

USAWC STRATEGY RESEARCH PROJECT

**GLOBALIZATION AND US FOREIGN POLICY WITH IRAN**

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The views expressed in this academic research paper are those of the author and do not necessarily reflect the official policy or position of the U.S. Government, the Department of Defense, or any of its agencies.

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## ABSTRACT

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US foreign policy toward Iran has evolved to a point that it can no longer compete with or overcome certain forces. At the same time, forces are present that could assist the US in reestablishing formal dialogue and, ultimately, normal diplomatic relations with Iran. Globalization is the force that in some instances is assisting US foreign policy. At the same time, other elements of globalization are eroding US desires with respect to Iranian programs in WMD. The time has come for the US to admit that its current policy of sanctions is obsolete. The US needs to reengage Iran on economic and social terms that are the byproducts of economic globalization.



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## GLOBALIZATION AND US FOREIGN POLICY WITH IRAN

“If the plan does not correspond or does not fully correspond with the actualities, then we must, according to fresh knowledge, form new judgments and make new decisions to modify the original plan in order to meet the new situation. There are partial modifications in almost every operation, and sometimes a complete change. A hothead who does not know how to change his plan, or is unwilling to change it but acts blindly, will inevitably run his head against a brick wall.”<sup>1</sup>

The quote from Mao Tse-Tung may be an accurate and prophetic assessment regarding US foreign policy towards the Islamic Republic of Iran (IRI). The United States has been involved in a highly cyclic and controversial relationship with Iran since the British left in the early twentieth century. These relations have run their course from a time when Iran was the most powerful and stabilizing US ally in the Middle East to the mid 1980s when both countries were involved in open hostilities against each other. Modern day US relations with Iran can be thought of as beginning in 1953, when a combined US and British covert operation led to a successful coup d'etat ousting the appointed prime minister, Mohammad Mossadegh, and reinstated the monarchy of the Shah under Reza Pahlavi. This period is well within the memory span of the Khomeini period's revolutionary conservatives. The 1970s concluded with violent rioting and opposition to the Shah and the overall state of the Iranian economy. The subsequent flight into exile by the Shah and his family in 1979 was viewed by the now ultra-xenophobic conservatives as the final expulsion of an exploitive and imperialistic Western and predominantly American conspiracy.<sup>2</sup> During the Iran-Iraq war of the 1980's, the perception by the Iranians that the US had sided with Iraq did not improve the US image with Iran. Regardless of the circumstances, when the USS *Vincennes* shot down an Iranian passenger plane in 1988, the Iranians perception of US hostility appeared to be substantiated.<sup>3</sup> Over two decades of direct confrontation between the IRI and the US followed the removal of the Shah due to a variety of stressors. Many of these stressors evolved from the US perception of Iranian policies and activities, both domestic and foreign.

One might then ask why the US should require itself to work towards some semblance of normal relations with Iran. The answer to that question rests with Iran's ability to behave in the current global environment and, ultimately, to extend its influence beyond its own geopolitical region. The US has found it difficult to reconcile its foreign policy with the global and geo-strategic importance of Iran. Aside from the fact that Iran is almost four times larger than Iraq in both land mass and population, Iran's regional status over history has been magnified by its physical location on the Persian Gulf, the Caspian Sea, its borders with Afghanistan to the east

and the former Soviet satellites to the north. The population of Iran is larger than that of all of the other Persian Gulf states combined. It is the only land bridge between the Caspian Sea and the Persian Gulf and the only country in the region that was not a product of British, post- WWI design. This area has historically been a crossroad from east to west and even in modern times the balancing act that Iran has played between the former Soviet Union and the West is reflective of its status as the owner of the 5<sup>th</sup> largest oil and 2<sup>nd</sup> largest natural gas reserves in the world.<sup>4</sup> Over 50% of the population is derived from the original Indo-European Aryan nomads and, while it is 98% Shia Muslim, it is a sect of Islam that exists in its own way and that does not interact well with other Islamic sects, including other Shia's.<sup>5</sup> Due to its strategic positioning, its natural resources base and the its population, Iran has the capability of becoming a true regional hegemon in the Persian Gulf whether the US likes it or not.

Over the past decade the trend in US policy towards Iran has been for the US to attempt to compel changes in certain aspects of Iranian behavior. Of particular concern to the US has been Iran's pursuit of a Weapons of Mass Destruction (WMD) program, its association with large elements of global terrorism, its record on domestic human rights and its attempts to disrupt other Persian Gulf states. With a policy of engaging Iran by means of containment (isolation), the US has failed to comprehend how a new phenomenon of globalization is influencing policy with Iran. Globalization forces have been and are currently actively undermining the US containment of Iran and, at the same time the same forces are offering many opportunities for the US to engage Iran in a more proactive and mutually beneficial way.

## **ELEMENTS OF RECENT US POLICY AND GLOBALIZATION**

Since 1990, various US administrations have maintained an uneven pace in relations with Iran. The termination of the war with Iraq in 1988 left Iran with almost a million casualties and a sizeable, although manageable, foreign debt. As a result of Iran's weakened predicament, the 1990 National Security Strategy (NSS) did not specifically address Iran as a threat. The South Asia region is addressed as an area where weapons proliferation and acquisition programs for weapons of mass destruction needed to be curbed and access (particularly to the Persian Gulf) needed to be assured.<sup>6</sup> As the decade of the 90's proceeded, the US rhetoric began to directly target Iran with the 1995 NSS from the Clinton administration. The US policy of "Engagement and Enlargement" entered the global political environment. One of the more inflammatory promulgations of US foreign policy, "enlargement" referred to the US goal of increasing the population of democratic societies and free market economies. This has been viewed as an attempt by the US at global hegemony, both in and out of the United Nations process.<sup>7</sup> The

global community, including Iran, was still simmering over the 1991 US strategy to establish a “New World Order,...a new international system in accordance with our values and ideals as old patterns and certainties crumble around us.”<sup>8</sup> It was made readily apparent by the Clinton administration that Iran was not a candidate for enlargement and became a candidate for “engagement”. Engagement is not well defined in this document, but the general context derived from various references within the NSS leads down the path that engagement is whatever multilateral or unilateral means deemed necessary to ensure the protection of our own interests and those of our allies and partners. It is in this NSS that Iran’s “dismal” human rights record, pursuit of a weapons of mass destruction program, subversion of regional governments and support for terrorism are first annotated.<sup>9</sup> It was firmly stated in that document that the US had every intention of modifying these elements of Iranian behavior. Within the context of enforcing US values and ideals worldwide, coupled with the identification of Iran as a threat, Iran’s theocracy viewed this form of direct confrontation with contempt and lashed back at the US with a venal rhetoric of its own.

Three legislative actions of the negative-reinforcement variety were introduced by the US Congress during this administration to implement the engagement of Iran. They arrived in the form of sanctions and an attempt to politically isolate Iran from the US and the rest of the world. This came to be known as the Iranian half of the Clinton administration’s “Dual Containment” policy, which applied equally to Iran and Iraq.<sup>10</sup> In 1995, President Clinton issued the International Emergency Economic Powers Act (EEPA) that terminated all US commerce with Iran. As the Iranians did not respond to this statute by altering its behavior, EEPA was followed in 1996 by additional legislation. While other policy makers had acknowledged that normal relations with Iran were conceivable, House Speaker Newt Gingrich determined that Iran was obligated to make any initial overtures, and incentives by the US to create circumstances more favorable to dialogue between the two countries were not warranted in the meantime.<sup>11</sup> Gingrich then called for further efforts to undermine the Iranian government and for President Clinton’s to sign the Iran-Libya Sanctions Act (ILSA). The ILSA is specifically aimed at discouraging foreign investment in Iran’s (and Libya’s) energy industry with the expectation that it would prevent Iran from acquiring the financial resources to continue sponsorship of terrorism and pursuit of a WMD program. The law provides for stiff penalties that would be imposed by the US and include a wide range of exclusions from US banking institutions and export/import sanctions against individual foreign firms found in violation.<sup>12</sup> The third piece of legislation came in 1999 and was undoubtedly the best contrived. The Silk Road Strategy Act (S.579) was signed into the law as a means to restore historic relationships and economic ties among the

countries of the South Caucasus, Central Asia and the West; to foster stability in a region that was considered vulnerable to political and economic pressures from the south, north and east; and to encourage the expansion of oil and gas resources in order to reduce US dependence on energy from the “volatile Persian Gulf region.”<sup>13</sup> The language leaves no doubt the further economic and political isolation of Iran along its northern borders was of paramount interest to the 106th Congress.

When the Bush administration entered the picture, it continued the platform of engagement and enlargement in the 2000 NSS. One of the legs of Bush’s engagement triad is the familiar “promoting of democracy and human rights.” While Iran makes a by-name appearance again under weapons proliferation and WMD development, a significant softening appears in the language in the Southwest Asia section on regional engagement. The Bush administration may have recognized that there had been positive signs from Iran but, also, that the regime had not made sufficient progress in addressing human rights, terrorist and WMD issues. On top of that, Iran’s record of violent opposition to the Middle East peace process entered the NSS rhetoric. The reader exits the Iran section with the impression that the ball for reconciliation is well and truly in Iran’s court.<sup>14</sup>

A positive sign that the current Bush administration could be willing to review its options is the disappearance of Iran from its negative association in the Southwest Asia section of the 2002 NSS. Ms Condoleezza Rice, the current National Security Advisor, went on record stating that in the case of Iran and US presence in the Gulf: “It is one thing to have a limited political goal and to fight decisively for it; it is quite another to apply force incrementally, hoping to find a political solution along the way.” In the same article she states that she does not concur with previous administrations and the requirement that Iran change its behavior before the US changes its behavior; “it is too geographically important and serves as a regional balance of power”.<sup>15</sup> With the current National Security Advisor to the President stating that it is impossible to ignore and isolate powerful states that do not share US values, one might ask what options are left. Although the administration’s position on terrorism and WMD proliferation are very clear, it appears for the first time in over two decades that the US may have created some room to ease tensions considerably and to allow both sides to maneuver towards one other.<sup>16</sup>

On the Iranian side, very different factors have influenced Iran’s behavior. The Iranian theocracy has historically opposed every element of the US’s Middle East Trinity: security for Israel, security for the Arab states and stable access to global resources.<sup>17</sup> Dr. Sami Hajjar of the Strategic Studies Institute of the US Army War College presents an interesting theory on the effect that US presence in the region has on Iran’s foreign diplomacy. Reflective of comments

by the Clinton administration, the policy of Dual Containment and the increased US presence in the Persian Gulf since Desert Shield/Storm in 1991 have both created a sizeable point of friction and an inconvenient dichotomy: “containing the threats posed by Iran and Iraq will impact on our ability to promote peace between Israel and its Arab neighbors and promoting the Arab-Israeli peace process will affect our ability to contain the threats from Iran and Iraq.”<sup>18</sup> The position of non-secular Islamic elements, that the US is an infidel presence that is contaminating Saudi Arabia and other states in the Persian Gulf, adds to the friction. Other less fundamental Islamic elements merely view the US as being unfair and responsible for the suffering of the Iraqi people under UN imposed sanctions and the conflict in Palestine.<sup>19</sup> The Iranian theocracy, as the self-proclaimed head of central Asia’s Shia community, finds US presence in the region particularly distasteful and threatening. With these forces at large, the consensus of a review of US relations with Iran is represented by the findings of the 1997 Independent Task Force sponsored by the US Council for Foreign Relations: (1) the US should explore ways to minimize visible elements of its presence in the Persian Gulf as a means of easing pressure in relations with Iran; (2) US flexibility, provided by statesmanship distanced from domestic politics and the Arab-Israeli peace process, will be key in reversing the current situation.<sup>20</sup>

Meanwhile, ever since the termination of the Cold War, the forces of globalization have been at work and they have developed a propensity to progressively accelerate themselves independent of national and state desires. To provide a useful definition of the process of globalization, the best has been provided by one of the preeminent researchers and writers on the topic, Thomas Friedman. He describes globalization as a world in which markets, some recently freed, are being governed for the first time by emotions of the people rather than by the fist of the state. The spread of free markets, democracy, information and technology, properly harnessed and liberally distributed has the power to erase not just geographical borders but also human ones. Under globalization one will find both the clash of civilizations and the homogenization of civilizations.<sup>21</sup> At times these forces may work in concert with a state’s interests and, as the situation evolves, the same forces may turn against the very same interests of that state. Such is the case in a number of areas that involve the forces of globalization and their interaction in the evolution of US– Iran foreign policy.

### **GLOBALIZATION AND WEAPONS PROLIFERATION (WMD)**

Iran lives in a dangerous and frequently unstable region of the globe. From Israel on the western extreme of the Middle East to India in the east, Iran is surrounded by states that have successfully bypassed all the conventional forms and intentions of weapons non-proliferation.

With Iran's historic perspective towards the Arab-Israeli peace process, the mere fact that Israel possesses nuclear weapons provides a stimulus for Iran and other less moderate Islamic states in the region to ignore non-proliferation agreements.<sup>22</sup> The additional capabilities that Israel has demonstrated with its long range strike aircraft (F-15I) and its conventional ballistic missiles capable of ranging the Persian Gulf has provided even greater stimulus.<sup>23</sup> Now with Pakistan included as another nuclear power in the immediate region, Iran has some large security and national prestige issues to consider. To the immediate west is Iraq, a country with both the current capacity and proven history during the 1981-88 war with Iran for using chemical weapons. The mere presence of Saddam Hussein's regime in Iraq with its economically and politically dominant Sunni backing would be sufficient cause itself for such an Iranian proliferation program.<sup>24</sup> It was the 1984 use of chemical weapons by the Iraqis (and subsequent failure of the international community to respond and condemn the Iraqis) that compelled the theocracy in Iran to reverse its Islamic policy on the use of "poisons" in war (which included nuclear, biological and chemical matter) and commence a WMD program itself.<sup>25</sup> On its immediate eastern border with Afghanistan, Iran contends with direct combat action against drug traffickers that have resulted in thousands of casualties over the past decade.<sup>26</sup> The Iranians since Persian times have considered all Afghans as second-class, best suited for little more than manual labor. With Iranians already nurturing a hatred for the Afghans since the "Carpet Wars" three centuries ago, the Taliban murder of eight Iranian diplomats in 1998 in Mazar-e Sharif has increased Iranian animosities. In the wake of Operation Enduring Freedom in Afghanistan, the removal of the Taliban has brought huge reversals in anti-opium farming programs.<sup>27</sup> As over 90% of Europe's heroin comes from Afghanistan, the potential for further escalation of eastern border conflicts by Iran as the regional drug trafficking to the Caspian increases is very real. The fact that fierce factional fighting has already escalated inside western Afghanistan over the massive potential riches in the opium industry has Iran very concerned.<sup>28</sup> On the northern border, civil disturbances in Tajikistan have brought Iran additional destabilizing influences. To add to all these considerable stress factors, according to the UN High Commissioner on Refugees, Iran hosts the largest refugee population in the world (>2 million Afghan and Iraqi) as a result of religious persecutions in Iraq and Afghanistan drug trafficking in the latter.<sup>29</sup> Given all these circumstances, it is not difficult to comprehend the motivations behind Iran's various programs. WMD for Iran can provide great asymmetric leverage in regional conflicts for which there is no other cheaper alternative. The

question for US policy becomes one of whether this form of acquisition program by the Iranians can be contained or even mitigated.

In addition to its positive benefits, one of the less attractive aspects of globalization is that it will serve to “facilitate the works of rogue states and actors.”<sup>30</sup> As the media has been quick to point out, WMD non-proliferation from a US standpoint has had very few successes. North Korea, Israel, Pakistan, India and South Africa are all examples of states that have taken their own road in the past in the face of non-proliferation conventions. With the recent verification that Iran finally has its own nuclear research capability, it appears that US attempts to influence this outcome, including former sanctions against a Russian company for the early 1990s support of Iran’s Bushehr reactor project, were totally ineffective.<sup>31</sup> The National Intelligence Estimate of December 2001 provides a depressing account of how global non-proliferation is succeeding. The opening remarks of that document do not address concepts like containment, reduction or elimination. On the contrary, the tone of the entire document is one of pace, direction and location. The disturbing message is that anyone who has a desire to acquire ballistic missile technology can do so. It is merely a question of how quickly.<sup>32</sup>

As a regional symbol of power, it has long been recognized by the more militant elements in the Middle East that ballistic missiles carry an aura of national power, deterrence and coercive diplomacy which other WMD delivery vehicles do not possess.<sup>33</sup> Despite non-proliferation attempts, Iran has already acquired the 1300km range Shahab-3 medium range ballistic missile (MRBM), capable of targeting areas in the eastern Mediterranean. This missile is an indigenous derivative of the North Korean Nodong MRBM of identical capability.<sup>34</sup> Of even greater concern, is the consensus of all intelligence agencies that Iran could have both an intercontinental ballistic missile (ICBM) and a space launch vehicle system (SLVS) capability as early as the middle of this decade. The only way for Iran to continue this pace and direction is with the continuing technical and material support of Russia, China and North Korea.<sup>35</sup> Despite Russian denials of participation, their technical assistance and support in advanced missile technology is being addressed by the US with little progress. It should be obvious that a cash starved Russian arms industry can no longer depend on central European and domestic procurement to stay viable.<sup>36</sup> The same holds true for the Chinese, French, and North Korean arms markets. The global arms market is operating exactly as the globalists, like Friedman, have predicted such markets would perform: become economically relevant or perish.<sup>37</sup>

The Iranian Chemical and Biological Weapons programs fall in the same category of failed non-proliferation efforts. While they are not necessarily flourishing, they have been categorized by a 2001 CIA report as relatively complete. The Iranians continue to actively seek additional

production technology, training, expertise, equipment and the ingredients for chemical weapons from Russia and China. The Iranians already have developed capabilities to produce blood and blister agents and Iranian biological focus is known to be on anthrax, botulinum, hoof-and-mouth, and others.<sup>38</sup> Clearly the West can not claim any degree of success in deterring or preventing the Iranians from going down this road.

With regard to the Iranian nuclear program, which stopped in 1979 as a result of Islamic views of nuclear energy, the Iran-Iraq War was responsible for resurrecting the Iranian nuclear program. The program was regenerated through a reconsidered Islamic interpretation of the Ayatollah Khomeini in 1985 in violation of the Nuclear Non-Proliferation Treaty signed by the Shah in 1970. Again, the US has had little or no impact on the pace and direction of the Iranian nuclear program.<sup>39</sup> The Russians have actively supported the Iranian effort despite US sanctions, in conjunction with dual use technologies provided by China, North Korea, France and even Great Britain. In a globalized environment that fosters WMD trade, blame will be easy to assign if Iran becomes a regional, non-benevolent hegemon with a nuclear capability.<sup>40</sup>

These failures are not attributable solely to the US. With 15 countries currently in violation of various non-proliferation treaties (Iran and Israel are both included), it would appear that all international norms of addressing this problem and the means of implementing controls are currently ineffective. More disappointingly, there does not appear to be a coherent plan by the international community to deal with the extent of non-proliferation failures.<sup>41</sup> In a globalized economy, in which borders disappear and governments become more transparent, transnational movements of WMD and related technologies can actually become less transparent making the transfer of critical technology and material frequently untraceable. Fortunately in the case of Iran, the consensus of various intelligence estimates of Iran's WMD capability is that it exists primarily for protection against Iraq and for territorial integrity along its other various borders that are being contested.<sup>42</sup> Regardless of the intended use of Iranian WMD, two basic outlooks exist for the US regarding its policy of WMD containment for Iran. The US can accept the fact that the globalization of WMD technology and the means of WMD delivery are here to stay. This means that the US will have to accept greater uncertainty in its security environment and embrace a strategy of more capable strategic and theater missile defenses. The alternative is to attempt to reintegrate Iran into the international community where other more positive influences of globalization may alleviate the need for Iran to take advantage of the globalized aspects of the WMD industry.

## GLOBALIZATION AND IRAN'S SPONSORSHIP OF TERRORISM

"There is hope for failed states that have slipped into more radical religious belief. Apparent chaos is seeking equilibrium and outside influences only disturb or prevent the achievement of it."<sup>43</sup>

The quote from Ralph Peters was not aimed at Iran in particular, but for a number of reasons, Iran could prove to be the archetype for his assertion. Order may establish itself out of the current situation in Iran if the US does not disrupt it. Iran has created its own false dichotomy in both foreign and domestic policy. Forces at odds with each other inside Iran fear that globalization is a threat to the theocracy and, at the same time, also fear economic marginalization by the rest of the world.<sup>44</sup> There are elements of both the conservative theocracy and the reformist parliament who believe Iran should be a regional hegemon with significant influence in Central Asian and Persian Gulf politics.<sup>45</sup> The two bodies simply cannot seem to agree on how that should be accomplished. The theocratic camp has used terrorism to advance Iranian regional influence and the reformist camp has embraced the more palatable method of attempting to normalize relations with the West. The solution to this dichotomy lies in how the theocracy will face the challenge of the validity of two assertions. The first is that terrorism is an ideological and moral challenge to liberal democracy. The second is that contemporary Islamist terrorism is a practice that is completely inconsistent with Islamic traditions and ethics.<sup>46</sup>

The relevant history of Iran's sponsorship of terrorist activities dates back to the Khomeini regime at the time of the 1982 Israeli invasion of southern Lebanon. Khomeini (and later his successor Ali Khamenei) viewed himself as the champion of the Islamic world and a focal point of Islamic primacy from Bosnia to Somalia. This concept was considered a fundamental and essential balance to the Zionist West and its lackeys, Morocco and Egypt.<sup>47</sup> In the immediate aftermath of the invasion, Khomeini and Arafat signed an accord in Najaf, Iraq to finance, train and equip Islamic fighters at Fatah camps in southern Lebanon. The purpose of this was twofold. Iran intended to disrupt the Israeli invasion and to intercede in any future Arab-Israeli peace initiative.<sup>48</sup> The relatively immature Pasadran (the paramilitary, terrorist extension of the Iranian Revolutionary Guard) rapidly gained momentum as a sponsor of terrorism throughout the Middle East. This organization is fully aligned with the conservative theocracy and has conducted assassinations throughout Europe and the Middle East. Another entity was spawned from this unholy alliance: Hizballah. The Hizballah has been viewed as a legitimate group of freedom fighters by many sympathetic Arab entities and as criminals by the Israelis. It is an

organization that has a significant political party establishment in the Lebanese Parliament as the guarantor of Shia rights and still obtains substantial funding from Iran. This organization represents one of the dominant wedges in the US monitored Israeli-Arab peace process and it is not a coincidence that the Shia leader in southern Lebanon is a gifted leader who was trained in Iran by the Ayatollahs themselves.<sup>49</sup> Of particular interest is Iran's evolution under the reformist President Khatami. Recognizing the necessity for at least appearing more moderate, Khatami acquiesced to Arafat in 1997 and said that he would support any resolution that was acceptable to the Palestinian nation.<sup>50</sup> This major reversal in Iranian policy was viewed as a realization by both Arafat and Khatami that the Hizballah may have outlived its usefulness to both entities. Perhaps, in recognition of the problems Hizballah is having in retaining its relevance, it has recently embraced the concept of secular, multiparty politics.<sup>51</sup>

Iran's terrorist activities are diverse and not always aimed at the United States interests and the Arab-Israel peace process.<sup>52</sup> At the same time that more rational minds were seeking ways to economically reengage elements of the West in the 1990s, the radical Islamic element was participating in terrorist activities in Europe. It is important to note that the majority of these activities were focused against Iranian dissidents abroad. Nevertheless, in doing so, the Iranians continuously hampered their own efforts to secure relations with Europe by failing to control rogue elements that conducted assassinations of Iranian dissidents in Paris, Berlin and Vienna. These activities appear to have been restrained by cooler heads in Iran after the 1996 arrest and trial of Iranians responsible for murders in Germany. The subsequent discovery of an Iranian attempt to disrupt that trial by violence proved to be a major embarrassment to the Iranian regime and this incident completely derailed progress with the EU for a period.<sup>53</sup> An additional backlash was the cancellation of World Bank support for Iranian programs and the imposition of US sanctions. Pressure to become more predictable on the world stage will have to be generated by the entire Iranian political structure in its desire to maintain economic ties with an "engaged" EU and, hopefully, the US as well. Globalization will not tolerate terrorism as a means to implement domestic or foreign policy.

#### **GLOBALIZATION AND IRAN'S POSITION IN THE ENERGY INDUSTRY**

A female Iranian correspondent in Tehran observed that oil as a national resource has done little more than sustain the theocracy in power in the midst of an otherwise dismal economy. If Iran did not have oil, its economy would have to be just like Japan's to survive, dependant on foreign investment and a solid internal economic and financial infrastructure.<sup>54</sup> With this in mind US foreign policy has attempted to use Iran's dependence on the fruits of the

energy industry to influence Iranian behavior. Economic sanctions have been the primary tool applied by the US in this process. Yet the globalization of the oil industry has turned US sanctions into a two-edged sword. It has cut away the effectiveness of US policy while simultaneously improving Iran's posture within it. The reason is simply a function of the rapid globalization of the energy industry.

The 1995 International Economic Powers Act (IEPA) was a response by the government to terminate all commerce with Iran. In 1996, the same US administration signed the ILSA as an attempt to penalize foreign companies for interacting with the Iranians. However the only result has been the increasing US propensity of rolling over on its own sanctions and the rest of the world succeeding in circumventing them. The US Conoco \$1 billion dollar deal with Iran, that spawned the IEPA, was subsequently awarded in an expanded two billion dollar version to a French/Malaysian consortium a year later under a US waiver to the ILSA.<sup>55</sup> As well as failing to receive the overture to normalize business relations, the focus of this failure appears to be on the US overestimation of its own relevance to the Persian Gulf. While the Persian Gulf supplies 18 million barrels per day (mpd) out of the 40mpd exported globally, the US's own slice of Persian Gulf exports amounted to less than 10% of the total US oil imports in 2001 and is decreasing. The Iranian segment of the 18mpd from the Gulf amounts to around 2.5mpd and has been held somewhat constant more as a result of Iran's 70 year old oil industry infrastructure than sanctions.<sup>56</sup> The energy industry picture is changing rapidly as US and international oil companies continue to expand the size and relevance of the non-OPEC market sector. From 1994-1997, non-OPEC private capital financed a 10% increase in global capacity to remove global pricing control from OPEC and stabilize oil prices at a lower level. With vast improvements in recovery techniques and cheaper, more sophisticated exploration technology, the outcome was better than expected. The process was so successful that the oil industries overshot their goals and reduced prices to a level that reduced global profit margins.<sup>57</sup> While the US has been a significant influence in this process as the dominant suppliers of technology in the exploration and recovery processes, its influence is now in a state of decline as globalization continues to adjust the industry and Europe, Japan, China and India begin to absorb the preponderance of Persian Gulf exports. With over 30% of the European Union's (EU) energy imports coming from the Persian Gulf and 70% of Japan's, it is not difficult to understand why a US unilateral policy is not having a successful influence on Iran. The EU has not supported the philosophical and economic rationale behind US policy, accusing the US of duplicity in Middle East politics. As a major consumer of Gulf oil, the EU has been the most brazen at trampling on US sanctions. First, this sanction came in the wake of normalized

relations between Iran and the EU and Japan in 1993-94<sup>58</sup>. Second, the EU never recognized the international legality of the ILSA from its inception and companies like French Total have continued to exploit opportunities with the Iranians from the Caspian Sea to the Persian Gulf while US oil companies have been sidelined.<sup>59</sup> According to Thomas Stauffer, an international energy consultant, “we tried without success to keep the Europeans, the Japanese, the Canadians, even the Malaysians, from operating in Libya, Iraq and the Sudan.”<sup>60</sup> As for emerging influences, it is forecast that by 2020 China and India will consume 60% of Persian Gulf output. This will bring US policy with one of the largest energy producers of the future, Iran, in direct conflict with the two Asian monoliths.<sup>61</sup>

Of particular interest is the recent introduction of the Caspian Sea region into the global energy industry. During the early 1990s, US dominated consortiums invested heavily in Azerbaijan, Kazakhstan and Turkmenistan oilfields. Kazakhstan alone has the capability of becoming the 6<sup>th</sup> largest oil producer in the world under the guidance of US Chevron. The difficulty with the Caspian fields is that they require significant infrastructure to get the resources out of the region. Those countries that supported the movement of oil through pipelines across their territory stood to generate great income from transit fees. The ideal arrangement from the US point of view of Iranian containment was that Iran could be completely circumvented in the transport of Caspian oil to the West.<sup>62</sup> Initial US successes involved pipeline agreements across Georgia and Azerbaijan to the Black Sea and, later, a pipeline across Azerbaijan and Turkey direct to the Mediterranean port at Ceyhan, Turkey. While these projects have enjoyed success, the fact that the shortest routes to a major distribution hub are across Iran to the Persian Gulf has not been lost on some regional players. Two of the landlocked, oil-producing Caspian countries, Kazakhstan and Turkmenistan, have begun exploiting an interesting evolution in the globalization in the oil industry known as “swapping”. A problem for the Iranians is that there is no current pipeline infrastructure from the Caspian to the Persian Gulf and foreign technology would be required to enable the Iranians to create it. In 1997, the US was caught in a peculiar trap as a result of conflicting interests in the Silk Road Strategy Act (SRSA) and the ILSA. In mid-1997 Turkmenistan approached the Iranians and Chevron to build transit hubs on the Caspian and a pipeline to the Gulf. Chevron felt that the ILSA had been sufficiently eroded that it could effectively compete. However the IEPA was still being actively enforced and Chevron was shut out of the \$2 billion contract. In order to effectively implement the economic tenants of the SRSA, the US was obliged to waive the ILSA against foreign companies who then effectively engaged the Turkmens and Iranians.<sup>63</sup> This precedent marked the beginning of an unfortunate regression in US influence in the region. In May 1998, Iran

opened tenders for a pipeline from the Caspian to Tehran that would facilitate the movement of Turkmen oil to Tehran. This was the result of a “swap” program formulated by the Iranians whereby Tehran could take advantage of the closer proximity of Caspian oil rather than move it inland from their own distant Persian Gulf oilfields. In return, Iran would ship an equivalent quantity of Turkmen oil from the Iranian ports to the West and the East. The government of Kazakhstan is itself exploring a “swap” deal of similar dimensions with Tehran as a means of avoiding building its own pipeline across the Caspian to Azerbaijan. The end result of this round is that the Caspian-Tehran pipeline will be built by a European consortium, despite US companies being invited into the bidding process.<sup>64</sup> The US containment of Iran along its northern borders, so successful in the early 1990s, is rapidly eroding and the US is still failing to register overtures from the Iranian government in the form of business participation. The fact that US companies now represent less than 10% of the active contract participation in Caspian oil development and exploitation is significant. Regional globalization of the energy industry, founded in the expansion of participation by the oil companies Elf and Total from France, OIEC from Iran and a number of Malaysian and even Russian companies, may spell the end of the US ability to influence Iranian and Caspian region politics.

With Iran’s central location to the Caspian Sea, Persian Gulf and Asia to the north and west, it is not difficult to assess the future of Iran in a globalized energy industry. With over 85% of Iran’s hard currency income being generated from the oil industry and its domestic infrastructure in a severe state of disrepair, the Iranians will be compelled to reengage the global environment. The risk to Iran of failing to reengage the West is the increasing influence globalization is having on the expansion of the remainder of the global energy industry. Robert Litwak, the Director of International Studies for the Woodrow Wilson Center, noted that US sanctions have served only to change the political dynamic from “the US and the world against Iran” to “Iran and the world against the United States”.

### **GLOBALIZATION AND IRAN’S GEO-STRATEGIC POSTURE**

Relative to US foreign policy, Iran is at a crossroads in relations with its closest neighbors. With a history of hostility towards Persian Gulf states during the 80s and early 90s, Iran is returning to a course of reestablishing its geo-strategic priorities and rebuilding its foreign relations bridges. Restoring confidence among the Gulf emirates has highlighted Iran’s behavior since 1999. Iran has avoided taking sides in the India-Pakistan conflict despite attacks on Shia’s; it has remained silent regarding Balkan Muslims persecuted in Serbia, Macedonia and Kosovo; it has avoided inserting itself in the Chechnyan conflict despite the Islamic

presence there; and it has distanced itself from the Taliban and Afghan civil war. Iran has even acted as a Muslim to Muslim mediator in the ongoing civil conflict in Tajikistan.<sup>65</sup> This is remarkable for a country that was seeking Islamic primacy in the region only a few years beforehand.

In the case of the Gulf emirates, several significant influences exist that are not favorable to US foreign policy or conducive to a power balance against Iranian hegemony. No mutual defense coordination agency exists between the emirates, thus making them collectively or individually dependant on the US for military interventions.<sup>66</sup> Considering the vast level of expenditure on modern military capability that the US influenced over the 1990s, the lack of an established cooperative defense organization is a distinct failure on the part of the Saudi regime and the US. The Gulf Cooperation Council (GCC), dominated by Saudi Arabia, spent \$89 billion on sophisticated air/land/sea military capability to Iran's \$6.2 billion. The GCC as a collective outguns Iran in the air by over a 2.5:1 margin in combat aircraft (without even addressing the qualitative edge in equipment in which the GCC enjoys a substantial favorable margin). In other areas, the GCC has 35% of the region's tanks to Iran's 28%, and 68% of the combatant naval craft to Iran's 30%.<sup>67</sup> As a powerful counterbalance to Iranian hegemony, one could well make the case for a "band-wagoned" GCC if it could be effectively organized under a NATO type of construct. Cooperative consolidation of the GCC's military capabilities and interests could also provide an opportunity for the US to reduce its footprint in the Gulf.

There are a number of other implications to US policy that place Iran on more favorable ground if it can reestablish better relations with the other Gulf states. There are 3 categories of Islamic groups in the Gulf: the "establishment" Islam that seeks to maintain the status quo with the West; reformers who invoke Islam to fight corruption and urge redistribution of wealth; and militants who are hostile to the ruling autocracies and seek their demise.<sup>68</sup> This clouds US relations in the region as each of the groups within each Gulf state exists in varying degrees of power, creating unique internal political difficulties. Iran itself exists in a precarious balance of power between the reformists and the militants.<sup>69</sup> Given the various states of regional tension, US policy will have varying degrees of effectiveness based on the nature of US policy. US squeezing of Iraq and Iran has frequently caused Shia backlashes across the region. This is one of the reasons Iran has routinely been accused of attempting to destabilize regional governments. It is also the reason for the periodic rise in US bashing. It is important for the US to acknowledge that many of the region's autocracies ride of very fine line between remaining in power and open civil conflict. It is frequently necessary for them to appease the masses with anti-US rhetoric. This cycle is not a new phenomenon; as US military presence increases in the

Gulf, so does the level of animosity. The political posturing of Gulf States in the current conflict with Iraq and their failure to adhere to many of the respective Cooperative Defense Agreements is an example of how fragile US relations in the region can be.<sup>70</sup> Another implication for US policy is the view each of the Gulf States has of Iran as a potential threat. Kuwait is far less concerned with Iran than with Iraq. Oman on the periphery of the Gulf exists as one of the warmest states to the West and is openly receptive to the US for financial support, technology and strategic relationships. The United Arab Emirates (UAE) on the other hand has great concern over Iran's ambitions. A future settlement of the Greater and Lesser Tunb Islands sovereignty issue between the UAE and Iran has great implications for normalized relations between Iran and Saudi Arabia. UAE has frequently leveraged this sovereignty issue to diffuse attempts by Iran to close the gap in relations with Saudi. The stubbornness of Iran in the past has been the only hurdle left in what could be a regionally beneficial agreement that significantly alters US influence in the region. As early as May 1998, more moderate Iranian Foreign Ministry representatives have been traveling to the UAE to open new avenues for discussions on all issues" including an acceptable solution to the islands.<sup>71</sup>

A corresponding hurdle for the US is the fact that it is a non-Arab state attempting influence in an Arab-Persian collective. The US is an outsider from the West and US policy will always be an important but secondary consideration. Since the US is not an "insider", the Gulf States are more influenced by the regional tendency of accommodation. If Iran appears as a threat to regional stability, the Gulf States will accommodate it to avoid potential backlash and, if Iran appears as a non-threat, the Gulf States will accommodate it anyway. This is one of the reasons that the Greater Lesser Tunb Island issue continues to fester despite the UN ruling on the UAE's sovereignty.<sup>72</sup> Since the Gulf States, and even the European Union, have cast their votes on partial economic and political engagement with the Iranians, the US does not appear to be in a long term winning position.

On the northern borders of Iran, a different form of economic globalization is affecting US containment policy. After the collapse of the Soviet Union in 1991, the US took immediate steps to recognize the independence of all the former Central Asian Republics. By mid-1992 all 5 new states received US diplomatic missions and in October 1992 the US Congress had passed the Freedom Support Act to provide aid to the new Eurasian states. Ostensibly the US also admitted to the dangers the region faced from Iranian sponsored fundamentalism and was determined not to let the opportunity of exerting regional influence pass by.<sup>73</sup> An interesting phenomenon of this northern Iranian geo-strategic region is that while the adjoining states are predominantly Muslim, the long term secular Russian presence has made their form of religious

ideology incompatible with that of Iran.<sup>74</sup> Across central Asia, a parallel form of Islam existed during the Soviet domination. Sufi orders established a pervasive form of Islam that is founded on private piety and not in political activism.<sup>75</sup> Iran erroneously assumed that with the fall of the Soviet Union it would fill the void with a more fundamentalist and revolutionary Islamic presence in order to consolidate its position in the Caspian region. Fortunately for US policy, the years of Marxist ideology and Russian technocracy appears to have irretrievably altered the religious complexion of regional Muslims.<sup>76</sup> The best that Iran can hope for in the future is some form of economic cooperation with its northern neighbors.<sup>77</sup> An interesting political irony also has evolved throughout this process. Despite the overwhelming Islamic prominence in this region, the acceleration of the integration of Central Asia into the global economy is strongly supported by the Union of Orthodox Jewish Congregations of America. As this is one of the founders of the Jewish political lobby in the US, this support has sent strong signals to the European, Asian and Middle East Jewish communities and created implications for Iranian integration in the process.<sup>78</sup>

As US policy evolved throughout the 90s relations with the Caspian States and culminated with the passage of the SRSA in 1999, the US foothold in the region appears to have solidified. The tenets of the Act involve establishing economic stability and closer associations to the West with a view towards gradual democratization and improvements in human rights. Under this process of globalized integration US inroads have been made in varying degrees. The wealthier communities, whose energy resources are more readily accessible to the West, have made it further than some of the more remote regions. Azerbaijan and Kazakhstan have well established oil infrastructures for production and shipment. While these two are still relatively autocratic states, the levels of corruption and human rights violations are far lower than in the far flung states of Uzbekistan and Turkmenistan.<sup>79</sup> In these two states, regimes view Western overtures with some mistrust and a great deal of caution. Still, while the evolution is slow, it is heading in the direction of either the West or the western Pacific models of Malaysia, South Korea or Japan.<sup>80</sup> Some of the rationale behind this also involves the ethnicity of the region. Over four-fifths of the region's populace is of Turkish descent. Turkey has made great strides itself as a member of NATO to display itself as a role model of Pan-Turkish/Pan-Islamic democratic and pro-Western evolution/orientation.<sup>81</sup> This evolution has great significance to Iran as the prevailing influences are evolving from east to west in the region and the north to south influences (Iran and Russia) have been subdued. While this element of globalization can be seen as a success for US foreign policy, it has had a lot of external assistance from other

regional players. It will also be important for the US to avoid the perception that the “Great Game” played out by Britain and Russia in the 19<sup>th</sup> century is being replaced by a twenty-first century US imperialist presence.<sup>82</sup> The cumulative effect of US and European posturing to realign the geopolitical situation in central Asia was the payment of short term dividends to the US.<sup>83</sup> As US policy tends to exclude US business from interacting in the entire Caspian energy process, Iran has found itself postured in 2002 to take advantage of any and all failures of the US private sector to expand its role in Caspian oil ventures as a means of regaining lost influences and revenues.<sup>84</sup> Globalization now appears to be undermining US ability to contain Iran’s geostrategic influence.

### **GLOBALIZATION AND IRAN’S DOMESTIC POLITICS**

Perhaps the most dramatic area for the US to exploit is the effect of globalization on Iran’s domestic situation. An example of globalization’s impact in the Persian Gulf was captured in 1998 by Saudi Prince Talal bin Abdelazeez, “political reforms are coming as a result of globalization,...and along with globalization comes pressure on human rights, markets and democracy”.<sup>85</sup> This observation came in the wake of the national caucus the same year on whether the Saudi government should allow women to drive. While the Saudi’s may slowly be reacting to the forces of globalization, the positive momentum within Iran appears to be substantially more aggressive. In order to understand why Iran’s situation has become a recent opportunity for the US only in the past few years, an investigation of some of the underwriting influences is necessary.

After the 1979 revolution, Khomeini went on a crusade to expand the population for the greater glory of the Islamic Republic. By 1988, with a post-war economy in ruins, Khomeini’s successor was forced to retract that policy and subscribe to national birth control as a means of performing economic damage control. The religious implication of the theocracy reversing its opinion was not lost on the populace. In any case the Republic has evolved demographically to the point where over half the population was born after the revolution and over 65% is under 25 years of age. Jobs are scarce and unemployment runs 50% in an economy marked by underinvestment, corruption and inefficiency.<sup>86</sup> As US sanctions have had only a marginal effect on the economy, the reformist newspapers acknowledged that the current economic conditions are not the result of US plots, but the result of the state’s own mismanagement.<sup>87</sup> This is a colossal reversal in Iranian rhetoric that the US administration is missing. A lone 27year old guard was questioned on the significance of guarding Khomeini’s old house in the ultra-religious city of Qom. His answer may summarize the sentiment inside Iran: ‘Khomeini

means nothing to me or my life, The mullahs promise but they don't deliver. There is no country here."<sup>88</sup> Even the most casual observer might say that the conditions are ripe for another kind of revolution within Iran.

As many forms of pressure increased against the theocracy, the political landscape changed dramatically with the landslide popular victory (>70%) of Khatami in 1997. In addition, the Majlis (Iranian Parliament) saw an instrumental change when the 2000 popular vote replaced three out of every four conservative seats with Khatami's reformists.<sup>89</sup> Women and the under 25 group dominated the election with demands for greater accountability in government and loosened restrictions on personal conduct.<sup>90</sup> Many conclusions can be drawn from the 2000 election when viewed through the prism of some events that immediately preceded it. In 1998, the Iranian World Cup Soccer victory over the US brought on a public demonstration of peculiarly Western characteristic. Dancing in the streets, distribution of bootleg vodka from car top and the parading of an unveiled female driving down the main street of Tehran typified some of the celebrations, ...all performed to the sounds of American rock and roll. This demonstration was conducted in the presence of the Iranian religious authorities throughout the city on a scale that had not existed since the 1979 revolution.<sup>91</sup> 1999 witnessed student riots provoked by invasions of their campus sanctuary. The riots escalated though Tehran and two dozen other cities until the national economy was literally brought to a standstill for over a week. Students and other discontented people publicly denounced Khamenei and his typical rhetoric of blaming the unrest on the US. It appeared that the usual political scapegoating had outlived its usefulness and the youth of the country was in no mood to listen to it.<sup>92</sup> Most recently in November, 1999, ten thousand students again took to the streets to protest the arrest and trial of a Tehran University professor for advocating freedom of speech. Recognizing the possibility of another state-wide riot, Khamenei has again intervened and ordered a judicial review of the death sentence. In a country where the most popular television show is 'Baywatch' (beamed down into illegal satellite dishes), it appears that the popular subculture has challenged both the moral authority and the political legitimacy of the theocracy.<sup>93</sup>

It is of particular interest that the revolution may have set up one of the circumstances of its potential demise. Khomeini focused on literacy to the point that the rate was doubled with three out of four people able to both read and write. Iranian women became the best educated in the Muslim world, accounting for half of all university admissions and one out of three doctors.<sup>94</sup> In fact, the status of women in Iran has very few parallels in the Muslim world. Women make up 25% of the work force, vote in elections, drive their own cars, hold public offices and own their own businesses. Birth control devices are widely advocated as are other

family planning practices.<sup>95</sup> Recently, all eleven of Iran's female legislature sponsored a change to the law on the stoning of women for adultery. As international human rights groups have denounced all forms of stoning as cruel and barbaric, the theocracy has again come under fire.<sup>96</sup>

To maintain his rather tenuous relationship with the mullahs and the theocracy, President Khatami has occasionally felt compelled to recoil against the US and Israel. The rhetoric that Khatami has vented from time to time has appeared to be more motivated by the appeasement of the conservatives than by actual intent.<sup>97</sup> With each cycle of this rhetoric, the pragmatic strain has appeared stronger and the ideological and revolutionary strain weaker.<sup>98</sup> While change is coming slowly, it is essential to remember that Khatami is still subject to the veto authority of highly conservative elements in the Iranian Court system, the Office of the Supreme Leader and the Council of Guardians.<sup>99</sup> Nevertheless, many Iranians who have a view to a better life through mass media and the Internet are growing increasingly disillusioned with Khatami and his failure to be more assertive. Five years of reform have largely been thwarted by the theocracy and more and more Iranians appear ready for direct change, if necessary.<sup>100</sup> The information aspects of globalization are steadily eroding the foundation of the theocratic side of the government and it is powerless to stop it. The demands of transparency in government, adherence to democratic practice and the requirement for at least a minimum acceptable standard of human rights will drive the Iran's domestic politics for the foreseeable future. Iran is moving in a positive direction under its own momentum towards moderation with the West. With globalization paving the way, the choice for the Islamic Republic of Iran appears to be: "reinvent itself or face the wrath of the population."<sup>101</sup> Relative to the US, an Iranian contact of former US Ambassador Murphy stated that the US horizon was limited to every 4 years while the Iranian horizon may be 10, even 25 years.<sup>102</sup> US patience and the application of subtle influence will be the key to successful foreign policy with Iran.

#### **WHERE DOES US POLICY GO FROM HERE?**

The US has not been in as favorable a position for reducing its overall presence in the Gulf in over a decade. Notwithstanding any resolution in the current situation between the US and Iraq, the GCC is adequately postured to cope with the future emergence of a regional hegemon. It is merely a case of the US cutting the umbilical, providing the proper motivation to the GCC and moving back to less friction-producing areas such as Oman and Diego Garcia. Any additional requirements to provide for regional stability should be provided by the long-term recipients of Persian Gulf resources, i.e. Asia and the EU. Reductions in US presence will

reduce regional tensions and eliminate one of the pillars that Iranian terrorism is founded on. Iranian terrorist activities appear to be in check at this time, and the US should not provide any incentive to reinstate them.

As Iran attempts to reenter the global economy, the desirability of Iran to continue the support of terrorism will be further undermined; and the US can accelerate this process. It has already been noted that the popular vote in Iran is on the side of the Khatami presidency. As Khatami is the proponent of a more economically viable Iran, it is up to the US to nurture this aspect of future US-Iranian relations. In doing so, it will be possible to drive the wedge deeper into the gap that is now marginalizing the influence of the theocracy and their support of terrorism. Even a very subtle US information operations campaign could further accelerate the effects of globalization by ensuring the Iranian public is aware of which of the two Iranian political camps the US is sitting in.

Sanctions with Iran should be removed immediately. As a way to engage from a position of economic strength, the US needs to reenter the energy industry in Iran. The decayed oil production, storage and transportation infrastructure will provide vast economic awards to the civil companies that enter that market. It has been noted that the influence of globalization on the oil industry is strong and Iran is moving rapidly with the current. Either the US will participate in that process or it will be overrun by those with fewer, self-imposed constraints. Entry into the Iranian markets will bring both countries much closer to normal channels of dialogue. It should be noted that in Iran's current economic doldrums, whoever takes a proactive approach towards improving that economy will be embraced by both the incumbent government and its constituency.

Relative to the WMD issue, the US should be favoring any action that will normalize relations with Iran. Non-proliferation has been a global failure through international complacency and disinterest. Globalization of arms markets will make it unfeasible for the US to continue its efforts to target Iran, particularly with the other 14 countries that are in non-compliance. The US should embrace all efforts to maneuver the Iranians to be responsible owners of WMD and ease some of the tensions on Iran's borders.

With globalization creating a variety of economic, cultural, and demographic influences in Iran, it appears that the US has never been in a better position to take advantage of several elements of globalization and pursue more conventional and less confrontational relations with Iran. Regardless, unless changes in US policy are made, the forces of globalization will ultimately favor Iran and completely erode any effectiveness by the US to influence Iran's behavior. It is time to reflect back on Mao Tse-Tung and recognize that if the situation in Iran

and throughout central Asia is changing, then so must the US foreign policy dealing with it. Inability or unwillingness to do so will almost certainly have the US figuratively running its head into the wall of failed foreign policy.

WORD COUNT - 9701



## ENDNOTES

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