costs between U.S. refineries using low-cost domestic and those using higher-cost oil from outside the U.S. The Europeans interpreted this action as a subsidy, and not as a way to prevent a two-tiered pricing system. Meanwhile, they have been unable to agree among themselves about applying controls to the Rotterdam market. Germany resists French proposals for controls, fearing that the oil will then be diverted out of Europe.^{2a} In any event, the European oil bill is likely to be substantially above the \$5 billion first estimated and will have a correspondingly harmful effect on inflation, economic growth, and employment.

The prospects of assuring adequate supplies at stable prices for the European states are unfavorable. Imported oil in 1978 accounted for 50 percent of the Community's energy consumption and is estimated to be 47 percent for 1985 and 38 percent for 1990. Total energy import dependence of the Community fell from 56 percent in 1977 to 55 percent in 1978. These figures are down from 63 percent in 1973. Import dependency is expected to decline further to approximately 53 percent in 1979 and to 48-53 percent in 1985. Despite actual and anticipated progress, dependency on foreign sources of energy, especially oil, is a source of considerable concern for Community leaders. As one recent report notes:

Political instability and tension have increased in key areas of the world. Energy supplies have as a result become less secure, and in future (*sic.*) could be increasingly affected by political factors. The difficulties we are experiencing now, even if they are only temporary, are typical of many which we may be facing in the coming years, and foreshadow the features of the energy situation which has previously been forecast for the mid- or late 1980s.³

Some European states will feel the squeeze of supplies and prices more than others. Compared to current levels, four states will experience sharp rises in their consumption between 1977 and 1985: Ireland (77 percent), Netherlands (70 percent), Italy (38 percent), and Belgium (21 percent). These increases largely stem from the expansion of oil burning power stations between 1977 and 1990: Ireland (34 percent), Netherlands (82.5 percent), Italy (28 percent), and Belgium (21 percent).⁴ Whether the other states of the EC will be able to decrease their dependence will depend on the availability of alternative sources of energy within the Community. Forecasts for increased use of coal and nuclear energy have been revised downward. Even with increased oil supplies from Mexico, Egypt, and the North

^{2a} European Community Telex No. 1421, June 8, 1979.

³ European Community, Commission, "Energy Situation in the Community and in the World," COM (79) 142, 7 March 1970, p. 3.

⁴ European Community Commission, "Energy Objectives for 1990 and Programmes of the Member States," COM (78), 613, 16 November 1978. Additional EC documents that survey the energy needs of the EC include the following: "Problems, Resources and Necessary Progress in Community Energy Policy, 1975-1985"; "Prospects of Primary Energy Demand (1975-1980) "U.S.," and "Energy Policy of the Community," COM (79), 118, 7 March 1979. Also of use is "U.S. Central Intelligence Community. The International Energy Situation: Outlook for 1975," April 1977.

Sea, Iran and the Arab states of OPEC will remain the primary oil suppliers of the European states for the 1980s.

Based on data from Arab oil producing states, these states play an increasingly important role in the over-all trade of the EC. Exports from these states to the EC jumped from \$8.2 billion in 1971 to \$38.4 billion in 1977, an increase of 371 percent. For these two years, imports from the EC rose from \$3.15 billion to \$30.2 billion, or 860 percent. This volume of trade reflects the rapid rise in oil prices since 1971 and the acceleration of trade between the oil producers of the region and the European states.⁵ Appendix 2 provides information regarding trade between the European states, Japan, and the U.S. with the Middle East oil producers. On the whole the EC and Japan have been able to preserve a more favorable balance of trade than the United States with the oil suppliers. Their over-all volume of trade exceeds that of the U.S. Unlike the United States, which ran a trade deficit of approximately \$37 billion in 1977, the EC and Japan are in approximate balance with the rest of the world, suggesting a broader base of commercial ties among themselves and other states than that which the United States has been able to develop.

The Iranian crisis did create several specific inconveniences for European business. The EC has been Iran's principal trading partner. Iran was also the Community's second largest market outside Europe, after the United States. Nearly 83 percent of the EC's exports consisted of transport machinery, equipment, and manufactured articles. These covered the bulk of the energy imports from Iran of 94.5 percent.⁶

Security And Diplomatic Conditions Of Access to Oil And Trade

The dependence of the European states and Japan on oil subjects them to political and economic manipulation and blackmail arising from threats to the disruption of Arab and Iranian oil production or of trade routes over which oil must pass. If Saudi production were stopped or impaired, Europe and Japan would be plunged into crisis. Similarly, they would be in a precarious position if critical sea lanes, like the one around the Cape of Good Hope or the Strait of Hormuz, were blocked or impeded.

Direct and overt security threats may be seen to arise from four sources: the Arab-Israeli conflict; inter-Arab disputes; radical internal change, like Iran; or superpower confrontation arising from regional or extra-regional disagreements. Except for France, and then only to a limited extent, none of the other states appear willing, or able, to defend their oil and trade interests unilaterally by other than diplomatic and economic means. Thus, military weakness and paralysis join economic vulnerability to expose the European states to blackmail through various forms of economic and political pressure and even to military attacks against shipping lanes stemming from regional conflicts.

The possibilities for upsetting the smooth flow of oil are numerous; many, perhaps most, are beyond the capacity of the European states to influence. The strike of Iranian oil workers which had a decisive im-

⁵ International Monetary Fund, "Direction of Trade, Annual 1971-1977" (Washington, 1978), p. 998.

⁶ Europe. op. cit., p. 10.

pact on the Shah's fall also had a crippling effect on oil supplies. Neither the Shah nor much less the European states or Japan had any control over this vital link in their exterior support systems for oil. There are few means available to forestall other instances of subversion to oil production. These same threats extend to regional conflict in which European and Japanese shipping, including oil tankers under foreign registry, is either attacked or hindered in passage. The Six-Day War and the Yom Kippur War seriously hampered oil flows. The 1967 conflict was prompted by Egypt's blockade of the Gulf of Aqaba. Thus, the chain of circumstances leading to blockage or impediments to sea traffic can arise from various sources, many of which do not stem immediately from attacks on oil lanes as their primary aim.

The NATO countries are responding to threats of direct attacks on shipping. Soviet naval expansion is being met by increased expenditures in NATO and by continuing cooperation, particularly in naval and sea exercises and surveillance, in the Mediterranean, the Persian Gulf, and the Indian Ocean between the fleets of the Western allies. Countering overt Soviet aggression is, however, the easiest of the threats to meet since the stakes of superpower confrontation are so high and the provocation so visible.

Europe has had difficulty meeting the other three threats. They are more indirect and the means at Europe's (and Japan's) disposal cannot control events in the region. Indeed, there is little likelihood that even close U.S.-European-Japanese cooperation would suffice to prevent shocks, like Iran, from occurring. What the Iranian case reveals is the gap between the means which the West has and the political, economic, and military conditions that it must create within the region to assure its safety and well-being. Until now, the approach of the West has been on largely a bilateral basis with respect to the diplomatic and economic components of access to oil and to the decisional processes of OPEC that set oil prices. This is reflected in the increasing role played by national oil companies in competing for supplies with the giant multinationals.⁷ While a cooperative approach would certainly strengthen the West's over-all position and would be indispensable for the exercise of more influence in the area, it would appear to be a necessary, but not a sufficient, condition for a successful response to the oil crisis, to the Iranian upheaval—and to similar shocks in the future.

With respect to intervention policies in the region, short of confronting a superpower, only France appears to have given much thought and to have developed a record and experience in order to be again a military force in the region. A number of incidents directly related to the Middle East can be cited. These include French participation in the U.N. peacekeeping force in Lebanon, military intervention in Shaba, Chad, and the western Sahara, support for Djibouti through arms and naval manifestations, close cooperation with NATO naval forces in the Mediterranean, and the maintenance of a squadron in the Indian Ocean to protect France's oil and trade interests and to bolster its diplomacy among littoral states. The French navy now logs more ship days in the area than ships of the

⁷ See the article of Vivian Lewis in the *New York Times*, March 26, 1979, for a discussion of this trend.

superpowers. France also maintains its two aircraft carriers in the Mediterranean.⁸

However, there is little disposition in French decision-making circles to go beyond a very limited military strategy to support French (and allied) interests. Primary reliance is placed on French diplomatic maneuver and economic bargaining.⁹ Here arms sales play a critical role.¹⁰ France is constrained in several ways to assume a larger military role, independent of allied support. Its forces are small and much of its resources are devoted to the *force de dissuasion*, its nuclear strike forces. Its ability to project military power abroad is modest, suggested by the need for American logistical help in the Shaba II intervention in 1978. The aging French fleet limits its staying power at sea. Domestic opposition and the reservations of military planners about the ability of the French armed forces to sustain a major operation abroad hinder anything but quick, short-fixes of the kind that occurred in Zaire.

If the French appear hesitant in will and limited in means to widen the possible scope of their intervention in the Middle East in order to assure oil access, this strategy is all but ruled out by its EC partners and Japan. Only the U.S. is capable of acting decisively in the region. The Europeans are alternately drawn to depend on American military power and influence in those contingencies in which its interests are directly threatened militarily but repelled in those instances where American policy, presence, and military power complicate European access to oil and an expansion of trade and economic ties with the regional states.

None of the European states or Japan can (or wishes to) offer much in solving the security problems of the region, however they may be variously defined by regional rivals or the superpowers. They have an interest in staying out of any confrontation between the superpowers, Arab factions, or the Arabs and Israelis. If they are sympathetic to Arab claims against Israel, a more fundamental neutralist sentiment lies at the root of their attitude and approach to the struggles of the region. The Europeans see all of the rival claims of the principal opponents in the region, including the superpowers, as threats to their broad security needs. Thus, lumped into the same sack of European concern are Soviet expansion, the spread of Arab radicalism, the rigidities of traditional governments and political factions (like religious fanatics), the shakiness of the Saudi Arabian government, the risk-taking of Egypt's Sadat, the obstinacy of Israel to Arab demands, and American diplomacy in the region. All these elements are potential sources of threat to European interests. The Europeans, as suggested above, have few effective means at their disposal to respond to these threats. Even arms sales to the region are viewed more as a tool of trade than as an instrument to

⁸ A useful review of French naval planning and policy is found in Stephen S. Roberts, *French Naval Policy Outside of Europe*, paper presented at the Conference of the Sections on Military Studies, International Studies Association, November 8, 1978, mimeo.

⁹ The problems facing France in the Mediterranean are outlined in the author's chapter on French Mediterranean policy in his *French International Policy Under De Gaulle and Pompidou: The Politics of Grandeur* (Ithaca: Cornell University Press, 1974), pp. 489-557.

¹⁰ The importance of arms transfers in French economic policy is analyzed at length in the author's "Determinants of French Arms Sales Behavior: Implications for National and International Security," in "Threats, Weapons, and Foreign Policy Behavior," Patrick J. McGowan and Charles W. Kegley, eds. (Beverly Hills: Sage, forthcoming, 1980).

exert a positive security role in the area. European arms transfer policies contrast with the American and Soviet approaches to these varied destabilizing forces at play in the region.

Britain relinquished its last remaining security obligations in the Persian Gulf when it withdrew its forces from the Arabian peninsula in 1971. Aden, once a thriving port under British control, is now under Soviet influence. It is a key transit point for arms and supplies to Moscow's clients in the Middle East and Africa and a useful point of entry and refueling for Soviet advisors and Cuban troops en route to flashpoints in the African Horn, Angola, and southern Africa.

Britain's participation in the CENTO pact also provided no leverage for itself or Europe to influence events in the Northern Tier. The pact proved more a burden than a relief for the perceived security needs of the principal non-western members. Iran found CENTO no help against Soviet and radical Arab pressures; Turkey could not use the alliance for its purposes in Cyprus; nor could Pakistan direct the pact against India. Flawed from the start, and lacking American participation which could not assure its survival anyway, the Iranian revolution dealt more a *coup de grace* than a fatal blow to an already spent alliance body.

The French, Italian (and Spanish) governments have found the notion of a neutral Mediterranean tempting. Catch phrases, like "Mare Nostrum" or the Mediterranean as "a lake of peace," have been mouthed, but so far they have had little effect on the regional states or the superpowers.¹¹ Nonalignment is a policy that the Arab states, notwithstanding their wealth, have found difficult to follow in light of their foreign and domestic objectives. Lebanon's tragic plight of civil war and foreign intervention suggests the difficulties of making non-alignment work in a field of clashing forces that are capable of overwhelming governmental efforts to maintain a neutral stance. The European states depend more on others to preserve their security interests, the superpowers and the regional states, than on themselves. The Arab states have shown increasing skill in manipulating Europe's weakness and reticence for their purposes. Characterizing Europe as a "civilian"¹² rather than a military power is attractive to many Europeans since it makes Europe's current military weakness a virtue, rationalizes its impotence except for marginal roles, like the U.N. force in Lebanon, and positions the European states to draw passing advantage from the conflicts of others or, at a minimum, to limit individually or collectively, the damage arising from them.

COMPATIBILITY OF AMERICAN, EUROPEAN, AND JAPANESE INTERESTS, OBJECTIVES, AND STRATEGIES IN THE MIDDLE EAST

On the surface, there are no intrinsic divergencies between the interests of the people in North America, Europe, Japan, and the states of the Middle East, including Iran. The developed world needs oil

¹¹ References to these terms appear in Philippe de St. Robert, *Le Jeu de la France en Méditerranée* (Paris: Julliard, 1970) and André Fontaine, "Pompidou's Mediterranean Policy," *Interplay* (April 1970), pp. 12-14.

¹² The term is François Duchêne's. For a recent sketch of his views on Europe's role in international relations, see his "The European Community and Its Global Responsibilities," in Karl Kaiser and Peter Schwarz, eds., *America and Western Europe*, (Lexington: Lexington Books, 1977), pp. 299-315.

at stable prices that it can afford. The developing states of the Middle East need access to Western technology and know-how at prices that do not drain away much of their newly discovered wealth. They also need outlets for investment which are fostered by thriving, not languishing, Western economies capable of mastering inflation and underemployment. The developed states also provide outlets for excess labor. France has absorbed hundreds of thousands of Algerians, Tunisians, and Moroccans into its labor force, and West Germany has, until recently, been similarly disposed to use Turkish labor in large numbers. For many of the Middle East states, including radical regimes, like Iraq and Libya, the West European states are a partial alternative to closer security and economic ties with Moscow or Washington, or at least a source of modern arms which carry fewer legal or political restrictions than those imposed by the superpowers.

The West and Japan have also more to offer in developmental assistance than the Soviet Union whose interests in the Mediterranean are linked to continued Arab-Israeli tensions and to conflict between radical and moderate Arab regimes. All of the non-Communist developed states have a fundamental interest in peace. War brings disruption and retribution as in the case of the oil embargoes of 1973. These perturbations are profoundly upsetting for oil deliveries and trade and have harmful effects on domestic stability in many of the West European states. They depend on oil to maintain economic growth which, in turn, is a precondition for provisional social and political harmony between otherwise rival contestants for power, such as the parties on the Right and on the Left in France and Italy.

However, the successful promotion of common American-allied interests hinge on a large number of varied conditions that are not easily found or created. If key issue areas are examined, where European, Japanese, and American policies toward the Middle East intersect, differences and divergencies—and even instances of sharp conflict—mark the relations of the Western developed states as functions of their policies toward this region. These differences may be seen in three issue areas: (1) the Arab-Israeli conflict and security arrangements for the region, (2) oil and assured access to it at affordable prices, and (3) trade, including arms sales, and monetary relations.

Arab-Israeli Conflict

The historical record on the question of a common front toward the Arab-Israeli conflict is not reassuring for Western unity. This problem has been a source of mutual distrust and recrimination. In the early 1950s when the allied powers were weak at home, dependent on the United States for aid and support, and distracted by colonial wars, the conditions were favorable for a tripartite accord of the United States, Britain, and France to coordinate peace efforts in the Middle East and to restrict the shipment of arms to the region. London and Paris were necessarily constrained to follow the American lead. The sale of Czech arms to Egypt in the middle 1950s and subsequent Anglo-French disputes with the Arab states—Britain and France with Egypt over Suez and France with Algeria—drove the allied powers apart and contributed to the Suez debacle of 1956. To the dismay of the French

and British governments, the United States sided with the Soviet Union against the Anglo-French intervention in covert support of the Israeli attack against Egypt. If the British quickly returned to the American-led Western fold, the French were agreed on the need for greater independence from the U.S. Although there was little internal consensus in France, as the Algerian War revealed, on the aims of independence or on the sources of security threats to France, the de Gaulle Fifth Republic drew support direct from the Right and tacit from the Left for its opposition to U.S. leadership in NATO.

De Gaulle and his closest supporters were stung by American criticism of France's Algerian policy. The de Gaulle regime, beset by challenges on the Left and threatened by insurrection from the Army hierarchy and conservatives on the Right, deeply resented Washington's lack of sympathy for its delicate position. The ire of the de Gaulle regime in response to reluctant British and distant American attitudes toward France's Algerian problem is suggested in Prime Minister Michel Debre's remarks: "It belongs to a renewed France to make its allies understand that it is right to demand from all of them support for a cause [Algeria] which is much greater than one people or one generation."¹³ Alternatively, the landing of American marines in Lebanon in July 1958, constituted not only an intervention into the affairs of a semi-client of France but also risked a superpower confrontation over which France had little influence. France's return as a participant in the U.N. peace-keeping effort in Lebanon in the 1970s evidences its continued interest in the country and the special role that it seeks to play there. Allied differences in dealing with the Arab states and Israel continued through the 1960s and the 1970s, flaming into open disputes at critical points, like the Six-Day War in 1967, the Yom Kippur War in 1973, and the subsequent oil crises of the 1970s.

The underlying causes for these differences are not hard to understand, especially in light of European economic dependence on Arab oil and markets. Since the 1950s the position of the European states, particularly Britain and France, has fundamentally changed. The Suez affair exposed their weakness. Alone, they were unable to maintain a viable military presence in the region to assure their interests. Decolonization also required the development of a new political relationship with the Arab states that would ensure access to the region and its oil. These new circumstances, combined with the heightened influence of the superpowers and the economic and military power of the regional states, dictated an entirely new political course toward the Arab world, one based on persuasion and diplomatic maneuver, and not on the threat or use of force.

Largely unable to intervene militarily on their own behalf, the European states were opposed to war or military solutions to the region's problems. This sense of helplessness partly explains de Gaulle's attack on American involvement in Vietnam as a contributing factor to the Israeli preemptive strike in 1967 and European anxiety over the expansion of American military commitments in the Third World during the 1960s. Hostilities would only reinforce superpower penetration; strengthen Soviet influence; force the European states to take sides

¹³ *L'Année Politique*, 1959, pp. 479-480.

for no perceived benefit in regional disputes; risk a global conflagration; and, well short of European involvement in a regional or a global war, disrupt the flow of oil and trade on which the economic health and social and political stability of the European states depend.

While these concerns fundamentally shaped the orientation of the European states toward the Arab-Israeli conflict and toward security arrangements in the area, they differed among themselves and with the United States on the best ways of dealing with these issues. The British, with traditionally closer ties with the United States, have been temperate in their attitude to American power and interests in the Mediterranean and in Europe. This attitude is largely consistent with the thrust of Britain's decolonization policy which envisioned the gradual substitution of American power and influence for its own. London has tried to play a conciliatory role to facilitate, not block, U.S. moves in the Middle East. It was no less accommodating to American power in its gradual withdrawal from Iran after World War II. U.N. Resolution 242, sponsored by London and Washington in November 1967, remains a basic building block for peace in the Arab-Israeli conflict. If the British are more inclined to favor Arab arguments than Washington, they have been careful not to display their differences. They also are counting on American support for their interests in southern Africa, including Zimbabwe Rhodesia, Namibia, and South Africa. This cooperative attitude is encouraged by Britain's growing self-sufficiency in oil thanks to its fields in the North Sea.

France has been the most vocal in its opposition to American expansion in the region (and tacitly to growing Soviet influence). Paris has also been in the forefront in support of Arab demands. Oil and access to the region have been clearly uppermost in the minds of French leaders. After the Six-Day War, the de Gaulle government imposed a selective and, after the Israeli raid on the Beirut airport in December, 1968, in which French Frelon helicopters were used, a full arms embargo against Israel. These actions were taken although the Jewish state had previously been France's major arms purchaser. Successive French governments have refused to recognize Israeli occupation of Arab territory, to admit publicly that some territorial adjustments to assure Israeli security may be warranted, or to recognize Israel's claims to Jerusalem. Paris has also been sympathetic to PLO claims. It objects to West Bank settlements and has lent support to the notion of Palestinian national self-determination.

The French alignment on the Arab position should be seen as part of a larger foreign policy posture that attempts to balance a number of contradictory concerns. These cover efforts to maximize France's influence among the Arab states without involving itself in their quarrels; to minimize superpower regional penetration; to position France at the bargaining table in the Middle East (hence the aborted proposal for four power talks and French participation in the U.N. force in Lebanon); to encourage detente with the Soviet Union in Europe while opposing its expansion in the Third World, especially in French preserves in Africa; and to retain the American nuclear guarantee while challenging American economic and political interests and influence in the region.

West Germany, critically dependent on American support for its security in Europe but no less dependent on Arab oil than its EC

partners, maintained a low profile in the Middle East once Bonn had abandoned the Hallstein doctrine that required suspension of diplomatic relations with countries recognizing East Germany. Italy, torn between its ties with the West and its geographical position in the Mediterranean, has been similarly pulled in opposite directions in its responses to allied and, specifically, to American pressures and those emanating from the Arab states.

Despite these differences in strategies, the European states have been generally in advance of the United States in tilting toward the Arab position. The declaration of the EC foreign ministers on November 6, 1973, which sided with the Arabs despite the two-pronged Syrian-Egyptian attack on Israel, suggests the favorable Arab stance of European Community members. Despite their economic resources, they do not presently have a major political role to play in the peace process and, given the conflicting goals and priorities of these states, there seems little likelihood in the immediate future that their participation will be unilaterally extended. Consequently, the United States will find itself largely isolated in pushing for expanded Arab-Israeli accord on the basis of the peace treaty between Israel and Egypt. The reported reticence of the French government to support the Egyptian-Israeli accord reflects more widely felt reservations among Europeans and the Japanese about the risks run in being identified with these efforts or with being pressured by the United States to lend a hand.^{13a}

Japan tends to be no less tentative than many Europeans in supporting a common position on the conflict. Its heavy dependence on Arab oil and its distance from the Middle East condition its responses to the Arab-Israeli dispute. The statement of the Japanese government of November 22, 1973, went further than the European announcement favoring Arab demands. It called for Israel's withdrawal from all regions occupied during the Six-Day War and threatened to re-examine Japan's "policy vis-à-vis Israel depending on further developments."¹⁴ Japanese missions have criss-crossed the Middle East offering assurances of diplomatic support and developmental aid. Like the European Community and its member states, Tokyo prefers to avoid involvement in the Israeli-Arab conflict, (letting the U.S. bear the heat and burden, but not necessarily the potential benefits of peacemaker), to adopt a neutral stance in inter-Arab quarrels, and to caution against superpower confrontation. But mostly Japanese leaders hope for the best while buying oil where they can and relying on Japanese competitiveness to maintain trade balances.

Politics of Oil

This review of American-European (and to a lesser extent Japanese) security policy and diplomacy toward the Arab-Israeli conflict exposes some of the fragile political conditions on which Western unity depends. The Iranian crisis deepens the contradictions within the Western camp since it ties the Middle East conflict more closely to oil than ever before. So long as the Iranian-American alliance was

^{13a} New York Times, June 5, 1979.

¹⁴ Quoted from Wilhelm Grewe, "Western Europe, the United States, and Japan—Structural Problems of an International Triangle," in *America and Western Europe*, Kaiser and Hans-Peter Schwarz, eds. (Lexington: Lexington Books, 1977), p. 274.

strong, West Europe could expect that oil supplies from Iran were secure. Evidence for this view is suggested in the increased reliance placed on Iranian oil over supplies from Iraq and Libya as depicted in Chart 1.

The inability (not necessarily failure) of the United States to save the Shah accentuates the predicament of the European states and raises additional doubts about the utility of the United States as an instrument of West European interests in the Middle East. Indeed, the closer the European states and Japan are, or appear to be, tied to the United States for their security, economic, and political objectives, the more difficult becomes their plight in gaining access to Middle East oil. The incentives for cooperation between the U.S., Europe, and Japan are thus weakened, not strengthened. The United States' identification with the fallen regime, rejected by the overwhelming mass of the Iranian people, taints Europe's association with Washington. The blow to American prestige and to the credibility of the American security guarantee has yet to be fully felt, however blame for the Shah's fall is finally assessed.

Iran's recognition of the PLO and its break in relations with Israel hampers the search for peace based on the Camp David formula. The PLO and the radical Arab states have less incentive to negotiate the Palestinian issue when bolstered by a non-Arab state whose oil production is vital to Western Europe and Japan. The European states and Japan are given little encouragement by the sudden turn of events in Iran to aid American Middle East peace efforts. To support the Israeli-Egyptian treaty risks either sanction against oil exports or higher prices—or both. The upshot of these threatening circumstances is the further neutralization of European and Japanese influence, hostages to OPEC oil.

These devolutionary incentives prompt a closer examination of some of the complicated and delicately balanced sets of conditions on which the posited harmony of Western interests and those of the Arab states depend. Such a re-evaluation is needed even if the Arab-Israeli dispute were resolved. The dependence of the Western states on Arab and Iranian oil place them in a competitive position with each other. The structural tensions underlying this competition are not clearly discernible as long as oil flows at levels and at a cost that can be met, as in the recent past, by an expansion of trade, monetary manipulations, expansion of credit, the recycling of oil dollars, or increased Arab investment in the developed world. There are, however, limits to these extraordinary adjustments. Their routinization taxes the resources and resourcefulness of the EC states and Japan. As John Palmer, European editor of the *Manchester Guardian*, has observed, "The impact on public awareness of the oil shortages and increased oil costs following the revolution in Iran, has been less than after the 1973 oil crisis. Paradoxically, the economies of the EEC are less well placed to absorb the blows of dearer and scarcer oil today than they were six years ago. Economic growth is far more sluggish, unemployment is significantly and obstinately higher and the rate of inflation is, if anything, worse than just before the threefold price increase announced by OPEC in 1973."¹⁵

¹⁵ *Manchester Guardian*, Mar. 26, 1979.

Loading political conditions onto these economic ones strains the willingness of the developed states to cooperate in order to bargain for assured supplies at stable prices. These politico-economic disincentives encourage states to pursue their own arrangements even at the expense of their allies which are more vulnerable to extortion or less prepared to be exploited. Unchecked, the competition between the developed states can potentially become progressively more destructive and even regularized into a vicious circular process that is mutually reinforcing and cumulative.

Under these circumstances producer states can hardly be the gainers since they have important needs, including food, that can only be met by beneficial ties with the advanced industrial and agricultural world. Nevertheless, in the short-run these considerations may have little weight on decisionmakers in the oil producing states, driven by less tangible objectives and psychic compulsions and under little internal pressure to sell oil.

The record of the 1970's on this score, like that of the response of the Western allies to the Arab-Israeli conflict or to inter-Arab disputes, provides evidence that these destructive competitive incentives have precluded the development of a common energy policy. Even the European Community has had its share of difficulties,¹⁶ and these have tended to multiply in inter-allied discussion. Secretary of State Henry Kissinger's attempts at the Washington energy conference in February, 1974, to convince the 12 participating states (the EC Nine, Norway, Canada, and Japan) of the need for cooperation proved in vain. The major antagonist was again France. However, its criticisms of the American-led proposal to develop a grouping of industrial states on energy partially reflected wider European and Japanese reservations about closer ties with the United States that might inhibit their national programs to secure oil. France preferred bilateral negotiations at that time with the oil countries or general energy conferences under U.N. aegis which would be held without prior consultations. In either case Paris and the European states would have been left a free hand. A bilateral approach meant business as usual; the conference idea was so vague that each state was at liberty to pursue what energy course it wished with minimum interference from the U.S. or its trading partners in the Community. While President Nixon accused the French of bad statesmanship in attempting to secure advantages at the expense of its allies, French Foreign Minister Michel Jobert charged that the conference was aimed at organizing Western Europe to serve American energy needs and political purposes.

The creation of the International Energy Agency (IEA), subsequent to the Washington meeting and the empaneling of the Suppliers Club in London (primarily focused on controlling nuclear proliferation) offer some modest signs of progress in generating a common position on energy. These signs cannot obscure, however, the greater reality which remains one of disarray and behind-the-scenes cutthroat competition among the industrial states. The Iranian cutback in oil and threats to use oil as a sanction do not so much create, as they deepen and widen, the existing oil crisis. In clouding further the

¹⁶ Community problems in developing a common energy policy are ably reviewed in Robert Lieber's "Oil and the Middle East War: Europe in the Energy Crisis" (Cambridge: Harvard Center for International Affairs, 1976).

uncertainty and concomitant anxieties associated with the availability of oil and its price, the Iranian events sow division and suspicion among the developed states.

The West's failure to adopt a common position on energy or adequate coordinating means to define and execute similar approaches, especially in bargaining with OPEC, has weakened its over-all strategic position. The bargaining position of each state in the long-run is eroded since marginal advantages gained by one state bid up concessions that must be offered by other states to stay competitive. These effects can already be seen in the higher prices paid for oil in spot purchases, an indicator of higher prices in the future as new long-term contracts are let. The bidding takes not only the form of price competition but also rapidly infects other elements of a nation's relations with the oil producing states. This is also true for Community-wide talks with the oil producers. In early May 1979, the oil minister of the United Arab Emirates, Mr. Manei Said Al-Oteiba, announced, for example, "that a dialogue between the Organization of Arab Petroleum Exporting Countries (OAPEC) and the EEC on oil questions depends on whether the EEC recognizes the PLO as the sole representative of the Palestinian people."¹⁷

If the West prefers to decouple oil and other issues, the OPEC states, with Iran as the latest contributor to this trend, have shown an inclination to press for concessions that go beyond narrow energy concerns. So long as the developed states are divided against themselves and, consequently, incapable of bringing their collective weight to bear, they are victims of their own appetites for oil and the potentially corrosive competition engendered to satisfy them. They are also opportunity targets for mischief making by the Soviet Union or groups, like the PLO, which can influence the decisional processes of the oil producing states for their own purposes.

The absence of a U.S. national energy policy also contributes to European and Japanese concerns for access to oil at stable prices. Concern centers on continued high American demand, subsequent imbalances of trade and weakening of the dollar, and the adverse pressures that these forces exert on the availability of oil and on prices. The European states deplore the lack of serious American conservation measures. France, for example, has one of the lowest ratios of energy use to GNP of the OECD states, whereas the U.S. is among the highest. Between 1963 and 1973, total per capita energy consumption from all sources in the United States rose from approximately six equivalent tons of oil to over eight tons. In the same period West European per capita consumption climbed from slightly over two tons to approximately three equivalent tons. The change in Japanese consumption is perhaps most surprising, jumping from a little over one equivalent ton to levels approaching those of the West European states.¹⁸ Nevertheless, West European and Japanese consumption per head of population was in both cases less than half the U.S. levels. In the period 1973-1977, while oil consumption was held generally

¹⁷ Agence Internationale d'Information pour la Presse, Europe, May 9, 1979. This citation is not to be confused with n. a. Europe will refer to the EC's publication unless otherwise noted.

¹⁸ British Petroleum, 1973, op. cit., p. 9.

steady and even declined slightly, economic activity increased by seven percent.¹⁹

The inefficiencies in American use and the high demand for oil—partly due to the refusal of consumers to accept the existence of an oil shortage and, paradoxically, partly in response to the shortage as they hedge against an uncertain future through increased purchases—contribute significantly to an atmosphere of anxious buying and trading. The problem of producing and sharing receding stocks of oil among the industrial states in the face of increased demand cannot be easily addressed where self-serving national policies—or a lack of policy direction and restraint—overtake the efforts of the industrial states to coordinate their national and foreign policies and strategies. Jobert's criticism of the U.S. at the Washington conference—that its leadership shields an unchecked drive for power and for oil advantages—gains credence in European and Japanese policy-making circles. A dual game is encouraged. On the one hand, states compete with each other in affirming the need for cooperation while deploring each other's profligate behavior—and here the U.S. is the universal target; on the other hand, each strikes what bargains it can with oil producing states and develops, correspondingly, sets of economic, political, and security relations abroad that precariously serve its special energy needs. Each isolated network is composed of frayed and distended political and economic threads. If joined, they might be better able to withstand stresses, like Iran; separated, they are easily severed. Given decreasing incentives for inter-allied cooperation, there exist few alternative supplies to draw upon, including sharing domestic production and stockpiles, once the flow of Arab and Iranian oil is interrupted. The tardy and feckless support offered by the European Community in 1973 to the Netherlands, a member state, to withstand the Arab oil boycott suggests that incentives to abandon an ally operate as much within the EC as between the states on both sides of the Atlantic.^{19a}

If the combined actions of the developed states are viewed as a whole, a picture of incipient chaos emerges. This disorder, in conjunction with the fracturing of cooperative relations in other policy areas threatens to undermine the capacity of the developed states to maintain their cohesion at the very moment when the need for cooperation and mutual restraint has rarely been greater.

Trade, Arms Sales, and Monetary Stability

The demand for oil among OECD countries and its short supply increases competitive pressures to capture markets and hamper penetration by outsiders. The EC's approach to raw materials and to trading preferences are additional sources of friction even if oil were plentiful. The EC favors long-term contracts with other states in which fixed prices are a common feature. Such commodity accords that border on cartelization are generally opposed by the United States which relies more on market forces and favors minimum restrictions on the adaptation of these forces to new conditions of supply and

^{19a} Lieber, *op. cit.*, especially pp. 12–16.

¹⁹ European Community, "Energy Objectives for 1990," *op. cit.*, pp. 3–7.

demand. There is also fear in American business and governmental circles that the granting of association to Mediterranean and African states by the European Community is a means to insulate these countries from American products. The United States has repeatedly objected to association status and preferential accords between the Mediterranean states and the EC as contrary to GATT rules. These differences have led one analyst, writing in 1976, to conclude that "a good deal of the disenchantment among the American people with the Common Market, and many of the frictions that have been generated between the United States and the Common Market during the last two or three years can be attributed to the latter's Mediterranean policy."²⁰

The Community, however, did keep its gentlemen's agreement with the United States to deny Iran's request for preferential access for all Iranian exports. The United States reportedly argued that "such an agreement with Iran could prejudice the developing dialogue between oil-producing and consuming countries as well as the multilateral trade negotiations."²¹ The 1963 trade accord between Iran and the Community, which lapsed in 1973, has still to be renewed. Progress is contingent on the creation of a stable Iranian regime.

Adding to the strains of U.S.-European trade relations is the problem of arms sales to the Middle East and Iran. France, Great Britain, West Germany, and Italy are major arms suppliers to the Middle East and North Africa. Table 3 below suggests the competitiveness of the major European states vis-à-vis the superpowers in the Middle East and North Africa and in the Third World.

TABLE 3.—RECENT ARMS TRANSFERS BY REGION, JANUARY 1977 THROUGH JUNE 1978¹

[In billions of dollars]

Recipients	Suppliers		
	United States	U.S.S.R.	Western Europe
New arms sales agreements: Middle East/North Africa.....	10.8	2.6	6.
Total, Third World.....	13.2	5.0	8.
Deliveries: Middle East/North Africa.....	4.2	2.5	2.
Total, Third World.....	5.2	4.8	4.

¹ Source: U.S. Senate, Committee on Foreign Relations, Prospects for Multilateral Arms Export Restraint, 96th Congress 1st session, April 1979, p. 10.

Since 1977, the European states have signed more arms accords than the Soviet Union with the Middle East and North Africa; arms deliveries are almost equal at \$4.0 and \$4.8 billion, respectively. The principal NATO allies of the U.S. also provide stiff competition for American sales to the region. Between 1974 and 1977 these European states secured arms contracts in excess of \$100 million with nine Moslem states, most of them oil producers, in the Middle East and North Africa. These are summarized in Table 4.

²⁰ Werner J. Feld, "The European Community in World Affairs" (New York: Alfred. 1976), p. 151.

²¹ Europe, op. cit., p. 10.

TABLE 4.—MAJOR SUPPLIER/RECIPIENT RELATIONSHIPS, 1974—1977¹

[In millions of current dollars]

Suppliers	Recipients			
	\$2,000 to \$5,000	\$1,000 to \$2,000	\$500 to \$1,000	\$100 to \$500
France.....	Iraq.....	Saudi Arabia.....	Libya, Morocco.....	Egypt.....
Great Britain.....	Iran.....		Saudi Arabia.....	Egypt, Libya, Oman.....
West Germany.....			Algeria, Iran, Turkey.....	
Italy.....				Libya, Turkey.....

Source: See table 3.

Arms sales serve a variety of economic purposes. In the case of Britain and France it can be plausibly argued that foreign policy often promotes the interests of arms sales rather than the reverse.²² In several areas, like military helicopters, minor combatant surface vessels, and support aircraft, the West Europeans supply more of these items than either superpower. They also supply appreciable numbers of tanks and self-propelled guns, armored personnel carriers and armored cars, supersonic aircraft, and tactical missiles. The distribution of arms contracts among Middle East buyers, outlined in Table 4, suggests an increasing tendency to diversify supplies and, therefore, to increase the opportunity for European penetration of previously controlled superpower clients. The principal European arms suppliers already had established beachheads in Iran before the revolution. Although many of these contracts, such as the naval shipbuilding accords with West Germany, are now in suspense pending review by the post-Shah regime, it is still highly likely that Iran will continue to purchase arms although at a lesser rate than before. Since both superpowers present problems for the revolutionary government, the West European states should be in a favored position to win arms contracts.

The European states, as France's sale of Mirage aircraft to Libya and F-1's to Iraq demonstrate, are able to compete with the superpowers as they pose a lesser threat to the recipients than the superpowers and sales are on a cash basis with few strings or little ideological baggage attached. Alternative suppliers also permit recipients to play off the industrialized countries. The American sale of F-15's to Saudi Arabia was justified partly by the fear of French sales to Riyadh. These competitive pressures to sell under disadvantaged circumstances are likely to be more the rule than the exception in the immediate future since the U.S. special relation with Iran disappeared with the Shah and the dismantling of the top leadership of the Iranian armed forces.

Oil, trade, and arms sales are, of course, linked to balance of payments problems since large oil imports create imbalances between oil producing and purchasing states. Deficits also raise the problem of how they will be financed. Efforts to solve this problem pose yet another set of dilemmas and a source of friction for U.S.-European re-

²² See the author's "Determinants of French Arms Sales Behavior," *op cit.*, and Laurence Freedman, "Arms Production in the United Kingdom: Problems and Prospects" (London: Royal Institute of International Affairs, 1978).

lations. If the capacity of the United States to pay for its oil is reduced, partly because of a rise in oil prices, partly because of greater competition, including arms sales, increased pressures will likely mount on the dollar. As world inflationary forces are bolstered, the European states can be expected to take protective actions that promise to restrict, not increase, the liberalization of trade and other economic relations among the industrial states. They will tend to pursue deflationary policies at home while attempting to ameliorate unemployment abroad by exporting it to other countries in the form of trading deals with other states, especially the oil producers, by competitive devaluations of their currency through covert means like subsidies on exports, to keep in step with American moves, and by special arrangements, like lowered taxes, to encourage investments. Meanwhile, the Europeans and Japanese will pay for their oil imports with devalued American dollars which will lower their oil costs for a given period until another round of increased prices occurs.

Whither Iran and Its Implications?

Until now, this analysis has pictured the Iranian upheaval as a kind of political-economic earthquake that has sent shock waves throughout the international system with adverse effects on West Europe and Japan and, through them, on the United States. It has been assumed that these tremors are of equal force throughout the network of relations. This assumption, however, takes no account of the emerging political situation in Iran other than to accept the Shah's demise as final. If assumptions are varied about political outcomes in Iran, one can expect that differences in internal regime composition and orientation will have variable effects on issues of concern for the European states and Japan, including oil supplies and prices, regional security and conflicts and the influence they can exert on events in the Middle East.

With respect to regime change, one of three general outcomes can be envisioned: (a) a faction-ridden regime divided by divergent ethnic, regional, and class interests; (b) an Islamic republic; and (c) an authoritarian Leftist regime. Each poses different problems for Western Europe and Japan. These regime outcomes are distinguished in order to clarify the different impacts that these ruling coalitions of varying internal cohesion are likely to have on a range of central issues, including the price and availability of oil, internal economic and social reform, regional security and conflict, and foreign alignment strategies.

The actual composition of these three regimes and the operational policies followed by each—or the mix of regimes and policies that will finally crystallize—are difficult to specify in detail beforehand. Caution, therefore, should be exercised in identifying conceptual and political logic since the internal struggle for power in Iran will probably breed strange bedfellows. Until these conflicts are resolved, the behavior of a particular Iranian government will not necessarily be coherent or consistent, but will be keyed to its own needs of the moment for survival.

The first possibility of a faction-ridden regime raises the prospect of unpredictable oil supplies since a weak government would not be able to assure production and delivery. This situation would, para-

doxically, institutionalize the uncertainty and disruption of the recent past when the cutoff of Iranian oil exports provoked the present crisis. A weak government in Teheran would not be able to take a lead in influencing supply and prices directly within OPEC, as did the Shah, but its inability to produce oil at expected or contracted levels would have the same effect since Iran plays so key a role in world production. Other oil producing states would gain a temporary market advantage from short-run disruptions in Iran since they would be able to bargain for higher prices for their oil as a consequence of shortages occasioned by such upheavals either by diverting oil to spot markets or demanding premiums for increased production, or both. Barring controls on imports or fall-back reserves to adjust the consumption of the developed states to fluctuations in supply, prices will be bid upward as free market pressures respond to decreased supplies. These conditions will impact differentially on the European states. Those with oil (Britain and Norway) or those running surpluses (West Germany) will be in a more favorable position to weather these periods of economic unsettlement. Others, like Italy or France, will be more adversely affected, and political stability of these states will be strained.

A weak Iranian government will be simultaneously pushed in contradictory directions, pressed alternately by religious, secular reformist, and conservative elements, yet it will be too feeble to impose its will or to launch comprehensive and cohesive social or economic reforms to resolve its dilemma by creating new constituencies of support. A divided Teheran government will perforce be required to move gingerly through a thicket of social issues, involving progressive (versus increased religious) education, social equality and minority rights, and the status of women. Progressive elements will demand movement on all of these fronts. Nationalization of key industries, and even commerce, will be major problems. Religious elements, linked to traditional economic interests, will likely resist many of these changes, especially those that attempt to reduce the role of the mullah or the bazaar. The government will be caught between these pressures and will have to temporize between the rival claims of opponents who are as much bent on shaping policies as on controlling the government. What initiatives will be taken, say in nationalizing heavy industry or finance, will tend to be pragmatic and fitful, representing discrete responses to conflicting pressures rather than consistent design or purpose. The struggle to control and direct the Iranian revolution will go on. Oil will be hostage to this contest for control since whoever can control the oil fields will possess a decided edge in directing the government and outmaneuvering opponents.

The temptation of foreign powers to intervene, covertly or overtly, will be great as they attempt to promote their interests in so fluid but penetrable environment. Given the military balances of the region, framed by the global strategic equilibrium between Moscow and Washington, overt military intervention is likely to be a lesser probability than more subtle political and economic intervention. Factions within and outside the government will have incentive to seek foreign help to bolster their domestic positions. These tacit alliances and alignments with one or the other of the superpowers or the Arab and West Euro-

pean states will tend to have an additional divisive effect on an already shaky Iranian regime since the differences of these states will tend to be reflected in the behavior of the Teheran government.

A weak government will also be disposed to concentrate its attention on survival. The regional security role envisioned by the Shah would be beyond its means or vision. Its weakness and lack of domestic control would devalue the regional influence it might wish to exert. A neutralist stance in inner-Arab quarrels or between the superpowers will be advised. An embattled government, mediating between rival groups, will have enough to do to remain in power without complicating its task by involvement in foreign quarrels. Implementing a neutralist policy, however, will be tricky in light of the incentives driving domestic factions to seek exterior support and foreign interests to use available political channels to influence events in Iran to their liking. The Teheran government would tend to be simultaneously responsive to all of these pressures, and yet not sensitive to any.

Paradoxically, an Islamic republic, whatever its inconveniences, may hold out more promise for the EC and Japan than a weak regime in Teheran. Its ability to deliver oil at stated prices would presumably be greater than under a weak and divided regime. On the other hand, the Western states can expect stiff bargaining from a strong nationalist regime that would see little incentive in producing oil at pre-revolutionary levels. An Islamic republic could also be expected to press for higher prices for less oil to maintain revenues and to rationalize the adverse impact on the Western states. Since it is precisely the Western model of development that was rejected in the Shah's overthrow, it is not likely that arguments from the EC or Japan about the adverse economic impact of decreased supplies and higher prices for oil would have much influence on the regime. Nationalist-religious sentiment would tend to be impervious to these complaints, rejecting them out of hand; meanwhile, technocratic elements within the regime, if they still exercise influence after the Barzagan resignation, would maintain supply and price pressures on the Western states to extract the best bargain for Iran. But once a deal were struck, the Europeans and Japanese would at least have the advantage of being able to count on the Iranians; similarly, OPEC would be able to rely on Iranian cooperation in developing its position.

An Islamic nationalist republic would not likely play a strong regional role in security matters except to defend itself, the nation's boundaries, and the historic claims of the Iranian people. Alignment on the Arab position does not necessarily mean that Iranian troops will be sent to any future Arab-Israeli conflict. Nor would economic assistance probably be earmarked for the Arab cause. Minorities within Iran, like Arabs, Kurds, or Turkomans are not likely to enjoy much influence and their subordination is likely to strain relations abroad, particularly with Arab states when their peoples are directly affected. Motivated by nationalist and religious sentiment, the Teheran regime is also likely to remain neutral in inter-Arab conflicts while asserting common religious values. Here, too, division more than unity may mark Iran's relations with its Arab neighbors since Islam is not a cohesive body within or outside Iran. Neither of the superpowers can be expected to enjoy a decided advantage although American identi-

fication with the Shah's government will place it in a weakened position.

The West European states and Japan might find such a regime more palatable than either of the other alternatives although this option obviously carries with it high risks and costs for them. France has earned credit by harboring Ayatollah Khomeini. The other EC states, with the exception to some degree of Britain, do not have a record of outright support of the Shah. The EC provides an alternative to superpower dependence, primarily as sources of economic development, diplomatic support and arms. In many ways the Shah's alliance with the U.S. was an anomaly in the sweep of Iranian foreign policy. An Islamic republic would mark a return to the kind of neutralism that previously characterized Iranian foreign policy which permitted Teheran to play on the rivalries of others for its own advantage.^{22a}

How long an Islamic, plebiscitarian republic can survive remains an open question. The internal structure of the regime is fundamentally flawed. As it responds to internal demands for economic development and greater welfare for an increasingly larger group of Iranians—glaring failures of the Shah's regime—it will move away from its religious moorings. On the other hand, failure to satisfy these demands lends support to its opponents—the secular Left, proponents of Western-style modernization, and sundry minority groups uncomfortable under the rule of a sectarian Islamism thinly veiling a resurgent, xenophobic Iranian nationalism. There is doubt, too, whether the technical and bureaucratic specialists needed to govern the country and run the oil fields will find a semi-theocratic state very attractive for long. Khomeini's departure may create a vacuum which no other religious figure may be able to fill, opening the way for these divergent forces of modernization to again re-assert themselves. Since the Western model has suffered a severe setback, a collectivist substitute may gain the ascendancy.

A secular, collectivist regime, a third possible outcome of the Iranian revolution, would very likely be less desirable for West European and Japanese interests than an Islamic republic. For different, and in many ways conflicting, reasons a Leftist regime may be as repugnant as a weak and divided Iran. Oil supplies and prices would be subject to internal direction in support of regime purposes of control and reform along socialist lines. The Algerian case would appear especially relevant as a guide for internal economic policy. Oil would be viewed as a means by which to supply needed revenues to pay for industrialization. Agriculture, however, is likely again to be slighted since the regime would be drawn largely from urbanized groups and the intelligentsia.

^{22a} A review of Iranian foreign relations may be found in the works of Rouhollah Ramazani and in the volume by Shahram Chubin and Sepehr Zabih. See Rouhollah K. Ramazani, "The Foreign Policy of Iran, 1500-1941" (Charlottesville: University of Virginia, 1966) and "Iran's Foreign Policy 1941-1973" (Charlottesville: University of Virginia, 1975). Also of interest is his "Security in the Persian Gulf," *Foreign Affairs*, LVII, No. 4 (Spring, 1979), 821-835.

See also Shahram Chubin and Sepehr Zabih, "The Foreign Relations of Iran" (Berkeley: University of California, 1974). Chubin offers his most recent views on the Iranian crisis in "Repercussions of the Crisis in Iran," *Survival*, XXI, No. 3 (May-June, 1979) 98-106. Relevant also is George Lecrowski, "The Arc of Crises: Its Central Section," *Foreign Affairs*, LVII, No. 4 (Spring, 1979), 796-820.

Neither industrialization nor agricultural reform can, however, be accomplished without outside support. Thus, the regime will be open to internal criticism and opposition if it relies on foreign assistance, presumably from the Soviet Union and other East European states (although the Peoples Republic of China is a slim possibility). Expectations of rapid economic progress will not be filled even as they are raised. Emphasis on industrialization will tend to alienate the more populous peasantry without compensating independence from reliance on foreign sources for food. Modernization, implying equality of opportunity for women and minorities, de-emphasis of religion, and progressive education will similarly irritate and perhaps provoke opposition from religious groups.

Faced with these conflicting pressures, a Leftist regime either will be forced to compromise its objectives, raising tensions then among its own supporters, or it will be impelled to rely increasingly on force and coercion, including foreign assistance, to assert its control. The latter, ruthless course will be especially destabilizing for regional politics since it may elicit an antagonistic Western reaction, damaging to global detente and superpower accord on a range of issues. Similarly, it will be difficult to insulate inner-Arab conflict and the Arab-Israeli dispute from domestic upheaval.

In such a charged atmosphere, oil supplies and prices will become as much a political as an economic instrument of regime control and survivability. As an economic cartel, OPEC will tend to reflect these tensions. Efforts to depoliticize oil to maintain a common front will become increasingly more problematic since a Leftist regime will have as much difficulty maintaining a neutralist foreign policy as a weak one. Alignment on the Arab position in the Arab-Israeli dispute can be expected as much as a function of ideological affinity as the need to manage the Arab minority within the country—a problem faced by any Iranian regime and a partial explanation for the quick reversal of Iran's foreign policy toward Israel when Khomeini first came to power.

The increased politicization of the oil problem and heightened regional and superpower tensions promise to have divisive effects on U.S.-European-Japanese relations since these conflicts touch at so many points on the relations of the developed states, and they differ substantially in their approach to them. If past is prologue, the European states (and Japan) will attempt to resist involvement in these varied disputes. While they might be able to exert a moderating influence on a Left-leaning regime to compromise with domestic rivals and to keep the oil flowing, once strictly economic accords had been reached, it is not clear that they will be disposed to exercise their diplomatic and economic influence to assure these results out of fear of being drawn into potentially armed conflicts which they are politically and militarily ill prepared to confront. The upshot will be an Iranian regime susceptible increasingly to the influence of the Soviet Union and the radical elements of the Arab camp. Traditional Iranian suspicion and antipathy to Russian control and Arab influence will limit the cohesion of tacit alliances, but a marriage of convenience will be forged which will be adverse to United States, European, and Japanese interests.

PROSPECTS OF COOPERATION, COMPETITION, AND CONFLICT IN THE
NON-COMMUNIST DEVELOPED WORLD

To this point we have accented the centrifugal forces at work among Europe, Japan and the United States as they interact in pursuit of their objectives with the Arab world and Iran. Such a picture, however useful, must be placed in the larger setting of allied cooperation that has been stitched and patched together with great cost and care since World War II. This fabric of cooperative relations, habits, expectations, and institutions, like NATO, the European Community, OECD, the World Bank, the General Agreement on Tariffs and Trade, and the International Monetary Fund, are a testimony to past efforts to overcome differences and the means by which new challenges can in part be met. They provide a reservoir of experience and tools by which to confront crises, like that illustrated by the Iranian revolution.

The significance of the Iranian case is its reinforcement of already adverse systemic trends, characteristic of contemporary international relations, that threaten to undo the progress made in shaping the world to suit the preferences of the non-Communist industrial states. These may be grouped under three headings: domesticism, bilateralism, and negative interdependence. The first refers to the tendency of domestic populations to define problems of interdependence as domestic affairs and to make increasing demands for welfare, security, and symbolic gratification on other peoples with the unwitting result that these national assertions cancel each other out but at the price of progressively higher levels of mutual recrimination and conflict. The second is the tendency of governmental elites, partly driven by domestic demands beyond their ability to control or guide, to seek discrete solutions to specific problems through bilateral initiatives with other states with the result that cooperative arrangements and established international processes are ignored or neglected and, in some instances, directly undermined as obstacles to the satisfaction of national claims. The third groups the tendency of states to use their military, economic, and diplomatic influence and leverage at the expense of other states on whom their security and well being, at least partially, depend. Cooperation among states, even those with similar regimes, is thus subordinated to conflictual and competitive modes of interdependence.

Domesticism

The Iranian upheaval illustrates some of the worst features of domesticism. The revolution obviously lies deep within the social structure, history and religion of the Iranian people. Years of perceived humiliation at the hands of more powerful states and of subservience to a detested regime, linked at its own choosing to a foreign protector, are fertile grounds for the growth of popular uprisings. However legitimate these aspirations of independence may be, they still have many damaging effects on the interests of other peoples and states. Often the nation making claims on the international system may suffer, too, if its demands are pressed brutally and abruptly with little regard for the capacity of the international system to absorb sudden and massive shocks to its functioning. The nationalization of oil, cutbacks in production, the recognition of the PLO, the cutoff of

oil to Israel, the closing of American verification posts, and attacks on the Israeli-Egyptian peace treaty, seizure of the American embassy in Teheran and the unlawful holding of American hostages may satisfy large segments of the Iranian population, but they administer punishing blows to international cooperation and stability.

It would be misleading and unfair, however, to single out the Iranian regime for excessive nationalism and parochialism without recognizing that these shortcomings also flaw the behavior of the European states, Japan, and the United States. Low and high politics have not been so much joined as the latter risks now becoming the servant of the former.^{22a} A recent poll of American opinion, regarding the priority of foreign policy, reveals a turning inward, away from exterior issues:

In evaluating priorities, domestic economic concerns once again came out on top. A total of 78 percent of the public and 90 percent of the leaders listed domestic economic issues as the most significant problem facing the country, which could be addressed by governmental action. Not surprisingly, inflation emerged as the number one problem, with 67 percent of the public and 85 percent of the leaders listing it on top. Similarly, in ranking government programs foreign policy items received a lower priority than domestic ones. Comparatively high levels of support were registered by the public for expanding expenditures on education (55 percent), farm subsidies (30 percent), and highways (34 percent). In contrast, only 5 percent supported increased military aid, and 11 percent supported increased economic aid. The only international area receiving substantially increased support was defense spending, with 34 percent favoring more expenditures in this area (compared with 14 percent in 1974).²³

A focus on domestic issues has been similarly evident in Western Europe.²⁴ The British, French and Italian parliamentary elections were largely fought on internal economic lines. These domestic concerns almost blocked Britain's entry into the Common Market and still hamper its full participation in the Brussels group. They prevented Norway's entry. The recent European parliamentary elections represent only a partial exception since, as in France, the elections were another occasion to continue the jockeying for power among the four principal political groupings.

Issues, like oil, energy, inflation, and unemployment, are viewed as a series of demands made upon governmental elites rather than problems whose solutions lie only partially, and often not critically, within the boundaries of a national state. At the very time when the security, economic, and internal political values and institutions of the European states depend increasingly on exterior support, there is a tendency of the populations of these states to ignore or minimize the costs and care needed to preserve that support structure. The exaggerated stress on domestic issues, artificially distinguished and insulated from their crucial exterior determinants, has a number of unfortunate consequences. First, there is a tendency either to take allied commitments on which a nation's interests depend for granted or to depreciate their importance since to do otherwise would perhaps re-

^{22a} Roger P. Morgan explores the problem of joining the two in his "High Politics, Low Politics: Toward a Foreign Policy for Western Europe," *The Washington Papers*, I (Beverly Hills: Sage, 1973).

²³ John E. Reilly, ed., "American Public Opinion and U.S. Foreign Policy, 1970" (Chicago Council on Foreign Relations, 1979), p. 4.

²⁴ For an analysis of European foreign policy opinion that suggests a turning inward, see Ronald Inglehardt, "The Silent Revolution: Changing Values and Political Styles Among Western Publics" (Princeton: Princeton University Press, 1977).

quire higher costs and mutual commitments than are considered desirable. Such a calculus of interest and influence encourages overdrafts on allied support. This may be possible on one or more occasions (say, France in the initial withdrawal from NATO or the U.S. in Vietnam), but sustained abuse conditions suspicion and wariness in allied capitals.

Second, heightened bargaining among allies for a more favorable distribution of burdens and benefits is given freer play. If alliances and prevailing alignments block the achievement of desired goals or hinder the promotion of significant interests, then they presumably can be relaxed since, in terms of domestic political tests, they are devalued and dispensable. Governmental elites, responding to an aroused national population for greater benefits from ties abroad at less cost, are thrust into a competition of claims and counter-claims, like those characterizing American-French relations under the de Gaulle and Pompidou governments. Such an atmosphere prompts groups to make excessive demands on their government in its negotiations with allies. Domestic political parties are encouraged, finally, to assert their loyalty to national independence and to compete with each other in defense of domestic interests. The complexities of cooperative interdependence are thus reduced to simple assertions of national need and want. It would be too much to say that the Western states have already reached such an impasse. However, this sketch of logical tendencies provides some insight into the incentives presently at play in inter-allied diplomatic, economic, and security relations. This proposition about the consequences of domesticism gains credence if it is linked to another troubling trend, viz, bilateralism.

Bilateralism

As early as the late 1950s George Kennan criticized the Atlantic Alliance as an obstacle to a German agreement and nuclear stability between the superpowers.²⁵ Others wondered why the U.S. persisted in building up its competitors in Europe by supporting European union often with more fervor and determination than the European states. The bargain implicit in NATO and European union was that the U.S. would tolerate union if it would strengthen the Western military alliance and assure European political stability and if, in the final analysis, the European Community would not be a closed trading group. For American military protection the Europeans, in turn, could accede to an American-led international economic order since it was assumed that Washington would not unilaterally move to harm European interests.²⁶

A number of American and European initiatives have challenged the assumptions on which this collective bargain was made. The most visible and vocal one issued initially from Gaullist France. De Gaulle attacked American dominance of NATO as illegitimate since it allegedly constrained national independence. He also criticized the

²⁵ George F. Kennan, "Russia, The Atom, and The West" (New York: Harper, 1958).

²⁶ The assumptions on which what might be called the trans-Atlantic bargain were struck are reviewed by Robert Gilpin in "Transnational Relations in World Politics." Robert Keohane and Joseph Nye, eds. (Cambridge: Harvard University Press, 1972). See also Pierre Hassner, "The American World Power and the Western European Powers." in Kaiser and Schwarz, op. cit., pp. 331-346.

superpower conflict as destabilizing and pressed for greater freedom from involvement in the struggle.²⁷ Gaullist France's approach to the EC was similarly motivated by nationalistic goals. The Community crisis of 1965 established the veto power of member states over objectionable community proposals.²⁸ Nevertheless, the NATO allies have been able to define a special relationship for France, and Paris remains a key member of the EC and a proponent under the Giscard d'Estaing regime of enlargement.

Other states also moved unilaterally when their interests required attention whether in reaction to the moves of allies or on their own initiative. Bonn's opening to the East facilitated the Berlin accords of 1970 although the independence that it displayed was a source of disquiet in Western capitals. Chancellor Helmut Schmidt's advanced position in detente politics also raises questions. Japan's attempt to tread a narrow line between the superpowers and China while retaining American security protection but at least cost to its trade relations with the United States suggests the play of complex bilateralism below the surface of Japanese diplomacy.

The United States has also contributed to these trends. The Kennedy administration's shift to flexible response without prior allied consultations and its conduct of Berlin and arms control talks with the Soviet Union evidence disenchantment with multilateral processes.²⁹ The Johnson administration's escalation of American involvement in Vietnam developed over the objections of the West European allies. The Nixon administration added to the habit of bilateralism. The opening to China occurred without previous consultations with Allied governments, especially Japan which was immediately concerned. Cutting the link between the dollar and gold and applying a surcharge on imports in August, 1971, while moves aimed at all countries, fell heaviest upon Tokyo and Bonn without their knowledge or consent.

The bilateral habit is hard to kick. It has not been without its benefits, as the Berlin accords and the opening to China suggest. There is the danger, however, that the interests and views of allies will be traded for the advantages of striking new relations with other states, including adversaries. The temptations of going-it-alone in the oil scramble are so great that the virtues of bilateralism can quickly become vices if not checked by a conscious recognition of broader common interests or habits of cooperation now in neglect. Domestic pressures conspire with exterior imperatives to induce states increasingly to rely on this mechanism, but at the risk of damaging the cooperative arrangements that provide the basis for the effective exercise of bilateral diplomacy.

Negative Interdependence

Domesticism and bilateralism join to reinforce a third adverse trend in international politics; viz., negative interdependence. It may assume any one of three forms. The first is between adversaries and is

²⁷ See the author's "French International Policy," op. cit., pp. 69-175.

²⁸ The 1965 crisis in the Common Market is described by John Newhouse in "Collision in Brussels" (New York: W. W. Norton, 1967).

²⁹ Kennedy policies toward Europe and, specifically, the Berlin problem are reviewed in Arthur M. Schlesinger, Jr., "A Thousand Days" (Boston): Houghton Mifflin, 1965), pp. 842-888.

illustrated by the superpower strategic balance. Each holds the other hostage. Although Moscow and Washington try to influence each other's behavior through mutual deterrence, neither can finally assure its own physical security. Each finally depends on the other.

Another form of negative interdependence is between otherwise neutral states. In such relations one side plays on the vulnerability of the other for political or economic advantage. The Arab oil embargo of 1973 or Nigeria's threat to cut off oil supplies to the U.S. are examples of these forms of interdependence. So also is Iran's decision to stop the flow of oil to Israel. The prospects for mutual advantage—between developed and underdeveloped states—are thus undermined.

Finally, a third form of negative interdependence involves the abandonment of an ally for advantage at its expense. De Gaulle's search for a special relationship with Moscow in the 1960s which was linked to France's withdrawal from NATO was widely interpreted in this light. Conversely, the American intervention in Vietnam was partly permitted it to run high deficits denied to other states. The incentives to align and de-align for temporary advantage rather than bear the inconveniences of stable alliances have grown over the past decade. The distinction between ally and enemy becomes blurred. Calculation, bargaining, and negotiation spill beyond the porous frameworks of alliance or frail community structures. The adversary may be the useful tool to extract concessions from allies, or manipulating allies may advance a state's interests but weaken the alliance while bolstering the position of the common adversary. French detente strategy in the 1960s assumed some of these characteristics.

The multiple needs of states and the equally multiple sets of diplomatic economic, and security relations that have to be fashioned to satisfy them encourage a fluid, multipolar international system. Such a system can relax hostilities between states. Detente between the superpowers owes much to the demise of bloc politics. But such a system has its own inflexibilities, as this discussion has suggested. If the strong are not encouraged under circumstances of bipolarity to pursue moderate ends with moderate means, marginal and middling powers have wide berth to do likewise under conditions of multipolarity. There is a danger that the system will not so much erupt into global conflagration, a pervasive fear during the Cold War, but that it may collapse into anarchy and chaos as none of the units of the system, including the superpowers, are capable of maintaining elemental forms of order. Worse, disorder creates new imperatives to protect one's interests by intervening, militarily or covertly, in internal crises of the Iranian kind or in regional disputes. More little conflicts are created but any one of them could be the occasion of a superpower confrontation wittingly staged or blundered into by smaller states.

CONCLUSIONS

The significance of the Iranian revolution goes beyond the immediate adverse effects that the new regime has had on American and Western interests. These are already apparent in the blow to American prestige and power in the Middle East and Northern Tier—and beyond, the disruption in oil deliveries and cutbacks in production, the

upward pressures on oil prices, the increased internal and external threats to the moderate oil producing regimes of the Persian Gulf and Egypt, and the polarizing effect that the Teheran regime's alignment on the PLO has had on inter-Arab and Arab-Israeli politics, and the tensions prompted by the seizure of the American Embassy and hostages. These damaging effects strike the West at its most vulnerable points. The conditions of economic growth and full employment, social progress and equity, and political stability—all depend on access to oil from the states of the Middle East and on their cooperation in resolving regional problems. If the Iranian shock was an isolated event, it could well be absorbed. But it is instead just one more in the line of similar shocks already registered in the Mediterranean region, the Northern Tier (Turkey, Afghanistan, Pakistan), Asia, and Africa. These shocks have been characterized by virulent national claims on other states and the emergence of regimes which both cater to and condition these demands.

The Iranian revolution is also linked to other trends in interallied politics, marked by increased domesticism, bilateralism, and negative interdependence. These inter-allied trends are accelerated by the events in Iran and by other North-South issues to which Iran is both heir and contributor. These various trends reinforce the diffusion of power and the decentralization of political authority at regional and global levels. Diffusion and decentralization create two sets of conflicting incentives that have an adverse impact on stable and productive relations between states. First, incentives for regional and global intervention increase, as political regimes perceive that their vital interests and those of their nations depend on influencing and controlling the decisions and actions of other states and peoples. The superpowers are particularly prone to such temptations given the enormous military and economic means at their disposal and the global character of their interests. Regional states may be similarly inclined to exert influence if they detect weaknesses or openings in the Teheran regime.

Second, incentives grow within a multipolar system to encourage decision makers to emphasize pragmatic arrangements with other states. In such circumstances the distinction between enemy, ally, and neutral is blurred. Unless checked by habits of cooperation, perceptions of broader common interests, and institutional processes to articulate and advanced them, the zero-sum game of the Cold War in which the gain of a rival is seen as a loss to his opponent is transported to a multipolar system. Independence is then viewed in negative terms as a competition for advantage at the expense of others, checked primarily by the damage that the disadvantaged party can inflict rather than by notions of mutual cooperation and reciprocal benefit. Under such conditions the nation-state system as we have known it is threatened with dissolution, overwhelmed by external pressures and internal imperatives that cannot be managed or reconciled.

What may be needed are new international institutions and processes to articulate the mutual needs of the Western states and those of the Middle East and to harness the economic, military, and political resources of the West to respond to them on a regional and global basis. The demands for self-determination, independence, and development of the emerging states of the Middle East promise to become increasingly key elements of any American policy that seeks

to influence regional events in its favor. High, too, among the tasks facing the United States, Europe, and Japan are the development of coherent, national energy policies that are increasingly coordinated with the efforts of allies and those of the emerging states of the world. Since energy is linked to the conflicts of the region, there appears no substitute for an active American, European, and even Japanese diplomacy in the area, notwithstanding the timid and tentative behavior thus far displayed by these allies. A slowing down of the peace process would not appear to be in the short-, much less the long-, run interests of the West.

The scope of these cooperative enterprises is obviously beyond the capacity of the European Community, Japan, or the United States acting alone. In concert, they will have a greater say over the politics, economic development, and security of the region although, as the events in Iran attest, they no longer can expect to control what will transpire there as in the heyday of colonialism or, to a lesser degree, in the period of close American-Iranian collaboration. The lifeline of oil extends to volatile political movements and forces that not only escape exterior influence but also affect directly the domestic and inter-allied politics of the Western states as well as their economic well-being and security. These disruptive elements impinge progressively on the fragile political, economic, and security ties that bind the Western camp together and on which their social and political cohesion, singly and collectively, depend. The West has a stake in cooperation to promote their interests in the Middle East and to protect what they have achieved. As this analysis of inter-regional politics has tried to suggest, there are serious structural flaws in Western unity. Powerful divisive forces are at play. Diagnosing these ills does not assure that the remedy of cooperation will spontaneously be applied by the United States and its allies.

Interdependence, the slogan of the day, is as much an invitation to competition and conflict as it is to cooperation. Whether one mode of interdependence will prevail over another depends on the relative and reciprocal needs and vulnerabilities of states. Which way the processes of interdependence will go will also depend on the vision and will of political leaders and their people to resist temporary advantage at the expense of others and to build sets of exterior relations that maximize benefits for all parties concerned over the long run. The initial repercussions of the Iranian crisis, viewed as one more link in a chain of real and emerging crises, and the reactions of the Western states to them offer faint encouragement that cooperative strategies of interdependence will appear more attractive than competitive or conflictual ones either to Western leaders and their peoples—or to the states of the Middle East.³⁰ Yet what is clear—beyond the din and hassle of inter-allied bargaining, the pulling and hauling, the threats and blandishments, and the recriminations and counter-charges of defection—is that the people of the West, including Japan, will hang together—or they will hang separately.

³⁰ The cooperative tendencies of contemporary interdependence are stressed in Robert Keohane and Joseph Nye, *Power and Interdependence* (Boston: Little, Brown, 1977). For a view that focuses on the competitive and conflictual dimensions of interdependence, see the author's "New Assumptions to Guide the Use and Control of Military Force," as well as the accompanying articles, in Robert Harkavy and Edward A. Kolodziej: eds., *American Security Policy: The Dilemmas of Using and Controlling Military Force* (Lexington; Lexington Books, 1980, forthcoming).

Appendix 1

OIL IMPORTS OF SELECTED OECD COUNTRIES FROM IRAN AND ARAB OIL PRODUCERS, 1977

[In thousands of metric tons]

	Abu Dhabi	Other UAE	Algeria	Iran	Iraq	Kuwait	Libya	Qatar	Saudi Arabia
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
United States.....	20,936		26,698	39,862	1,545	2,939	39,994	4,781	69,397
Percent of oil consumption (i).....	2.53		3.22	4.81	0.186	0.355	4.83	0.577	8.388
Percent of oil imports (ii).....	5.59		7.13	10.65	0.412	0.785	10.68	1.27	18.54
Japan.....	24,836	648	164	40,570	7,355	18,884	977	2,152	72,530
(i).....	10.47	0.273	0.069	17.11	3.10	7.96	0.412	0.907	30.59
(ii).....	10.50	0.273	0.069	17.15	3.10	7.98	0.413	0.909	30.66
France.....	9,626	2,698	4,875	9,434	18,234	3,595	2,771	3,161	43,363
(i).....	8.07	2.26	4.08	7.91	15.28	3.01	2.32	2.65	36.35
(ii).....	8.19	2.29	4.14	8.02	15.51	3.05	2.35	2.69	36.90
Denmark.....				2,758					999
(i).....				34.88					12.63
(ii).....				37.25					13.49
Germany.....		8,574	9,885	15,771	1,114	809	19,674	928	20,063
(i).....		7.98	9.20	14.68	1.03	.753	18.31	.864	18.68
(ii).....		8.40	9.69	15.46	1.09	.793	19.28	.909	19.67
Italy.....	1,786	1,711	1,458	14,481	14,315	7,333	13,888	961	31,240
(i).....	1.66	1.59	1.35	13.50	13.35	6.83	12.95	0.896	29.13
(ii).....	1.68	1.61	1.37	13.65	13.49	6.91	13.09	0.905	29.44
Netherlands.....	2,468	1,743	184	13,525	3,342	5,850	1,094	544	17,197
(i).....	4.07	2.87	0.303	22.34	5.52	9.66	1.80	0.898	28.41
(ii).....	4.18	2.95	0.312	22.95	5.67	9.93	1.85	0.923	29.18
United Kingdom.....	2,374	1,042	323	14,192	5,615	11,003	2,234	1,527	19,264
(i).....	2.18	0.958	0.297	13.05	5.16	10.12	2.05	1.40	17.72
(ii).....	3.35	1.47	0.456	20.07	7.94	15.56	3.15	2.15	27.24
Sweden.....		2,445	800	1,879				183	3,972
(i).....		16.21	5.30	12.45				1.21	26.33
(ii).....		16.21	5.30	12.45				1.21	26.33
Switzerland.....	1,922	33	400	686				345	114
(i).....	41.84	0.718	8.70	14.93				7.51	2.48
(ii).....	41.84	0.718	8.70	14.93				7.51	2.48

Source: O.E.C.D., Quarterly Oil Statistics, 2d quarter 1978 (France, 1978), passim.

Appendix 2

TRADE OF THE UNITED STATES, SELECTED EUROPEAN STATES AND JAPAN WITH IRAN AND ARAB OIL-PRODUCING STATES, 1977

[In millions of U.S. dollars]

Countries	World			Algeria			Iran			Iraq			Kuwait		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
United States	120,166	156,708	-36,542	527.0	3,228	-2,701.0	2,731	3,032	-301.0	211	420	-209	548	239	309.0
Japan	81,125	71,325	9,800	473.0	24	449.0	1,942	4,269	-2,327.0	878	741	137	942	2,502	-1,560
United Kingdom	58,169	64,557	-6,388	173.0	87	86.0	1,142	1,370	-228.0	292	581	-289	425	946	-521.0
Belgium	37,511	40,265	-2,754	228.0	99	129.0	242	748	-506.0	124	222	-98	76	126	-50.0
Denmark	10,064	13,237	-3,173	38.0	4	34.0	90	300	-210.0	42	42	0	34	37	-3.0
France	64,997	70,492	-5,495	1,799.0	789	1,010.0	682	1,098	-416.0	444	1,831	-1,387	160	353	-193.0
Germany	111,017	101,419	9,598	1,079.0	1,175	96.0	2,741	1,868	873.0	778	126	652	371	159	212.0
Italy	45,049	47,566	-2,517	654.0	196	458.0	905	1,492	-587.0	228	1,391	-1,163	260	702	-442.0
Netherlands	43,741	46,574	-2,833	7	7	0	7	86.6	-86.6	201	201	0	34	34	0
Sweden	19,043	20,114	-1,071	99.0	93	6.0	198	201	-3.0	78	78	0	62	3	34.0
Switzerland	17,603	17,929	-326	143.0	50	93.0	364	99	265.0	78	78	0	62	3	59.0

Countries	Libya			Qatar			Saudi Arabia			United Arab Emirates			Total balance, Arab States and Iran
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	
United States	314	4,021	-3,707	113	315.0	-202.0	3,575	7,012	-3,437	515	1,810	-1,295	-11,543
Japan	279	113	166	277	199.0	78.0	2,364	8,570	-6,206	853	2,769	-1,916	-11,179
United Kingdom	303	246	57	156	174.0	-18.0	1,010	1,904	-894	793	455	338	-1,469
Belgium	231	19	212	8	154.0	-146.0	350	1,529	-1,179	62	223	-161	-1,799
Denmark	19	9	10	7	7.0	0	77	100	-23	22	22	0	-121
France	398	309	89	61	316.0	-255.0	619	4,315	-3,696	184	1,190	-1,006	-5,854
Germany	650	2,162	-1,512	90	103.0	-13.0	1,713	1,924	-211	367	913	-546	-449
Italy	1216	1,506	-290	42	102.0	-60.0	1,076	2,908	-1,832	195	251	-56	-3,972
Netherlands					24.3	-24.3		294	-294				-404.2
Sweden	23	40	-17	7	97.0	-90.0	173	393	-220	30	194	-164	-253
Switzerland	80	38	42	22	3.0	19.0	331	20	311	94	208	-114	753

Source: Direction of Trade, Annual 1971-77 (International Monetary Fund, General Statistics Division).

THE IMPACT OF THE IRANIAN REVOLUTION ON THE SOVIET UNION

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Congressional Research Service

INTRODUCTION

Iran has been and will continue to be an important factor in Soviet foreign policy. The country shares a 1,200-mile border with the Soviet Union on the latter's southern periphery which has caused Russian and Soviet rulers to be sensitive to the policies of those in control of Iran. Iran is also the only country situated between the USSR and the Persian Gulf making it even more important to the USSR which has historically sought warm-water outlets to the sea. In addition, its oil and gas deposits have become an important element in its relations with the Soviet Union both in the importance of this wealth to the West and as a source of energy to the Soviet Union and Eastern Europe.¹ Finally, Iran, particularly under the rule of Shah Mohammad Pahlavi, represented a strong American presence in the Persian Gulf area and thus played a significant role in U.S.-Soviet relations.

Before one can assess the potential impact of the Iranian revolution on the Soviet Union and Eastern Europe and its impact on the U.S.-Soviet relationship, it is necessary to determine the nature of relations between the USSR and Iran prior to the Shah's fall from power.

SOVIET-IRANIAN RELATIONS, 1917-1963: A PERIOD OF TENSION

During the closing years of the 19th century and the early years of the 20th, Russia came to be the dominant force in its relations with Persia. The weak Persian government had to answer to the Tsar in most of its activities, and the Russian government had a virtual sphere of influence in northern Iran.

The Bolshevik Revolution of 1917 caused drastic changes in Russian foreign policy. Lenin and the other leaders of the new government, repudiated Russia's imperialistic policies in Persia by cancelling the agreements which had been imposed by the Tsars and by withdrawing Russian troops from Persian soil.^{1a} However, a new element came to fore in Soviet foreign policy after the revolution—ideology. Persia was now seen as a key to a general Marxist revolution in Asia.² Soviet policy towards Persia (Iran) from 1917 to Stalin's death in 1953 can be characterized as a series of attempts to gain control of Iran through

¹ For this study, Eastern Europe will consist of the European representatives of the Council for Economic Mutual Assistance (CEMA), i.e. Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania.

^{1a} Kazemzadeh, Firuz. *Russia and the Middle East*. In Lederer, Ivo J. *Russian Foreign Policy in Historical Perspective*. New Haven. Yale University Press. 1962, pp. 519-521.

² *Ibid.*

the use of local Communist groups, at times with the backing of Soviet military force.

In 1920 the new Soviet government attempted to establish a pro-Soviet republic in the Persian province of Gilan on the Caspian Sea coast. The republic soon collapsed, however, after disputes erupted between the local leader of the movement, Kuchek Khan, and his Soviet supporters. In addition Soviet preoccupation with its own civil war prevented it from giving more support to the Gilan republic. The province was reoccupied by the forces of a stronger Persian government under the leadership of Reza Shah in 1921.³

An important result of this early period in Soviet-Iranian relations was a treaty signed by the two countries in 1921. Article VI states that if a third country occupies any part of Persia (Iran) so as to pose a threat to Russia (USSR) then—

... Russia shall have the right to advance her troops into the Persian interior for the purpose of carrying out the military operations necessary for its defense.⁴

The Soviet Union apparently believes this treaty to be in force today.⁵

Soviet-Iranian relations in the period 1922–1939 were tense because of underlying political differences, but they remained diplomatically correct with little Soviet interference in Iran. This situation changed during World War II when Iran became an important route for the allies to deliver supplies to the Soviet Union. Soviet and British forces occupied Iran in order to prevent it from coming under German control. The occupation took place under an agreement reached by Britain, the USSR and the United States and called for the occupying forces to be withdrawn after the termination of the war. Great Britain withdrew her forces on schedule in March 1946, but Stalin's forces remained. Both Great Britain and the United States protested to the Soviet Union, and the Iranian government complained to the U.N. Security Council.⁶

In December 1945 the Soviet Union took advantage of its occupation of northern Iran to aid in the establishment of pro-Soviet republics in the Iranian provinces of Azerbaijan and Kurdistan. In addition, Stalin called for the establishment of a joint Soviet-Iranian company to control Iranian oil production. Under the arrangement the USSR was to receive a 51 percent share of the company and the Iranian government 49 percent.⁷

After much pressure from the United States and Great Britain, the Soviets agreed to withdraw their forces if the Iranian government agreed to the joint company proposal. Iran's government agreed and the troops were withdrawn, but the Iranian parliament later refused to ratify the oil agreement. In addition, government forces were able to crush the pro-Moscow governments in Azerbaijan and Kurdistan, thus curtailing Soviet influence in Iran for the time being.

³ Gupta, Bhabani Sen. *Soviet-Asian Relations in the 1970's and Beyond: An Inter-perceptual Study*. New York, Praeger, 1976, p. 174.

⁴ Spector, Ivor. *The Soviet Union and the Muslim World, 1917–1956*. Mimeographed copy. Distributed by the University of Washington Press, 1956, p. 51.

⁵ See, for example, the Radio Moscow commentary on the treaty in FBIS, Daily report, Soviet Union, vol. 3, March 5, 1979, p. F3.

⁶ Ulam, Adam. *Expansion and Coextensive: Soviet Foreign Policy, 1917–1973*. Washington, Praeger Publishers, 1974, pp. 426–427.

⁷ *Ibid.*

Soviet influence in Iran reemerged during Prime Minister Mossadegh's tenure (1951-53). During this period the pro-Moscow Tudeh Party was a key element in the organization of left-wing support for Mossadegh. So strong was the Tudeh's role that some observers have claimed that if Mossadegh had succeeded in overthrowing the Shah, the Tudeh Party would have been the leading political faction in the government.⁸ When the Shah returned, it marked the end of Soviet influence and the emergence of a pro-American leader. Iran's pro-Western bend led it to join the Baghdad Pact (later CENTO) in 1955 and to enter into a bi-lateral defense pact with the United States in 1959.⁹ As a result, relations between Iran and the Soviet Union were tense until the early 1960's.

IRANIAN-SOVIET RELATIONS, 1963-1978: THE FORGING OF STRONG ECONOMIC RELATIONS

Beginning in 1963 Soviet-Iranian relations changed from those of the earlier periods, and this change lasted until 1978 when internal troubles limited the Shah's ability to conduct his foreign policy. Several key factors came together which led to the change:

(1) In the earlier 1960's tension in the relations between the Soviet Union and China culminated in a major split between the two Communist powers. Soviet leaders became concerned about the potential military threat from China and, to help prepare themselves for such a threat, they sought to ease the tension in their relations with other nations including Iran.¹⁰

(2) The Shah had become somewhat disenchanted with U.S. political and military support and wanted to decrease his dependence on America for aid. At the same time he recognized that the Soviet threat had diminished because of China and because of the atmosphere of peaceful coexistence which characterized Soviet-U.S. relations in the mid-1960's. Here was an opportunity for him to mend relations with the USSR.¹¹

(3) The Shah had set out on his "white revolution" for the modernization of Iran. To accomplish such a feat required a great deal of foreign industrial equipment, and the Soviet Union proved to be a ready source of such items. At the same time, Khrushchev, and the leaders who succeeded him, strove for closer relations with developing countries through economic aid and trade no matter what the political inclinations of the countries were. This policy contrasted sharply with that of Stalin who considered any country that did not have a Communist government to be anti-Soviet. The Shah's Iran was one of those countries that became part of the Soviet Union's new Third World policy.¹²

⁸ For example, Lenczowski, George. *Soviet Advances in the Middle East*. Washington American Enterprise Institute for Public Policy Research. 1971, p. 29.

⁹ Chubin, Shahram and Zabih, Sepehr. *The Foreign Relations of Iran: A Developing State in a Zone of Great-Power Conflict*. Berkeley. University of California Press. 1974. p. 52-61.

¹⁰ Chubin and Zabih, pp. 64-69.

¹¹ *Ibid.*

¹² U.S. Congress. House. Committee on International Relations. *The Soviet Union and the Third World: A Watershed in Great Power Policy?* prepared by Joseph G. Whelan and William B. Inglee. Congressional Research Service. Library of Congress. Washington. U.S. Government Printing Office. 1977, p. 71.

(4) A final factor was the Soviet-East European energy problem. The Soviet Union has been faced with a situation in which its fuel sources in the more populous regions has been depleted. Consequently, it has had to exploit fuel sources in the remote areas of the country, i.e., Siberia, which involves a considerable expense in locating the fuel and transporting it to the consuming regions. Iran's location on the southern periphery made it a convenient source of gas for the Caucasus region of the Soviet Union. In addition, the East European countries of CEMA have been heavily dependent on Soviet fuel supplies. The USSR encouraged them to seek other sources of energy, and Iran became one of those sources.¹³

From 1963 to 1978 Soviet-Iranian relations were based primarily on economic needs with the two countries reaching agreements under which the USSR supplied industrial plant and equipment for Iranian development projects and received supplies of natural gas in return. The East European nations also became extensively involved in trade with Iran as recipients of oil and gas.

Such arrangements provided several advantages to the Soviets. First, trade under these agreements was basically on a barter basis. Therefore, the USSR did not have to use hard (i.e. convertible) currency to pay for the gas it received and was thus able to use these funds for the purchase of Western technology. Secondly, most of the gas from Iran was used in the Soviet Union's southern republics of Azerbaijan, Georgia and Armenia whose indigenous resources had been depleted. Piping gas from Iran proved to be much cheaper than transporting it from West Siberia.¹⁴

In addition, the Soviets gave the Iranians supplies of their machinery and equipment for the gas. Soviet industrial machinery and equipment, due to its relatively low quality, has not proved to be very competitive in world markets in which it has to compete with such products from the developed West. Iran became, therefore, a good market for these products.

Finally, Eastern Europe's dependence on Soviet supplies of fuel proved to be financially disadvantageous to the USSR. This fuel has become a good export item to Western countries, for the Soviets can receive world prices and hard currency for their oil and gas exports. On the other hand, CEMA countries have been paying lower-than-world prices for imported Soviet energy. Therefore, the longer these countries remained tied to Soviet sources, the more the USSR lost out on better prices for its oil and gas. In addition, the long-term prospects for the USSR being able to supply Eastern Europe's fuel needs are dim. According to a study by the Central Intelligence Agency, before 1985 the Soviet Union would be unable to fill its own domestic demand for oil, not to mention the members of CEMA.¹⁵

The first step in improved Soviet-Iranian economic relations was a June 1963 economic and technical agreement which provided for several development projects and Soviet credits of up to 35 million rubles

¹³ The Wall Street Journal, February 27, 1979.

¹⁴ Kilnghoffer, Arthur Jay. *The Soviet Union and International Oil Politics*. New York. Columbia University Press, 1977. p. 53.

¹⁵ Central Intelligence Agency. *The International Energy Situation: Outlook to 1985*. Washington. April 1977. p. 13. There have been disagreements with these findings, for example, CIA Too Gloomy Over Russian Oil Prospects. London Times, July 27, 1977. p. 23.

for Iran.¹⁶ The first step in Soviet-Iranian energy trade was taken in 1965 when, as a result of a visit by the Shah to the Soviet Union, an agreement was signed between the two countries whereby the Soviet Union was to build Iran's first steel mill in Isfahan and was to receive natural gas in exchange. The gas was to be piped through a line, the Iranian Gas Trunkline (IGAT-I), which was to be constructed from Iran's southwestern fields to the Soviet border at Astara. The construction of the line was a joint project of the two countries with the USSR providing financial assistance. This agreement represented the first time the Soviet Union has purchased Persian Gulf energy and also the beginning of Soviet financial involvement in Iran's modernization program.¹⁷ The pipeline commenced operation in October 1970 and was inaugurated during a ceremony attended by the Shah and Soviet President Podgorny. Initial agreements called for the annual flow of gas to be around ten billion cubic meters a year until 1974. Further agreements were signed which stipulated that the flow was to increase to double that amount between 1974 and 1985.¹⁸

A second major Soviet-Iranian gas project was agreed to in 1975 when the two countries joined with West Germany and signed a contract under which the USSR was to serve as a middleman in Iran's sale of natural gas to Western Europe. The gas was to be delivered through a second Iranian Gas Trunkline (IGAT-II) from the Iranian fields to the Soviet border at Astara. The line was to be constructed by Western firms with financial aid from the Soviet Union. The Soviets were to use the natural gas from Iran for their own consumption, mainly in the southern republics, but were to sell West Germany an equal amount of gas from their own fields to be distributed to various states in Western Europe. The exact amount of gas to be sold to the West Europeans was to be the total shipped from Iran to the USSR minus approximately 2 billion cubic meters of gas annually which would serve as a transit fee to the Soviet Union for the delivery of the gas to West Germany.¹⁹

The deliveries of the gas were to begin in 1981 with the Soviet Union eventually receiving 13.4 billion cubic meters per year. Later, Czechoslovakia joined the agreement and she was to receive 3.6 billion cubic meters of gas per year from Iran via the Soviet Union. The agreement called for gas to be delivered until 2001, a further indication of the long-term nature of Soviet-Iranian trade relations.²⁰

Iran eventually became the Soviet Union's number one foreign supplier of natural gas with Afghanistan far behind as its only other foreign supplier. In the period 1970-75 Iran provided the USSR with 41.15 billion cubic meters of gas while Afghanistan supplied 16.39 bcm.²¹

Moscow invested in many major projects of Iran's modernization program. These investments helped to defray the expenses of the natural gas imports and also gave the Soviet Union some influence in

¹⁶ Yodfat, A. and Abr, M. In the Direction of the Persian Gulf. London. Frank Gass and Company Limited, 1977, p. 56.

¹⁷ Ibid., p. 11 and Moghtader, Hushing. Iran's Foreign Economic Relations (II). *Aus-senpolitik*, v. 29, No. 2, 1978, p. 213.

¹⁸ Klinghoffer, p. 131.

¹⁹ National Foreign Assessment Center. USSR: Development of the Gas Industry. Washington. July, 1978, p. 55.

²⁰ Ibid., p. 78.

²¹ CIA gas study.

the Iranian economy. The Isfahan steel mill plant, built by the Soviet Union with an original capacity of 600,000 tons of steel per year, was joined by other Soviet-built facilities including a machine-tool plant in Arak, Iran and other facilities such as railway lines, coal mines and training centers.²² Under a February 1975 agreement, the Soviet Union was to expand the capacity of the Isfahan steel mill to 8 million tons per year and to expand the capacity of the machine-tool plant in Arak. In addition, the Soviets were to aid in the construction of an electric power station and grain silos. In return, Iran granted the Soviet Union credits to be applied to the building of a paper-making complex some products of which were to be supplied to Iran as payment for the credits.²³

Economic relations between the Soviet Union and Iran grew substantially between 1963 and the fall of the Shah as the following statistics show:²⁴

	<i>Total trade</i>	<i>Millions</i>
1963.....		\$30. 0
1970.....		256. 9
1971.....		266. 0
1972.....		277. 7
1973.....		373. 9
1974.....		654. 4
1975.....		703. 4
1976.....		591. 3
1977.....		962. 2

From 1963 to 1977 total trade between the two states increased some 3000 percent. In 1977 Iran ranked second as an importer of Soviet machinery and equipment among the non-socialist countries.²⁵ Soviet participation in Iran's development program accounted for 90 percent of Iran's coal, iron ore and cast iron output and 70 percent of its steel output in 1976.²⁶

The East European countries had also established good economic relations with Iran. Czechoslovakia participated in the Soviet-Iranian-West German gas agreement. In 1969 it signed a 12-year contract with Iran for the delivery of industrial plant and equipment valued at 200 million dollars. The credit was to be paid with the delivery of Iranian oil at a rate of 20 million tons per year over a 10-year period.²⁷ Czechoslovakia's dependence on oil from Iran grew so rapidly that one commentator for the Czech state radio said that it was expected that his country would receive at least $\frac{1}{3}$ of its imported oil from Iran by the 1980's.²⁸ Since Czechoslovakia lacks substantial indigenous fuel resources, that figure is very significant.

Other East European countries also saw the potential of Iran as a long-term energy source. Poland and Hungary were to participate in an agreement with Czechoslovakia whereby these three countries were to receive oil from Iran that was delivered via the Adria pipe-

²² Moghtader, p. 214.

²³ *Ibid.*

²⁴ National Foreign Assessment Center. Communist Aid to the Less-Developed Countries. 1977. Central Intelligence Agency. Washington. November, 1978, pp. 8-9.

²⁵ Vneshnaya Torgovlya SSSR v. 1977 g. (Foreign Trade of the USSR in 1977) Ministry of Foreign Trade. 1978, p. 45.

²⁶ National Foreign Assessment Center. Communist Aid to the Less-Developed Countries, p. 31.

²⁷ Radio Free Europe. Situation Report. Czechoslovakia. February 21, 1979, p. 5.

²⁸ *Ibid.*

line in Yugoslavia. These oil deliveries were to begin in September 1978 but did not because of the turmoil in Iran.²⁹ Bulgaria, East Germany, and Romania also had oil agreements with Iran. Romania was the largest purchaser of oil from Iran of all the East European states.³⁰

POLITICAL RELATIONS

Iran remained pro-Western politically and militarily under the Shah despite its relatively beneficial economic relations with the Soviet Union and Eastern Europe. The United States was the Shah's primary supplier of military materiel which was often a point of friction between Iran and the USSR.³¹ U.S. intelligence sites near Iran's border with the Soviet Union, constructed to monitor Soviet missile tests, were also a constant reminder of the American presence in that area. But Iran and the Soviet Union had shown the desire and the ability to solve mutual problems with little turbulence.

Beginning in the 1960's and through the 1970's, the international political situation was conducive to such a relaxation of tensions between these two neighbors. The Soviet Union's relationship with China had developed into a full-blown split. The USSR was, therefore, inclined to seek secure ties with her other neighbors including Iran. The United States was deeply involved in Vietnam, and the Shah sensed a tendency on the part of American leaders to reassess their commitments in other parts of the world. He, therefore, sought greater security in his relations with the Soviet Union.³² It can probably be assumed, also, that Soviet leaders realized by 1963 that the Shah was in full control of Iran and that any dreams they had of establishing a Communist state in Iran would have to be foregone for the time being. They concluded, therefore, that it was better to come to an understanding with the Shah and secure their border with Iran.

Observers have pointed to the period of late 1962-early 1963 as the beginning of this relaxation of tensions. The Shah informed the Soviets that he would not allow Iran to become a location for American missile bases. On a number of occasions the Shah visited the Soviet Union and Soviet leaders visited Iran at which times economic agreements such as those described above were signed. In 1976 a Soviet pilot defected to Iran in a helicopter. Despite the pleas of many, including the U.N. High Commissioner on Refugees to grant the pilot asylum, the Shah's government returned him to the Soviet Union citing the extradition treaty it had with the USSR.³³ In a more recent case, the Premier of the People's Republic of China, Hua Guofeng paid a visit to Iran. Most of the official Soviet criticism of the trip was directed at the Chinese leader while little antagonism was directed at his Iranian hosts.³⁴

Iran's political relations with the governments of Eastern Europe were generally very good as represented by state visits of the Shah to

²⁹ Andelman, David. *East-Bloc Seeks New Oil Sources*. New York Times, February 20, 1979.

³⁰ National Foreign Assessment Center, p. 31.

³¹ See, for example, the commentary by Radio Moscow, U.S. Arms Sales Stealing Iran's Riches in FBIS, Daily Report, vol. 3, December 6, 1977, p. F11.

³² Chubin and Zabih, p. 60.

³³ Facts on File, 1976, p. 854.

³⁴ See, for example, the report by Moscow radio on the visit as given in FBIS, Daily Report, Soviet Union, vol. 3, September 1, 1978, pp. F8-F9.

these countries and return visits by their leaders to Iran. For example, in 1977 the Shah paid a visit to Czechoslovakia during which he received Czechoslovakia's highest award, the Order of the White Lion, First-Class with Chain, from Czechoslovak President and Communist Party General Secretary Gustav Husak. In return, the Shah gave the Czechoslovak Communist leader Iran's highest commendation.³⁵ On the same trip the Shah visited Poland to meet with Polish Communist Party First Secretary Eduard Gierek. He was greeted warmly in Poland, and the Polish press noted upon his arrival, that "Iran and Poland hold converging points of view on most international problems." Gierek had visited Iran in January 1977.³⁶ In 1970 the Shah visited Romania as the guest of Communist Party General Secretary Ceausescu who had been in Iran the previous year. The Iranian government had discovered Romanian spies in Iran in late 1969; yet, this problem did not deter the two countries from carrying on diplomatic relations as symbolized by the Shah's visit to Romania.³⁷

The Shah's last trip to Eastern Europe came in June 1978 when he received the red-carpet treatment in Budapest which included his installation as a doctor of law at the Budapest University. In all the Shah visited each Eastern European nation at least once and Poland and Bulgaria three times during his reign. Thus, the detente that characterized the USSR's relations with Iran was also evident in the ties between its East European allies and Iran. The basis of these good relations was the desire of these countries for Iranian gas and oil.³⁸

SUMMARY

From the above the following conclusions can be drawn :

(1) The early period of Soviet-Iranian relations was characterized by Soviet attempts to interfere in the internal affairs of Iran with the aim of attaining control through the use of local Communist Parties and, at times, with the support of Soviet armed forces. But the Soviet Union seemed to have abandoned these attempts after the death of Stalin in 1953 and beginning in 1963 began a relationship with Iran based on economic realities. Although the Shah was politically and militarily tied to the United States, the Soviet leadership decided to take advantage of Iran's need for machinery and equipment for the Shah's modernization program. For these items the USSR received natural gas imports for its southern republics. These ties were economically beneficial to the Soviet Union and, at the same time, the Soviet leaders probably saw economic relations as a means of luring Iran away from the West, or at least decreasing Iranian dependence on the United States. Since the Tudeh Party had been outlawed as of 1949, economic relations was one feasible way of increasing Moscow's presence in Iran.

(2) The agreements between the two countries were of a long-term nature indicating the confidence of the Soviet Union in Iran as a long-term source of natural gas.

³⁵ Radio Free Europe, p. 4.

³⁶ The Times (London), August 23, 1977.

³⁷ The Times (London), November 11, 1969.

³⁸ Dobbs, Michael. Eastern Europe Uneasy after the Fall of the Shah. Washington Post, February 8, 1979.

(3) The countries of Eastern Europe had also reached some long-term agreements with Tehran in which oil and gas played important roles, thus, helping these countries of CEMA to decrease their dependence on Soviet sources of those fuels.

(4) In the political and military sphere, Iran remained pro-Western in its policies. Those policies plus the Shah's desire to be the "policeman of the Persian Gulf" represented a strong American presence on the southern border of the Soviet Union, thus preventing Moscow from establishing its dominance in the Persian Gulf region.

It will be these political, military and economic conclusions that one will have to keep in mind when assessing the current and future impact of the Iranian revolution on the Soviet Union.

THE IMMEDIATE IMPACT OF THE IRANIAN REVOLUTION ON THE SOVIET UNION

The Soviet leadership approached the events surrounding the Iranian revolution with great caution and great interest. At the height of the Shah's difficulties in 1978, the only official statement was made by President Leonid Brezhnev in a reply to a question put to him by a Pravda correspondent during an "interview." The Soviet leader said:

The Soviet Union, which maintains traditional, neighborly relations with Iran, resolutely states that it is against foreign interference in Iran's internal affairs by anyone in any form and under any pretext.

The events taking place there constitute a purely internal affair and the questions involved in them should be decided by Iranians themselves.³⁹

But the tone of this statement changed when the Shah seemed destined to fall from power. In a broadcast to Iran in Persian, Soviet radio made the following comment at the time of the Shah's departure from Iran in January 1979:

The victory is the culmination of a year of struggle by the Iranian people against the despotic and corrupt regime which had close ties with U.S. imperialism and against the enslaving chains with which the United States tied Iran hand and foot.⁴⁰

When the government of Premier Bakhtiar fell and was replaced by that of Bazargan, with the support of the Ayatollah Khomeini, President Brezhnev made the following statement at the time of his reelection to the USSR Supreme Soviet:

Like all sincere champions of peace, progress and independence of people, we welcome the victory of this (Iranian) revolution which put an end to a despotic regime of oppression that had turned the country into an object of exploitation and a base of support for foreign imperialism.⁴¹

Clearly, Soviet comments on Iranian events had turned from ones of caution to anti-American statements and words of support for the new regime.

The most immediate impact from the events surrounding the political crisis in Iran came from the cutoff of gas supplies to the Soviet Caucasian republics of Armenia, Azerbaijan and Georgia. It has been

³⁹ Pravda, November 19, 1978, p. 1 as reported in FBIS, Daily Report, Soviet Union, vol. 3, November 20, 1978, p. F1.

⁴⁰ Savchenko, Igor. Commentary. Moscow radio in Persian to Iran, January 17, 1979, in FBIS, Daily Report, Soviet Union, vol. 3, January 18, 1979, in FBIS, Daily Report, Soviet Union, vol. 3, January 18, 1979, p. 10.

⁴¹ FBIS, Daily Report, Soviet Union, vol. 3, March 5, 1979, p. R9.

estimated that these gas flows accounted for approximately 45 percent of the entire gas supplies for this region.⁴² As a result industry in this area virtually shutdown and homes went without heat during a rather severe winter. The losses for these republics due to the fuel shortage was estimated at approximately 1 million dollars a day.⁴³

A first deputy chief of the Azerbaijan state planning commission, Farida Rustambekova, stated in an interview that some electric power plants in her region were forced to convert from gas to oil and that gas reserves had to be tapped to alleviate the gas problems in Armenia.⁴⁴

In Armenia, a commentator for the local newspaper *Kommunist* stated that it was no secret that the stoppage of Iranian gas was responsible for heating problems in his region. He added that, even though domestic gas supplies were still flowing from Azerbaijan, they could only fulfill, at best, one-half the gas needs of the area.⁴⁵ This statement underscores the importance of Iran's natural gas to the Caucasian republics.

In April 1979 Iran reinstated gas supplies to the Caucasus through IGAT-I but at levels below those attained under the Shah.⁴⁶ Gas supplies from the southern fields depend on the production of oil of which gas is a byproduct. Since, the new Iranian government has deemphasized oil exports in its plans for the economy, there is some doubt that pre-revolutionary gas flows will be reinstated. The Soviets were also counting on gas supplies from IGAT-II, the product of the trilateral agreement. Eventually the Caucasian republics were to receive 17 billion cubic meters of gas from that line. The pipeline was to be finished in 1981, but work on it was halted at the time of the strike and the present Iranian government is reassessing the project with the possibility of dropping it all together.⁴⁷

The countries of Eastern Europe also suffered as a result of the stoppage of supplies from Iran. A commentator for Radio Free Europe, speaking of the effects of the situation on Czechoslovakia, put it this way:

"... one must note that the fall of the Shah of Iran has had rather serious consequences for the socialist commonwealth. It may be possible to overcome the short-term effects of the Iranian upheaval by emergency measures and stopgaps, but its significance for the long-term economic prosperity of Czechoslovakia and the whole Eastern block is considerable."⁴⁸ Iran had been begged as a long-term supplier of oil and gas by these countries.

As part of the short-term measures to relieve the problem, most of the East European countries were forced to turn to the Soviet Union to secure additional oil supplies and/or to seek fuel from other OPEC countries. Hungary, for example, asked for a 12 percent increase in oil supplies from the USSR above the amount planned for 1978.⁴⁹

⁴² This information was provided by Dmitri Simes in an interview. *Time*, March 12, 1979. January 24, 1979.

⁴³ Whitney, Craig. Iran's Gas Cutoff Disrupts Soviet Border Republics. *New York Times*.

⁴⁴ *Ibid.*

⁴⁵ Tomchin, I. Heat for Our Homes. *Kommunist*, January 13, 1979, p. 2. translated in *Current Digest of the Soviet Press*, vol. 31, No. 5, p. 21.

⁴⁶ Randal, Jonathan C. Iran Resumes Natural Gas Flow Through Pipeline to the Soviet Union. *Washington Post*, April 5, 1979.

⁴⁷ Middle East Newsletter, April 9-22, 1979, p. 4.

⁴⁸ Radio Free Europe Situation Report. Czechoslovakia. March 29, 1979.

⁴⁹ Andelman.

Czechoslovakia was reportedly seeking out Libya as an alternative source.⁵⁰

A second concern of the Soviet leadership is the potential effects of the revolution on the Soviet Muslims. There are many Shiite Muslims living in Soviet Azerbaijan and the Soviet leaders fear probably that the evangelism of the Iranian revolution will cause these and other Muslims to demand more autonomy from the central government in Moscow. In addition, there is probably also a concern that the separatist aspirations of Azerbaijanis, Turkmen, and, Kurds living in Iran would spill over the borders to the kinsmen living in the Soviet Union.⁵¹

A SOVIET ROLE IN THE REVOLUTION?

While it is true that Soviet involvement in the Third World has increased in the last decade, it is a mistake to immediately conclude that internal difficulties in any developing country are the direct result of Soviet meddling. The Iranian Revolution is a case in point. It seems highly unlikely that the Soviet Union played a direct role in the Shah's overthrow for several reasons:

(1) The Soviet Union would have had little to gain from the removal of the Shah. Its relations with him were quite good in the last decade. Although the USSR could benefit from the removal of the U.S. presence on its southern border, there would be no guarantee that what would replace it would not be worse.

(2) Of the four segments of Iranian society that were part of the opposition to the Shah—the Moslems; the merchant class; the intelligentsia; and the leftists—only the last group could be considered close politically to the Soviet Union and, therefore, likely to form a government sympathetic to the USSR.

Therefore, the Soviet Union would have risked much if it had attempted to have the Shah replaced.

Now that the Shah is gone, however, it is apparent that the Soviet leaders have been trying to secure the goodwill of the new regime at the expense of the United States. It was one of the first states to recognize the provisional government under Bazargan, and it had used radio broadcasts to Iran to spread anti-American propaganda. It can be expected that along with Iran's goodwill, the USSR will try to secure gas flows at pre-revolutionary levels as well as the reinstatement other agreements signed before the Shah's demise.

POTENTIAL IMPACT OF THE IRANIAN REVOLUTION ON THE SOVIET UNION

Given the current instability of the situation in Iran, one way of assessing what the future might hold for its relations with the USSR is to present alternative futures for Iran and to determine what the impact each would have on the Soviet Union. We shall consider the three following cases: continued political and economic instability in Iran; the emergence of a stable Islamic republic; and the emergence of a left-wing regime.

⁵⁰ Bourne, Eric. Fuel-short East Bloc Stung by Iran. *Christian Science Monitor*, February 22, 1979, p. 4.

⁵¹ Rand, Robert. The USSR, Iran, and the Need to Reconcile Communism with Islam. *Radio Liberty Research*. RL126/79. April 19, 1979, p. 2.

ALTERNATIVE I: CONTINUED POLITICAL AND ECONOMIC INSTABILITY
IN IRAN

A regime of this type would breed a great deal of uncertainty on the part of the Soviet Union and its allies and for the Soviet relationship with the United States.

Economic impact

The economic impact could be felt by the Soviet Union in several ways. Since Iran would be unable to resume its full production of oil and gas exports at levels comparable to those prior to the revolution, the Soviet Union could expect a curtailment of imports for the duration of the crisis. The loss would be felt in the decrease in deliveries through the IGAT-I line and in the delay or cancellation of the IGAT-II line and would particularly affect the supply of gas to the Soviet Republics of Azerbaijan, Armenia, and Georgia.

Soviet solutions would depend on the length of the crisis. In the short-run the Soviet leadership would have to be concerned with maintaining immediate supplies of heating fuel to those areas affected. Such supplies could come from Soviet domestic stores of natural gas at its fields in Siberia but, given the distance from Siberia to the Caucasus, such a solution would be expensive. In addition it would cut into those gas supplies used by the Soviet Union for export to the West which could eventually add to its already heavy hard currency debt.

In the long-run the Soviets might have to consider converting heating sources in the southern republics from gas to one or more alternative sources of energy which would require significant time and expense.

The Soviet Union could gain from the fuel cutback, too. It is a net exporter of gas and oil, and therefore, could expect to receive higher prices for its fuel exports given the higher world prices resulting from the cutbacks in world supplies. Whether or not the increased revenues would offset the adjustment costs of the Soviets for their loss of imports would depend on the magnitude of such costs and the size of the increase in world oil and gas prices.

A cut in Iranian gas and oil exports would also affect Eastern Europe since all of these countries had oil and/or gas agreements of some kind with Iran. It would be necessary for them to seek other sources of fuel and, except for Romania, none of them have an appreciable indigenous source of oil and/or gas. Poland does have an abundant supply of coal which could help close the fuel gap if she should have to convert to such a source to make-up the loss.

The Soviet Union would be the most logical source of fuel for Eastern Europe since these nations already are highly dependent on it for fuel and strong energy ties already exist. Once again, though, the additional fuel would have to be drawn from Soviet supplies earmarked for export to the West or for domestic consumption and would delay the Soviet Union's plans to have their allies become less dependent on it for energy. In addition, given the increase in world oil prices, the CEMA countries could be expected to pay the Soviet Union higher prices for their supplies. This could cause a drain on their economies at a time when most of them are suffering from economic stagnation.

The countries of Eastern Europe could also turn to other OPEC countries such as Libya, Algeria, and Iraq for oil. They could benefit

if they could secure the type of barter agreements they had with Iran and, thus, be able to get the oil and gas without using hard currency.

While the cutback in fuel imports from Iran would have a great impact on the Soviet economy, the USSR would lose the export market they built in machinery and equipment in Iran. That market was important since they have been unable to sell large amounts of these products outside the Soviet Bloc. Alternative markets in other parts of the Third World might be available but the Soviets could be expected to suffer at least in the short-run.

Political impact

One of the advantages the Soviet Union enjoyed when the Shah was in power was that, even though his regime was pro-Western and held a significant store of American arms, it was stable and the USSR was able to forge cordial relations with the regime. With an unstable government the Soviet Union could be expected to approach its political relations with that country with a degree of uncertainty.

It can be assumed that Moscow would attempt to take advantage of the anti-Americanism of the new regime by maintaining good diplomatic relations and offering economic aid. However, the non-aligned posture of the government would limit, at least in the short-run, the amount of influence the Soviet leadership would be able to wield.

Should the political instability continue in Iran over a long period of time, it is possible that the USSR would seek to take advantage of the discontent among the various Iranian nationalities, particularly those living near the Soviet border, by attempting to establish pro-Soviet states among these people. There is precedent for this in the Gilan and Azerbaijan episodes of the 1920's and 1940's. The Soviets could also seek to use the Tudeh Party to organize a left-wing opposition to the central government as it did in support of Mossadegh. But Soviet decisionmakers would have to take into account the impact such stirrings would have among their own Muslim nationalities near the Iranian border in addition to the reactions from other states in the Persian Gulf and from the United States to such interference.

Military impact

Since such an Iranian government would prevent interference from any outside state, it is doubtful that the Soviet Union would be able to gain militarily from such a situation other than the military advantages lost to the United States which is discussed below.

Impact on U.S.-Soviet relations

Under any of the alternatives presented, the United States would lose its intelligence sites in Iran, and, as long as a non-aligned or pro-Soviet government rules the country, it can be assumed that such facilities will not be re-opened.

These intelligence posts had been used to monitor missile tests at the Soviet test-site at Tyuratam and, accordingly, would have been used to verify Soviet compliance with the SALT II agreement. Therefore, it will be necessary for the United States to change its method of verification of such launches, particularly in light of the SALT agreement.

Verification will undoubtedly be a much-discussed topic during the Senate debate on SALT and the failure of the Senate to ratify the treaty could lead to new tensions in the U.S.-Soviet relationship. The absence of the strong pro-American presence such as that which existed under the Shah in the Persian Gulf (because an unstable Iran could hardly be expected to maintain the leadership of the Gulf area that was assumed by its predecessor) would create a power vacuum in the sense that no one superpower would be dominant in that region. The result of such a vacuum would depend on how the two superpowers would react to it. It had been suggested earlier that, given a long-term, unstable situation in Iran, the Soviets might try to influence some of the minorities in Iran to break away. Such a move could indeed be a point of friction with the United States. However, even if there were no direct interference in Iran by either superpower, a nonaligned Tehran could become a point of competition for influence with offers of economic and military aid pouring in from both sides.

ALTERNATIVE II: THE ESTABLISHMENT OF A STABLE ISLAMIC REPUBLIC IN IRAN

The economic consequences

The economic impact on the Soviet Union of the emergence of a stable Islamic republic in Iran would not differ greatly from that which was outlined under the first alternative. Since such a government would deemphasize the exports of its oil and gas, the Soviet Union and Eastern Europe would probably be unable to attain the levels of imports they enjoyed under the Shah. They would therefore, have to seek other sources for their energy, the same alternatives available to them in the first case.

Even if the Soviet Bloc were able to come to some agreement on energy trade with the new regime in Iran, it would probably have to pay higher prices for this fuel, and since this new regime would seek to rely on trade less than its monarchical predecessor, the Soviets would have to pay in hard currency for the imports rather than through the exchange of industrial goods or other economic aid. In short, Iran would cease to be the convenient source of foreign fuel for the Soviet Bloc that it was under the Shah.

Political consequences

A stable Islamic regime in Iran could present many problems politically for the Soviet leadership. The USSR has among its population a large number of Moslems in its Central Asian republics and in the Azerbaijan Soviet Socialist Republic on the Iranian border. Many of these Moslems are Shiites as are those in Iran. Observers disagree as to the potential influence outside forces could have on the religious sentiments of these people. However, it is known that they are aware of the events that have been taking place in Iran.⁵² An Islamic republic on the Soviet border could stir some feelings of religious independence causing anxiety for Soviet decisionmakers.

⁵² Whitney, Craig. Soviet Azerbaijanis a World Away from Iranian Cousins. New York Times, Feb. 15, 1979, p. A18.

The nationality question is not a new one for Soviet leaders. The Great Russians now barely constitute a majority within the USSR. The Moslem areas are among those with the fastest growing population, and they have by and large maintained their ethnic identity. Therefore, what has happened in Iran can not give the Soviet leaders assurance especially if an Islamic republic became stable and if it began to evangelize.

The Soviet Union would have to take into account the effect of an Islamic movement on other countries bordering it. Pakistan and Afghanistan could be susceptible to ideas coming from Iran leading to a whole belt of instability along the Soviet border.

Since under this alternative the Islamic regime would be non-aligned and would strive to prevent foreign influence, the choices available to the USSR would be limited. Military and economic aid would be rejected. At best the Soviets could try to maintain cordial diplomatic relations with the regime in hopes of taking advantage of the anti-Americanism that might prevail as a legacy of the Shah's rule.

The Soviet Union would also have the possibility of having a voice in the Iranian government in the form of the Tudeh Party. It could be expected that if the Tudeh Party were able to take part in the government, it would support the policies of the Soviet Union. The degree of influence the Soviet Union would have would depend on the strength the Tudeh Party would be able to muster in the country.

Impact on the U.S.-Soviet relationship

As in the first alternative, the Soviet Union would gain from the forced departure of American military influence in Iran, specifically, the closing-down of intelligence bases and the withdrawal of highly-sophisticated American military hardware.

The loss of American intelligence sites could be a mixed blessing for the Russians. Since the Soviet Union has been pushing for a SALT II agreement, and since verification will be an important element when the treaty is up for ratification by the Senate, the loss of the American bases could prove to be more of a problem than an advantage for the USSR.

The Soviet Union would gain from the lost American prestige resulting from the Shah's fall from power. How large this gain would depend on the reactions of other countries in the Persian Gulf and in the Middle East. The Soviet Union might approach such nations as Saudi Arabia to try to lure them away from the support of the United States. If they would accept such proposals, the outcome could result in the greater decrease in the influence of the United States in the region. However, there is also the possibility these countries would look more to the United States as a protector against Soviet encroachment in the Gulf region, thus, reestablishing American presence in the area.

ALTERNATIVE III: THE EMERGENCE OF A PRO-SOVIET OR PRO-CHINESE LEFT-WING REGIME IN IRAN

One of the ramifications of the ideological split between the U.S.S.R. and the People's Republic of China was the break-up into factions of the communist parties along pro-Moscow and pro-Peking lines. Should

a left-wing movement emerge victorious in Iran, the outcome for the Soviet Union would depend a great deal on which faction of that movement was the victor.

The emergence of a pro-Moscow regime

Most of the nations of the Persian Gulf and the rest of the Middle East have been traditionally anti-communist in part because of the atheistic bias of communist ideology which clashes with the Islamic beliefs of the region's inhabitants. Therefore, the Soviet Union has never been able to establish a long-running ideologically compatible regime in any of these states. Iraq has been an ally in the Persian Gulf and Libya in North Africa. But the rulers of these countries have frequently persecuted members of the indigenous communist parties, thus, showing their disdain for the Marxist movement. Soviet ties with these countries have been based on common national interests as opposed to ideological compatibility.

The emergence of a left-wing pro-Moscow regime in Iran could change the focus of Soviet foreign policy in the Persian Gulf and the Middle East to give the U.S.S.R. a greater stake in the area than it has had since the Soviet revolution in 1917. For the first time, there would be an ideologically compatible government that could affect the way the Soviet Union treats Iran and other nations of the Persian Gulf and the Middle East and the way these countries would react to the U.S.S.R. Even more importantly, it could significantly affect the U.S.-Soviet balance in these areas for Moscow could gain military, political and economic advantages from such a government.

Economic benefits

Assuming the new government in Iran would be able to gain enough control over the economy to reestablish oil and gas production and to reinstitute oil and gas exports, the Soviet Union and Eastern Europe could gain back at least some, if not all, of the Iranian fuel imports they lost during the revolution. Depending on the level at which Iranian gas and oil exports can be resumed, these countries could even attain higher import levels since they would probably be considered preferred customers by an Iranian government that was sympathetic to their policies. Furthermore, the U.S.S.R. and Eastern Europe might be able to reach agreements with Iran whereby they could exchange products rather than cash for their imports which would save them the need to use hard currency.

Finally, should the new Iranian government attempt to restart the modernization program, the Soviets and the East Europeans could become important partners in that process since the ideological bent of the regime would essentially eliminate Western nations from taking part.

Military impact

Under the Shah's rule, Soviet military influence in Iran was limited. Tehran bought approximately 100 million dollars worth of Soviet military hardware in 1966-67, but the sophistication of the weaponry did not approach that of the hardware supplied by the United States.⁵³

⁵³ Yodfat and Abir, p. 57.

It has also been suggested that under the first two alternatives, the nonalignment of the regimes would exclude both Moscow and Washington from making inroads militarily in that country.

The situation could change dramatically with a pro-Moscow regime in power. Iran could become a customer for Soviet weapons augmenting Soviet influence in the Persian Gulf. Secondly, the USSR could also introduce its own advisers into the area much as it has done in Angola, Ethiopia, South Yemen and Afghanistan. This additional influence in the Persian Gulf could put pressure on traditionally anti-Soviet countries like Saudi Arabia to change their foreign policies either to become closer to the West for protection against the USSR or to move towards Moscow to avoid confrontation with it. Soviet influence in the area would be increased if these countries would choose the latter course.

Impact on U.S.-Soviet relations

Of the three alternatives discussed, this one would have the greatest effect on Soviet-American relations.

One of the most immediate impacts would be the jeopardy in which Western oil imports from the Middle East would be placed. Given the ideological bent of the Iranian regime, it could conceivably curtail its exports to the United States and Western Europe.

Other Western oil imports from the Middle East could also be placed in jeopardy. The Soviet Union would be in a good position to stop passage of oil tankers through the Strait of Hormuz. Since all Persian Gulf oil bound for the Western Hemisphere must pass through this strait, these supplies could potentially be choked-off. The Persian Gulf could then become a point of confrontation between the United States and the Soviet Union.

A second impact on the United States would be in terms of the military balance. The Soviet Union, given the increased military influence discussed above, would essentially supplant the United States as the chief superpower in the Persian Gulf. To what degree this would happen, would depend on the extent of freedom the USSR would be allowed by the Iranian regime. If the Soviet Union were permitted naval bases in Iran, it could help to augment the already-increasing power of the Soviet navy in the Indian Ocean region.

The ability of the United States to mitigate the increased political, economic and military power of the USSR in the Persian Gulf would depend to a large degree on the reactions of the other countries in the region. The tide of Soviet power could be stemmed if Saudi Arabia, for example, would accept an increase in American support to stop the USSR. However, pressure could be placed on Saudi Arabia to decrease its dependence on the West and, possibly, to bend more to the Soviet way of thinking.

Pakistan could also be greatly affected by an increase in Soviet power particularly in light of the pro-communist coup in Afghanistan and the apparent dominance of the Soviet Union there. In short, while the United States could try to stop the results of the new regime in Iran, its ability to do so would depend on how these countries reacted to the new situation.

Some qualifications

It must be borne in mind that, although the Soviets could achieve the above-described successes, there are several factors which might prevent them from doing so.

Not all of the Soviet "successes" among developing countries have been long-term. Egypt, Somalia and the Sudan were all at one time closely linked to the Soviet Union but are now among their loudest critics in the Third World.

Second, the United States over the years had become the "graduate school" for training engineers, scientists and other specialists from the Third World, especially Iran. Iranian need for technical advice and supplies of machinery to keep their oil industry going has depended on the United States. The need for this advice could arise again if the Iranian government geared up its fuel industries.

Finally, the Soviet Union would have to take into consideration the reaction of the United States to any move they would make in the Persian Gulf. Though the USSR could potentially cutoff American oil supplies from the Middle East, they know such a step would bring immediate confrontation with the Americans. They would have to decide if such a move would be worth the risk.

The emergence of a pro-Peking regime in Iran

While a pro-Soviet regime could bring great benefits to the USSR, a government sympathetic to the PRC would lead to the opposite results. In such a case, the Sino-Soviet conflict would be carried to the Persian Gulf. The Soviets could not expect to receive oil and gas imports and would have no influence on that country's economy. The USSR and its East European allies would be in the "worst case" situation in the sense that they would lose even those benefits gained under the Shah.

It is difficult to determine how this situation would affect the USSR militarily. This facet of the situation would depend on the ability of the Chinese to furnish military aid to the sympathetic regime. If they could do so to a large degree, a point of confrontation could be created between the USSR and the PRC not only on their common border, but also on the Soviet border with Iran. It should be noted, however, that at the present time the Chinese show little ability to render assistance to countries far from their borders. Therefore, the military impact of pro-Peking regime on the Soviet Union would probably be minimal.

It would also be difficult to ascertain the affects on the U.S.-Soviet relationship since these effects would depend on the state of relations of the PRC with the United States at the time.

SUMMARY AND CONCLUSIONS

Given the importance that Iran has had in Soviet foreign policy so far, it can be assumed that the revolution there will have a great impact on future Soviet foreign policy choices. Up till now, Soviet policy towards Iran has been to try to attain some control in that country when the opportunities presented themselves as was the case in the 1920's and 1940's as described above. But, when such control seemed

no longer feasible, as was the case with the emergence of a strong American presence in the later 1950's and with the increased power of Shah Pahlavi after 1963, the Soviet Union was content with establishing strong economic ties with Iran and these ties proved beneficial to both countries. The Soviet Caucasus became dependent on Iranian natural gas while Iran was supplied with machinery and equipment. Political relations were also cordial between the two sides.

The Soviet Union suffered from the loss of gas that occurred during the Iranian revolution as did the countries of Eastern Europe. What the consequences will be for these countries after the Iranian revolution will depend on the final internal situation there. Certainly, they would benefit from the emergence of a pro-Soviet regime in Iran but would suffer from the emergence of a pro-Peking regime if such were possible. Should the unstable situation continue in Iran, the Soviets and East Europeans would probably have to seek other sources of fuel to replace the lost sources. The Soviets could be expected to try to gain influence in Iran through covert support of left-wing groups both in the central government and in the outlying Iranian provinces should the unstable situation continue for a long period of time. If a strong Islamic republic emerged it can be assumed that the Soviet Union would attempt to maintain good-neighborly relations and try to gain back the gas imports they lost earlier.

Given the importance of Iran and the Persian Gulf to both the Soviet Union and the United States, it can be assumed that the outcome in Iran will have far-reaching consequences for Soviet-American relations, and consequently, for global affairs in general.

THE IRANIAN REVOLUTION AND ITS EFFECTS ON THE MIDDLE EAST

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INTRODUCTION

Of the several world areas affected by the revolution in Iran the Middle East is probably the most significant. The Shah's grand design in foreign policy focused on the Middle East. Iranian relationships with all of the major actors and the Shah's perceptions of Iran's interests affected developments in the region, although not always directly and significantly. Iran's role can be divided into two related but discrete zones: Arab-Israeli and Arabian Peninsula/Persian Gulf.

Pre-revolutionary Iranian policy in the Arab-Israeli zone was based on a number of interrelated factors. Iran's historical fear of its northern border enemy, the Soviet Union, was enhanced by a fear of encirclement by states linked to that power. The Shah feared radicalism might spread from Arab states such as Egypt and Iraq, both to Iran and to its Gulf neighbors, threatening Iran's sea link through the Strait of Hormuz to the Indian Ocean and the world. Sources of the traditional enmity with Iraq included religion (Iranian affinity with the Shi'a minority in Iraq), territory (the demarcation of the Shatt al-Arab boundary), and Arab irredentism (Iraqi support for the Arab population of Khuzistan province). There was also the common ideological interest with other monarchies, such as Saudi Arabia, Jordan and Morocco, to maintain a conservative stability of the region. And there was a multifaceted relationship with Israel based on strategic-political (especially a concern for Pan-Arabist intentions) and economic interests.

Iran's policies occasionally were contradictory. For example, the Shah's very close ties with Israel were not generally reflected in his approach to the Arab-Israeli conflict where Iran supported the Arab position.

IRAN AND ISRAEL

Of the several significant Iranian relationships with states of the region none was more broad than that with Israel, although its public record is meagre. An extensive and, to a large extent, secret relationship with Israel developed over the years based on the convergence of several factors. Iran's concern with Soviet and radical Arab threats was a major inducement to establish relations with Western-oriented and stable Israel. A strong Israel also served to divert Arab attentions from anti-Iranian activity. The Shah was impressed by the rapid and substantial achievements of Israeli modernization ef-

forts, which coincided with his "White Revolution" designed to modernize Iran. Of symbolic importance to the Shah—given his predilection for glorification of the country's pre-Muslim, purely Iranian, past—was the recollection that Cyrus the Great released the Jews from their Babylonian captivity in 538 B.C.¹

Although Iran had voted against the United Nations Partition Plan of 1947 to create an independent Israel, Iran granted Israel *de facto* recognition in 1950, and envoys below the rank of ambassador were exchanged. During the Mussadiq period (1951–53) Iranian-Israeli relations went into a mild eclipse, although low level trade negotiations continued. After the Shah returned to power in August 1953 with United States assistance Israeli-Iranian relations began to grow into the discreet and unofficial alliance based on aid and trade that was to characterize their relationship until the 1979 Iranian Revolution.

Iran began selling oil to Israel in 1953, and the Shah brought in Israeli technicians to help set up operations of the National Iranian Oil Company (NIOC). The 1954 agreement with the consortium allocated to Iran an amount of oil to be used domestically and sold abroad. With the termination of Soviet oil shipments to Israel in early 1957, the Iranian-Israeli oil relationship developed rapidly, along with Israeli dependence on Iranian oil both for domestic use, and for refining and transshipment. The Israeli government built a 162 mile pipeline, 42 inches in diameter, from Eilat to the Mediterranean port of Ashkelon in 1968–69, constructed a 3 million ton-per-year refinery at Ashdod, and expanded the capacity of the port of Eilat to handle tankers of 250,000 ton capacity with a view to increased earnings from the transshipment of oil, primarily from Iran but also from the fields in the Gulf of Suez captured from Egypt in 1967.² Although the Sinai fields decreased dependence upon Iranian oil for domestic consumption, until the end of 1978 Israel was reported to be importing 50–60 percent of its domestic oil consumption from Iran.

Other trade relations also started in the early 1950's; a credit agreement between Israel's Bank Leumi and Iran's Bank Melli to cover mutual purchases and to establish a trading company in Iran was signed as early as June 1953.³ Despite the absence of inexpensive land transport, exports, mostly foodstuffs, to Iran rose until shortly before the revolution, and were not far below the level of Israeli exports to Great Britain and France. In fact, between 1971 and 1977, Israeli exports to Iran ranked tenth behind the seven major Western industrial states, Japan, and Hong Kong. Israeli imports from Iran consisted almost entirely of oil.

Numerous commercial airline flights linked Teheran and Tel Aviv, and Israeli businessmen were permitted to bid on Iranian government contracts.⁴

¹ Marvin Zonis, "Israel and Iran: From Intimacy to Alienation," *Moment*, vol. 4, March 1979, p. 13.

² Robert B. Reppa, Sr., "Israel and Iran: Bilateral Relationships and Effect on the Indian Ocean Basin" (New York: Praeger, 1974), p. 3.

³ M. G. Weinbaum, "Iran and Israel: The Discreet Entente," *Orbis*, vol. 18, Winter 1975, p. 1074.

⁴ *Ibid.*; Zonis, p. 13, *New York Times*, Jan. 1, 1979.

ISRAELI EXPORTS, 1971-77

(Millions of U.S. dollars)

To—	1971	1972	1973	1974	1975	1976	1977
United States.....	185.7	223.9	267.0	305.6	307.5	437.4	577.4
Japan.....	48.2	71.6	87.2	65.0	99.4	72.8	93.1
Belgium.....	43.8	46.2	76.2	92.4	80.2	102.1	159.2
France.....	44.4	54.7	66.7	91.1	112.1	136.2	161.4
Germany.....	89.4	103.5	136.5	134.8	160.5	199.3	275.6
Netherlands.....	57.6	65.1	97.8	135.9	129.3	159.5	181.0
Switzerland.....	42.5	68.1	88.2	104.5	81.4	94.6	115.9
United Kingdom.....	97.0	112.9	138.8	157.0	171.5	180.0	229.7
Hong Kong.....	45.3	61.0	96.9	118.6	113.2	140.0	174.1
Iran.....	32.9	44.6	36.8	63.1	120.0	120.6	95.8
World total.....	961.3	1,149.2	1,459.0	1,825.5	1,940.8	2,415.2	3,072.2

Source: IMF, *Direction of Trade* (1978), p. 162.

Israel provided technical assistance to Iran and Israelis participated in—and in some cases planned and managed—development projects in Iran. In 1962–63 the Israeli water authority, Tahal, began work on a contract for rural development in a 123,500 acre area in Qazvin, a region west of Teheran which had been devastated by earthquakes. Israeli firms and quasi-governmental organizations carried out other projects, such as road and building contracts let to Solel Boneh, the construction firm associated with Histadrut, Israel's trade union federation.⁵

In addition to the major trade and aid links, pre-revolutionary Iran also received military-oriented technical assistance, primarily training. There were exchanges of military personnel between Israel and Iran, and Israel is widely believed to have helped to train the Shah's secret police, SAVAK, in its military intelligence function.⁶

Despite the strength of these ties full formal diplomatic relations were not established and the Israeli presence in Iran was maintained discreetly: the Israeli mission bore no flag or identifying plaque, and Israeli diplomats, businessmen and technicians maintained a low profile.

RELATIONS WITH THE ARAB STATES

The relations of pre-revolutionary Iran with the Arab states varied substantially. In general, Iran's relations with the more radical and pro-Soviet states (such as Syria and South Yemen) were hostile, particularly during periods when such states were involved in Gulf politics; relations with the more conservative monarchies (such as Jordan and Morocco) were good. Relations with the Gulf states, which historically had not always been harmonious, in recent years had been characterized by varying degrees of cooperation toward the objective of maintaining stability in the Gulf sector.

Although diplomatic relations between Iran and Egypt were established in 1923, it was not until after the Egyptian Revolution of 1952 that the relationship became important. The Shah and Nasser

⁵ Weinbaum, pp. 1075–6; Reppa, pp. 98–9. For further details see Leopold Laufer, "Israel and the Developing Countries: New Approaches to Cooperation" (New York: The Twentieth Century Fund, 1967); and Shimeon Amir, "Israel's Development Cooperation with Africa, Asia, and Latin America" (New York: Praeger, 1974).

⁶ Shahram Chubin and Sepehr Zabih, "The Foreign Relations of Iran" (Berkeley, University of California Press, 1974), p. 157; Weinbaum, p. 1076; Zonis, p. 13.

tended to focus their attention on different zones of the Middle East and their policies were in sharp contrast to one another. While Iran was a strong ally of the West, a supporter of the Eisenhower Doctrine (1957) and a member of the Baghdad Pact, Egypt under Nasser was openly defiant of the West—opposing both the Baghdad Pact and the Eisenhower Doctrine—and developed a substantial link with the Soviet Union. Egypt's calls for Arab unity and Nasser's pan-Arab aspirations were viewed with concern by Iran, especially after the 1958 Iraqi revolution (in which the radical Qasim regime replaced the monarchy, a former partner in the Baghdad Pact) and the Egyptian union with Syria in the same year. The break between Iran and Egypt was almost inevitable given the ambitions of both Nasser and the Shah and the ideological disparities between them. The first major sign of open hostility came with the rupture of diplomatic relations. In a July 1960 interview, in response to a question as to whether Iran would recognize Israel, the Shah stated that Iran had recognized Israel long ago. Nasser publicly vilified the Shah and broke diplomatic relations.

The ten years of hostility which followed the diplomatic break was a major factor in the Shah's perception of regional security problems and played an important role in cementing his relationship with Israel. A number of factors undergirded the Shah's perception of Nasser's Egypt as a major adversary. Perhaps the foremost was Nasser's involvement in the civil war in Yemen (1962-67). Nasser's anti-royalist involvement was paralleled by a growing radicalism in Egyptian domestic policies, increased public denunciation of conservative regimes in the Middle East, stronger Egyptian dependency on the Soviet Union, and Nasser's interest in the Gulf. Working through the Arab League, the Egyptian Government asked each of the larger Gulf states to cooperate with its efforts for the general welfare of the area and the Arab nation. Egyptian interest in leading a common front with the Arab states of the Gulf was accompanied by reference in Arab League documents to Iran's oil-rich, Arab-populated, Khuzistan province as "Arabistan". Iran reacted bitterly, accusing Egypt of wanting to control the Gulf, a predictable reaction given the Shah's fear of Soviet-linked Arab radicalism—personified in Nasser's Egypt—making inroads in an area both strategically and economically vital to Iran. The Shah's extreme distrust of Nasser sprang from Egypt's link with the Soviet Union, and Nasser's radical ideology, as well as from Egypt's activist and interventionist foreign policy in which the entire Arab world (and the broader Middle East) was seen as the battleground of progress and reaction. Nasser's intervention in Yemen and his avowed support for Arab revolutionary movements were not only threats to the Shah directly, but also to the conservative Arab regimes whose survival the Shah considered important: Saudi Arabia, the Gulf sheikdoms, and Jordan. On the other side, the Arab states—and particularly Egypt—viewed with alarm Iran's claim to Bahrain.

After 10 years of hostility, diplomatic relations between Iran and Egypt were restored in August 1970. This rapprochement was based on a number of factors: Iran's support of the Arab position after the 1967 War (discussed below); Nasser's acceptance of the American-

sponsored ceasefire plan of June, 1970, signalling a somewhat softened stance toward the West and especially the United States; common hostility to Iraq, which had attacked Nasser after his acceptance of the Rogers Cease Fire Plan of 1970, and with which Iran was involved in a major dispute over the Shatt Al Arab; the end to Nasser's involvement in Yemen in 1967 and his pre-occupation with the Arab-Israeli conflict, leading to diminished attention to other areas (including the Gulf); and the Shah's need to mend his fences in the Middle East in anticipation of the British withdrawal from the Gulf and his own designs on the two Tumbs and Abu Musa Islands, strategically located near the Straits of Hormuz, which were also claimed by Gulf sheikdoms. That the resumption of relations was a wise move from the Iranian perspective is illustrated by the fact that Egypt (then under Sadat), in contrast to other Arab states, reacted relatively mildly when Iran seized the three islands in November of 1971.

Although Egyptian-Iranian relations were restored before Nasser's death, the accession to power of Sadat, a more "moderate" leader about whom there was no lingering aura of past acrimony, provided an impetus for increasing harmony in the relations of the two states. Egyptian-Iranian relations through the end of the pre-revolutionary period were cordial, including visits between Sadat and the Shah, as well as cultural and trade links, such as the \$2 billion aid-loan package signed by Iran after the October War to supply Egypt with Iranian manufactured goods.⁷ Although some of these and other Iranian credits were never actually used, their availability helped to ease Egypt's chronic economic burdens and contributed to the fairly close political relations between the two countries.

Iranian relations with Syria during most of the prerevolutionary period were not much better than with Egypt under Nasser. Syria denounced Iran's claim to Bahrain in the mid-fifties and in 1965 supported Arab claims to Khuzistan as a part of the "Arab homeland." Indeed, it was not until 1971 that relations between Iran and Syria could be characterized as anything other than hostile.⁸

The Shah's government enjoyed good relations with Jordan, born of the long-standing friendship between the Shah and King Hussein and the relative harmony of their political views. In addition to a strong personal bond between the two monarchs, similarly "moderate" views on the Arab-Israeli situation, and a common link with the United States, trade links strengthened the relationship between Jordan and Iran. A substantial two-way trade, primarily in petroleum and agricultural products and light manufactures, developed after the 1973-74 oil boom, approaching an annual level of \$200 million by 1977.⁹ Similarly, Iran sustained relatively good relations with Lebanon, except for a break in diplomatic relations between 1969 and 1971 over the extradition of a former head of the Iranian secret police.

In summary, Iranian relations with the states of the Middle East, based on a common set of ideological, geopolitical, economic and devel-

⁷ Zonis, p. 16.

⁸ Rouhollah K. Ramazani, "Iran's Foreign Policy 1941-1973: A Study of Foreign Policy in Modernizing Nations," Charlottesville, Va.: University Press of Virginia, 1975), p. 308, 405.

⁹ IMF, *Direction of Trade*, 1978, p. 156.

opemental factors, were not a zero-sum game. Although the Shah maintained a very positive, although unpublicized, relationship with Israel and for at least ten years a negative relationship with Egypt and other Arab "radicals," this did not amount to a pattern of friendship with Israel and hostility toward its enemies, as Iran enjoyed excellent relations with Jordan and other Arab "moderates." After Nasser's death in 1970, Egypt was also included in the latter category, and was an early political and economic beneficiary of the Shah's overall efforts throughout the decade to improve bilateral relations with the Arab states in the interest of a leading Iranian role in the region.

In the Gulf the dominant theme was regional stability—all the Gulf states were concerned with the maintenance of secure and unimpeded navigation in the waters of the Gulf and the Strait of Hormuz. In the early 1970's, Iran had quarrelled with various Arab Gulf states over such issues as Iran's claim to Bahrain, occupation of three smaller islands in the Gulf, navigation along Iran's river boundary with Iraq and the Shah's support for Kurdish rebels in that country, and Iran's growing military power. A 1975 rapprochement between Iran and Iraq provided an impetus to Persian-Arab cooperation in the sector and led to a tacit understanding that Iran's defense capabilities were not necessarily detrimental to Arab interests. Direct cooperation had taken place in a number of areas; perhaps the most noteworthy was Iran's dispatch of troops to the Sultanate of Oman to assist in suppressing the rebellion in Dhofar Province.

POLICY TOWARD THE ARAB-ISRAELI CONFLICT

The Shah's policy toward the Arab-Israeli conflict was not a direct derivative of his bilateral relationship with Israel and the Arab states. Hostile relations with Egypt and Syria and the discreet friendship with Israel were not reflected in Iran's official pronouncements concerning the conflict itself. In 1947 Iran opposed the original Partition Plan and supported the plan for a federal state in Palestine that was preferred by the Arab states. From 1948 onward, Iran endorsed the "legitimate rights of the Palestinians," and voted in favor of United Nations resolutions supporting their choice of repatriation or compensation, although Iran established diplomatic relations with Israel in 1950.¹⁰

In the Suez crisis of 1956 Iran supported Egypt's right to nationalize the Canal and opposed the use of force against Egypt, but was at the same time deeply concerned with freedom of navigation through the Canal, through which approximately 75% of Iranian imports and exports passed.¹¹ As a member of the executive committee of the Canal Users' Association, Iran was among those calling for Egypt to terminate restrictions of free passage through the waterway. Yet in November of 1956 Iran joined the United States and the Soviet Union in calling for an Emergency Session of the United Nations General Assembly to condemn the Israeli-French-British invasion of Egypt.

Iranian policy became more supportive of the Arab position after the June War of 1967. Medical aid was dispatched to Jordan and Iraq

¹⁰ R. K. Ramazani, "Iran and the Arab-Israeli Conflict," *Middle East Journal*, vol. 32, Autumn 1978, pp. 414, 425.

¹¹ R. K. Ramazani, "Iran's Foreign Policy," pp. 397-8.

by the Iranian version of the Red Cross, the Red Lion and Sun. Afterward the Shah called for Israeli withdrawal from occupied territory. On the question of Jerusalem, which was taken by Israel in 1967, the Shah stated that control of the Moslem holy places must not be in the hands of non-Moslems.¹²

The October War of 1973 elicited greater support of the Arabs by Iran. In addition to medical assistance, Iran offered both transport pilots and planes to Saudi Arabia and the Soviet Union overflew Iran to transport military supplies to its Arab clients. At the same time Iran refused to permit Jewish volunteers travelling to Israel from Australia to use Teheran as a transfer point.¹³ Although Iran did not participate in the Arab oil production reductions and embargo imposed on the United States during the war, it took advantage of the opportunity to take the lead in quadrupling oil prices, which has had the effect of magnifying the value of the Arab "oil weapon". In general, despite some differences over optimal pricing and over the use of oil as a political weapon, Iran and the Arab oil producers cooperated within OPEC to the joint benefit of both.

Following the 1973 war, the Iranian government continued to support the Arab position. The Shah visited Egypt and Jordan and made statements supportive of their positions. On the Palestinian issue, the Iranian government announced its agreement with the 1974 decision of the Arab League endorsing self-determination for the Palestinians and recognizing the PLO as their "sole legitimate representative." Iran's delegation voted in favor of similar resolutions in the United Nations. Nevertheless, the Shah was uncomfortable with the radical character and terrorist methods of some of the Palestinians. For this reason, despite Iran's diplomatic support in international forums, the Shah did not maintain formal contact with the PLO, and was careful to distinguish between the Palestinians in general and such factions as George Habash's Popular Front for the Liberation of Palestine (PFLP), which was openly associated with Iranian dissidents. Various Palestinian factions, including the "mainstream" groups under Yasir Arafat's overall leadership, had been providing some training and other support for significant numbers of Iranian revolutionaries since about 1970, although this was not generally openly acknowledged until after the success of the revolution. The Shah supported the Sadat initiative of November 1977 as indicated by his visit to Egypt in January of 1978 and his statement, made at that time, that "I think Egypt is doing precisely what we believe is right."¹⁴

In summary, pre-revolutionary Iran maintained positive and extensive bilateral relations with Israel, and relations of a less substantial nature with many of the Arab states, but generally in public pronouncement supported the Arab position in the conflict. Iran endorsed the view that Israel should withdraw from occupied territories and supported the rights of the Palestinians, although it opposed terrorism as a means of attaining Arab goals. Iran's role in the October War, its subsequent military efforts in support of moderate Arab regimes elsewhere (such as Oman) and its greatly improved

¹² R. K. Ramazani, "Iran and the Arab-Israeli Conflict," p. 421.

¹³ *Ibid.*, pp. 418-9.

¹⁴ *Ibid.*, p. 423.

bilateral relations with Sadat's Egypt and other Arab states, led to some speculation that its role in future Arab-Israeli affairs might be more active. But there remained the ambivalence of a policy which was very close to Israel (and yet opposed to the PLO) on the bilateral level, yet supportive of the Arab position in the overall conflict. That Iranian ambivalence changed with the revolution.

THE IMMEDIATE IMPACT OF THE REVOLUTION

The revolution in Iran affected not only Iran's bilateral relations with the other regional actors, but also its position regarding the Arab-Israeli conflict. While the Shah's policies toward the states of the region and toward the conflict were not entirely congruent, the new Iranian regime has made it clear that support of the Arab position in the conflict and hostility to Israel are major interlocking elements of a single Middle East policy.

RELATIONS WITH ISRAEL

One of the first foreign policy actions of the revolutionary government was the reversal of the Shah's discreet entente with Israel and the declaration of strong support for the Palestinians. The reversal of Iranian relations with Israel and the PLO which took place after the departure of the Shah did not come as a surprise to the Israelis, or to those familiar with the writings of the Ayatollah Khomeini. His avowed resentment of Jews (as well as Christians and members of the Bahai sect) was made clear in his works, such as *Islamic Government*, a collection of lectures given in Iraq in 1970, and he made no distinction between Jews and Israelis. Indeed, along with the United States, they were the major target of his attacks, vilified as the "desecrators of Iran". His animosity toward Israel and the United States was also based on Israeli and American support for the Shah, including the alleged Israeli training of SAVAK and the massive American military supply to the Shah's regime.¹⁵ Other Iranian clerics shared Khomeini's antipathy toward the United States and Israel and the Iranian relationship with Israel (particularly the Shah's oil supply policy) was a common target of demonstrations during the year before the Shah's fall.

Even before Khomeini's arrival in Teheran in February, it was announced by the Bakhtiar government that Iran would no longer sell oil to Israel because "Israel is in a state of war with our brother co-religionists, the Arabs and this issue endangers peace in the region."¹⁶

Iranian oil exports to Israel stopped not because of a political decision, but with the massive strike by oil workers in support of the revolution in December 1978. While the total cut off of Iranian oil exports affected world energy supply, it had a higher potential for damage to Israel because Israel received about 60% of its oil supply from Iran, which it could not replace with Arab oil, and the cut-off was likely to be permanent because of the new political line taken by the revolutionary

¹⁵ "The Vision of Ruhollah Khomeini," *Washington Post*, Jan. 5, 1979, and *Washington Star*, Jan. 7, 1979.

¹⁶ *Washington Star*, Jan. 4, 1979.

government. Israel had reacted calmly to the cutoff of Iranian oil shipments and was believed to be making up the shortfall by relying on its considerable stockpiles (estimated at almost one year's supply), spot purchases, and contracts to buy coal from South Africa to fuel a major power plant being constructed. It was also protected by American guarantees which had been made as a part of the 1975 Sinai II agreement, although never activated. Immediately after the announcement of the Bakhtiar government that no more oil would be sold to Israel, Israeli Energy Minister Modai announced that this decision had been expected for weeks and that measures had been taken in Israel to deal with the situation. At the same time United States Energy Secretary Schlesinger stressed the continuing American commitment to the 1975 oil supply guarantee to Israel.¹⁷ By mid-March the United States had agreed to extend its commitment to fifteen years in order to achieve conclusion of the Egyptian-Israeli agreement.

While there had been concern in Israel over the fate of the 80,000-100,000 Iranian Jews under the regime of a religious leader with an antipathy to Israelis and Jews alike, within a few weeks many of those Iranian Jews who had left were returning to Iran.¹⁸ Jewish spokesmen in Teheran stressed that their community had lived for 2700 years in Iran and wanted to be a part of the Iranian revolution.¹⁹ Even before his arrival in Teheran Khomeini stated that it would be a "tragedy" if many of the Iranian Jewish community left Iran and once in Teheran he stated that his quarrel with Israel stemmed from its relationship with SAVAK, and reiterated his reassurances to Iranian Jews.²⁰ Although much of the concern for the Jews of Iran was quieted by this, lingering anxieties were reinforced by the executions of former Prime Minister Hoveida, who was accused—among other things—of conspiring with the Zionists, and a prominent Iranian Jewish businessman and former President of the central committee of the Jewish community accused of corruption and conspiracy with Zionism, an apparent result of his financial contributions to Israel.

While Israel appeared able to deal with the tangible aspects of the end of the Iranian relationship, perhaps as damaging was the loss of a positive relationship with a powerful Moslem country. Aharon Yariv, former head of Israeli Army Intelligence, commented that, ". . . there was nothing we could do but cut our losses, and that's what we've tried to do."²¹ In view of Israel's increased isolation after the 1967 and 1973 Wars—its lost contacts with most of Africa, many Asian third-world states, and even the more pro-Arab tendency of some European nations after 1973—the end of its relationship with a powerful and energetic Middle Eastern nation, especially with Iran's strategic position on the flank of Israel's eastern Arab opponents, could only be considered a significant loss. The new Iranian relationship with the PLO and the Arab "rejectionists" means that Israel has not only lost a valuable ally, but may have gained a potentially dangerous enemy.

¹⁷ Washington Star, Jan. 4, 1979.

¹⁸ Washington Post, Feb. 24, 1979. It was estimated that of the 18,000 who had left Iran, some 11,000 had gone to Israel, and only 2,000 of those had plans to settle permanently.

¹⁹ New York Times, Feb. 22, 1979.

²⁰ New York Times, Feb. 16, 1979.

²¹ Washington Post, Feb. 24, 1979.

RELATIONS WITH THE PALESTINIANS

In light of Khomeini's attitude toward Israel, it is hardly surprising that relations between the new Iranian regime and the PLO have become very publicly cordial. Amid PLO statements that Iranian opposition forces had been training in PLO camps since the early 1970's and that the PLO had supplied arms to the Iranian revolutionaries during their struggle against the Shah, it was announced that Yasir Arafat had accepted an invitation to visit Teheran and that the PLO had been asked to establish an embassy in the former Israeli mission in Teheran. During his triumphant visit in February 1979, Arafat received a pledge that the new Iranian regime would "turn to the issue of victory over Israel after it had consolidated its own strength."²² The week following Arafat's trip, a PLO spokesman announced that during the talks between Khomeini and Arafat, much time had been devoted to the creation of a common strategy against Israel and that it had been stressed that the liberation of Jerusalem was one of the foremost moral and religious commitments of the Khomeini regime.²³

Not only has the PLO profited from Israel's loss of its regional ally, but it has also registered a net gain of the same power to its own side. While the assistance of the Iranian government to the PLO has so far been limited to statements and the turning over of the former Israeli mission facilities in Teheran, the strong and open support of a country of Iran's size and strategic importance and of a government which has toppled that of a Western-supported regime, is a symbolic victory to the Palestinian cause and to the PLO in particular. As such, it has probably made many Palestinians less inclined to favor compromise strategies vis-à-vis Israel, and more inclined to adopt a "revolutionary" attitude toward Arab regimes regarded as insufficiently supportive of their cause. Altogether, the Palestinian link to Iran's revolution has enhanced the regional status of the PLO by impressing various Arab (and perhaps other) governments with its subversive potential, thereby putting some additional pressure on those governments to support the PLO position. But there are reservations in the Iranian government about the high visibility of the PLO role in Iran especially given the problem with the ethnic Arabs in Khuzistan.

RELATIONS WITH EGYPT

The revolution in Iran replaced a regime which had maintained good political and economic ties with Cairo with one whose posture has been much less friendly. Two developments in early 1979 highlighted this change. In mid-January, the Shah's first stop in exile from Iran was in Egypt, where he remained briefly as President Sadat's personal guest. The reception was officially described as befitting the Egyptian people's hospitality and gratitude for past Iranian economic aid and (undefined) assistance during the October War.²⁴ In May, following ratification of the peace treaty with Israel, the new government of Iran broke diplomatic relations with Egypt ostensibly

²² New York Times, Feb. 19, 1979.

²³ New York Times, Feb. 27, 1979.

²⁴ FBIS/ME, Jan. 17, 1979.

as an expression of displeasure with Sadat's "betrayal" of the Palestinian, Arab and Islamic causes. In general, however, the direct impact on Egypt of the Iranian revolution has been less dramatic.

In the economic sphere, the effects are unclear but apparently rather small, even though all forms of Iranian economic assistance to Egypt have been suspended. Previous trade credits were of little real value anyway, since actual trade amounted to but a few million dollars each year.²⁵ While systematic data are not readily available, it appears that the sporadic (and therefore relatively unproductive) Iranian loans and investments had already dwindled toward the end of the Shah's reign. Still, the disruption of the favorable economic relationship with Teheran has had a marginally damaging economic impact. The actual short run loss is too small to have had a significant direct political impact *per se*, even given Egypt's urgent needs and current sensitivity to the connection between prosperity and peace. The loss of even a secondary potential economic benefactor has, however, already sharpened political anxieties about finding alternate donors over the longer run.

In the broader political sphere, the Iranian revolution had only isolated effect upon Islamic fundamentalist currents and Islamic opposition within Egypt, and these were aimed particularly at Sadat's rapprochement with Israel. The Islamic journal *Al-Da'awah* was suspended in May 1979 for excessive criticism of Sadat's diplomacy.²⁶

Other Egyptian political issues have also been relatively immune, at least initially, to the Iranian example. Sadat's political and economic liberalization have kept Egypt's middle and poorer classes less alienated from the regime than was the case in Iran, despite recent instances of repression and corruption and glaring structural economic shortcomings. Sadat has successively restricted the limited multiparty democracy that he initiated in December 1976, and has moved in other ways to reduce the scope of permissible opposition in parliament and in the press. In early 1979, the prosecution of a former Deputy Minister on bribery charges, along with other allegations reported to have circulated in Egypt concerning various government-business connections, raised questions about high-level venality and favoritism. At the same time, there has been no major visible or fundamental improvement in Egypt's low average standard of living, high urbanization, underemployment, and population growth rates, large trade deficit and foreign debt, deteriorating economic infrastructure, and inefficient bureaucracy. The April 1979 referendum on the peace treaty with Israel and domestic political reorganization indicate that, radical Arab references to "Shahdat" notwithstanding, the Egyptian government remains confident of retaining at least the appearance of mass support. Sadat's decision to host the exiled Shah was itself a demonstration of confidence in his own domestic political base. Nevertheless, the subdued reception accorded the Shah, the subsequent warnings about dissent, and the continued emphasis on the religious legitimacy of official policy all suggest that the Egyptian government has been prudently alert to possible domestic political repercussions of the revolution in Iran.

In the realm of foreign policy, the adverse effect of the Shah's demise on the security and stability of nearby conservative, friendly

²⁵ IMF, *Direction of Trade*, 1978, p. 118.

²⁶ *New York Times*, May 20, 1979.

regimes has prompted a reaffirmation of Egypt's commitment to the Sudan, Somalia (where a defense guarantee was in effect with the Shah), and Oman (where a small contingent of Egyptian soldiers replaced the last Iranian counter-insurgency units in February). In this connection, Sadat's reception of the Shah was a pointed reminder to the Saudis and other Arab conservative regimes critical of his policy that Egypt would remain loyal to its allies. Conversely, relations with neighboring "radical" Libya, which supported Khomeini, have deteriorated still further.²⁷ Altogether, the Iranian revolution, coupled with growing Egyptian isolation in the Arab world, has encouraged Egypt to seek for itself an expanded regional security role with the endorsement of the United States.

OTHER INITIAL BILATERAL EFFECTS

Among the other Arab states the crisis in Iran, while geographically rather remote, has nevertheless heightened perceptions of uncertainty and insecurity about both domestic politics and foreign policy. In the internal political sphere, there were generalized though varying concerns about the possible contagion of the Iranian revolutionary example. The spread of an "Islamic revival" opposed to the established regime was only one such possibility; other Arab elements potentially encouraged by Iran's example to revolt against their own governments included Palestinian expatriates or national minorities, various small but organized leftist groupings, or economically dissatisfied segments of the population. Similarly, in the foreign policy realm, there has been some concern about the spread of regional instability and possible outside intervention. All of these effects remained limited in the initial period following the revolution.

In Jordan, a monarchy with large numbers of potentially disaffected Palestinian subjects, the initial effect of the Iranian revolution was to reinforce King Hussein's cautious policy of appeasing possible internal and external opposition in the interest of preserving his throne. Hussein had already moved toward some degree of reconciliation with the PLO because of his opposition to the Israeli-Egyptian peace treaty and was adversely affected by the spectacle (and possible model) of a successful popular uprising.

Whatever else it has been or becomes in the future the Iranian experience was a successful uprising against another monarch. Moreover, the Shah and Hussein had enjoyed close economic and political relations and were identified with the United States. Thus, the Shah's departure deprived Hussein of a personal and political friend, and devalued the Shah's earlier reliance on American protection. In addition, to the extent that the Iranian revolution has enhanced the prestige of the PLO and made the political and economic favors of Arab governments (and of Iran itself) something of a function of Jordan's support of the Palestinian cause, the effect may have to confirm Hussein's earlier decision to accommodate that organization.

In general, therefore, the Iranian revolution made it all the more prudent for Hussein to "live down" his reputation as a pro-Western

²⁷ Mideast Intelligence Survey, Apr. 1-15, 1979. See also the statements by Sadat as reported by Joseph Kraft in *The New Yorker*, May 28, 1979.

“moderate” in Arab-Israeli affairs. To a considerable extent, he has been able to do so, in part because of his cautious rapprochement with Syria, then with Iraq, Libya, and the PLO (and Arafat personally), and finally with the new government in Iran.

In the economic sphere, the revolution in Iran left in doubt the future of the substantial trading relationship developed with Jordan over the past five years. This dislocation has been more than offset, however, by the simultaneous increase in economic assistance from Arab oil producers as a reward for Jordan's continued allegiance to the Arab “mainstream” and rejection of the Arab-Israeli “peace process” outlined in the Camp David accords.

In Syria, the initial impact of the revolution has been diluted not only by geographic distance, but also by the absence of any significant bilateral political or economic relationship between the two countries. The religious dimension of political opposition in Iran had mixed and minor echoes in Syria, where a predominantly Sunni population is governed by a predominantly Shiite (Alawi) leadership political elite. Yet, it is unclear to what extent growing and underground conservative Sunni opposition in recent months to the minority (Alawi) and secular ideology (Baathist) of the regime in Syria reflects some impact of the Islamic revolution. The Palestinian contacts with Iran's revolution and the accompanying enhanced morale, prestige, and potential base of support, raised questions for the Syrian government about the possibility that this success might encourage a more radical and independent PLO posture, especially in Lebanon. In practice, however, the Palestinian moral victory in Iran has not materially affected their continued dependence on Damascus. The most important (if indirect) consequence for Syria of the turmoil in Iran may have been its impact on Iraq.

In 1975, the Shah and the Iraqi government settled their dispute over border demarcation and over Iranian support for a Kurdish insurgency in northern Iraq. The revolution threatened to undo this understanding, with potentially serious negative consequences for Iraq. This was a result of the Iraqi expulsion of Khomeini, the possibility of a revived Kurdish insurgency with origins in a weakened Iran, and the potential identification of the politically underrepresented and underprivileged Shiite majority in Iraq with their revolutionary coreligionists in Iran. There was also concern about the clash between the religious nature of the Khomeini government and the secular and socialist ideology of the Baathist Iraqi regime. Iraqi concern about these factors and the general instability of its eastern border no doubt contributed to the rapprochement with Syria in October 1978. The two Ba'ath governments had been feuding since 1968 over ideological primacy, and since 1975 over practical questions of water rights, oil transit fees, Syrian occupation of Lebanon, and other matters. Syria had even extended some support to an anti-Iraqi Kurdish group in 1976-77. Nevertheless, on October 26, 1978, the two governments signed a “Charter for Joint National Action,” which ignored past differences while pledging to coordinate policy between them in the future. The primary motive for this rapprochement for Syria was to compensate for, and for Iraq to take advantage of, Sadat's “defection” from the Arab camp by his agreement in September to the Camp David frame-

work for peace with Israel. An important secondary Iraqi motive, however, was to compensate for the regional (and potentially also internal) political instability and uncertainty engendered by the on-going revolution in Iran. To what extent this rapprochement will endure and be implemented through practical means remains unclear given the internal problems of both states and their ruling elites.

Lebanon's own highly complex situation was only marginally affected in a direct way by the revolution. The Shia success in Iran had a calming effect on Lebanon's substantial and politically alienated Shia population and led to an increase in their self-confidence. The inter-Arab rapprochement—encouraged by developments in Iran—seemed to give Syria a freer hand, along with the Lebanese government, to work out a *modus vivendi* with the Palestinians concerning the situation in Lebanon. Other developments in early 1979, caused in large part by the Egypt-Israel Peace Treaty but aggravated by the developments in Iran, have had a destabilizing effect as the Christian population has become more desperate, the Palestinians more defiant, and the Israelis more determined to prevent, through military action in the south, Palestinian terrorist activity from Lebanon. The Lebanese situation showed no signs of amelioration though this could not be attributed in any substantial way to the developments in Iran.

In many of the Arab countries (as indeed elsewhere in the region), the Iranian revolution raised questions about the unreliability of American commitments, the expansion of Soviet influence, the possible spillover of ethnic-political insurgencies across national borders, the disruptive effects of modernization and Westernization, and the presence of large expatriate communities. However, in Egypt, Syria, Lebanon and Jordan, as distinguished from Iran's more immediate neighbors on the Gulf, such concerns have been of relatively limited salience.

THE EFFECTS ON THE GULF STATES

The Arab littoral states—Iraq, Kuwait, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates (UAE), and Oman—believed that, with the termination of the reign of the Shah, Iran faced an uncertain future, probably characterized by turmoil and internal conflict, which would affect the stability of the Gulf. In addition to this general perspective there were also the individual concerns of the several littoral states.

Iraq's interest in the Gulf is a long-standing one and is based on the imperatives of history and geography. From the end of the monarchy in 1958, Iraqi relations with its Gulf neighbors were unstable and contentious. In 1977 and 1978 it began increasingly to share Saudi Arabian and Iranian perceptions of threats to Gulf security and it moderated its policy toward neighboring states. In October 1978 the regime expelled the Ayatollah Khomeini, who had resided in exile in Iraq, following his intensified political activities, in the interests of good relations with the Shah. With the escalating turmoil in Iran the minority Sunni regime in Baghdad became increasingly concerned over the effect of a Shiite revolution on the majority Shiite population in Iraq. It was feared that the restive Kurds might also seize the opportunity to revive their insurgency against the regime,

perhaps in combination with their co-ethnics across the border in Iran. It now appears that fears of Kurdish rebellion may have been more in order in Iran itself than in Iraq, but the present revolt among Iranian Kurds could still spread to Iraq despite reported Iraqi assistance to the rebels.

The escalating turmoil in Iran led the Saudi Arabian government to express concern over the wave of violence and to call upon all Arab states to support the Shah in stabilizing the situation. Saudi Arabia was clearly concerned about the continuing turmoil and about the changed regional balance of power resulting from the Shah's ouster and the installation of the new regime in Teheran. The lack of a strong United States response to the regional situation seemed to promote additional unease. The Carter administration's decision to send unarmed United States Air Force F-15 fighter aircraft to Saudi Arabia in January 1979 as a demonstration of American interest in the Kingdom's security and the visit to Saudi Arabia in February of Secretary of Defense Harold Brown to assess the situation reflected United States recognition of this development. But for Saudi Arabia, the uncertainties of Iran and perceptions of a lack of U.S. initiative, together with Soviet gains in the region, raised some questions about it being identified as the remaining pillar of the U.S. "twin pillar" policy in the sector.

The smaller Gulf states became expressly concerned with developments in Iran during the latter part of 1978, particularly after the extension of martial law to twelve cities throughout Iran. A feature of this concern was the apparent lack of leadership by the Shah in the face of mounting public hostility and the growing popular support for the Ayatollah Khomeini. This was intensified with the installation in November of a military government in Teheran. In general the smaller Gulf states held views similar to those of Saudi Arabia and focused on the fact that the United States did not appear to have done enough to support the Shah during his troubles. Gulf leaders, aware of active Soviet moves in adjacent areas, expressed fears of possible Soviet intervention in Iran and believed that the Iranian situation had the potential for affecting the entire region. The fact that the Shah's regime, which had appeared so secure, could be toppled by a popular uprising caused anxieties among neighboring Arab rulers, despite different social, religious, and economic circumstances in their own countries. But, the apprehension of Arab rulers was nonetheless tempered by ambivalence. The decline of Iran's unilateral role as policeman of the area did bring a certain measure of relief to Gulf states which had continued to perceive a threat in Iran's overwhelming military superiority. A policy of nonalignment, as declared by Khomeini, advanced possibilities for balanced regional security cooperation free of superpower influence.

IMPACT ON THE ARAB-ISRAELI CONFLICT

The Iranian revolution has significantly affected the Arab-Israeli conflict in addition to its impact on bilateral relations with Israel and the Arab states. The revolution had a direct effect on the Egypt-Israel peace treaty negotiations, much of which were carried on contem-

poraneously with the revolution. A number of factors were influenced: the pace of the negotiations, which may have been affected by American anxieties over the instability of the region and the loss of United States prestige and credibility in the wake of the revolution; Israeli concern for its oil supply and the consequent emphasis on oil supply guarantees; pressures, both domestic and from the United States, on both Israeli Prime Minister Begin and Egyptian President Sadat; and elements conducive to rapprochement among the Arab states.

American strategy in the region, influenced by the Iranian situation, seemed directed toward demonstrating United States support for the viability of pro-Western governments and renewing efforts to achieve a peace agreement between Israel and Egypt.²⁸ Israel's position in the treaty negotiations was clearly affected. After the announcement that Iran would no longer sell oil to Israel, Israeli Energy Minister Modai said: "What is going on in Iran convinces me that Israel should not give up the Suez Gulf oilfields . . . unless we have a firm guarantee from Egypt for a free continuous supply of oil from these same fields."²⁹

The Iranian revolution brought to bear on both Israel and Egypt ambiguous and contradictory pressures regarding the negotiations. For Israel, the loss of an important friend complicated a complex negotiating process and increased anxieties about returning territory to Egypt, the government of which might be susceptible to destabilizing elements such as those which opposed the Shah. Right-wing elements within Israel increased their pressure on the Begin government not to withdraw from the Sinai in the wake of the Iranian revolution, both because of its value as a buffer zone against a possible "holy war" and for its value as an oil supply source.³⁰ There were also concerns about the enhanced role of the PLO. United States intelligence was less than precise with regard to the situation in Iran and the probable course of events and, despite perceived United States commitments to the government of the Shah and close links with it, the United States took few and generally weak actions in response to the crisis which eventually resulted in the Shah's ouster. This raised questions about United States reliability and concerns about American judgments, proposals and guarantees. Although these were not pervasive in the Israeli system, they were a further impediment on the path toward implementation of the Camp David accords and the draft Israel-Egypt treaty of November.

For Sadat, the spectre of strong support for the Palestinians from an Islamic fundamentalist regime may have been unsettling, given the traditional strength of Moslem fundamentalism in Egypt, but it appears that the net impact of the revolution favored early conclusion of the Egyptian-Israeli treaty. Sadat argued that the Iranian upheaval underscored the need for an Arab-Israeli peace treaty to forestall further unrest in the Middle East.³¹ The Shah's fall also appeared to confirm Sadat's judgment that it was essential for him to concentrate on Egypt's internal problems and conclusion of a treaty with Israel would provide time and resources to devote to Egypt's mas-

²⁸ New York Times, Jan. 1, 1979.

²⁹ New York Times, Jan. 6, 1979 and Washington Star, Jan. 10, 1979.

³⁰ Washington Post, Feb. 23, 1979.

³¹ New York Times, Feb. 14, 1979.

sive domestic/economic problems—particularly the increased demands for an improved standard of living. Sadat also felt that the Iranian revolution could help trigger unrest in Egypt's western and southern neighbors, Libya and the Sudan, and peace with Israel would give him greater flexibility to deal with such a situation.³²

The revolution in Iran seems to have intensified and accelerated the rapprochement among the Arab states opposed to Sadat's initiative which was a major result of the Camp David accords and the subsequent Egypt-Israel treaty. While the major catalyst for this new Arab "unity" was the "common threat" of the treaty, the events in Iran—the rise in Islamic fundamentalism, the paralysing strikes, the downfall of an authoritarian rule, and the spectre of radicalism—reinforced the submergence of inter-Arab differences as a means of reducing the pervasive sense of uncertainty and threat. The example of the Iranian revolution could only have intensified these states' interest in ending both mutual recriminations and support of subversive groups attempting to change the status quo. Revolutionary forces of an unpredictable nature sweeping through the Arab world are no less threatening to regimes like Syria and Iraq than they are to regimes like Saudi Arabia and Jordan. Some states were concerned that the Islamic revolution spawned in Iran might spread and infect their peoples, while other regimes were clearly more concerned by the resultant general instability, by the possible spread of the concept of revolution, and by the reduced role that Iran would play in the general stability and security of the Persian (or Arabian) Gulf. This latter concern focused not only on the security of the Gulf per se but more significantly on the security of oil supply and the possibility that its flow might be interdicted.

Pro-Western Arab governments dismayed by the weakness of American intelligence, decision-making, and action in Iran perceived a greater need to protect their own interests, independently of the United States, through rapprochement with the more radical forces in the Arab world. To a lesser degree, Soviet-supported Arab governments, fearful of a substantial increase in Soviet influence in the region in case of the Shah's demise, sought to protect their independence by improving relations with the more conservative regimes. In general, the submergence of such differences helped to buttress domestic political legitimacy, minimize threats from subversive elements encouraged by hostile neighbors, defuse specific sources of inter-Arab contention and reduce unwelcome foreign policy distractions at a time of great and possibly contagious political instability in a major nearby country. The added impetus provided by the Iranian revolution in one important instance of this trend, the Syrian-Iraq rapprochement in late 1978, has been noted above. In a somewhat different fashion, this desire to close ranks in the face of turmoil in Iran also contributed to the coordinated, negative Arab reaction to Sadat's agreements with Israel during the same period. Especially noteworthy in this regard was the evolution of the Jordanian and particularly the Saudi position during the decline and fall of the Shah. In the Jordanian case, the effect was primarily to reinforce other factors which had also pointed toward rejection of the Camp David accords. In the case of Saudi Arabia, however, the insecu-

³² Washington Post, Feb. 21, 1979.

riety and consequent search for radical acceptance bred by the Iranian revolution led to a more substantial policy shift in Arab-Israeli affairs.

The Camp David accords of September 1978 and the attempt to convert them to a peace treaty illustrate this process. American policy makers had assumed throughout the preceding discussions that the "moderate" and pro-Western Arab governments of Jordan and Saudi Arabia would prove helpful in the peace process. In fact, both Saudi Arabia and Jordan had an initially negative reaction to the Camp David accords, given their ambiguity on the Palestinian issue, silence on Jerusalem, and questionable overall utility. Neither state saw benefit in joining the process but their reactions stopped short of outright rejection. Saudi Arabia stated that "in spite of reservations . . . (it) does not feel that it is entitled to interfere. . . ." The Jordanian government announced that the Camp David accords "were not legally or morally binding" on it, but proceeded to consult with the United States about their precise significance.³³ This approach led to official American optimism that the two governments would eventually endorse the Camp David frameworks and that the Egyptian-Israeli peace treaty itself could therefore be completed within the three month deadline agreed to at Camp David. But throughout September and October, both Saudi Arabia and Jordan stiffened their opposition, partly because of the sense of insecurity fostered by the worsening political crisis in Iran and increasing doubts about the eventual impact of Iran's revolution.

In the Saudi perspective, there was particular concern about three factors connected with that situation, all of which appeared to enhance the prospects for "radical"—and therefore potentially threatening—political activity in the region. On the internal political level, there was the example of Palestinians allied with other popular elements opposed, among other things, to the regime's acceptance of Israel. On the regional level, the crisis in Iran provided new incentives for increased Iraqi participation in inter-Arab affairs, including the rapprochement with Syria in late October. As the Saudis saw it, Iraq was radical, historically hostile, militarily powerful, and directly adjacent to them. Relations between the two had been gradually improving since 1975, when a longstanding border question was settled, but the uncertainty generated by the 1978 revolution in Iran made it desirable to consolidate a friendly relationship. Finally, on the global level, Saudi skepticism about American ability to translate the Camp David accords into an acceptable comprehensive Arab-Israeli settlement increased as a result of the manifest American inability to anticipate or control the revolution in Iran, which appeared to the Saudis to be yet another instance (after Ethiopia, Afghanistan, and South Yemen) of Soviet encroachment in their vicinity.

All three precautionary lessons drawn by the Saudis from events in Iran help to explain their behavior in Arab-Israeli affairs, which seemed designed to minimize the radical threats described above. On a number of earlier occasions the Saudis had promoted a broad Arab consensus, in order to avoid becoming the isolated targets of radical

³³ Washington Post and Star, Sept. 20, 1978; full texts in *Journal of Palestine Studies*, Winter 1979, "Arab Documents."

Arab attacks. Similarly, in 1978, Saudi Arabia sought to join the mainstream of the Arab world to minimize the threats to its position implicit in the crisis in Iran. At the Baghdad Arab summit conference in November, the Saudi government officially joined in a common diplomatic position with the Arab radicals on the Arab-Israeli dispute. The latter, in a bow to the Saudi position, for once conceded the need for a "just peace based on total Israeli withdrawal from Arab territories occupied in 1967, including Arab Jerusalem."³⁴ The Saudis, despite initial expressed misgivings about attempts to isolate Sadat, in the end accepted a resolution which not only denounced the Camp David accords, but also threatened Egypt with political and economic sanctions if it signed a peace treaty with Israel on that basis. The threat against Egypt was based on the charge that, in accepting such a treaty, it would have broken Arab ranks by signing a separate peace, and abrogated pan-Arab resolutions by failing to insist on Palestinian self-determination under PLO auspices. The Saudi decision to join in making that threat was based on the realization that, contrary to previous assumptions that stability in the Gulf would permit tacit support for an American-sponsored Arab-Israeli peace process, the crisis in Iran had made a policy adjustment imperative as protection against a possible radical threat.

By February 1979, as the American-Egyptian-Israeli negotiations dragged on past the original December deadline while the Shah's regime collapsed, Syrian and Iraqi spokesmen referred explicitly to the Iranian revolution as an argument for greater unity with the Saudis.³⁵ The latter were obviously still inclined to agree, even at the price of greater distance from Cairo and Washington. That same month, Saudi Crown Prince Fahd postponed a scheduled visit to the United States, apparently in part because it would have coincided with another trilateral negotiating session aimed at finalizing the Egyptian-Israeli treaty. In view of the Saudi dissatisfaction with Egyptian diplomacy, and disappointment with the United States, such a policy appeared better able to cope with potential radical threats to their own position in the wake of the revolution in Iran.

The next such perceived threat took place in late February, with the invasion of Saudi-supported North Yemen by Soviet-supported South Yemen. This time, as compared with Iran, the nature of the threat was different—external military rather than internal political—and so was the American response; more rapid and decisive, including large-scale emergency shipments of arms. The issues at stake between the two Yemens stemmed in part from a local dispute of long standing. But the invasion by the South, coming as it did so soon after the fall of the Shah, was perceived in the Saudi government as both a further Soviet probe of American intentions and resolve in the Middle East, and as a direct threat to Saudi Arabia's own security. Many American policymakers, too, viewed Yemen as a place where the United States had to "draw the line," in the wake of the revolution in Iran, against Soviet-supported disturbances in the region. But American firmness in this instance, despite some initial expectations, did not

³⁴ Arab Report and Record 1978, p. 802.

³⁵ FBIS/ME, Feb. 13, 1979, p. E1.

induce Saudi endorsement of or even substantial softening on the Camp David accords and the emerging Egyptian-Israeli peace. The fact that the Yemeni crisis had occurred at all, and that it was resolved only through Syrian and Iraqi mediation, demonstrated to the Saudis the continued advisability of the path they had chosen and of avoiding too close an identification with American diplomacy in Arab-Israeli affairs—especially in the aftermath of the revolution in Iran.

In the case of Jordan, the Iranian revolution added to already very strong objections to the Camp David accords. King Hussein's position was especially sensitive because of his sizeable Palestinian population, the role envisaged for him by the Camp David accords in negotiations on Palestinian "autonomy," and his susceptibility to various forms of pressure from neighboring Syria and Iraq. The revolution in Iran made Hussein's position even more precarious by raising grave questions about the value of his political friendship not only with the Shah, but also with the United States. On New Year's Day 1978 the Jordanian king had flown to Teheran for consultations with Carter and the Shah; by autumn, the latter was in danger of losing his throne, and the former was unwilling or unable to offer much help. Added to this was the factor of greater and more coordinated Syrian and Iraqi involvement in inter-Arab and Arab-Israeli politics, itself derived partly from the same unstable conditions in Iran. Under the circumstances, Jordan's acceptance of the Baghdad summit resolutions rejecting the Camp David accords was almost a logical conclusion. The subsequent success of the Iranian revolution, the apparent enhancement of the regional position of the PLO, and the absence of the customary countervailing encouragement from the Saudis or from the Shah, all reinforced Hussein's "rejectionist" approach. By February 1979, his initially more noncommittal and cautious interest in the Camp David process had been replaced by the position that it was "totally unacceptable."

In sum, the threat posed to a major nearby conservative, pro-Western monarchy in Iran by a militant Islamic and popular uprising aided and abetted by the PLO, helped convince formerly "moderate" Arab governments of the need for protection against similar internal, inter-Arab, and perhaps also outside (Soviet) pressures. Part of the formula for such protection was a common diplomatic front with the Arab radicals, and correspondingly greater distance from the American-Egyptian-Israeli peace campaign that was already suspect on its merits. While it is impossible to say with any certainty what might have happened had the Shah remained in power, the hardening of both the Saudi and Jordanian positions suggests that the Iranian revolution helped the Baghdad Summit conference to inhibit more broadly-based acceptance of—let alone participation in—the post-Camp David peace negotiations with Israel, and actually helped foster coordinated Arab opposition to those negotiations.

Arab opposition—and, indirectly, the Iranian situation—also affected Egypt's position in the treaty negotiations. Although, as noted above, Iran's revolution helped in some ways to confirm Sadat's determination to reach an accord with Israel, the unexpectedly severe and unanimous Arab condemnation of his approach led to a more demanding Egyptian position on the precise terms of peace. Before

the Baghdad summit, Egyptian spokesmen had expressed a desire for continued "linkage," as in the Camp David accords, between the bilateral peace treaty with Israel and the agreement on Palestinian autonomy in Gaza and the West Bank. But the Iranian crisis had helped to unify the Arab delegates to the Baghdad conference in opposition to the Camp David accords' ambiguity on the Palestinian issue; and this, in turn, generated an Egyptian perception of need for more concrete, explicit reference to the autonomy question in an Egyptian-Israeli treaty. Egypt saw itself as increasingly isolated within the Arab world and forced to justify its Camp David position as one which, ultimately, would be to the advantage of all the Arab states and the Palestinians. After the Baghdad summit, Sadat insisted on a specific timetable for implementing autonomy as a prerequisite of any treaty, and noted that the talks with Israel had reached a "crisis" over just this issue.

Much of the American-Egyptian-Israeli treaty negotiations from November 1978 through March 1979 revolved around the search for a "linkage" formula in these new, more stringent conditions imposed by the post-Iranian revolution, post-Baghdad situation. During this period, Egyptian negotiators raised a series of new demands related to the Palestinian issue. Egypt wanted an explicit link to realization of Palestinian autonomy in the text of the treaty. Egyptian representatives proposed that the exchange of ambassadors with Israel be delayed until after the election of Palestinian self-governing councils, at least in Gaza. The entire treaty, the Egyptians suggested, should be reviewed after five years, when the "final status" of the West Bank and Gaza was also to be decided. This insistence on clearer linkage between the two documents agreed to at Camp David, and on a more careful wording and interpretation of them and of an Israel-Egypt draft treaty of November 1978, were obvious results of the Baghdad summit and, indirectly, the Iranian revolution.

Another negotiating issue tied to events in Iran was that of the priority of Egypt's existing treaty obligations to other Arab states. Sadat's main concern was to demonstrate his "Arabness" and the proper relationship of a peace treaty to his Arab role. But also at stake for Sadat were commitments against radical threats in the region, now that the Shah was gone. A "priority clause" in the treaty, in these circumstances, would have reminded other Arabs that those timely Egyptian commitments were still in force, and thereby perhaps muted their criticism of the treaty as a whole. In any event, Sadat sought to remind them. In late January, significantly, Sadat observed that—

Bakhtiar has said that Iran will not be a policeman of the Persian Gulf region. * * * That leaves Iraq * * * and the Iraqis consider Kuwait to be an Iraqi Province. * * * As for Egypt, its commitment to defend (Saudi Arabia and Kuwait) the moment they are attacked still prevails and will continue to prevail.³⁰

In February, some additional Egyptian troops were reported on their way to Oman, where a radical insurgency had been controlled, with Iranian help, as the last Iranian troops withdrew. President Carter spoke of the "legitimate stabilizing role" that Egyptian armed

³⁰ Washington Post, Jan. 23, 1979.

forces could now play in the region.³⁷ In order to be effective, that stabilizing role presupposed an Egyptian-Israeli peace treaty. The American and Egyptian governments were anxious to ensure stability in one part of the region in the face of turbulence in another, and were therefore more interested than ever in concluding the treaty before the adverse effects of Iran aborted it altogether. However, the Israeli government, whose confidence in the United States had been damaged by events in Iran, was not disposed to make any more major concessions. American negotiators seem to have recognized this new reality by reverting, with some revisions, nearly to the original Camp David formulation—and closer to the Israeli position—after having practically endorsed Egyptian demands for “linkage” in November and December. Faced with these conditions, Sadat apparently decided to present the other Arabs with a fait accompli.

On March 26, 1979, Egypt and Israel signed a peace treaty whose terms fell considerably short of the kind of “linkage” to the Palestinian issue that the Egyptians (and the other Arabs) had been demanding. Any explicit link with a more comprehensive Middle East peace was confined to the preamble of the treaty, which was declared binding “regardless of the action or inaction of any other party.” A “side letter” committed Israel to begin negotiations over Palestinian autonomy (this time, unlike in the Camp David provisions, with the understanding that “the U.S. Government will participate fully in all stages”) within one month of ratification.

Thus, the Iranian revolution had the indirect effect, at first, of hardening Egypt’s negotiating position. In the end, though, it helped convince Sadat (along with Israel and the United States) of the necessity of consummating his initiative, in the hope of salvaging some measure of stability in the new, post-Shah regional configuration.

In the Arab world as a whole, however, the situation in Iran aggravated an already adverse reaction to what was widely perceived as an Egyptian-Israeli “separate peace.” The treaty was followed almost immediately by a second Baghdad Arab summit, ostensibly convened to implement the resolutions of the first. Once again, statements by the moderates, especially the Saudis, expressed both unhappiness with Sadat’s diplomacy and reluctance to isolate or punish him too much. Once again, the Saudis eventually went along with more reprisals against Egypt—including the rupture of diplomatic relations and multilateral economic assistance—after renewed radical exhortations. And once again, the added prestige and freedom of maneuver gained by the radicals as a result of the revolution in Iran appear to have exerted some influence on the outcome. Saudi Arabia was “less able to go it alone,” in the words of one anonymous official, “especially after Iran.”³⁸ In one subsequent specific instance—the Islamic conference on Jerusalem at Fez, Morocco, in May—the added protests of Iran’s delegates helped to bar Egyptian representation, despite the reported private desires of both Saudi delegates and Moroccan hosts. Saudi implicit rejection of the U.S.-Egypt-Israeli Palestinian autonomy negotiations continued throughout the remainder of 1979.

³⁷ Washington Post, Feb. 23, 1979.

³⁸ Washington Post, May 13, 1979. See also Al-Siyasah (Kuwait), Jan. 8, 1979.

THE FUTURE

Iran's future is still undetermined and, as a result, its roles and impacts in the Middle East are not precisely clear. Yet the patterns of past involvement and the initial consequences of the revolution for regional developments provide the context for assessing the ultimate effect of the revolution on the Middle East. Several main alternative futures can be identified and these, in turn, suggest different impacts in the region.

A first alternative is an Iran which continues to be unstable and fragmented in its internal politics. Such a nation, no matter what its inclinations, would be unlikely to be able to muster the resources, manpower, or political will for any major foreign policy ventures. Current policy trends are therefore likely to continue, at approximately their existing levels. Continued diplomatic hostility toward Israel and support for the PLO can be expected. Also likely is continued hostility toward Egypt, including a diplomatic and possibly also an economic boycott, at least so long as Egyptian policy maintains its present course of implementing its treaty of peace with Israel. Bilateral relations with other Arab governments will probably remain correct but uneasy, due to Arab government concern about political instability and about certain specific sensitive issues: the Shii and Kurdish position in Iraq, the religious question in Syria, the "radical" threat perceived by Saudi Arabia, and the status of the PLO in Jordan and Lebanon. Current efforts by each of those countries to foster a good yet reserved relationship with an unstable government in Iran would therefore probably continue.

Iran's policy of support for the PLO is almost certain to remain in force. Its effects will probably be severely constrained, however, by possible objections from various Arab governments and, especially, by Iran's own internal problems and projected limited capabilities. Iran's support is thus likely to be confined to policy pronouncements and some small-scale financial, logistical, small weapons, and possibly intelligence assistance to the PLO. It is possible, however, given the internal political instability posited, that the Iranian government (or some faction within it, or some extra-government political grouping) might increase the level of support for the Palestinians as a diversion from internal problems or as a source of added legitimacy at home. The participation of small numbers of Iranian volunteers in PLO activities, with official or semi-official sanction, similarly cannot be ruled out for the future.

Significant Iranian military participation with Arab forces arrayed against Israel is not likely under these circumstances, although token deployments are possible. Beyond the loss of substantial oil supply, Israel's security (and diplomatic) posture should therefore be only marginally affected by an internally unstable Iran. In general, such an Iranian regime will not have much more direct political or military effect on the Arab-Israeli situation, or on any of the parties implicated in it individually, than has already been registered by the revolution and discussed previously.

The economic and other indirect implications of a continuing Iranian revolution are likely to be more substantial. Within the Arab-Israeli zone, the immediate economic impact will fall most heavily on Israel. Oil sales from Iran, which until the revolution accounted for more than half of Israeli requirements, will almost certainly not resume. It does appear likely, however, that new sources—including Egypt, along with a variety of other African and Latin American producers, at premium prices—will continue to make up the difference, at least for the next few years. Israel's \$100 million-plus annual exports to Iran under the Shah may actually be harder to redirect in the medium term. On another level, there is also some concern in Israel over the fate of the approximately 80,000 Jews remaining—and potentially affected by sectarian or political strife—in an unstable Iran.

Iran's small trading relationship with Egypt will probably also be curtailed, and the Shah's occasional provision of credits indefinitely suspended. The immediate burden here, however, is mitigated both by the small absolute size of the probable loss, and by the continued availability of other unused credits already "in the pipeline". An indirect economic impact of the Iranian revolution on Egypt is also likely to continue: the conservative Arab oil producers of the Gulf, too, would have been somewhat more likely to maintain their collective \$1-2 billion annual subsidy to Sadat, had not the Shah's fall encouraged them to reorient their inter-Arab posture in the more "radical" direction described above.

On a military level, continued turmoil in Iran would affect the Arab-Israeli sector because of the increased concern about regional security which such turmoil would undoubtedly promote. An unstable government in Iran might encourage political instability elsewhere in the region, if not by design then perhaps by example and the absence of effective opposition. Included here are various possible forms of indigenous terrorism, insurgency, and radical or religious opposition, as well as outside overt and covert (or "proxy") intervention. It is probable that, in the face of such perceived dangers, either or both Egypt and Israel could seek American encouragement to assume the role of regional "stabilizer" relinquished by Iran. Egypt could use its newly acquired American weapons to defend friendly regimes in East Africa and on the Arabian Peninsula and to help ensure the flow of oil. Israel might assume and perhaps enlarge her role as the de facto protector of her immediate vicinity against radical Arab governments, Palestinian guerrillas, or other forces hostile to the United States. The threat of Israeli counterintervention might serve to obstruct, as it did in 1970, radical invasion or subversion of such still relatively "moderate," pro-Western regimes as Jordan and also to counter or deter attacks on freedom of navigation—and oil transit—in and around the Red Sea. In the event of Soviet-American confrontation, Israeli forces might assist American strategy in the region.

There would be severe constraints, however, on the operation of such an American-Egyptian-Israeli security system. There is the uncertainty of close Egyptian-Israeli cooperation and the constraint of geography, which suggests that neither regional state can effectively

substitute for Iran in relation to the Soviet Union and the Gulf. Also important would be a shared concern, drawn in part from the negative image of American arms sales and military advisors in pre-revolutionary Iran, over the potentially adverse internal political impact on Egypt of a large-scale physical American military presence. But the most critical constraint is likely to be the political sensitivity in the Arab world at large—also aggravated by events in Iran—over such a security system, especially if explicit agreements with, large-scale American military presence in, or active intervention by either Egypt or Israel is involved.

Indeed, so long as the situation in Iran remained unsettled, it would probably help prolong the anti-Egyptian, anti-American, and pro-Palestinian Arab consensus fashioned, at least in part, in response to the uncertain and vaguely threatening situation in Iran in late 1978. Thus, even though Iran itself will probably have very little direct impact in the Arab-Israeli arena in this instance, its indirect effect will probably be to make implementation of the Israel-Egypt peace treaty more difficult, yet indispensable for its short-term stabilizing value. At the same time, continued turmoil in Iran will most likely help to keep that treaty very narrowly based, and hence inherently unstable over the longer term.

A second major alternative future for Iran—the gradual stabilization of an Islamic regime with a functioning economic base—would probably reinforce and intensify many of the trends described above. In the realm of bilateral diplomacy, continued hostility toward both Israel and Egypt, along with cautious (and potentially troubled) friendship with Israel's other Arab neighbors, could be expected. An important new factor in bilateral relations is likely to be an increase—commensurate with Iran's own revived economic capabilities—in material as well as moral support for the PLO. Such an increase might aid not only the organization as such but also Arafat's relatively more "moderate," largely Muslim Fatah group, as compared with more radical, Marxist, and to some extent Christian factions like the PFLP. In this connection it is worth recalling that, on his visit to Teheran in February, Arafat took with him only Fatah affiliates, and praised only the Islamic (Mujahideen) but not the radical (Fedayeen) elements of the Iranian opposition to the Shah. Conversely, Khomeini singled out Arafat for public embrace, even though more radical PLO factions had been closely connected with some revolutionary elements in Iran. In the longer run, stepped-up Iranian support for an independent PLO organization might also provoke objections from some of the latter's Arab government hosts, including Syria, Lebanon and Jordan. In such a case, given the risks involved, even a militantly Islamic Iranian regime will probably ultimately prefer an accommodation with the established governments in question, although friction over this issue is quite possible.

In the economic sphere, the general patterns described for the first alternative are also likely to apply in this instance. Some additional redirection of trade (in foodstuffs and light industrial products) with Syria, Lebanon and Jordan is possible in the name of Islamic solidarity, although the overall amounts are likely to remain small. Given Iran's own revived economic capacity, some investment loans or cred-

its for those countries might also be forthcoming, depending in part upon the extent of Iranian economic recovery or surplus oil revenues. Economic relations with both Israel and Egypt, by contrast, are even more likely to remain broken, with the limited adverse consequences previously described.

In the security sphere, too, developments will probably follow the same general lines in this second alternative as in the first, but here the effects are more uncertain. In the short run, the emergence of a stable Islamic government in Iran is likely to reduce the need for, and raise the political costs of, external military protection against spreading regional instability or hostile outside intervention. In the longer run, however, such an Iranian regime might want to put its restored military capability to use. The most important relevant effects would be felt in the Arab-Israeli arena, where a militant Islamic government in Teheran would be both more willing and more able to provide substantial assistance to the eastern Arab states.

Nevertheless, regardless of the militancy of the regime in power, Iranian military participation in an Arab-Israeli war would be severely limited by the poor state of its military equipment, problems of leadership, and, especially, by its geographic location. Iran is physically removed from Israel's frontiers, and efforts to reach the battle front would require cooperation from traditionally suspicious neighbors (although this might be granted in case of war with Israel) and advance positioning of forces (which might provide Israel with warning of an attack). Use of aircraft would simplify both problems, and is therefore somewhat more likely in another Arab-Israeli war, though still far from certain. Another factor limiting Iranian involvement is the improbability of a sustained, effective alliance between several Arab states and Iran. Experience with the supposedly firmer Arab solidarity, or lack of it, suggests that Islamic solidarity alone is not likely to cement governments of divergent Shii and Sunni Islamic backgrounds—especially in view of the additional cultural and political differences, geographic distance, historical animosities, and different outside ties that divide the Arabs from Iran. Finally, even a militantly Islamic Iranian regime, with strong ties to the Arab states hostile to Israel, would still lack any territorial or other tangible incentive for large-scale participation in a war with Israel.

On the other hand, to a militantly pro-Arab, stable Iran, joining a war coalition against Israel would carry low political risks. There would be little probability of loss of Iranian territory or counter-intervention by outside powers, and if Israel were to win such a confrontation, the loss of prestige would be much more significant to the Arab states than to Iran. In 1973, even under the Shah, Iran provided at least some "passive" support for the Arab side in the October War; and at least as much could be expected from an Islamic Iran in almost any future Arab-Israeli war.

A major political question to be addressed in the event a stable Islamic regime emerges in Teheran is the likely impact on Egypt's new treaty relationship with Israel. It is unlikely that the addition of Iran to an anti-Israel camp could force Egypt to renege on its treaty commitment. Sadat, who has faced the strong opposition of virtually the entire Arab world, including some of his major creditors and donors,

is not likely to be particularly upset by the addition of Iran to this group. Indeed, Egypt and Iran have already become quite inimical to each other, and such a move is more likely to push Sadat closer to the West and to Israel, if anything. On the other hand, the very existence of a militantly Islamic regime in Iran could magnify both Israeli anxieties and PLO demands, and thereby further complicate the already difficult negotiations for Palestinian autonomy to which Egypt is also committed.

In the inter-Arab context, an Islamic government in Iran will probably maintain some additional pressure in favor of the existing broad support for the PLO and avoidance of (or hostility toward) the Egyptian-Israeli peace process, even if Iran does not make a major direct contribution to rejectionist strategy or strength. It is possible, however, that the Iranian support which has lately been promised to "Islamic revolutionaries" could, in this case, drive a wedge or deepen the existing rivalries among the Arab states, perhaps along the lines of the radical/conservative split of earlier decades. Iran will probably try, in its own self-interest, to stay aloof from inter-Arab rivalries, but it may not succeed; the new regime's already warm relations with Libya could be a portent of things to come under an Islamic government in Teheran. For different reasons, the governments of Iraq, Syria and especially Saudi Arabia have all been often uncomfortable with the "radical" and anti-Western Islamic orientation personified by Libya's Qadhafi. Similarly, a sustained Iranian radical Islamic foreign policy posture might well pose a political threat to its more conservative or less "religious" (or Sunni-governed) neighbors, especially if it were coupled with Iranian support for a revolutionary PLO stance.

Such a threat, if it were great enough, might lead the Saudis to resume economic and possibly tacit military cooperation with Egypt. Finally, an Iranian government effectively allied with Islamic or Arab revolutionary forces might make Saudi Arabia more amenable to moderating its opposition to the Egyptian-Israeli peace treaty, in exchange for greater American protection from the perceived radical threat. But even then (indeed, perhaps precisely because of that threat), the Saudis are likely to offer only tacit support, and to adopt a public posture that would not relate even to minimum Israeli demands. And even this would likely result only if an Islamic government in Teheran were actively and exclusively identified with "radical" currents in the region. It is more likely, at least in the medium term, that an Islamic Iranian regime would lead to further diplomatic, economic and military isolation of both Israel and Egypt, added influence for the PLO, and a distant and uneasy but generally "radicalizing" Iranian friendship with the other Arab actors involved in the Arab-Israeli zone.

A third major alternative Iranian future is the establishment of a Marxist regime in Teheran. The determining factor here would be the economic and political capability, rather than the ideological bent of the regime. The domestic political, social and economic transformation which this might entail probably would keep Iranian capabilities low for some time. In such a case, it is highly unlikely that a significant amount of economic or military assistance would be given to the Palestinians or to any compatible Arab state for use against Israel. The same

constraints would apply to bilateral or multilateral relations with any of the other actors in the Arab-Israeli sector.

In the event that a relatively stable and prosperous Marxist regime emerges in Teheran, the extent of its susceptibility to Soviet control would remain a major unresolved issue. Substantial Soviet influence is likely, however, given such factors as Moscow's traditional links with Iran's "orthodox" Communist Tudeh party and probable contacts with other leftist elements in Iran, Soviet capabilities in propaganda, agitation and infiltration in that country, and Iran's own political-military weakness and proximity to Soviet borders. For all these reasons, a Marxist regime in Teheran would probably follow the Soviet line in the Middle East. Diplomatic and economic relations with both Israel and Egypt would almost certainly stay broken. Diplomatic backing, financial aid, and limited military assistance for the PLO would likely increase. In the short run, political interaction with other Soviet-supported states in the region (such as Syria) would also be expected to increase. In the longer run, however, it is possible that bilateral relations with Syria as well as Lebanon and Jordan would deteriorate, as the temptation for those Arab governments to jump on the Soviet "bandwagon" may be gradually offset by their fear of too close a Marxist embrace.

The economic interaction of a Marxist Iran with the Arab-Israeli sector is not likely to show any dramatic changes from current patterns. They may be some redirection of trade to Soviet-linked markets, in which case the Jordanian economy would be the one primarily affected—unless special agreements were made. Oil and gas production and marketing would probably also be shifted somewhat toward the Soviet and Eastern European markets, although here again the effects on the Arab-Israeli sector (beyond those already registered by the revolution) are likely to be small. Most importantly for the Arab-Israeli sector, economic assistance in various forms to Soviet clients is likely to increase partly in order to defray the costs to the Soviet Union itself of such support. In the military sphere, cooperation with the Soviet Union—including allowing access to Persian Gulf port facilities—and its clients or allies in the region would probably be increased, with potentially far-reaching consequences.

In the Arab-Israeli dispute itself, a Marxist government in Teheran would probably intensify its involvement, at least on the diplomatic level, on behalf of a Soviet-sponsored "solution" of the "crisis". However, in view of the high stakes and risks involved, the Soviets would probably effectively discourage large-scale Iranian military participation in the conflict. It is more likely that the Soviet Union would encourage the Iranian Government to press for increased Soviet diplomatic involvement, on more favorable terms, in Arab-Israeli affairs.

In the inter-Arab context of Arab-Israeli diplomacy, however, a Marxist regime in Iran might well lead at least a few of its neighbors into a shift toward greater acceptance of the American-sponsored "peace process." In particular, the Saudi regime, which fears encirclement by Soviet-supported states and other radical forces, would undoubtedly feel threatened by a Marxist Iran directly across the Gulf—especially given Iran's relatively great economic and human resources, plus the military capability that it could again attain with Soviet

assistance and the return of political stability. In order to counter such a Soviet advance, and to boost American influence as a counterweight, the Saudis might be willing to moderate their opposition to the Egyptian-Israeli peace treaty. It is also not unlikely that such a situation would pose a sufficient threat to the other Arab States of the Gulf, and particularly nearby Kuwait, that they, too, would feel compelled to make up with Egypt and lean more closely upon the United States. Aggressive Iranian policy in the Gulf has always been a source of uneasiness for those states, and such a policy contemplated by a radical, pro-Soviet Iran would be all the more threatening.

A major question at this juncture would be the effect on the Israeli negotiating position. If the presence of a radical, pro-Soviet regime in Teheran were perceived in Israel as an added incentive to make peace, it is possible that the government would then consider the kind of gestures that would allow Saudi Arabia to acquiesce to the peace process without paying an intolerable political cost. Such compromises might be perceived in Israel as worth the price if they were to bring about Saudi (and perhaps also Jordanian) cooperation with the peace process. Still it must be emphasized that the broader regional and even global implications of this third Iranian scenario are so profound that its likely impact in the Arab-Israeli arena is especially difficult to predict. It is possible, for example, that the existence of a Marxist regime in Iran would pressure its Arab neighbors into taking an even greater policy distance from the West, which would serve to further isolate the American-Egyptian-Israeli "peace process" without suggesting a clear alternative to it.

In the unlikely event that a Marxist regime unallied with Moscow succeeds in establishing and maintaining power in Teheran, it will probably attempt to forge alliances with the more independent Arab socialist governments, such as those in Syria and Iraq, and with the more radical Palestinian factions. Such a regime will probably be so preoccupied with various internal and external challenges to its survival, however, that sustained involvement of any kind in the Arab-Israeli sector is unlikely.

To date, Iran's Islamic revolution has helped to isolate Egypt and Israel politically and economically, enhance the prestige and resources of the PLO, intimidate potential (if only lukewarm) Arab supporters of current peace negotiations, and encourage the Arab states in general to close ranks in order to better confront the rapid changes in the region. These factors are likely to remain in effect during the next, early, important phase of Egyptian-Israeli peace treaty implementation. For the longer term, if events in Iran have taught us anything, it is that Middle East politics can produce major surprises—and that, as the preceding analysis has shown, Iran's impact on the region will probably continue to be shaped in considerable measure by its own uncertain internal political evolution. In general, its direct impact on the various parties of the Arab-Israeli sector is likely to remain small. Iran's indirect effects on the Arab-Israeli conflict by way of inter-Arab politics, on the other hand, may well be somewhat more substantial. The most significant impact in the Middle East, however, will probably remain focused on Iran's immediate Persian Gulf subregion.

IMPACT OF THE IRANIAN REVOLUTION ON SOUTH ASIA

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I. INTRODUCTION

While pre-revolutionary Iran provided important support for stability in South Asia,¹ the Iranian revolution was only one of a series of events that interrupted an emerging detent involving the key regional states—Afghanistan,² India and Pakistan. Intra-regional relations are now clouded by the internal disarray of the radical leftist, Soviet-backed government of Afghanistan and the unclear nature of its policies toward Pakistan and Iran should it retain power, uncertainties regarding the politically fragile military-dominated government in Pakistan, heightened fears on the part of Pakistan regarding its security vis-a-vis Afghanistan and India, and an increase in tensions between India and Pakistan over evidence that Pakistan, possibly with financial support from Libya, has embarked on an accelerated program to acquire a nuclear weapons capability. No presently foreseeable developments in Iran during the next 2 to 5 years can restore the status quo ante in South Asia, as events took an unfavorable turn prior to the Iranian revolution. On the other hand, even the best case scenarios for the eventual outcome of the Iranian revolution involve a heightening of regional instability, while the worst case scenarios could have a grave but unpredictable effect on South Asia.

It is important to distinguish between the political and economic impact of Iran on South Asia since the emergence of Iran as a major economic and military factor in Persian Gulf/Indian Ocean region, though of course the two aspects cannot be divorced. In a fundamental way, the local economic impact of Iran was bound to be immense, no matter what the policies of its government toward neighboring states. This impact flowed from the full scale exploitation of Iran's petroleum resources, the post-1973 quadrupling of oil prices, and the commitment to rapid modernization and industrialization of an economy whose basic infrastructure and human resources were less developed than those of a number of poorer developing countries.

Given the facts of relatively unpoliceable borders, labor shortages in Iran and widespread poverty and unemployment in South Asian countries, Iran was bound to be an economic magnet. At the same time, the complementary nature of the economies of certain South Asian countries was likely to contribute to growing exports to Iran of raw ma-

¹ For the purposes of this paper South Asia includes Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka. Bangladesh and Sri Lanka, however, will be dealt with only peripherally, as they do not play a crucial role in the most important regional issues, while Nepal will not be treated at all due to its irrelevance to issues addressed in this paper.

² Afghanistan is a key state on account of its strategic location and potential influence on ethnic minorities in Iran and Pakistan, not its population, size or economic significance.

terials, manufactured goods and technical expertise, so long as Iran was committed to rapid economic growth. The end result of the post-1973 period was, on the one hand, staggering increases in the oil import bills of South Asian countries, and on the other, strong increases in export earnings, enormous labor migration, a drain of trained professionals in teaching, medicine, science and technology, and related inflows of hard currency remittances. These developments alone might have led to the disruption of the equilibrium in some South Asian states and in the region as a whole. In addition, however, the Shah sought to use Iran's economic power to shape the course of regional relationships. The Shah's policies included:

(1) Security guarantees, oil credits, and badly needed balance of payments support to Pakistan, and insistent political advice on dealing with the tribal minorities, especially in Pakistani Baluchistan;

(2) Oil credits, concessionary oil prices, and a large and growing network of economic ties with India, as well as a significant degree of diplomatic support in international forums;

(3) Promises—only partially fulfilled—of massive economic support for Afghanistan aimed at wooing the government of Mohammad Daoud Khan from its anti-Pakistani stance and close ties with the U.S.S.R.;

(4) A visionary scheme for a regional common market encompassing the arc of countries from Iran to Bangladesh.

In the wake of the 1971 Indo-Pakistan War and the petroleum price increases of 1973-74, the Shah emerged as an important but potentially disquieting factor in regional relations. Through a combination of security guarantees to Pakistan and the cultivation of India as a major regional economic and political partner, the Shah helped facilitate the rapprochement between India and Pakistan. Similarly, through commitments of massive economic assistance, political advice, and reportedly, the close involvement of Iranian secret police (SAVAK) agents with Afghanistan's internal security apparatus, the Shah sought to entice the government of Mohammad Daoud Khan, which came to power in a 1973 overthrow of the monarchy, away from its initial radical leftist course and anti-Pakistan foreign policy.³ In both cases a major objective of the Shah was to dampen the troublesome questions of the ethnic Baluchis, who comprise a small minority in the total population but whose homeland province of Baluchistan constitutes about 40 percent of the land area of Pakistan. Ethnic Baluchis also occupy the border areas of Afghanistan and Iran, and Afghan agitation on behalf of both the Baluchi and Pushtun (Pathan) minorities of Pakistan has long exacerbated Afghanistan-Pakistan relations.⁴ Ultimately, the Shah's attempts to shape the policies of both Afghanistan and Pakistan toward the Baluch issue contributed to the desta-

³ Selig S. Harrison, "After the Afghan Coup: Nightmare in Baluchistan." *Foreign Policy*, No. 32 (Fall 1978), pp. 146-147. "The Shah, Not Kremlin, Touched Off the Afghan Coup." *Washington Post*, May 13, 1979, pp. C1, 5.

⁴ Louis Dupree, one of the most knowledgeable Western observers of Afghanistan, has summarized the "Pushtunistan" problem as involving the legality of the Durand line of 1893 as an international boundary, and the political status of the Pushtun and Baluch minorities living on the Pakistan side of the line." Louis Dupre, "Toward Representative Government in Afghanistan. Part 1: The First Five Steps." *American Universities Field Staff Reports*, 1978, Asia, p. 7.

bilization of both countries, though the exact weight to be assigned to the influence of Iranian policy is a matter of dispute.

Considerably before the convulsions that swept the Shah from power his regional aspirations had been shown to be unrealizable. In Afghanistan, Daoud overreached in the effort to eliminate the extreme leftists and, possibly with Soviet support, they struck back and toppled him from power. In Pakistan, the beginning of Prime Minister Bhutto's political downfall can be traced to his repudiation of promises made in 1972 to grant more regional autonomy to Baluchistan. Bhutto's dismissal of the popularly elected Baluchistan provincial government in February 1973, resulted in a bloody four-year insurrection that contributed to the erosion of his political capital. In both Afghanistan and Pakistan, however, events had acquired a momentum of their own well before the final phase of the Iranian revolution.

II. POLITICAL AND ECONOMIC IMPACT ON SOUTH ASIAN STATES

A. Pre-Revolution Relationships

Since the post 1973 surge of oil prices, Iran and the other Persian Gulf states have acquired dramatically larger importance to the countries of South Asia. Iran and the other Gulf states have become major importers of goods, services and labor from South Asia, and valuable sources of hard currency, including that in the form of remittances from Asian workers employed in the oil states. At the same time, the swelling treasuries of the oil states have enabled them to dispense development loans and other forms of economic support generously, thus partly compensating for the higher petroleum prices.

The growth in trade between Iran and the countries of South Asia is shown in Table I. It should be noted that these data are limited in terms of completeness and accuracy. Moreover, exports to Iran do not constitute more than about 11 percent of any country's total imports or exports, and much less in most cases. (Imports from Iran are almost entirely oil and oil products for all South Asian countries.) Still, the data reveal a rapid rise in trade relationships, whose continuance remains doubtful for the immediate future, and perhaps for the longer term.

Other factors are more difficult to quantify due to the paucity of data, although their importance may far exceed that of trade. These include development loans and credits, for which data is haphazard, unreported trade (i.e., smuggling), and remittances. These factors are addressed—to the extent possible—in the discussion of individual countries.

1. AFGHANISTAN

Iran has long been both an economic and cultural magnet for Afghanistan and a potential geopolitical threat.⁵ From the Afghan

⁵ Historically, Persia (Iran) has exerted a cultural and linguistic influence on all of South Asia, including Afghanistan, in a manner similar to France's influence on Europe. At the same time, Iran and Afghanistan have been traditional rivals for control of the fertile valleys of the Indus river and its tributaries. In the 18th and 19th centuries, Iran and Afghanistan became confronted by stronger powers (i.e., British India and Tsarist Russia) and lost much of their independence in the European competition for spheres of influence. In the 20th century, Afghanistan regained its independence, but remained poor and isolated. Iran not only regained full independence, but in the last twenty years or so, also reacquired some of its former vigor and, in the eyes of neighboring countries, chauvinistic pretensions.

point of view, the Iranian connection became less ambivalent and more beneficial following the rapid growth of Iran's oil wealth. As of early 1979, as many as one million or more Afghans may have been working in Iran, of which only 100,000 were estimated to be legal. Some were seasonal illegal migrants, but many remained as semi-permanent additions to the Iranian work force. Remittances became sufficiently important by 1976 to cause an unexpected appreciation of the Afghan currency against foreign currencies.⁶ A 1974 Protocol between Iran and Afghanistan anticipated aid commitments of as much as \$2 billion, expended over a ten year period—more than the total foreign assistance received by Afghanistan in the previous 30 years. This was for a country whose annual government budget totals about \$100 million. Most of the projects included in the protocol became moot when Iran's oil revenues failed to grow at expected rates. Nonetheless, the indirect effect of the post 1973 oil boom put Afghanistan solidly into the black, financially, and lent great impetus to the improvement of Afghan-Iranian relations.⁷

TABLE I.—TRADE BETWEEN IRAN AND SOUTH ASIAN COUNTRIES

(Dollar amounts in millions)

	1972	1974	1976	1977	Approximate ¹
Exports to Iran:					
Afghanistan.....	\$1	\$5	\$6	\$4	1
Bangladesh.....		7	11	15	3
India.....	34	169	174	2 108	3 3
Pakistan.....	3	67	37	2 81	3 3
Sri Lanka.....		11	12	13	2
Imports from Iran:					
Afghanistan.....	8	13	26	30	6
Bangladesh.....		4	44	52	4
India.....	162	605	544	2 614	3 11
Pakistan.....	8	22	4	4	4 1
Sri Lanka.....		26	59	63	10

¹ Approximate percent share of total country exports/imports, 1977.² 6 mo or less reported data, 6 mo or more extrapolated.³ 1976.⁴ Less than.

Source: International Monetary Fund, Direction of Trade; annual 1971-77.

Not unexpectedly, the 1978 Afghan revolution soured relations with Iran and put the remainder of the planned development assistance in jeopardy. Equally unsurprising, the Soviet Union responded to the coup by engaging the new government in several score aid and trade agreements and later, in December 1978, with a 20-year friendship treaty. The U.S.S.R. resumed its role as Afghanistan's largest aid donor and trading partner, and sharply increased its involvement in Afghanistan's internal and external security.

2. PAKISTAN

Due to Pakistan's overwhelming preoccupation with its security vis-a-vis India and Afghanistan, its relations with Iran have long lacked the tension that underlay Afghan-Iranian relations. Pakistan

⁶ Foreign Economic Trends: Afghanistan. No. 77-043 (April 1977), p. 4; Middle East Economic Digest, February 23, 1979, p. 30.

⁷ Above information summarized from Louis Dupree, "Afghanistan 1977: Does Trade Plus Aid Guarantee Development?" America University Field Staff Reports, South Asia Series, Vol. XXI, no. 3 (August 1977).

has long relied on Iran as a trusted friend and patron. The Shah had a particular interest in the troubled province of Baluchistan, due to its strategic location on the approaches to the Arabian Sea from the North, and because of the substantial Baluchi minorities in both Iran and Afghanistan. This interest carried explicit implications for both Afghanistan and Pakistan. In April 1973 the Shah noted that Iran would not fail to act in the event of any separatist movement in Baluchistan, but would occupy the Pakistani province and perhaps additional territory as well.⁸ From the Afghan point of view this was an expression of what Louis Dupree called "Iran's trans-boundary chauvinism."⁹

At the same time, the Shah's concern about instability in Pakistan's political system, especially the problems with the Baluchi and other tribal minorities, led to what some observers have seen as counterproductive interference in Pakistan's affairs. In this view, the Shah's advice to President Bhutto to crack down on Baluchi autonomist agitation rather than adopt a looser form of federalism that Bhutto himself had promised the Baluch leaders in 1972,¹⁰ sowed the seeds of Bhutto's eventual downfall and the institution of the current Martial Law Administration. It should also be noted that Bhutto had reasons of his own for his February 1973 dismissal of the Baluchistan provincial government and that this advice also conformed to the attitude of the Pakistani military, which was both a pillar of support and a threat to Bhutto.¹¹

The dominant fact about Pakistan's situation in the period since the 1971 Bangladesh War has been the failure of the political system to develop in a way that could allow the country to meet its very real challenges. This failure must be laid at the feet of the late Prime Minister Bhutto and the military leaders who backed up his regime and ultimately brought it to an end, but also to the seemingly intractable fissures in Pakistan's policy. Bhutto and the military leaders perceived demands for regional autonomy as anti-national, and relied increasingly on force to quell dissent. Pakistan pursued a number of counterproductive economic policies, including on again-off again nationalizations of the grain trade and agricultural processing sectors, pursued expensive schemes for nuclear power generation and—so it appears—a nuclear weapons capability, and allowed imports to burgeon to twice Pakistan's exports. In the recent past, only large scale remittances on the order of \$1.3 billion per year from Pakistani workers in Iran and other Gulf states have brought overall payments into relative balance.¹²

⁸ Louis Dupree, "A New Decade of Daoud?" American Universities Field Staff Reports, South Asia Series, Vol. XVII, no. 4 (July 1973), p. 5; Rouhollah K. Ramazani, "Emerging Patterns of Regional Relations in Iranian Foreign Policy," *Orbis*, Vol. XVIII, no. 4 (Winter 1975), p. 1061.

⁹ Louis Dupree, "A New Decade of Daoud?" American Universities Field Staff Reports, South Asia Series, Vol. XVII, no. 4 (July 1973), p. 5.

¹⁰ Lawrence Lifschultz, "Accounting for the Past in Pakistan; Interview/Wall Khan," *Far Eastern Economic Review*, June 23, 1978, p. 32.

¹¹ Sellig S. Harrison, "After the Afghan Coup: Nightmare in Baluchistan," *Foreign Policy*, No. 32 (fall 1978), pp. 138-139; Lawrence Lifschultz, "Festering Dilemma for Bhutto," *FEER*, May 28, 1976, pp. 32-38.

¹² For budget year 1977-78 exports were estimated at \$1.315 million versus imports of \$2.738 million. Due to \$1.3 billion in worker remittances, a \$182 million balance of payments surplus was anticipated. U.S. Department of State/Department of Commerce, *Foreign Economic Trends and Their Implications for the United States*, Pakistan, no. 78-114 (September 1978). Reportedly, Pakistani workers are much in demand in the Persian Gulf area due to their relatively high technical and managerial qualifications, as well as their Islamic religion. Paul Wilson, "The Middle East Boom Starts to Tail Off: Asian Countries Stand to Lose Substantial Remittances as Workers Return to Face Problems of Unemployment and Unfulfilled Expectations," *FEER*, May 11, 1979, p. 39.

Since 1971 Pakistan has redoubled its efforts to cultivate the Muslim and Arab countries, especially Iran and Saudi Arabia, as sources of economic, political and military support. In recent years Pakistan obtained as much as one-third of its total external aid from these sources, including about \$800 million from Iran. Since the July 1977 coup, however, these countries have been much less forthcoming. As of early 1979 Pakistan had a foreign debt of over \$7 billion, and current liabilities of about \$400 million that it was unable to meet.¹³

It is in this light that the Pakistan Institute of Development Economics proclaimed, in February 1979:

Our fate appears to be balanced on a knife-edge. We do not have many degrees of freedom to make mistakes. Not only is our present economic predicament precarious, but, through reckless external borrowings, the options of the future generations have been constrained severely. The economic future of the country has been chained to the past.

Despite common assumptions that India and Iran are inevitable rivals in the long term, owing to their military and economic pre-eminence in their respective regions,¹⁴ the pattern of the past few years has been one of relatively close economic and political collaboration. India's economic ties with Iran were always greater than Pakistan's, a fact of great discomfort to the latter. As early as 1959, for instance, total Indo-Iranian trade was five times that Irano-Pakistani trade.¹⁵ Nonetheless, ties between Iran and India did not become close until after the 1971 war when India, with Soviet backing, emerged as the dominant regional power in South Asia. Aside from the real economic opportunities for Iran that cooperation with India seemed to offer, including access to India's mineral wealth and relatively advanced technical and scientific expertise, the Shah saw increased economic support as a means of weaning India away from its close economic, military and political ties with the U.S.S.R. The imperatives for India became more severe following the drought of 1972-73, which coincided with soaring prices of wheat on the international market, and the impact of the oil price increases of 1973-74, which increased India's import bill for petroleum and fertilizers from 22 percent of her foreign exchange earnings in the pre-1973 period to almost 45 percent in 1974.¹⁶

The new trend in Indo-Iranian relations was formally begun with a visit to Teheran by Prime Minister Gandhi in May 1974, immediately after the explosion of India's nuclear device. An agreement initialed during Mrs. Gandhi's visit provided for the shipment of 120 million barrels of crude oil to India annually (about 16.4 million tons), about 75 percent of India's import requirements at that time. Of this, about 20 percent was to be provided at pre-1973 prices. Iran also allowed India to defer oil payments to the extent of \$750 million in 1974-75.¹⁷ Actual imports from Iran never reached the levels anticipated in these agreements, but Iranian imports constituted a major source. In 1976-77 India imported 16.6 million tons of crude oil and petroleum products,

¹³ Salamat Ali, "Pakistan: Voting for an Election; Opposition Leaders Urge Polls 'Before It Is Too Late' as the Economic Picture Darkens," FEER, January 19, 1979, pp. 22-23.

¹⁴ Quoted in Salamat Ali, "Turning back the clock: economic planners return to the 1960s in the name of expediency and Is'am," FEER, March 30, 1979, p. 18.

¹⁵ Shirin Tahir-Kelli, "Iran and Pakistan: Cooperation in an Area of Conflict," *Asian Survey*, Vol. XVII, No. 5 (May 1977), p. 480.

¹⁶ Howard Wriggins, "Changing Power Relations Between the Middle East and South Asia," *Orbis*, Fall 1976, pp. 792-793, 797.

¹⁷ Tahir-Kelli, *op. cit.*, p. 481.

of which Iran's share was 6.0 million tons. For the first eight months of 1977-78, India imported 11.3 million tons, including 6.2 million tons from Iran.¹⁸ Imports currently constitute about 60 percent of total consumption.

The oil relationship has other aspects as well. The Oil and Natural Gas Commission of India (ONGC) obtains 500,000 tons of crude from the Rustom fields in Iran, where it has a drilling contract (not included in the import figures),¹⁹ and the National Iranian Oil Company (NIOC) owns a 13 percent interest in an Indian refinery in Madras, which annually imports 2.6 million tons of Iranian crude.²⁰

During an October 1974 visit to New Delhi, the Shah tendered some \$1 billion in additional oil credits, as well as employment opportunities for Indian professionals in Iran and increased trade. During the same period Iran also loaned India some \$300 million to increase the scope of the Kudremukh iron ore project near Mangalore.²¹ As the project finally matured, it involved a total Iranian investment of \$630 million and a projected annual extraction, beginning in 1980, of 22.6 million tons of ore to be enriched, pelletized, shipped 60 miles by slurry pipeline to Mangalore, reduced to concentrated cake and exported to Iran. The entire output for the next 20 years is dedicated to the National Iranian Steel Industries Co. After repaying the oil credits in iron ore exports, the contract is expected to earn India about \$2.6 billion in foreign exchange.²²

Additional oil credits announced during a visit of the Shah to India in February 1978 were intended to finance an alumina project in the bauxite regions on the east coast of India, the second stage of the massive Rajasthan canal, and a paper and pulp factory in Tripura, in the remote easternmost part of India.²³

Beyond all of these projects for aid and economic cooperation lay the Shah's ambition to cultivate India and make it a major participant in his broader strategy of regional self-sufficiency and cooperation. The Shah sought to gain Indian support for his ambition to make Iran the dominant military power in the Gulf region and thereby, to minimize the presence of outside powers. Additionally, the Shah sought to favorably influence Indo-Pakistani relations and to reduce Indian reliance on the U.S.S.R.

B. Immediate Consequences of the Iranian Revolution for South Asia

Any discussion of the consequences of the Iranian revolution on the region must be prefaced with the observations that, 1) overall, the political and security impacts are probably more significant than the direct economic consequences, and 2) the *indirect* economic impact—i.e., in contributing to the conditions that facilitated the most recent OPEC price increases to the \$18-23 per barrel level—is far and away

¹⁸ Information provided by the Embassy of India.

¹⁹ A. Hariharan, "Subcontinent Aims at Oil Sufficiency," FEER, April 7, 1978, p. 114.

²⁰ Tahrir-Kell, op. cit.; Middle East Economic Digest, January 2, 1976, pp. 14-15. This crude is included in the import totals.

²¹ Tahrir-Kell, op. cit., p. 481.

²² K. C. Khanna, "Kudremukh: Project of the Century," The Economic News Digest (Indian Investment Center, New York), Vol. 4, no. 10 (October 1977), pp. 1, 4. See U.S. Congress, House, Subcommittee on Asian and Pacific Affairs, Committee on Foreign Affairs, "The United States, India and South Asia: Interests Trends, and Issues for Congressional Concern," U.S. Government Printing Office, 1978, p. 14. (Richard P. Cronin, Congressional Research Service).

²³ Eastern Economist, February 10, 1978.

the most significant economic result. The new price levels will seriously impinge on the development budgets of all South Asian countries. For example, the Indian Oil Minister noted that the 35 percent OPEC price increase would cost India an additional 12 billion rupees (about \$1.3 billion).²⁴ When this increase is compared to the annual plan expenditure on development for the 1979-80 budget of 71 billion rupees, its significance becomes readily apparent. The impact on other South Asian countries, which import a far higher share of their total oil consumption, will be proportionately greater.

1. AFGHANISTAN

Given the leftist ideology of the current Afghan government, the still uncertain outcome of the struggle for control in Iran, and the sensitive issue of Islamic revivalism for a regime bent on remodeling the country along socialist lines, the Afghan government's early reaction was cautious and echoed the Soviet line that no outside powers should interfere in the unfolding Iranian revolution. The present Afghan government had viewed the Shah as an enemy and hence had no regrets at his passing from the scene. Afghanistan was one of the first countries to recognize the new government of Ayatollah Khomeini. At the same time, the Afghan government must have perceived that the Islamic ideology of the Iranian revolution represented a threat to its own attempts to remodel Afghan society along Marxism Socialist lines. Subsequently, as the war heated up between the Afghan government and dissident tribal groups fighting under the banner of Islam, the regime accused both Iran and Pakistan of aiding its enemies and making cross-border attacks on government troops.²⁵

The direct economic consequences of the Iranian revolution on Afghanistan are uncertain, but probably most adverse from the perspective of remittances of hard currency. The prospects of the hundreds of thousands of Afghan laborers in Iran remain in doubt, due to the current revolutionary xenophobia and the drastic curtailment of economic activity.²⁶ Many of the Afghan workers are thought to have left Iran for other Gulf countries. On the other hand, new arrivals in the form of political refugees are believed to have crossed from Afghanistan to Iran.

The larger question of Afghanistan's general economic situation relates more to the 1978 revolution, the socialist economic policies of the government, its diplomatic isolation and the current insurrection against the central authority, rather than the Iranian revolution. As of mid-1979 it is not possible to more than speculate on the consequences of the Iranian revolution on Afghanistan's economy.

2. PAKISTAN

Outwardly, Pakistan responded favorably to the Iranian revolution, though the fall of the Shah has caused grave concern. The Martial Law Administration in Pakistan had itself sought to use Islamic

²⁴ FBIS-MEA-79-127 (June 29, 1979), p. S1.

²⁵ William Borders, "Afghan Insurgency Threatening Regime," *New York Times*, April 13, 1979, pp. A1, 8.

²⁶ Reportedly, the Iranian government has already ordered the expulsion of some 7,000 Afghan workers, *Middle East Economic Digest*, February 23, 1979, p. 15.

revivalism as a rallying point to win the cooperation and support of the opponents of former Prime Minister Bhutto. In an interview with an American television network, reported in Pakistan on February 17, President Zia noted that Pakistan had experienced its own Islamic revolution first, but also that it had been accomplished without a breakdown of public order.²⁷ Pakistan was the first country to recognize the new revolutionary regime, and Pakistani Foreign Minister Agha Shahi made a four day visit to Teheran in early March 1979, meeting with Ayatollah Khomeini, Prime Minister Bazargan, and Foreign Minister Karim Sanjabi. Reportedly, primary topics for discussion were CENTO, which Iran intended to quit, and the attitude of both countries toward the Regional Cooperation for Development organization including CENTO partners Turkey, Iran and Pakistan. Significantly, it was also reported that Iranian Foreign Minister Sanjabi proposed the enlargement of the economic unit, and that the Pakistani Foreign Minister agreed in principle but noted that "the grouping must consist of countries which are at the same or similar stages of economic development, and not big countries with large population and in a state of advanced industrial development because such countries would become the dominating partners."²⁸ Shortly after the visit both countries announced their decision to leave CENTO, Pakistan arguing that the organization has ceased to be relevant to its original objectives, especially with the departure of Iran.

The main concerns of Pakistan resulting from the Iranian revolution are in the political and military spheres, not, apparently, in the economic. Pakistan expresses confidence that economic relations with Iran will continue, and perhaps may even increase due to the displacement of the U.S. and other Western countries as sources of trained technicians, medical personnel, teachers, and other professionals. Unlike India, Pakistan never relied upon Iran for its petroleum. Apparently, the Pakistanis are confident that other Islamic countries and international aid donors will make up losses of economic assistance from Iran.

In the political and military sphere, however, Pakistani officials express deep anxieties which, however, are only partly the result of the Iranian revolution. These include great concern over the course of events in Afghanistan and concern that India might use Pakistan's current internal difficulties as a pretext for aggrandisement. Among other things, Pakistani officials have charged the existence of a continuing Indian military buildup, including the positioning of airfields, bases and rail lines adjacent to the India-Pakistan border, and point to the ongoing modernization of India's forces, including the recent agreement with Britain to produce the Anglo-French Jaguar strike aircraft in India under license. Although the Indian government was circumspect in its reaction to the execution of former Prime Minister Bhutto, and insisted that it was an internal matter, Pakistan viewed with concern the outbreak of riots and demonstrations in India ex-

²⁷ Foreign Broadcast Information Service (FBIS). Daily Report. Middle East and North Africa (MEA), Vol. 79-038 (February 23, 1979), p. S4.

²⁸ FBIS-MEA, vol. 79-049 (March 12, 1979), p. S8. Presumably the reference was to India. More recently, the Iranian government was reported to have stated that India would have to improve its relations with Pakistan if it was interested in joining the Regional Co-operation Development Organization. India Express (U.S. publication of the Young India Forum), June 30, 1979, p. 7.

pressing sympathy with anti-government demonstrations in Pakistani Kashmir, including speeches by Mrs. Indira Gandhi in support of the "liberation" of the Pakistani wing of the former Princely state.²⁹

The apparent widespread rebellion against the leftist regime in Kabul presents a dilemma for Pakistan. Although the new Afghan government gave assurances that it would not stir up the minorities question and the issue of the Pakistan-Afghanistan boundary, Pakistan had little confidence that a radical government would not abandon the conciliatory policy of the Daoud government. Moreover, the strong U.S.S.R. involvement with the new regime heightened the traditional Pakistani fear of Soviet designs on Pakistan as an outlet to the Indian Ocean.

Ironically, Pakistan now looms as a threat to the Afghan regime due to the presence of some 100,000 refugees in camps on the Pakistan side of the border, and material support given the refugees by Pakistan. Afghanistan claims, and Pakistan denies, that guerillas operate from these camps to attack Afghan army troops, Pakistan has also denied that it sent regular troops disguised as Afghans to attack Kabul's forces. It is reported that the organizational centers of at least some of the guerilla units are in the camps on the Pakistan side. General Zia has admitted providing all possible support to the refugees short of arming them, but has also stressed his efforts to assure Afghanistan that Pakistan will not interfere in its internal affairs.³⁰

3. INDIA

The direct economic consequences of the Iranian revolution have been less than traumatic because India possesses alternative sources of oil and because the economic tie, while valuable, was not crucial to a country with a GNP of over \$100 billion. One likely consequence will be the loss of Iranian investments in joint development projects and the second phase of the Rajasthan canal project. In the case of the Kudremukh iron ore scheme, the Iranian investment is already completed.³¹

While India depended heavily on Iran for its oil supplies, the main impact will be a substantially higher oil bill. The actual shortfall in oil imports has been minimized by India's good political ties with Arab exporting countries and the relatively small size of its import requirements.³²

²⁹ Mrs. Gandhi sought to embarrass the Desai Government for its circumspection, and thereby reap political capital in her currently unsuccessful effort to make a comeback and avoid a jail sentence. Undoubtedly, she also felt strongly about the execution of Bhutto, with whom she had cooperated to repair relations following the 1971 India-Pakistan war.

³⁰ FBIS-MEA-79-052 (March 15, 1979), p. S12; 79-122 (June 22, 1979), p. S10.
³¹ Should the National Iranian Steel Company not agree to take the ore exports, India is free to sell it elsewhere, although the present world market for iron ore is depressed and this could possibly affect the viability of the project. On the other hand, the agreement with Iran calls for the repayment of the oil credits with specific quantities of ore, and Indian sources suggest that at current prices it would be more advantageous for India to sell the ore and repay the oil credits in cash.

³² India's total annual import of petroleum amounts to about 15 days of U.S. imports. As of early May 1979 the Indian Oil Minister announced that of planned imports for 1979 of 16.5 million tons (total consumption of 30.0 million tons), the Indian government now has firm commitments for 14.9 million tons. This includes 2 million tons from Libya at a concessionary price intended to compensate for the added transportation charges, and .6 million tons from the U.S.S.R. Embassy of India. Basis of information is an article in the Financial Express, dated May 5, 1979. The oil from the U.S.S.R. would actually be Iraqi oil, as is all oil that India obtains from the Soviet Union.

Significantly, in May 1979 the Indian government negotiated an agreement with Iran providing for the shipment of 2.6 million tons of oil, nearly half of India's annual supply from Iran, with loading of the first shipments to take place a few days after the initialing of the contract.³³

Indian officials express optimism that close economic relations with Iran will continue. They note the history of low level ties, including the fact that Iranians have long represented the largest resident alien community. They expect Iranians to continue to come to India in large numbers for education, medical care, business and travel. At the same time the Indians, like the Pakistanis, expect their services as technicians, educators, doctors, etc., to continue to be in demand in Iran, and to remain a source of hard currency remittances.³⁴ These expectations may be overly optimistic to the extent that they assume a continuation of Iranian economic activity at or near pre-revolution levels.

It is in the political and security spheres that the Iranian revolution may have had the greatest impact on India, although the sensitivity of the issue makes it difficult to estimate with any precision. With some 80 million Muslims of its own—about 15 percent of the population—it can be assumed that India is wary of Islamic revivalism even though most of its Muslims are of the Sunni sect, while Iran is virtually entirely Shiite. In addition to this factor, however, there has been evidence of a growing breakdown of public order in India, including police strikes, communal riots and public disturbances in a number of states. While these kinds of events are a common fact of Indian life, their current frequency and widespread nature may be casually related to the climate of unrest that has affected, in varying degrees, the countries of Southwest Asia. In July 1979, after two years of desultory political infighting the coalition Janata Party lost its absolute Parliamentary majority through a splintering off of constituent factions. The new government headed by Charan Singh, former Janata Party Finance Minister, is widely regarded as an unstable coalition whose life may not be long.³⁵

As a result of the events of 1978-79, India faces the possible destabilization of a heretofore favorable regional balance. India has no influence over Iran, and can only hope for the best. India has some influence in Afghanistan due to its traditional close relations with the U.S.S.R., its long-standing trade, aid and political relationships with Afghanistan, and its role as a counterweight to Afghanistan's traditional adversaries—China and Pakistan. From the Indian point of view, the disturbances to the regional balance induced by the Afghan and Irania revolutions are compounded by the recent developments regarding Pakistan's nuclear program and the expectations that Pakistan will soon explode a nuclear device. In India's view, such

³³ India News (Embassy of India), May 14, 1979, p. 6.

³⁴ Reportedly, Iran has no shortage of hard currency but the state of the economy has militated against its effective use. It is also reported that foreign firms are hard pressed to maintain operations due to the economic chaos and exorbitant wage demands. In addition, the Iranian government has announced a sweeping policy of nationalizations. The extent to which South Asian firms and workers may suffer from these actions is not clear. Washington Post, July 5, 1979, A1, 16; New York Times, July 6, 1979, A1, D7.

³⁵ Marcia Gauger, "India's New Leadership Faces a Turbulent Start," Washington Star, July 23, 1979, pp. A1, A4; Kasturi Rangan, "Leader of Opposition Warns Singh to Shun Quick Decisions on Policy," New York Times, July 30, 1979, p. A3; Suman Dubey, "India Picks Prime Minister, Paving Way for Nation's First Coalition Government," Wall Street Journal, July 27, 1979, p. 17.

weapons, if developed by Pakistan, could only be intended for use against India.³⁶

4. BANGLADESH AND SRI LANKA

The direct consequences of the Iranian revolution on Bangladesh and Sri Lanka probably have not been great, except for the fact that the latter had some difficulties in lining up alternate sources of petroleum. While both had experienced an increase in trade with Iran and had long term hopes of benefitting from the Shah's regional cooperation scheme, neither had preponderant trade or aid relations with Iran. Moreover, for both countries, the value of the export of workers and technicians to Iran is not completely positive. The emigration of workers and technicians represents a drain that is mitigated only to the extent that inadequate progress in economic development allows local talent go to waste. Even the remittances are of questionable economic value, as a great deal of the earnings are spent on consumption of luxury items, with concomitant inflation and distortions of the economy and social structure. This is true for India and Pakistan, as well as Bangladesh and Sri Lanka, but the latter can least afford the consequences.^{36a}

The more critical problem will be the impact of higher oil prices. Both countries already have serious balance of payments problems and the higher oil import costs will have an adverse impact on the efforts of both to revitalize their economies and make some headway toward food self sufficiency. Both countries have recently gone through a considerable political change and a rethinking of previous socialist pattern development strategies. The efforts to rely more on the private sector and on foreign investment to achieve development goals may be short-circuited, however, if financial weaknesses create unmanageable social and political pressures.

III. FUTURE IMPACT OF THE IRANIAN REVOLUTION ON SOUTH ASIA

The immediate consequence of the Iranian revolution has been to remove Iran as a major factor in South Asian affairs. The end of Iran's activist role in the region removed an important external support for regional stability. Yet, the effectiveness of this role had already come into question before the final stages of the Iranian revolution. Thus the future impact of Iran, whatever the nature of its government and its external policies, will be an important but not necessarily predominant determinant of regional trends.

For the South Asia region, the critical geopolitical reality is the triangular relationship between Pakistan, India and Afghanistan, with the latter being significant only as a potential avenue for external influence and as a consequence of its impact on the Iran-Pakistan and India-Pakistan relationships. Ultimately, the key to stability in South Asia would appear to lie in Pakistan, whose primary problems are of an internal nature, but which are complicated by external factors. Currently, there would appear to be little that friendly countries can do in a positive way to help solve Pakistan's most critical problems,

³⁶ See Paul Willson, "The Middle East Boom Starts to Tail Off," FEER, May 11, 1979, pp. 38-40.

^{36a} Ibid.

although financial support can temporarily ameliorate economic pressures. The course of events in Iran may, however, have an important impact on Pakistan economically and politically, including the questions of whether Pakistan will return to a democratic process, and if so, when. (Elections are promised for October, but have been postponed before.)

With regard to the perceived threat from Afghanistan, the difficulty for Pakistan is that its interests seem to lie with the Afghan rebels, yet it does not want to become directly involved for fear that Afghanistan will retaliate by stirring up the minorities question on the Pakistan side of the border or in some other way. "If Pakistan puts its finger in the fire," General Zia is reported as saying, "it will get burned. Therefore, we provide aid within the limits of our resources and to an extent that does not threaten our security."³⁷ If one accepts that the threat from Afghanistan is not only Afghan irredentism and instability on Pakistan's frontiers, but the expansion of Soviet influence, then the outcome of the current struggle between the central government in Kabul and its various tribal and Islamic fundamentalist opponents is may be crucial. On the other hand, if one accepts that the main Soviet objective is to maintain strong influence in Afghanistan and deny outside influences, but not to promote instability beyond the level of its nuisance value and as a lever on Pakistan, then the consequences of an ultimate victory for the current Afghan government over its opponents are less clear. It is not at all certain, for instance that a replacement of the current Afghan government with a less radical one—presumably with a nationalist, Islamic fundamentalist, and traditionalist character—would provide any long term solution to the issue of the minorities in Pakistan or the threat of Afghan irredentism.

Pakistan's anxiety regarding India is partially based on its neighbor's ability to capitalize on internal difficulties, but also on a perceived direct security threat. India has a demonstrated nuclear weapons potential—which Pakistan does not accept as being solely intended to deter China—and considerably superior military forces. However, the danger with Pakistan's apparent decision to seek a nuclear weapons capability is that this will further undermine Pakistan's security vis-à-vis India.³⁸

This then, is the setting in which the possible alternative scenarios for the outcome of the Iranian revolution must be considered so far as they affect South Asia. The first alternative scenario, a continuation of political instability and economic dislocation, would mean a continuation of present trends in South Asia. So long as instability reigns in Iran, it is doubly difficult for Pakistan's military leadership to contemplate a return to the rough and tumble of democratic politics. At the same time, the longer elections are put off, the greater are the pent-up forces for change, and the risks of an explosion. To the extent that events in India are influenced by the climate of instability in the region, and by anxieties regarding India's economic well-being and security, then the continuation of instability in Iran contributes to an aggravation of the Indian situation.

³⁷ FBIS—MEA—79—052 (March 15, 1979), p. S12.

³⁸ Michael T. Kaufman, "India Gives Warning of Atom-Arms Race," *New York Times*, August 16, 1979, p. A6.

The continuation of instability and economic dislocation in Iran will mean a perpetuation of the adverse economic effects on South Asian countries as have already been described. As noted earlier, however, the most significant impact is not the damage to bilateral economic relations between Iran and the countries of South Asia, but the indirect effect of the revolution in contributing to the sharply increased OPEC prices. This latter impact will continue regardless of conditions in Iran.

The second alternative, a stabilization of the new government of Iran, including an accommodation between the Islamic fundamentalism of Ayatollah Khomeini and the established politicians and modernists, with solid if slower economic development, could have a beneficial effect on the South Asia region. It could lead to a continuance of mutually advantageous economic ties with Pakistan and India, and reassure Pakistan that its Western flank, at least, was not a source of instability. A strong, forward-looking government in Iran would be in a position to reassert Iran's basic interest in South Asia's stability. Conceivably, it could exert some positive influence on the conflict in Afghanistan and on India-Pakistan relations. To the extent that a casual relationship may exist between chaos in Iran and instability in neighboring countries, a reassertion of control by the Iranian government and an accommodation between the main contending forces and ideologies could have a settling effect elsewhere. Already the Iranian government appears to be serious about the regional economic cooperation scheme. The impact of such a grouping could be very positive for South Asia, but nothing can be achieved unless the Iranian government can put its own economy back together. Finally, a consolidation of the regime could lead to the reemergence of Iran—if in a less grandiose fashion than envisioned by the Shah—as a significant regional military power. This development could facilitate the military security of the region and reduce the opportunities for outside military intervention. At the same time, it could lessen the threat of an arms race between India and Pakistan, which the latter could not win but which would debilitate both.

The problem of nuclear weapons proliferation in South Asia would appear to be a serious long term threat no matter what happens in Iran; but a reassertion of stability in Iran under a moderate government could be helpful in slowing the pace of progress toward a nuclear weapons capability in both India and Pakistan. For instance, even if Pakistan acquires the capability to produce nuclear weapons—as, for instance, it is assumed that South Africa has—it is not inevitable that it would explode a device. Similarly, even if India abandons its current proclaimed policy not to develop nuclear weapons, its research could stop short of the actual production of deliverable weapons. It is possible that a strong, friendly, local government could have more influence on these decisions than outside powers. Of course, should Iran itself seek a weapons capability the whole picture worsens significantly.

The third alternative, which envisions the emergence, after a period of renewed violence, of a left wing regime, would further disrupt the existing regional balance. The extent of disruption would depend on the degree to which the regime was outward directed. A worst case

scenario would envision a leftist, pro-Soviet regime in Iran working in concert with Afghanistan to further Soviet objectives in the region and facilitate the realization of the historical Russian objective of access to the warm waters of the Indian Ocean. This, of course, would be the realization of Pakistan's worst nightmare, and it would hardly be welcome by any other state in the region. On the other hand, it is difficult to see how even a communist or radical leftist regime in Iran could overcome existing nationalistic and xenophobic attitudes toward both the Soviet Union and Afghanistan. The troubles of the current Kabul regime illustrate the difficulty of subordinating prevalent popular attitudes, either ethnic or religious, to ideological or geopolitical objectives. Nonetheless, the impact of such a worst case development would be of such significance that it is difficult even to speculate on the likely consequences.

Appendix
THE REVOLUTION IN IRAN—CHRONOLOGY OF
EVENTS

January 1978 to July 1979

By Clyde R. Mark
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July 5, 1979—Iran nationalized the steel, copper, aluminum, aircraft, ship-building, automobile, and mining industries.

June 27, 1979—There were reports in Iran that the Shah was wounded in a helicopter attack on his residence in Mexico. Mexican authorities and a spokesman for the Shah denied the report.

June 25, 1979—Iran nationalized all insurance companies.

June 22, 1979—The National Democratic Front held a protest rally in Teheran against Khomeini's proposal to appoint a 75-member committee to approve the new constitution, after which the constitution would be presented to the people in a referendum. The National Front wants an elected constituent assembly to approve the constitution before a referendum.

June 19, 1979—The "Committees" executed three more former members of the Shah's government, bringing the total of such executions to 303.

June 8, 1979—The new constitution was published in a Teheran newspaper. The constitution provides for a republic with a strong president and an influential clergy.

June 14, 1979—Baluchi tribesman attacked a police station in Baluchistan.

June 10, 1979—The Shah, his wife, and oldest son arrived in Mexico from the Bahamas. The rest of the Shah's family went to the United States.

June 8, 1979—Iran nationalized all banks.

June 4, 1979—Iran asked the United States to withdraw Walter Cutler as Ambassador to Iran.

The seven-member board of the NIOC resigned to protest the criticism of Hassan Nazih because he had criticized "Islamic solutions" as impractical.

Iraqi planes strafed Iranian border posts in the continuing series of incidents between the two countries. Earlier, Iran accused Iraq of supplying arms to the Arabs in Iran's Khuzestan province.

May 31, 1979—Iran declared a state of emergency in Khorranshahr after 100 died in days of street fighting between right and left forces.

May 29, 1979—Seven more were executed, bringing the total number executed by the "Committees" to 252.

May 25, 1979—For the second day, thousands of anti-American demonstrators paraded past the U.S. embassy in Teheran.

May 20, 1979—Iran told the United States to postpone the arrival of newly appointed Ambassador Walter Cutler.

May 19, 1979—Khomeini told a visiting delegation from Lurestan Province that Iran did not need the United States.

May 18, 1979—Shooting between Khomainsi militiamen and local Arabs and oil field workers spread to Masjid-e-Sulayman in the midst of the oil producing area.

April 20, 1979—In Naqadeh, Kurdish factions began fighting among themselves over the autonomy proposals. In Abadan, rightists and leftists battled over control of oil installations, and local government.

April 19, 1979—The government banned importing automobiles, bananas, cookies, "exotic" fruits, and other luxury items, and reconfirmed its ban on importing liquor, pork, and frozen meat.

April 18, 1979—The army marched through Tehran in a show of strength to convince the militias to surrender their arms.

April 17, 1979—A government spokesman announced that the constituent assembly elections scheduled for the end of May had been postponed indefinitely. The new Islamic constitution, 10 days overdue, was still being revised.

April 16, 1979—Karim Sanjabi resigned his post as Foreign Minister because the "Committees" were uncontrolled and the militias had not been disbanded.

The number of people executed by the "Committees" reached 147.

April 12, 1979—According to reports from Teheran, 3 million people had lost their jobs because of the turmoil in Iran since the Shah's departure.

Two sons and a daughter of Ayatollah Talaghani were arrested. Talaghani went into hiding, but reappeared in Qum one week later to swear allegiance to Khomeini.

April 9, 1979—Khomeini warned merchants to lower their prices or face "Islamic justice."

May 5, 1979—Prime Minister Bazargan blamed "Trotskyites, Maoists, and Marxists" for the unrest in Iran since the Shah's departure.

The summary trials and executions by the "Khomeini Committees" resumed. The next day, three SAVAK agents were shot, bringing the total number killed by the "Committees" to 71.

The government announced that all pending arms deals had been cancelled.

April 4, 1979—Bazargan reversed his earlier position and said that the tribes and ethnic groups should not be granted autonomy within the Iranian Islamic Republic.

March 9, 1979—The Middle East Economic Digest reported that large U.S. oil companies, allegedly with the support of the U.S. Department of Energy, had agreed to boycott Iranian oil offered for sale on the open market.

Prime Minister Bazargan went to Qum to meet Ayatollah Khomeini.

March 8, 1979—It was reported in Iran that the so-called Khomeini committees, which have been running several cities and have controlled the courts trying and executing former government officials, were to be abolished and their duties assumed by the central government in Tehran.

March 8, 1979—NIOC director Nazih said Iran's future oil production had been set at 3 million b/d.

March 7, 1979—A Teheran newspaper reported that Prime Minister Mehdi Bazargan had resigned because Khomeini's advisors were interfering with his government. Bazargan's office denied the story.

March 7, 1979—An NIOC spokesman said Iranian oil production had reached 2 million b/d.

March 6, 1979—The revolutionary government announced plans to try the Shah in absentia. Other government spokesmen had said that if Morocco would not extradite the Shah, he would be kidnapped and returned to Iran for trial.

March 5, 1979—The first oil shipment in 69 days left Kharg Island for Japan.

March 5, 1979—Seven more former government officials were executed, bringing the total to date to 24 such executions after trials by Khomeini committee courts.

March 4, 1979—Interior Minister Javadi said the referendum on the Islamic republic would be held March 30.

March 3, 1979—An NIOC spokesman said the production level had been set at 4 million b/d.

March 1, 1979—Ayatollah Khomeini moved from Teheran to the holy city of Qum, as he had previously announced when he returned to Iran. Khomeini said he would continue to guide the revolution from Qum, surrounded by other religious leaders.

February 17, 1979—Yasir Arafat, Chairman of the Palestine Liberation Organization, arrived in Teheran to offer his support to the Khomeini government. While in Teheran, Arafat took over the Israeli embassy, abandoned some days before, as the PLO headquarters.

The Iranian workers ended their strike and reported back to their jobs. A government official said oil production would resume in 7 to 10 days. Later, the estimate was raised to 15 days.

February 16, 1979—Four generals were tried and executed by a military tribunal. Among those killed were Generals Nassiri, former head of SAVAK, and Rahimi, former commander of the paratroopers and head of the military district of Teheran.

February 15, 1979—Armed gangs roaming the streets of Teheran began looting stores and homes. One group later identified by the government as "Afghans" shot at the U.S. embassy.

February 14, 1979—An armed group attacked the U.S. embassy in Teheran, killing one Iranian employee and wounding two U.S. Marine guards before U.S. Ambassador Sullivan surrendered to avoid further bloodshed. About 70 Americans were taken captive by the group, but released later on orders from Khomeini headquarters. One of the Marines was later kidnapped from a hospital but released later unharmed. The attacking group was described as members of the "People's Sacrifice Guerrillas" (Cherikha-ya fad'i-ye khalg, popularly called the Fadayin), a newly formed coalition of various leftist factions.

February 13, 1979—In a television appeal, Ayatollah Khomeini told the people to give up their arms, except for the Islamic National Guard, and to stop the fighting in the streets.

Bazargan named Karim Sanjabi to be the Foreign Minister, Dariush Foruhar to be the Minister of Labor and Social Welfare, and Ahmad Sadr Haj Sayyid Javadi to be the Minister of Interior (police). The day before, Bazargan named General Muhammad Vali Qarni to replace General Qarabaghi as armed forces chief of staff.

February 11, 1979—Prime Minister Shahpur Bakhtiar resigned to Mehdi Bazargan, the Khomeini-appointed Prime Minister. The Majlis resigned. General Qarabaghi, armed forces chief of staff, declared the armed forces to be neutral in the near civil war, and ordered all military units to stop fighting and return to their bases.

CBS news affiliate KNXT in Los Angeles broadcast a tape recording purported to be the voice of the Shah of Iran telling his aides prior to his departure from Teheran that the army should shoot demonstrators to incite a civil war and that SAVAK should not be lenient with the opposition leaders. Supposedly, CIA representatives were present at the meeting. The Shah called the tape a forgery.

Reportedly, Iran cancelled British arms orders worth \$4 billion, including 1350 Chieftan tanks and Rapier anti-aircraft missiles.

January 31, 1979—Columns of Iranian military personnel and equipment criss-crossed Teheran in an apparent show of force the day before Khomeini's scheduled return.

January 30, 1979—Iran's airports reopened after being closed for three days.

January 29, 1979—In Paris, Ayatollah Khomeini postponed his return to Iran until the airports reopen.

January 28, 1979—Thirty people were killed in Teheran as the Bakhtiar, Shah, and Khomeini forces continued their demonstrations.

January 27, 1979—All airports in Iran were closed.

January 25, 1979—An estimated 100,000 people marched through the streets of Teheran in support of Bakhtiar and the constitution.

Khomeini postponed his flight to Teheran until Jan. 29.

January 24, 1979—Teheran airport was closed because of a plot to kill Khomeini, according to the police. The airport reopened the next day.

In an interview with *Le Figaro*, Mehdi Bazargan said the Islamic republic would be modeled after Muhammad's rule in Medina in the first 10 years of Islam, which he described as a form of consensus democracy. Bazargan said the provisional government to be appointed by Khomeini would hold a referendum to gain the Iranian people's approval of the Islamic republic, and a constituent assembly would be named to write a constitution.

January 23, 1979—Khomeini said in Paris that he would not have any Tudeh party members in his government and that Iran would not maintain relations with Israel.

January 22, 1979—General Qarabaghi appealed to the armed forces to remain loyal to the Bakhtiar government.

January 8, 1979—General Mulawi of the Teheran police, General Azhari, the former Chief of the armed forces and Prime Minister during November–December 1978, and General Oveysi, former head of the army, retired and left Iran.

January 6, 1979—Bakhtiar named his cabinet. General Fereyduun Jan, named as Defense Minister, later said he would not serve.

January 4, 1979—Eraj Iskanari was removed as head of the Tudeh party because he would not support Khomeini, and was replaced by Muridin Kismuri.

January 3, 1979—General Abbas Karim Qarabaghgi was appointed Chief of the armed forces. The Majlis approved the appointment of Shahpur Bakhtiar as Prime Minister. Bakhtiar began forming a cabinet and a government program to present to the Majlis for a vote of confidence.

January 2, 1979—According to press reports, about 200 people were killed in demonstrations during the previous two days.

Textron announced that it had cancelled its \$575 million contract to assemble helicopters in Iran.

January 1, 1979—Canada and West Germany told their nationals to leave Iran.

Bakhtiar told a French interviewer that he would form a cabinet under four conditions: that the Shah left Iran; that Savak was disbanded; that police and military personnel responsible for shooting demonstrators would be tried; and that civilians would be in charge of Iran's foreign affairs.

December 31, 1978—General Azhari resigned as demonstrations against the Shah continued in most Iranian cities.

December 30, 1978—The National Front expelled Shahpur Bakhtiar because he agreed to establish a cabinet under the Shah.

General Azhari returned to office after a 10-day rest for his heart ailment.

December 29, 1978—Oil production fell below 300,000 barrels per day. Iran's domestic consumption is about 900,000 barrels per day (b/d), which meant either shortages or importing oil products from other nations.

December 5, 1978—Ayatollah Talaghani appealed for peaceful processions during Ashura, the 2-day religious observance beginning Dec. 10.

As Muharram, the Shiite mourning celebration began, Prime Minister Azhari warned that the military would not tolerate violence or sabotage. He denied reports that Teheran would be under a strict curfew for the religious holiday.

December 4, 1978—In Paris, Ayatollah Khomeini urged Iranian soldiers to desert, politicians not to cooperate with the Shah or his government, and workers to go on strike and paralyze the country. Oil workers began a strike which forced oil production down to 1.1 million b/d.

The Iranian government denied rumors that the Shah would leave the country in favor of a regency council. Meanwhile, other reports stated that Ali Amini, the National Front Prime Minister in 1961-1962, and National Front leader Abdullah Entazam were forming a regency council.

December 2, 1978—Khomeini said in an interview that when his forces took over Iran, oil shipments to Israel would stop and the military ties to the United States would be re-examined.

November 30, 1978—President Carter reaffirmed his full confidence in the Shah and said the United States would not intervene in Iranian affairs. The President denied reports that he had ordered a review of the intelligence community evaluations of Iran.

November 28, 1978—The military government announced that public gatherings would be banned, except in mosques, during Muharram, the traditional mourning period for Hassan and Hussain, the sons of Ali the first Shiite Imam. The government also announced that the nation's laws would be revised to conform to Islamic principles, an apparent concession to the religious community.

November 27, 1978—The Washington Post reported that the U.S. Government had opened secret contracts with the Iranian opposition forces.

Following a meeting with the Shah, Senate Majority leader Robert Byrd said the United States would not interfere in Iranian affairs and would view "with utmost gravity and concern" any other nation's interference. The Senator's visit to Iran was seen as a reaffirmation of U.S. support for the Shah.

November 26, 1978—The Iran-Soviet Union gas pipeline resumed operations.

According to press reports in Washington, President Carter criticized the U.S. intelligence agencies for their failure to forecast the crisis in Iran.

November 11, 1978—Dariush Foruhar and Karin Sanjabi of the National Front were arrested for holding an illegal press conference, at which they said the Shah's government was illegal.

November 9, 1978—In Paris, Khomainsi told Bild Zeitung that all contracts with foreigners would be re-negotiated and that foreign interests caused Iran's problems.

The United States shipped riot control gear to Iran—tear gas, batons, protective vests, and the like.

Sanjabi vowed to use strikes to bring down the government.

The Shah ordered an investigation into the imperial family wealth and the Pahlavi Foundation, the multi-billion dollar charitable enterprise established by the Shah in 1961. The day before, the government stopped foreign currency exchanges to halt the flow of money out of Iran into foreign bank accounts.

November 8, 1978—Amir Abas Hoveyda, former Prime Minister, was arrested. The day before, other government officials, including SAVAK head General Nassiri, were arrested. The government established a special court to try corruption cases.

November 7, 1978—Ayatollah Khomeini said in Paris that an Islamic republic would be formed, by force if necessary.

November 6, 1978—The Shah appointed General Ghulam Reza Azhari as Prime Minister of a predominantly military government. Sharif-Emami resigned the day before during the worst wave of violence in the continuing Iranian crisis. The State Department announced U.S. support for the new military government.

November 2, 1978—National Front leader Dariush Foruhar called for a referendum on a new government. (Over the next three days, violent demonstrations and strikes swept through the major cities of Iran.)

November 1, 1978—Troops were deployed in the oil fields to prevent sabotage by striking oil workers and to protect workers not on strike.

October 31, 1978—The government released the names of 34 SAVAK officials (Sazeman Ettelaat va Annayat Kashvar—the National Intelligence and Security Organization) recently relieved from duty.

Iran's oil workers went on strike, reducing oil production from 5.8 million b/d down to 1.1 in one week.

October 26, 1978—The Shah granted amnesty to 1,400 political prisoners.

August 31, 1978—Two persons were killed by police in Mashad.

August 27, 1978—Jamshid Amuzagar resigned as Prime Minister. The Shah appointed Jaafar Sharif-Emami to form a new government.

August 20, 1978—An Abadan, a theatre fire killed 377 people. Muslim extremists were blamed for the arson. It was the sixth theatre fire since Aug. 8, the start of Ramadan, the only month of dawn-to-dusk fasting.

August 11, 1978—Isfahan was placed under a dusk-to-dawn curfew after two days of rioting. By the next day, Shiraz, Ahvaz, and Tabriz were also under curfew.

June 18, 1978—It was reported that Iran, Saudi Arabia, and Iraq were discussing cooperation in defending the Persian Gulf. On June 25, Iranian Prime Minister Jamshid Amuzagar stated that the talks had been called off because the other nations did not respond positively to the Iranian suggestion.

June 6, 1978—General Nematullah Nassiri was removed as head of SAVAK, the Iranian secret police.

May 31, 1978—About 2,500 students at Teheran University rioted over the issue of coeducation. The next day, women students rioted when guards were placed in their dormitories.

May 15, 1978—A general strike called by religious leaders closed shops and kept motorists off the streets of Teheran. Troops patrolling the streets stopped demonstrations.

May 11, 1978—The Shah personally led Iranian troops against demonstrators in Teheran.

April 6, 1978—The Iranian government announced that it had discovered a Soviet spy ring that included an Iranian army general.

March 29, 1978—Hundreds were arrested in Tabriz for demonstrating against the Shah.

March 7, 1978—The government announced that several SAVAK and police officials would be disciplined for allowing the February disturbances to get out of hand.

February 21, 1978—Police patrolled the streets of Tabriz after a weekend of rioting killed nine persons and injured hundreds. The demonstrations spread to other cities.

January 9, 1978—Police fired on a crowd of religious demonstrators killing between 6 and 100 people, depending on which side was offering the estimates.

January 1, 1978—The Shah of Iran entertained President Carter and Jordan's King Hussein in Teheran.