

# U.S. AND IRANIAN STRATEGIC COMPETITION:

Saudi Arabia and the Gulf States

By Marissa Allison

December 6, 2010

**Anthony H. Cordesman**  
**Arleigh A. Burke Chair in Strategy**  
**[acordesman@gmail.com](mailto:acordesman@gmail.com)**

## Table of Contents

Introduction .....	3
Saudi Arabia .....	4
Background .....	5
Saudi Competition with Iran .....	8
The Shi'ite Issue .....	15
The Impact of Terrorism and Religious Extremism.....	16
The Impact of Non-State Actors, and Iran's Ties to Iraq.....	17
Economic and Energy Competition.....	18
The Regional Military Build Up .....	19
Kuwait .....	21
Bahrain .....	25
UAE.....	28
Oman.....	31
Qatar .....	37
Yemen .....	40
Figure 1-Arms Transfer Agreements in Gulf by Supplier .....	44
United States Policy .....	44
Economic and Energy Competition.....	45
Military Cooperation and Competition.....	46
Iraq.....	47
Iran's Competition with the Other Southern Gulf States and the US.....	48
Looking Toward the Future.....	51

## **Introduction**

The current strategic landscape in the Gulf is shaped by a competition between Iran, Iraq, the US, and the individual Southern Gulf states for influence in the military, political, and economic realms. Iran is making broad efforts to expand its influence over the entire Gulf, as well as to deter US military action, reduce US influence, and establish itself as the dominant power in the region. In recent years, Iran has pursued this strategy by building up its capability to pose a missile, nuclear, and asymmetric threat; exploiting the Arab-Israeli conflict; attempting to discredit the US; expanding its influence over Iraq's Shi'ites; and by making direct country-to-country contacts with each of its Southern Gulf neighbors designed to increase its influence and leverage.

The US has sought to contain Iran, and limit its influence over the Southern Gulf countries, by strengthening relations with each Arab Gulf state, working with allies like France and Britain, by helping to negotiate an Arab-Israeli peace, and by establishing a mix of US, Iraqi, and Southern Gulf capabilities for deterrence and defense that will contain Iran. As part of this effort, the US seeks to limit Iran's ability to use its political influence, ties to other regional states, influence over Iraq, exploitation of the Arab-Israeli conflict, and capabilities for asymmetric warfare to dominate the region.

While this Iranian and US competition for power and influence in the Gulf focuses on Saudi Arabia and Iraq, as the other major states in the Gulf region, it plays out differently in each Gulf country including Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, UAE, Yemen.

The Southern Gulf powers and Iraq also pay keen attention to the US-Iranian struggle over sanctions and energy investment, and the role of the P5 +1 in seeking to limit the Iranian nuclear program. Their positions are affected by US efforts to build a strategic partnership in Iraq, to its

plans for a future force posture in the Gulf, to its success in halting Iran's nuclear programs, to the course of the fighting in Afghanistan and Pakistan, to the rise of China and other parts of Asia as key importers, and to how the US deals with the problems of piracy and instability in the Gulf of Aden and the Red Sea. They judge Iran as a regional power and a neighbor; they judge the US as both a regional and global power.

Furthermore, this competition in the Gulf cannot be separated from the broader pattern of US and Iranian strategic competition, including the competition for influence in Turkey; in Afghanistan and Central Asia; in Israel, Jordan, Lebanon, Syria, and the Palestinian factions in Gaza and the West Bank.

## **Saudi Arabia**

Saudi Arabia is now the most important US ally in the Gulf, and will remain so as long as Iraq's political and strategic alignments are uncertain- and Iraq remains a weak power caught up in its own internal struggles. This does not mean that Saudi Arabia's interests always coincide with those of the US: they do not. It does mean that the US and Saudi Arabia share a common interest in limiting and containing Iran, and in ensuring the security of the Gulf and the stable flow of Gulf oil exports.

This relationship is reinforced by a long history of US and Saudi military cooperation and the US role in arming and developing Saudi forces. Furthermore, both nations have a common interest in dealing with the challenges of terrorism, the problems posed by Yemen, and the growing instability in the Horn of Africa and the Red Sea. While both countries are divided in their approach to resolving the Arab-Israeli conflict, they share a common interest in ending it and removing it as a cause for extremist action and a political tool that Iran can exploit in dealing with Lebanon, the Palestinians, and Arab popular anger.

The end result is a complex set of relations shaped by Saudi competition with Iran and the factors that shape Saudi cooperation with US policy, by US policy towards Saudi Arabia and how it uses this policy to confront Iran, and finally, by Iranian policy towards Saudi Arabia and how it also uses bilateral relations to compete with the US.

## ***Background***

Saudi competition with Iran for influence in the Gulf has a long and complicated history, which began long before the 1979 Islamic Revolution, and was heavily affected by the Shah's ambitions to become the dominant Gulf power after British withdrawal in 1971.<sup>1</sup> US and Saudi relations with Iran reached a crisis point, however, with a sharp increase in tensions following Ayatollah Khomeini's seizure of power.

The regional power structure and the US policy towards the region changed dramatically following the revolution. Iran and Iraq became locked in competition with one another. Each country sought to expand its power and influence in the region and worked to ensure that the other would become a dominant power. At the same time, the US policy changed from a twin pillar approach relying on ties to both Saudi Arabia and Iran to a policy of working with Saudi Arabia to contain both Iran and Iraq.

---

<sup>1</sup>For further reading on the background of Iranian, US, and Saudi relations in the Gulf see Katzman, Kenneth, "The Persian Gulf States: Post-War Issues for U.S. Policy, 2003." Congressional Research Service. July 14, 2003. <http://www.fas.org/man/crs/RL31533.pdf>; Kenneth Katzman, "Issues for US Policy, 2000." Congressional Research Service, November 3, 2000. <http://www.iraqwatch.org/government/US/CRS%20Docs/persian.pdf>; Christopher M. Blanchard, "Saudi Arabia: Background and US Relations." Congressional Research Service. June 14, 2010. <http://www.fas.org/sgp/crs/mideast/RL33533.pdf>; MAJ Randy B. Bell, "Expansion of American Persian Gulf Policy by Three Presidents." 1990. <http://www.globalsecurity.org/military/library/report/1990/BRB.htm>; Charles G. Summers, "The Threat from Iran." 1997. <http://www.globalsecurity.org/military/library/report/1997/Summers.htm>; Bernard Reich and MAJ Stephen H. Gotowicki, "The United States and the Persian Gulf in the Bush Administration." 1991. <http://fmso.leavenworth.army.mil/documents/usgulf.htm>.

This competition soon acquired a military dimension. Khomeini's efforts to export his revolution and Saddam Hussein's ambition to dominate the region led Iraq to invade Iran and started the Iran-Iraq that lasted from 1980 to 1988. The US and the West initially were neutral, but once Iran halted Iraq's invasion, and went on the offensive in 1982, most Western powers provided military and political support to Iraq in order to stop Iran from spreading its Islamic Revolution. Despite Iraq's claim to "victory" in the summer of 1988, the Iran-Iraq War had no decisive winner. However, it did have long-term implications for the region.

Both powers were drained militarily and economically by the scale and length of the conflict. Iraq emerged as the dominant military power but nearly bankrupt and heavily in debt to Kuwait and Saudi Arabia. This led Saddam Hussein to invade neighboring Kuwait in the summer of 1990 but the US, most Arab states, and many European states refused to recognize the Iraqi occupation. Iraq was only to be decisively defeated by a US and Saudi-led coalition in 1991. This defeat left Iraq weakened, although it still retained more military strength than Iran, and subject to US military containment and UN sanctions. As for the rest of the Gulf, Saudi Arabia and other Arab Gulf states still felt threatened by Iraq, and Iran remained largely isolated and still militarily weaker than Iraq. The Arab Gulf states continued to need US assistance to resist the threat from Iraq, and this led to a major increase in the presence of US forces and pre-positioning capabilities in the region.

Iran did, however, begin to improve its relations with the Southern Gulf states. The 1990 invasion of Kuwait made Iraq a shared threat, and Iran moderated its position in dealing with Saudi Arabia and other Southern Gulf states. Combined with the changes in leadership and deteriorating economic conditions in both Iran and Saudi Arabia, this led to a period of rapprochement in Saudi-Iranian relations. By the end of 1991, the two countries restored

diplomatic relations with the visit of Saudi Foreign Minister Saud al-Faysal to Tehran. While Riyadh and Tehran announced that they had “reached understanding on solving all problems between them,” in reality, the fundamental competition in the fields of ideology, politics, and the economy continued.<sup>2</sup>

The US responded to the twin threat posed by Iran and Iraq with a policy of “dual containment” and a continued effort to work with Saudi Arabia and the other Southern Gulf states. The rise of violent Sunni Islamist extremism became a steadily increasing threat, and the September 11, 2001 attacks led the US to take a more aggressive role in the region. While both Iraq and Iran were designated by President George W. Bush as part of the “axis of evil,” Iraq was widely viewed as the most threatening country in the region. This led the Bush Administration to invade Iraq in 2003 and overthrow Saddam Hussein’s Baathist regime, creating chaos within the country and upsetting the balance of power by removing Iraq as a major player in the region.

The impact of the US invasion had massive repercussions for the region. The removal of Iraq as a major regional power created a new basis for competition between Saudi Arabia and Iran. Saudi Arabia now felt more threatened by the buildup of Iranian asymmetric and missile capabilities, the Iranian nuclear program, and the prospect of an Iranian-allied Shi’ite regime in Iraq. As a result, Saudi Arabia began to focus on containing Iranian influence in Iraq, and throughout the region. The Saudis began to take a stronger role in regional disputes in Lebanon, the Arab-Israeli conflict, and especially in Iraq.

The civil conflicts in Iraq that followed the US invasion further weakened Iraq to the point where Iran, the US, and Saudi Arabia have remained the major regional actors, competing to enhance

---

<sup>2</sup>Reuters, “Saudi-Iranian Relations are Being Restored,” March 18, 1991; RAND, National Security Research Division, “Saudi-Iranian Relations Since the Fall of Saddam: Rivalry, Cooperation, and Implications for US Policy.”RAND, p. 17.

their roles, but with Saudi Arabia and the Southern Gulf states dependent on US forces and power projection capabilities in the Gulf. The US, in turn, focuses on improving Southern Gulf military cooperation and creating a stronger “pillar” to balance the increasing threat from Iran. Iran practices a mixed strategy of competition, mutual cooperation, and periodic consultation with countries in the region.<sup>3</sup> Moreover, the rise of Al Qaeda in the Arabian Peninsula, the domestic terrorist attacks on Saudi Arabia in 2003, and the deterioration of the situation in Yemen have all created a new threat and led to new forms of US and Saudi cooperation.

### ***Saudi Competition with Iran***

As the US’s most important regional ally, Saudi Arabia plays an essential role in the American competition with Iran. Several key events have taken the place that dramatically changed the nature of the competition, or Saudi’s role vis-à-vis Iran and the US:

- 1971- British withdrawal from Persian Gulf
- 1981- Gulf Cooperation Council Established
- 1984- “Tanker War” begins
- 1986- Saudi authorities find arms and explosives on Iranian pilgrims on the *hajj*
- 1987- Saudi security forces kill 400-450 Iranian pilgrims during annual *hajj*
- 1988- Iran and Saudi Arabia cut diplomatic relations over the previous year’s *hajj* incident; Iran boycotts *hajj*
- 1990- Iraq invades Kuwait; beginning of Gulf War
- 1991- Operation Desert Storm and end of Gulf War; Saudi and US forces liberate Kuwait; Foreign Minister Saud Al-Faisal visits Iran for the first time since cutting of relations
- 1996- Al Khobar bombings in Saudi Arabia
- 1997- King Abdullah invites former President Rafsanjani to visit

---

<sup>3</sup>Barzegar, Kayhan, “Balance of Power in the Persian Gulf: An Iranian View.” *Middle East Policy* Fall 2010; Congressional Research Service, “Iran: Regional Perspectives and US Policy.” January 13, 2010, <http://www.fas.org/sgp/crs/mideast/R40849.pdf>.

- 1998- Saud Al-Faisal visits Iran and signs agreement covering economics, culture, trade, science, technology and sports; bilateral investments in industry, mining, transport, petrochemicals.
- 2000- Saudi eases visa access for Iranian businessmen
- 2001- Iran and Saudi Arabia sign a security pact focusing on drug trafficking
- 2002- President Khatami visits King Abdullah to discuss forthcoming US attack on Iraq
- 2003- Riyadh compound bombing; US moves airbase from Saudi Arabia to Qatar, there is no longer a permanent US military presence in Saudi Arabia
- 2004- Massacre at Al-Khobar, thought to have been perpetrated by Al-Qaeda
- 2007- King Abdullah invites former President Rafsanjani to attend *hajj*

The end result is that Saudi Arabia now competes with Iran in order to limit its regional influence and its ability to threaten key strategic interests. While both states maintain the rhetoric of friendly relations, the basis of competition between these two countries lies in Iran's attempts to extend its military and political influence and take advantage of the post-Saddam regional political structure. As a result, one of Saudi's major policy goals is to contain Iranian influence.

This competition remains cloaked by the rhetorical political accommodation shaped by then-Crown Prince Abdullah and then-President Rafsanjani's public expressions of reconciliation in the 1990s. These expressions of rapprochement and mutual accommodation have continued, for the most part, to the present day, becoming a semi-official *modus vivendi*. Even as fundamental competition continues between these two states, Iranian leaders have commented on the strength of Saudi-Iranian relations in terms of Islamic unity. Former President Rafsanjani stated after a trip to Saudi Arabia in 2008, "We concluded that cooperation between Saudi Arabia and Iran has

the ability to settle many of the problems of the Islamic world, especially in Iraq, Lebanon, Palestine, and Afghanistan.”<sup>4</sup>

But beyond these public expressions of mutual confidence, lies a complex set of religious, ideological, military, and political issues. There are several valid reasons why Saudi Arabia is uncomfortable with Iran’s growing influence in the region. First of all, the Iranian regime is an inherent countervailing presence, as Iraq has been removed from the playing board; a weakened Iraq has traditionally increased tensions. Second, Iran’s military build-up and pursuit of both nuclear and asymmetric capabilities represents a serious threat to Riyadh’s legitimacy as well as their source of income from trade through the Gulf. Finally, Iran’s ties to Syria and support of non-state actors like Hezbollah, Hamas, the Mahdi Army, and the Badr Brigades pose an indirect threat to the Saudis and their allies.

Ideology, religion, and competing interests all define the underlying tensions between the two regimes, as well as between Iran and the other Southern Gulf states. Saudi policy has two primary goals: first, to undercut extremist threats from both Al-Qaeda and Shi’ite movements, and second, to maintain a dominant role in the Gulf and contain Iran’s influence.

Religion is a key area of contention between Iran and Saudi Arabia that cannot be separated from regional politics and influence. From its inception, the Saudi regime has sought to portray itself as the spiritual, and often political, defender of Sunni Muslims in the region. Conversely, Iran is a Shi’ite state that sees its revolution as the only legitimate expression of the universality of Islam and Iran and its Supreme Leader as the natural leader and protector of the faith. As a result, religious divisions not only shape the tensions between these countries but also have serious

---

<sup>4</sup>Al-Akhbar, “Rafsanjani: Al-ta’awun al-Irani al-Sa’udi yahull mushakl al-’alam al-islami.” (Rafsanjani: Iranian-Saudi Cooperation Solves the Problems of the Islamic World.” <http://www.al-akhbar.com/ar/node/77527>

practical implications in regional conflicts in Iraq, Lebanon, Palestine, and Yemen, and in dealing with non-state actors and terrorism.

Saudi Arabia and Iran are further divided by the interaction between their ideology and the structure of their regimes. Since the Islamic Revolution, the ruling philosophy of Iran has been anti-monarchy, populist, quasi-democratic, and draws its ruling authority from the role of the Supreme Leader and the Shi'ite clerical elite. On the other hand, Saudi legitimacy rests on their custodianship of Islam's two holiest sites, dynastic privilege, and a close relationship with the conservative clerical establishment.

However, sectarianism and ideology are only two of the principal sources of tensions between Riyadh and Tehran; their bilateral relationship is based on structural competition in several spheres, all of which interact with their relations with the US. At the moment, Iraq is a major sphere of competition, with both sides desiring a stable and friendly regime on their side in Iraq. However, the competition extends further to long-standing disputes between rival proxies in the Levant, Iran's military ambitions, and oil and gas issues. Within this competition, Saudi Arabia and Iran compete, engage, and coordinate in varying ways.

The nature of this relationship has been exemplified by the Wikileaks release of US diplomatic cables. In these cables, Saudi Arabian leaders expressed their growing concern over Iran's nuclear ambitions and the threat that it poses to the region. Most strikingly, at an April 2008 meeting, Saudi King Abdullah himself reportedly urged the US to "cut off the head of the snake" by launching military strikes to destroy Iran's nuclear program. Other top Saudi officials also

supported the use of military force, while the foreign minister, Prince Saud al-Faisal pushed for tougher economic sanctions.<sup>5</sup>

The Wikileaks scandal also demonstrates the desire of both sides to keep this fundamental competition out of public view. Following the media's release of these documents, both Iran and Saudi Arabia issued public statements in an attempt to downplay tensions as a result of the documents. Iranian President Ahmadinejad was quoted as saying "Regional countries are all friends with each other. Such mischief will have no impact on the relations of countries." For their part, the Saudis responded to the release by saying that "These documents do not concern the Kingdom of Saudi Arabia. Nor has the Kingdom had any role in producing them."<sup>6</sup>

While Saudi Arabia feels increasingly threatened by Iran, the Saudi response so far has been muted. Even though it is considered to be one of America's closest military partners in the region, it does not want US combat forces to deploy on its territory and has not provided the US with basing facilities since the US invasion of Iraq. The Saudi population does not want foreigners and non-Muslims to have a peacetime presence, and Al-Qaeda and other Islamist extremists have also exploited these feelings in the past. The US moved its air command center from Saudi Arabia to the Al-Udeid airbase in Qatar in 2003.

The Saudis do not directly confront Iran in the Gulf, but rather challenge Iranian influence primarily through political maneuvering in the Levant. Saudi Arabia has instead sought to secure itself from extremist threats and limit Iranian influence regionally by attempting to develop a stronger leadership role amongst its Gulf neighbors, although these attempts are not always

---

<sup>5</sup>Colvin, Ross. "'Cut of Head of Snake' Saudis Told US on Iran."  
<http://www.reuters.com/article/idUSTRE6AS02B20101129>

<sup>6</sup>AFP, "Wikileaks 'do not concern' Saudi."  
[http://en.news.maktoob.com/20090000531480/WikiLeaks\\_do\\_not\\_concern\\_Saudi/Article.htm](http://en.news.maktoob.com/20090000531480/WikiLeaks_do_not_concern_Saudi/Article.htm)

welcomed by other Gulf countries. So far, the competition between Saudi Arabia and Iran has been shaped by the fact that neither side desires direct confrontation, so both sides operate within a managed rivalry system. Saudi Arabia has continued to make some diplomatic gestures towards Iran, such as Saudi King Abdullah's official invitation for President Mahmoud Ahmadinejad to attend the Hajj trip to Mecca in 2007. The Iranian News Agency ISNA called the trip "a new chapter in the two countries' relations."<sup>7</sup> In fall 2010, in preparation for the *hajj* season, Iran and Saudi Arabia engaged in a series of diplomatic talks between officials and between the leaders themselves through phone calls. During this period, the Saudi Ambassador to Iran, Mohammed bin Abbas al-Kilabi said "Iran and Saudi Arabia have common viewpoints on the existing brotherly relations between the two countries and this necessitates the continuance of consultation between the two countries."<sup>8</sup>

The US role in this competition is to combat Iran's influence in the region by empowering the Southern Gulf states with increased military aid and cooperation. The Gulf Security Dialogue, launched in 2006, "supports our enduring interest in the region, focusing on a wide-range of political and military issues, including shared strategic challenges in the wider region and enhancing partnerships in the area of security cooperation, counterterrorism, border security, nonproliferation, and maritime security."<sup>9</sup> Within this framework, Saudi Arabia tries to establish itself as the leader of the Gulf, often with US support. However, Saudi aspirations for Southern Gulf leadership are not often met with cooperation by other Gulf countries, as demonstrated by

---

<sup>7</sup>"Ahmadinejad on Pilgrimage to Makkah, Invited by King Abdullah." <http://www.asianews.it/news-en/Ahmadinejad-on-pilgrimage-to-Makkah,-invited-by-King-Abdullah-11029.html>

<sup>8</sup>Press TV, "Iran-Saudi Relations Positive for Region:Mottaki," October 27 2010, [http://www.tehrantimes.com/index\\_View.asp?code=229337](http://www.tehrantimes.com/index_View.asp?code=229337)

<sup>9</sup>Crowley, Phillip J. White House Daily Press Briefing, March 22, 2010. <http://www.state.gov/r/pa/prs/dpb/2010/03/138739.htm>

ongoing disagreements about military and monetary cooperation amongst the GCC member states.

Iran, on the other hand, seeks to extend its political influence regionally by developing relationships with each of its Southern Gulf neighbors, at times through diplomatic gestures, economic and trade agreements, military cooperation, or, less often, by using its Shi'ite legitimacy to appeal to the region's Shi'ite minorities in order to undermine the ruling regimes through both tangible and rhetorical means. Its policy towards each country is distinctly different and shaped by a myriad of varying political, economic, geographic, and historical factors.

Strategic competition in the Gulf, then, plays out with the US and Saudi on one side, and Iran on the other, each seeking to advance their interests in each separate country based on the complex political context there. However, the smaller GCC countries display various levels of support for each side and play distinctly different roles in this competition. These alliances are not static, but fluctuate according to the specific issue at stake:

- **Kuwait** is most similar to Saudi Arabia in its approach to US-Iranian strategic competition. It considers Iran a serious threat to its stability because of its perceived interference in Kuwait's Shi'ite population, its growing military capabilities, and its nuclear program. Kuwait is one of the US's major military allies in the region, and cooperates with the US on a number of levels, including providing essential bases for US troops.
- **Bahrain**, with a Sunni elite and a majority Shi'ite population, feels threatened by perceived Iranian meddling within the disaffected Shi'ite population. It tempers this threat by maintaining strong political and security relations with both the US and Saudi Arabia. It is the home to the 5<sup>th</sup> Fleet headquarters and receives major US military funding.
- **UAE** practices a more nuanced approach because of the difference in perceptions of Iran in each Emirate. The dispute for control over the islands of Abu Musa and the Tunbs shapes perceptions of Iran everywhere except in Dubai. Dubai maintains positive relations with Iran because of shared financial and trade networks. The UAE is also using its wealth to purchase advanced weapons from the US, and likewise strengthen its security ties to the US.

- **Oman** has a unique role in the region. It is generally accommodating towards Iran, has tensions with Saudi Arabia, close ties to the UK, and serves as a major strategic ally for US military and diplomatic interests. As a result, it often plays the role of intermediary and has some diplomatic leverage over Iran.
- **Qatar** has exploited the strategic competition between US and Saudi interests and Iranian interests in order to create an independent role in the region. Within this role, it tilts more towards Iran than Saudi Arabia while also hosting major US military bases to deter Iranian pressure.
- **Yemen** is increasingly a broken state whose regime is too caught up in internal issues and threats to play a significant role in the competition. However, a variety of factors make it strategically important, although often as a liability rather than an asset. Both Iran and the US accuse the other side of meddling in Yemen's internal affairs but both desire some level of stability there.

### ***The Shi'ite Issue***

Saudi behavior is also driven by internal Saudi needs. The Shi'ite issue plays an important role in how Saudi Arabia combats extremist threats and fights off perceived Iranian influence. Although Shi'ite uprisings are not an existential threat to the Saudi regime, they do pose a more serious threat in three of Saudi's neighboring countries: Bahrain, Kuwait, and Yemen.

Within Saudi Arabia itself, religious differences have resulted in major tensions between Iran and the Saudis. Saudi Arabia's own Shi'ite minority, residing primarily in the Eastern Province where they make up around 10-15% of the population, is often a center of these disputes, due to Saudi fears of Iranian interference. The Shi'ite minority has faced continuing problems in dealing with Saudi Arabia's conservative Sunnis; the conservative clerical establishment considers their practices to be heretical and they are often denied political and civil rights. These tensions do not represent a serious threat to the Saudi legitimacy, but they do result in social unrest from time to time. For instance, in February 2009, there were serious outbreaks of sectarian tensions in both Medina and the Eastern Province, leading to calls for secession from some Shi'ite clerics and Saudi accusations of Iranian incitement. In August 2010, an individual

affiliated with Asaiab Ahl Al-Haqq group (affiliated with Iran) was arrested and found with documents and maps of high level security areas.<sup>10</sup>

The Shi'ite issue is not only a domestic issue; it has affected Saudi foreign policy. Throughout the 1990s, at a time when relations between Iran and Saudi Arabia were characterized by surface amity and rapprochement, there were still annual disputes over the hajj pilgrimage to Mecca, resulting in increased tensions between Saudi Arabia and Iran as a result of quotas for Iranian pilgrims, their mistreatment, and their agitation against the Saudis. These tensions were further increased by the 1996 Al-Khobar towers incident in which US Air Force barracks were bombed, allegedly by an Iranian-trained Saudi Hezbollah cell.<sup>11</sup> Despite these issues, bilateral diplomatic relations continued to improve between Crown Prince Abdullah and both President Rafsanjani and President Khatami, with a series of public gestures of increased cooperation throughout the late 1990s.

### ***The Impact of Terrorism and Religious Extremism***

At the same time, Iran, the Southern Gulf states, and the US face a common threat from violent Sunni extremist movements like Al-Qaeda. While the Saudi monarchy is the primary target of Al-Qaeda in the Arabian Peninsula (AQAP), all Gulf regimes – including Iran- face a serious threat from Sunni extremist groups. Iran is also targeted by a range of Sunni movements because of the Shi'ite nature of the regime. Indeed, the Sunni separatist group, Jundullah in Baluchistan has corroborated with Al-Qaeda in its attacks on the Iranian regime. Because of this mutual enemy, Iran and Saudi Arabia have several conflicts in which they can cooperate. Indeed, the

---

<sup>10</sup>The Assynt Report, "Saudi Arabia Principal Briefing." Stirling Assynt Intelligence.

<sup>11</sup>RAND, National Security Research Division, "Saudi-Iranian Relations Since the Fall of Saddam: Rivalry, Cooperation, and Implications for US Policy."RAND, p. 19.

few security agreements that Saudi Arabia and Iran have signed focus on combating smuggling and terrorist networks in the region.

### ***The Impact of Non-State Actors, and Iran's Ties to Iraq***

The political dimension of Saudi-Iranian competition is played out primarily in proxy warfare and competition for influence in Iraq, Syria, Lebanon, and with the Palestinians, but it affects the other Southern Gulf States and Yemen as well.

Because of their shared border and geographical proximity, Iraq is a critical sphere of competition for both Tehran and Riyadh. From the Saudi perspective, the threat emanating from Iraq relates to three major issues: the first is the security threat resulting from instability in a neighboring country which is increased by Saudi's status as a major target for radical Islamist groups, the second is a result of sectarian tensions, and the third is rooted in structural competition with Iran. As a result, the majority-Shi'ite Iraq represents a serious threat to Saudi stability both because it is believed to be Iranian-controlled and because Saudi concerns about it inciting an uprising amongst its own disaffected Shi'ite population.

Saudi-Iraqi bilateral relations have suffered as a result of these concerns. While Iraq has named an ambassador to Saudi Arabia, Saudi Arabia still has not reciprocated by appointing an ambassador to Iraq. The Saudis were reluctant to acknowledge the Maliki regime and hesitant to accept Iraq into regional politics. More recently, Riyadh has sought to increase its political bargaining power in Iraq by trying to mediate negotiations for government formation by inviting all parties to Saudi Arabia in October 2010. However, Saudi Arabia has made it clear that they prefer an Iraqi government with severely limited Iranian influence, with a strong nationalistic focus, and led by Iyad Alawi rather than Maliki.

On the other hand, Iran sees the majority-Shi'ite Iraq as a potential ally and at the least seeks to ensure that Iraq will never again become a serious military or political threat to Iran. The competition between Saudi and Iranian interests in Iraq will only continue with the official end of US combat operations there in August 2010, and with the ongoing political stalemate and failure to form a government. As a result, Iraq's future, and both Iranian and US influence within the government, will continue to shape Gulf politics for the foreseeable future.

### ***Economic and Energy Competition***

The political and economic aspects of this competition are also played out through economic disputes, particularly in oil pricing and OPEC relations. Saudi Arabia, already China and India's largest oil supplier, is seeking to build new refineries in order to enhance its political and economic relations with these two major powers.<sup>12</sup> In doing so, Saudi Arabia seeks to weaken Iranian influence while Iran simultaneously competes for Chinese economic attention. By strengthening its economic ties with China, the Saudis are depriving Iran of a major regional partner while simultaneously vastly improving their own economic situation.

Saudi Arabia and Iran have fundamentally different goals in their economic policy; while Saudi Arabia takes a long-term view of the oil market and has incentives to moderate prices, Iran is compelled by its smaller oil reserves and larger population to focus on high prices in the short term. This difference is a result of oil reserves and production capacity: Iran has 137 billion barrels of oil reserves, while Saudi Arabia has 259 billion barrels in its reserves. Saudi Arabia also expects its output to climb in the coming years, while Iran's production is likely to shrink as

---

<sup>12</sup>Mattis, Aaron, "Oil Sheik-Down, Saudi Arabia's Struggle to Contain Iran," Harvard International Review, Spring 2010.

a result of deteriorating infrastructure and growing domestic demand.<sup>13</sup> Iran is interested in maximizing oil profits in the near term while its position in the market is still strong; the Saudis have an incentive to moderate prices for now to mitigate the challenge from non-OPEC producers and ensure that developed nations do not begin a major push toward alternative energy. Iraq further complicates this issue because whichever state has more influence there will gain a powerful partner in OPEC deliberations.<sup>14</sup>

### ***The Regional Military Build Up***

Finally, Iran and the US compete in the military sphere through a regional military buildup. The US promotes a regional security framework of the Southern Gulf States, with the backing and within the control of the US. Iran, on the other hand, has far greater capability for asymmetric warfare than conventional warfare and has developed a wide mix of land, air, and naval capabilities that can threaten its neighbors, challenge the US, and affect other parts of the Middle East and Asia.

This US security framework is led by Saudi Arabia for the most part, leading to increased competition between Iran and the Saudis through a buildup of their respective military programs and defense capabilities. The military dimension of this competition is rooted in the Gulf arms race tradition with Saudi Arabia receiving major support from the US while Iran simultaneously develops its nuclear program, its asymmetric capabilities and its missile programs. Saudi Arabia seeks US support militarily in order to face an increasingly threatening environment as tensions increase between Iran and the US and Israel. In particular, Saudi Arabia looks for military

---

<sup>13</sup>EIA, *IEO*, p. 33

<sup>14</sup>RAND, National Security Research Division, "Saudi-Iranian Relations Since the Fall of Saddam: Rivalry, Cooperation, and Implications for US Policy." RAND, p.12.

support in obstructing Iranian asymmetric abilities, and in order to protect itself from Iranian missile attack in the event of a conflict. It is in this context that the 2010 US arms deal to Saudi Arabia must be understood; the deal focuses on creating an integrated approach to air and missile defense, that simultaneously lays the groundwork for future purchases of advanced missile defense systems. Furthermore, the deal creates greater interdependence between the US and the Saudi regime for the next 15-20 years because of the need for ongoing support in training and using these weapons.<sup>15</sup> The US has sought to build up military relations with Saudi Arabia for the past decade. In the period from 2006-2009 alone, the US made \$13.1 billion worth of arms transfer agreements with Saudi Arabia, as noted in Figure 1 below.<sup>16</sup>

Iran has focused mainly on developing its air, naval, and missile capabilities in the Gulf in order to improve its ability to threaten and influence its neighbors, deter US naval and air operations against Iran (as well as those of Israel and other states), and provide it with improved military options against Iraq and particularly against targets in the Gulf, Gulf of Oman, and the GCC states. However, Iran lacks the capabilities for a conventional war because of obsolete equipment and dated technology. As a result, Iran develops its asymmetric capabilities by buying submarines, various air and anti-ship missiles, more advanced air-defense missiles, and a wide range of other systems.

The Southern Gulf states have more modern weaponry and military technology than Iran, and far larger numbers of modern weapons. They are spending far more than Iran, and importing far more – with far better access to the most modern weapons. The Saudi government has been

---

<sup>15</sup>Cordesman, Anthony, “The Saudi Arms Sale,” November 3, 2010, [http://csis.org/files/publication/101103\\_SaudiArmssale.pdf](http://csis.org/files/publication/101103_SaudiArmssale.pdf)

<sup>16</sup>CRS, “Conventional Arms Transfers to Developing Nations, 2002-2009.”

largely successful: their air force is a powerful modernized force, the navy is growing greatly in its capabilities, and Saudi ground forces have long been able to defend the Kingdom against Iranian infiltration. This desire is made clear in the most recent arms deal between the US and Saudi Arabia- one Saudi defense analyst explained “The Saudi aim is to send a message to the Iranians-- that we have complete aerial superiority over them.”<sup>17</sup>

The Saudis have clearly aligned themselves with American interests in the Iranian-American strategic competition. Indeed, in July 2009 rumors circulated that the Saudi government had secretly agreed to allow Israel to use Saudi airspace in a potential attack against Iran. The Saudi-American alliance to combat Iranian influence is based on mutual interest and political expediency. The Saudi regime seeks to establish itself as a leader of the Gulf bloc while Iran seeks to undermine this with an extension of its own influence. Like Saudi Arabia, the US seeks a united GCC defense system with improved capabilities and dependent on the US, while Iran calls for a regional defense structure excluding foreign actors. It is in the interest of the US to support Saudi efforts to contain Iran and also to provide it with weapons, economic aid, and diplomatic support to fight Iran’s influence in the smaller Arab Gulf states.

## **Kuwait**

The Kuwaiti regime tends to align itself with the US and Saudi Arabia in dealing with Iran, although with differences because of geographical, demographic, and political considerations. This position has been shaped by a series of key events that have influenced Kuwait’s threat perception in the region:

- 1961- Kuwaiti independence from Britain
- 1981- Kuwait joins GCC

---

<sup>17</sup>Roula Khalaf and James Drummond, “Gulf in \$123Bn US Arms Spree,” *Financial Times*, September 21, 2010.

- 1984- Kuwait requests US assistance in the “Tanker War”; US reflags Kuwaiti tankers
- 1990- Iraq invades Kuwait
- 1991- Kuwait is “liberated” by US and Saudi forces
- 2002- Iranian Defense Minister visits Kuwait to boost security and military cooperation
- 2003- Kuwait supports US invasion of Iraq
- 2004- US designates Kuwait major non-NATO ally

First of all, because of its location, Kuwait is often threatened by its two larger neighbors, Iraq and Iran. While the Iraq threat has been temporarily removed, Iran remains a perceived threat for several reasons. Demographically, approximately one-third of the Kuwaiti population is Shi’ite. The underrepresented Shi’ite minority became increasingly vocal in 2008, and a series of incidents in 2010 has threatened to inflame sectarian tensions. These incidents have again contributed to fears of Iranian meddling.

Secondly, because of geographical proximity, Kuwait is concerned about Iran’s nuclear development because of the potential for environmental fall out if something were to go wrong at a plant. The Bushehr reactor, which Iran began loading fuel into in October 2010, is particularly close to Kuwait, and resulted in concern amongst Kuwaiti officials of a possible leak. The Kuwaiti Foreign Ministry undersecretary released a statement: “Kuwait's concern is based on fears of any leaks due to natural causes that may have future consequences.”<sup>18</sup>

Iran’s nuclear development is not the only energy dispute between these two countries; there has been a longstanding dispute over the Dorra gas field which has been an area of major competition. This field, which is also shared with Saudi Arabia, has been the subject of energy negotiations that are blocking the development of the gas field. Foreign Minister, Sheikh

---

<sup>18</sup> AFP, “Kuwait Concerned Over Iran’s Bushehr Nuclear Plant.”

<http://www.hurriyetdailynews.com/n.php?n=kuwait-concerned-over-irans-bushehr-nuclear-plant-2010-08-25>

Mohammad Al-Sabah commented, "This is, no doubt, the thorn in the side of Kuwaiti-Iranian relations and we hope to remove this thorn as soon as possible."<sup>19</sup>

The threat of Iranian interference in Kuwait is also a serious challenge from the Saudi perspective. The Saudis have often acted as a protector for Kuwait, and the two regimes have gradually developed a strong political relationship. This has been particularly true since the 1991 Gulf War, and continues to be true as Kuwait faces the Iranian threat. This position, combined with US military support for and security cooperation with Kuwait, demonstrates that Kuwait has aligned itself with US and Saudi interests in this strategic competition. Furthermore, for the reasons described above, it is clear that Kuwait competes with Iran as well, although less directly than either Saudi Arabia or the US.

The US has long provided security assistance to Kuwait to deal with potential threats from both Iran and Iraq. In 1987-88, as part of the "Tanker war," Kuwait sought international assistance for its ships passing through the Gulf. The US agreed, and set up a naval escort and tanker reflagging program for 11 Kuwaiti tankers. US-Kuwaiti cooperation grew immensely as a result of Iraq's invasion of Kuwait and the ensuing conflict between the US and Iraq in 1991. The Kuwaitis were grateful for both US and Saudi assistance in removing Iraq but, as mentioned above, the Kuwaitis have continued to feel threatened by both Iraq and Iran.

In September 1991, Kuwait and the US signed a ten year defense pact, including a Status of Forces Agreement. As a result, the Kuwaitis enjoy US protection in the form of US bases, military supplies, and training. In exchange for this protection, Kuwait has also provided support for military operations in the region, particularly in Iraq.

---

<sup>19</sup> El-Gamal, Rania. "Kuwait, Iran yet to Resolve Gas Field Issue", <http://www.arabianbusiness.com/kuwait-iran-yet-resolve-gas-field-issue-46002.html>

Because of its own historical animosity towards Iraq, it was one of the only Arab countries to publicly support the overthrow of the Saddam Hussein regime in 2003 and also provided tangible support to US military in its operations there. Kuwait provides basing facilities for both the US Army and Air Force, and is their key supply and staging route to Iraq. Kuwait supported military operations in Afghanistan as well. Indeed, Kuwait hosted 5,000 US troops during Operation Enduring Freedom. In Operation Iraqi Freedom, it closed off its entire northern half to secure the US-led invasion force, and allowed the US to use two air bases, its international airport and seaports, and provided \$266 million in burden sharing support to the combat. Kuwait has continued this support, contributed approximately \$210 million annually in support of OIF. As a result of this extensive support, the US designated Kuwait a major non-NATO ally, a designation which facilitates arms deals and future security cooperation.<sup>20</sup>

Kuwait has aligned itself with the US in order to protect itself from threats emanating both from Iran itself, and from Iran's growing influence in neighboring Iraq. Kuwait has directly experienced the results of Iraqi aggression in the past and it is intent on avoiding a similar fate at the hands of Iran in the future. As a result, it seeks US military protection, and in exchange, provides basing facilities and material support for US troops. This support has been particularly useful in US operations in Iraq. The US also ensures that Kuwait can defend itself through a series of arms deals. Indeed, as noted in Figure 1 below, the US is Kuwait's only major weapons supplier.

Like the other Southern Gulf states, Kuwait benefits from arms purchases and development with Western countries and the US. And, like the other states, this buildup is directly related to the

---

<sup>20</sup>Katzman, Kenneth, "Kuwait: Security, Reform, and US Policy," Congressional Research Service, December 9, 2009.

perceived Iranian threat. In the period from 2006-2009, the US made \$2.6 billion worth of arms transfer agreements to Kuwait.<sup>21</sup> Kuwait's arms deals have sought to increase its overall capabilities, especially its air forces and the military has regained its pre-Iraq invasion strength of 17,000 troops. Most recently Kuwait has expressed interest in concluding large arms deals with the US, including the possible acquisition of the F-15SE Silent Eagle.<sup>22</sup>

## **Bahrain**

Like Kuwait, Bahrain also turns to the US and its much larger neighbor, Saudi Arabia, for protection in the face of Iran. Also, like Kuwait, Bahrain's perception of both the American and Iranian role in the region has been influenced by major events in recent history:

- 1971- Bahrain declares independence
- 1981- Bahrain joins the GCC; Failed coup attempt by Sh'ite fundamentalists, allegedly supported by Iran
- 1986- Opening of the King Fahd causeway connecting Bahrain and Saudi Arabia
- 1991- Bahrain participates in the coalition to free Kuwait in the Gulf War
- 2002-US declares Bahrain a major non-NATO ally
- 2007- Iran and Bahrain sign a preliminary agreement to provide Iranian gas to Bahrain

Bahrain hosts the headquarters of the US 5<sup>th</sup> Fleet, and provides the US with port and air basing facilities. Its forces are equipped with US arms and train with US forces. At the same time, it cooperates closely with the Saudi military and security forces, and its government could turn to them in an emergency.

---

<sup>21</sup>CRS, "Conventional Arms Transfers to Developing Nations, 2002-2009."

<sup>22</sup>Lake, Jon. "Kuwait Looks to Silent Eagle." *Jane's Defence Weekly*, August 11, 2010.

Like Kuwait, Bahrain has a complex set of political conditions that shape its role in the US and Saudi strategic competition with Iran. First of all, Shi'ites constitute around 70% of the population in Bahrain but the royal family and ruling elite is Sunni, resulting in social unrest. Sectarian violence periodically explodes in the form of car bombs, arson, and popular uprisings. Furthermore, there is considerable evidence of some level of Iranian interference in support of Shi'ite opposition groups, particularly Al-Haq. The Shi'ite popular uprisings are more concerned about domestic political conditions rather than coordinating with Iran, and even as unrest continues, it is unlikely that Iran will be able to gain meaningful influence over Bahraini Shi'ites. However, Iran's periodic claims to Bahrain do nothing to alleviate the government's fears of Persian/Shi'ite expansionism in the Gulf. Like the regimes of the other Southern Gulf states, Bahrain fears a Shi'ite controlled Iraq.

Likewise, Bahrain has the lowest oil and gas reserves of the Gulf states, so energy and economic disputes are less of an issue for Bahraini relations with its neighbors. Bahrain is the smallest country in the Gulf and the only island-state there. As a result of its small size, and lack of economic resources, Bahrain tends to play an accommodating role towards Iran, in order to not incite its aggression. Indeed, in 2007, Bahrain signed a preliminary agreement to purchase 1.2 billion cubic feet per day of Iranian gas for 25 years. Later, this deal was suspended because of Iranian statements referring to Bahrain as a province of Iran. However, this cooperation, combined with the healthy trade relations between the two countries reveals Bahrain's accommodating position.

As a result, Bahrain is in a particularly vulnerable position and depends on both the US and Saudi Arabia for protection and security support. The Saudi regime has a strong commitment to protect Bahrain because the two countries are linked via causeway, as well as because they have

longstanding historical and political ties. The US has strategic interests in Bahrain because of its location in the Persian Gulf, and Bahrain has sought to secure a guarantee for ongoing US support and protection by hosting the largest US naval base in the region.

Like Kuwait, the US has also designated Bahrain as a major non-NATO US ally, a designation that facilitates arms deal and military cooperation. The US also supports Bahraini security through arms deals: in the period from 2006-2009, the US made \$400 million worth of arms transfer agreements with Bahrain.<sup>23</sup> Indeed, the US is Bahrain's only major arms supplier, as seen in Figure 1 below. In November 2010, Bahrain notified the Defense Security Cooperation Agency of a request for 30 Army Tactical Missile Systems and technical support in a package valued at approximately \$70 million. While these systems are considered a classic defense system, these missiles can reach up to 186 miles away, putting coastal Iranian targets well within range.<sup>24</sup>

As a result of Bahrain's limited income, the US also gives Bahrain military assistance through grants of "excess defense articles" which included the no-cost lease of tanks and the provision of military equipment. The main focus in these arms deliveries and support is to increase the interoperability with US forces, to improve coastal surveillance capabilities, and to build up its special operations forces. The Defense Department estimates that, as of FY 2008, about 45% of Bahraini forces are capable of fully integrating into a US-led coalition.<sup>25</sup>

---

<sup>23</sup>CRS, "Conventional Arms Transfers to Developing Nations, 2002-2009."

<sup>24</sup>"Middle East: Bahrain, UAE Seek to Beef Up Missile Capabilities as Tensions Rise," *Babylon & Beyond*, [http://latimesblogs.latimes.com/babylonbeyond/2010/11/bahrain-united-states-missile-iran-war.html?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed:+BabylonBeyond+\(Babylon+%26+Beyond+Blog\)](http://latimesblogs.latimes.com/babylonbeyond/2010/11/bahrain-united-states-missile-iran-war.html?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+BabylonBeyond+(Babylon+%26+Beyond+Blog))

<sup>25</sup>Katzman, Kenneth, "Bahrain Issues for US Policy," Congressional Research Services, April 26, 2010.

## UAE

The UAE practices a more nuanced approach towards Iran because of different perceptions of both Iran and the US in each individual Emirate. These perceptions have been shaped by several influential events:

- 1971- UAE declares independence from Britain; Iran occupies the three disputed islands of Abu Musa and the Greater and Lesser Tunbs
- 1981- UAE joins the GCC
- 1994- The US and the UAE sign a bilateral defense pact
- 2007- New anti-smuggling legislation passed
- 2008- Iran establishes facilities on the dispute island of Abu Musa; UAE appoints ambassador to Iraq
- 2009- The US and the UAE sign a civilian nuclear agreement

While all of the Southern Gulf states are nervous about Iranian military expansion and influence in the region, some Gulf states also have reasons to cooperate with Iran in the energy or economic sectors. The UAE is a divided state composed of seven emirates, and the two major emirates-Abu Dhabi and Dubai- do not always share the same priorities. Abu Dhabi sees Iran as more of a threat, and focuses more on Iran's occupation of the three islands, Abu Musa and the Tunbs. Dubai sees Iran as a major trading partner.

The UAE differs from Bahrain and Kuwait in that it does not have a sizable Shi'ite population, nor does it share borders with the Shi'ite controlled Iraq. As a result, the UAE does not face such immediate threats from Iranian interference, or Iraqi aggression. Instead, Dubai has a sizable and powerful Iranian expatriate community, numbering around 400,000. Because Dubai is the trade and financial center of the UAE, this community has significant influence. Separated by less than 30 miles of water, cultural and economic ties between the UAE and Iran have traditionally

been strong, with high levels of trade fostering financial interdependence. The UAE's annual exports to Iran exceed \$10 billion and Iran also holds \$3 billion in capital in the country.

Furthermore, these historical connections, combined with loose trade controls, make Dubai a major smuggling center both regionally and globally. Indeed, Dubai has attracted negative attention for the looseness of its trade controls, and the ease with which companies involved in nuclear proliferation have operated from there. Despite the introduction of legislation banning various cargoes in 2007, the US believes improvised explosive device components are being smuggled to Iran through the Jebel Ali Free Trade Zone. In December 2007 a vessel bound for Iran was seized in Dubai, possibly containing equipment for the nuclear program, and in March 2008 the trial started of a man who had attempted to export a dual-use metal, probably to Iran.<sup>26</sup>

However, the oil-rich capital emirate, Abu Dhabi has colder relations with Iran as a result of the ongoing disputes over the three islands of Greater Tunb, Lesser Tunb, and Abu Musa, and its increasing dominance within the federation means that Dubai's clandestine commercial activities with Iran may be curtailed. Indeed, the issue over these three Iranian-occupied islands has shaped Gulf perceptions and policy of Iran to some extent, led by the UAE. Within the UAE, this is a critical issue in every emirate except Dubai. The GCC official policy is to support UAE's claims to sovereignty over the islands and to denounce Iranian occupation of these islands. Tensions over the islands escalated in 2008 when Iran established facilities on Abu Musa, but have since died down.

The intricate and essential trade relationship that the UAE has with Iran does give the UAE a unique economic lever against its neighbor and significant strategic importance in Iranian-US

---

<sup>26</sup>The Assynt Report, "UAE Principal Briefing," Stirling Assynt Intelligence.

competition. US-Iranian tensions over Iran's nuclear program are ongoing, with the US and other Western powers seeking to obstruct this program in any way that they can. The UAE has some leverage in this regard. Obstructing one of Iran's primary supply lines for illicit material would have a tangible effect upon Iranian capabilities to evade sanctions by not only complicating access to materials essential for its nuclear program but also perhaps further weakening Iran's struggling domestic economy. Following the June 2010 round of international sanctions, the UAE announced its increasing inspection of Iranian ships suspected of violating sanctions, prompting a diplomatic spat between the UAE and Iran. However, it remains to be seen whether this was a mere gesture to placate the US, or a more substantial change in UAE policy towards Iran. If the UAE were to seriously crack down on Iranian entities, this would be a major positive for the US in strategic competition with Iran.

From a broader security perspective, the UAE has cooperated extensively with the US, in the past especially in counterterrorism. The basis of this relationship extends back to a bilateral defense pact signed in 1994, which also included a status of forces agreement. Under the pact, during the years of US containment of Iraq (1991-2003), the UAE allowed US equipment prepositioning and US warship visits at its large Jebel Ali port, capable of handling aircraft carriers, and it permitted the upgrading of airfields in the UAE that were used for US combat support flights during Operation Enduring Freedom (OEF) in Afghanistan and Operation Iraqi Freedom (OIF). Now these facilities are used to support ongoing operations in Iraq and Afghanistan. Furthermore, the UAE contributes to Iraqi stability: it pledged \$215 million for Iraqi reconstruction, wrote off \$7 million in Iraqi debt, and was the first Arab country to appoint an ambassador to Baghdad.<sup>27</sup>

---

<sup>27</sup>Katzman, Kenneth. "The United Arab Emirates (UAE): Implications for US Policy." *Congressional Research Services*, April 2010.

The importance of this cooperation was again highlighted in October 2010 when UAE authorities coordinated with US, UK, and Saudi intelligence to discover IEDs aboard cargo planes and spoil an AQAP bomb plot. More recently, the Emirates have taken part in deals for major defense systems, indicating that they are also seeking to deter Iran. During the period from 2006 to 2009, the US made \$10.6 billion worth in arms transfer agreements to the UAE. The US also has a contingency bases in the UAE. In 2009, the UAE bought about \$18 billion worth of US military equipment. Furthermore, in September 2010, the Pentagon proposed the sale of a Theater High Altitude Defense System (THAAD) to the UAE. This deal, which also includes Patriot PAC-3 missiles, AMRAM missiles, and UH-60 Black Hawk helicopters, would greatly increase the UAE's defense capabilities against Iranian threats. The THAAD system is designed to intercept incoming ballistic missiles at high altitude, providing coverage over a wide area.<sup>28</sup>

The US commitment to UAE security will only strengthen as a result of these ongoing deals. Furthermore, on January 15, 2009, the United States and the UAE signed a civilian nuclear cooperation agreement. While the accord is still waiting for Congressional approval, it is intended to enable the UAE to possess a peaceful nuclear energy capacity while at the same time preventing weapons proliferation. By signing such a deal, combined with the major arms transfers, the US is taking on long-term responsibility for UAE security and the UAE is agreeing to ongoing military and political cooperation with the US.

## **Oman**

Oman plays a different, but important role in US-Iranian strategic competition. This role has been shaped by its unique history:

---

<sup>28</sup>Agence France Presse, "Pentagon Proposes Sale of THAAD to UAE." <http://www.defensenews.com/story.php?i=3772961>; Katzman, Kenneth. The United Arab Emirates (UAE): Implications for US Policy." *Congressional Research Services*, April 2010.

- 1833- Oman and the US sign a treaty of friendship
- 1962- Dhofar rebellion begins
- 1970- Palace coup, Sultan Qaboos bin Said overthrows his father to take the throne
- 1975- Omani security forces, with British assistance, puts an end to the Dhofar rebellion
- 1979- Oman formalizes defense relationship with the US and allowed the US access to Omani military facilities
- 1980- US uses Masirah island base to launch failed rescue attempt of the American embassy hostages in Iran
- 2004- Oman and the US sign a free trade agreement
- 2010- Oman and Iran sign a mutual security pact

The US and Oman have a long history of healthy, positive bilateral relations, extending back to 1833 when they signed a treaty of friendship. These relations have continued to improve, on the basis of Oman's historically strong partnership with the British. Unlike the trucional states, Oman was never formally colonized. However, it was essentially a British protectorate for many years. The British have since formally left Oman, but the two countries have maintained tight relations both militarily and politically. Modern Omani foreign policy is based in the 1970 palace coup, when the current Sultan Qaboos bin Said, backed by British military advisers, overthrew his father and took control of the country. Since that time, Sultan Qaboos has sought to modernize the country and create for it a larger foreign policy role. In doing so, it depends heavily on both US and British assistance, and cooperates with both countries extensively in return.

While Oman is not considered a major Gulf power, it has great strategic importance: every day 40% of the world's oil supplies runs through the Straits of Hormuz, and the main deep water channels and shipping lanes are in Omani waters.<sup>29</sup> Furthermore, its 200-mile coastline makes it a key trading hub both in northern Persian Gulf and the Indian Ocean regions. Oman is the most

---

<sup>29</sup>Lefebvre, Jeffrey A., "Oman's Foreign Policy in the Twenty-First Century," *Middle East Policy*, Spring 2010.

distinctive of the GCC countries, in that it seeks to carve out its own role in international relations, through developing bilateral relations with other countries individually, including both the US and Iran. Oman also has historical, demographic, and political reasons that make it different from other countries. It was never a British-governed state, it practices a different sect of Islam, and it is not a member of OPEC. In practice, this means Oman is able to conduct normal diplomatic and trade relations with Iran, develop trade and security relations with the US, and pursue stronger military integration within the GCC.

Like Dubai, Oman has historical and economic reasons to cooperate with Iran. Economically, the two conduct formal trade, supplemented by the informal trading relations that have long characterized the Gulf region. Oman's government is said to turn a blind eye to the smuggling of a wide variety of goods to Iran from Oman's Musandam Peninsula territory. The trade is illegal in Iran because the smugglers avoid paying taxes there, but Oman's local government collects taxes on the goods shipped.<sup>30</sup> Smuggling is a major source of livelihood for the population along a stretch of the coast that does not offer many other economic opportunities. And, like Dubai, Omani smuggling routes are thought to be a major source of illegal materials for Iran.

This historic connection with Iran has also provided the Omanis with a degree of protection from Saudi Arabia, which is often viewed with mistrust in Oman because of the Buraimi Oasis dispute. Oman has continued to develop stable and positive bilateral relations with Iran, signing several mutual agreements and security pacts. In August 2010, the two countries signed a mutual security pact that commits them to hold a joint military exercise at some point. Furthermore, Iran and Oman are in negotiations about potential investments to develop Iran's offshore natural gas

---

<sup>30</sup>Katzman, Kenneth, "The United Arab Emirates (UAE): Issues for US policy," Congressional Research Service, June 23 2010.

fields that are geologically contiguous with Oman's West Bukha field. While Oman has had generally positive and healthy relations with Iran, these relations are not based on mutual trust and confidence. Like the other Gulf states, Oman also feels threatened by Iran but practices a more accommodating approach as a defense mechanism. Indeed, Oman has good reason to feel threatened by Iran: Iran's buildup of its naval asymmetric capabilities is centered on the Gulf of Oman.

Meanwhile, Omani-Saudi relations have been fraught with tensions. Saudi Arabia has made extensive claims to Western parts of Oman and there were clashes for control of that area and the Buraimi oasis area in the 1950s. The Saudis occupied this area by force but were later expelled by Omani forces. The border dispute over the Buraimi oasis was resolved in 1974, and the Saudis and Omanis have since formalized their borders. Since this low point, Saudi and Omani relations have slowly improved, although mutual distrust remains. The two countries also disagree over the GCC structure; Oman has called for increased military integration and the creation of joint forces, and Saudi Arabia seeks to be the key military power amongst the Southern Gulf states.

Oman's different approach to regional foreign policy is compounded by Oman's unique religious ideology, Ibadism, which is neither Sunni nor Shi'ite, although both Sunnis and Shi'ites also reside in Oman. The Ibadi faith is traditionally considered heretic by Sunnis, and as a result, Omanis do not feel inclined to follow their Sunni neighbors' lead on the basis of religion. Furthermore, Ibadism is closer ideologically to Shi'ism. Indeed, Omanis are more concerned about potential Sunni radicalization creating a domestic terrorism threat than they are of Iranian interference amongst its minority Shi'ite population.

However, Oman maintains strong bilateral relations with the US. Indeed, bilateral relations between these two countries extend back to 1833 when Oman and the US signed a treaty of friendship. It was also the first country to formalize defense relations with the US after the 1979 Iranian revolution and allowed the US access to Omani military facilities the following year. Three days later the US used Oman's Masirah Island to launch a failed rescue attempt to save the American embassy hostages. It has allowed the US access to its military facilities for nearly every US military operation in and around the Gulf since 1980, including ongoing operations in both Afghanistan and Iraq. In return for the use of Omani military facilities, the US also helps to develop its military capabilities. Under the US-Oman access agreements, the US funded a \$120 million upgrade to an Omani air base.

In spite of Oman's relatively lower economic status in the Gulf region, it has the third largest army in the region and is considered to be the best trained, but not as well equipped as some of its richer neighbors. However, in recent years, Oman has been making efforts to expand and modernize its forces in cooperation with the US. In October 2001, Oman purchased 12 US made F-16 C/D aircraft, along with associated weapons, a podded reconnaissance system, and training programs, together valued at \$825 million. Oman also purchased the JAVELIN anti-tank system in 2006 at a cost of \$48 million. Furthermore, as part of a \$20 billion sales package to Gulf states under the Gulf Security Dialogue, the Department of Defense notified Congress of a potential sale to Oman of 18 additional F-16s and associated equipment and support in August 2010.<sup>31</sup>

Omani-US cooperation focuses primarily on counter-terrorism, anti-narcotics and anti-smuggling assistance; US Foreign Military Financing to Oman has focused almost entirely on these goals in recent years. This financing has been used to help Oman buy patrol boats, night-vision goggles,

---

<sup>31</sup>Katzman, Kenneth, "Oman: Reform, Security, and US Policy." Congressional Research Service, August 10, 2010.

upgrades to coastal surveillance systems, aircraft munitions, communications equipment, and de-mining equipment.<sup>32</sup>

In addition, the US International Military and Education Training program (IMET) is used to train Omani soldiers and increase interoperability with US forces. Oman also receives grant US excess defense articles, mostly for gear to support Oman's border and coast monitoring operations. Furthermore, the US State Department report on global terrorism credits Oman with helping to combat terrorism in the region, including its arrest of one Omani businessman who was accused of planning terrorist attacks and supporting terrorist groups, such as Lashkar-e Tayba in Pakistan. Oman has also increased its cooperation with neighboring countries in monitoring borders, and has stepped up its efforts to combat financial crimes, terrorist financing, money laundering, and illicit trafficking of dual use items, nuclear, or other materials.

Furthermore, unlike many other regional countries, Oman consistently supports US efforts to achieve peace in the Arab-Israeli conflict and has played host to some Israeli leaders. As a result of this cooperation, the US signed a free trade agreement with Oman in 2004. The US is Oman's fourth largest trading partner and the two conducted \$2 billion worth of bilateral trade in 2009. Oman also plays the important role of mediator in US-Iranian relations. This was true during the Iran-Iraq war when it played the intermediary for negotiations between Iran and the US for the release of Iranians captured in clashes with US naval forces during that war. In September 2010, Oman also played an important role in negotiations to release a captured American hiker from Iran.

---

<sup>32</sup>Katzman, Kenneth, "The United Arab Emirates (UAE): Issues for US policy," Congressional Research Service, June 23 2010.

In the strategic competition between the US and Iran, Oman plays an essential role. It has a long history of positive relations with the US and Britain and has supported both countries' policies in the region for the most part. It is also a major recipient of military aid from both of these countries. As seen in Figure 1, the Major West European powers, in this case meaning Britain, supplies the large majority of Oman's arms, followed by the US. Oman also hosts US contingency bases. On the other hand, it also maintains positive economic, diplomatic and economic relations with Iran. Because of its positive relationship with Iran, it can serve as a mediator between the US and Iran and has helped the US negotiate diplomatic crises with Iran in the past. Furthermore, its location at the entrance to the Straits of Hormuz provides it with even greater strategic importance.

## **Qatar**

Qatar exploits the conflict between Iranian and US-Saudi interests in the region, and seeks to develop an independent role in the region. Its foreign policy strategy in this regard has been shaped by several key events:

- 1971- Qatar achieves independence from Britain
- 1973- The US opens its embassy in Doha
- 1991- Qatar provides support in the Gulf War, especially in the Battle of Khafji
- 1995- Emir Hamad bin Khalifa al Thani overthrew his father to become ruler in a bloodless coup
- 2003- US Combat Air Operations Center moved from Saudi Arabia to Al Udeid airbase, south of Doha; Qatar serves as a major launching station for the US invasion of Iraq
- 2005- Suicide bombing outside of a theater in Doha
- 2010- Iran and Qatar sign a defense cooperation agreement

Like both Oman and the UAE, Qatar has legitimate reasons to cooperate with Iran as well as reason to fear it. Qatar is a host of major US facilities for command, basing, and equipment pre-

positioning and practices strong security cooperation with the US. Furthermore, Qatar rather cleverly balances its relations with Iran, Saudi Arabia, and other neighbors, and carves out a unique mediator role in regional politics, rather than submitting to any one country's policy completely.

One key issue in Qatar's bilateral relations with Iran is that the two countries share the world's largest natural gas field; in Iran, this is the South Pars field, and in Qatar it is the North Dome field. As a result of this forced cooperation, Qatar and Iran have developed good formal bilateral relations, and Qatar is often considered to be the most accommodating of the Southern Gulf states towards Iran. On the other hand, Qatar and Saudi Arabia do cooperate in many aspects of GCC policy but have several areas of dispute, including their borders and tribal loyalties, and often spar over border and trade issues. Another source of tension is the Qatari television station, Al-Jazeera's treatment of Saudi Arabia in its reporting.

This need to deter both Iran and Saudi Arabia helps explain why Qatar and the US have steadily expanded their security cooperation. During Operation Desert Storm in 1991, Qatari armored forces helped to repel an attack on the Saudi Arabian town of Khafji. A year later, Qatar and the US signed a defense cooperation agreement, which has expanded to include cooperative defense exercises, equipment pre-positioning, and base access agreements. Qatar is also an important ally in US counterterrorism efforts. In April 2003, the US Combat Air Operations Center moved from Saudi Arabia to Al Udeid airbase, south of Doha. This base is a key logistics hub for operations in Afghanistan, and also a command basing center for operations in Iraq. Qatar also

hosts the As Sayliyah base, which is the largest pre-positioning facility of US military equipment in the world.<sup>33</sup>

This military cooperation is partly because Qatar is particularly vulnerable militarily: with only 11, 800 troops, its troop strength is second only to Bahrain's in the Middle East and it does not own significant weapons systems, nor has it made significant efforts to modernize. While other states, most prominently the UAE and Saudi Arabia, are using their funds to purchase advanced weaponry, Qatar depends entirely on US protection. It hosts and contributes funds to major US military facilities in exchange.

As a result of this unique foreign policy strategy, Qatar is often caught in the middle of a delicate balancing act. If the US and Iran were to go to war, Qatar would literally be caught in the middle, and with few defenses of its own. And furthermore, Iran has the power to quickly cut off Qatar's access to money if it were to seize the gas field shared between the two countries. This threat is highly unlikely because of US protection and military presence in Qatar, but even small harassments in this area would have a destabilizing effect on the Qatari economy and is something the Qatari regime would much rather avoid than provoke. Up to this point, both Qatar and Iran have been careful to avoid disturbances and disputes in the gas field, both acting politely in order to ensure economic stability for both sides. Thus, in the near future, Qatar will continue to practice an accommodating diplomatic, political, and economic policy towards Iran, as well as close cooperation with the US in the military and security spheres. So far, Qatar has successfully managed these relations without jeopardizing its relationship with either the US or Iran. In the strategic competition between Iran and the US, Qatar plays a major role because of

---

<sup>33</sup>Blanchard, Christopher M. "Qatar: Background and US Relations." *Congressional Research Service*, January 24, 2008."

its dependence on US security protection and because of its good economic relationship with Iran.

## **Yemen**

Yemen has historically been the least stable of the Southern Gulf states. Its history has been fraught with conflict, and its role in the US-Iranian strategic competition has been shaped by a number of influential events:

- 1946- US establishes diplomatic relations with the Imamate of Yemen
- 1962- US recognizes the Yemen Arab Republic (North Yemen)
- 1979- US gave military and development aid to North Yemen in its battle against Soviet-supported South Yemen
- 1990- US drastically reduces presence in Yemen in response to Yemen's actions on the Security Council regarding Iraq's invasion of Kuwait
- 1991- North and South Yemen unite to form the Republic of Yemen
- 1994- Civil War begins
- 1999- President Ali Abdullah Saleh becomes the first elected president of unified Yemen
- 2000- USS Cole is bombed, killing 17 US sailors, off of the coast of Yemen; US again boosts cooperation with Yemeni intelligence and security forces
- 2004- Houthi rebellion begins in North Yemen
- 2009- Saudis intervene in Houthi rebellion along their shared border

In the US-Iranian strategic competition, Yemen is too caught up in internal issues to be a major player regionally. At this point, Yemen is largely a broken state, and the security situation there has been steadily deteriorating. The lack of development and economic growth has contributed to a number of rebellions, not least the Houthi rebellion in the North, and instability throughout the country has created a safe haven for Al-Qaeda and like-minded Sunni extremists.

Both the US and Iran have been accused of intervening in Yemen's internal affairs, but both countries are keen to avoid all out chaos in that country. As a result, Yemen has not been a

central sphere of US-Iranian strategic competition, nor a major player in this competition. Instead, the Yemeni regime is focused on controlling its internal crises, and most major players are intent on maintaining stability, especially because of Yemen's strategic location at the Bab Al-Mandab.

Yemen's Arab Gulf neighbors also have begun to devote more attention to aid and development there. However, Yemen has perpetually lagged in development, is not a member of the GCC, and, like Oman, it does not follow either Twelver Shi'ism or the conservative Sunni ideology of its neighbors. Yemen is split between Zaydis, which are considered to be a Shi'ite sect, and Shafi'ites, which is a sect of Sunni Islam. However, Zaydism is far removed from Twelver Shi'ites both in practical and ideological terms, and many Shi'ites do not consider Zaydis Shi'ite at all.

Historically, Yemen has not been a dependable political partner for the US or anyone else because of the chronic uncertainty and instability. However, the US has played a role in Yemen for many years. Indeed, the US has been involved to some extent in Yemen since 1946, when it established diplomatic relations with the Imamate. The US was also one of the first countries to recognize the Yemen Arab Republic (YAR), or North Yemen, in 1962. The US also gave some military and development aid to North Yemen in order to help it defeat Soviet-supported South Yemen. During a 1979 border conflict between North and South Yemen, the US cooperated with Saudi Arabia to expand security assistance with the YAR, including the provision of F-5 aircraft, tanks, vehicles, and training. Following Yemen's unification, however relations became more strained. In 1990, as a result of Yemen's actions in the Security Council following the Iraqi

invasion of Kuwait, the US drastically reduced its presence in Yemen including canceling all military cooperation, non-humanitarian assistance, and the Peace Corps program.<sup>34</sup>

Relations have since improved, as the US realized Yemen's stability is essential to its strategic interests in the region. For the most part, US policy in Yemen has not changed. It continues in its efforts to promote stability and security in the Al-Salah regime, which is facing similar internal divisions to those that were present prior to unification. However, as seen in 1990, the results are always uncertain and the stakes may be higher now if Iran is able to successfully gain a foothold amongst Houthi rebels.

Uncertainty and risk are high in Yemen. It is by far the least developed country in the Gulf, and it also has not developed strong relations with its neighbors or with the US. It does not traditionally have strong military, political, economic, or trade ties with the US. However, as the security situation in Yemen deteriorates, the US has increased its aid efforts, its intelligence sharing, and other forms of security cooperation. For FY 2010, the Obama administration requested \$52.5 million of economic and military assistance, compared to \$20-25 million annually in previous fiscal years.<sup>35</sup> Since the 2000 USS Cole bombing, the US has also sought to increase cooperation with the Yemeni intelligence services. In doing so, the US has helped to develop Yemen's Anti-Terrorism Unit of the Yemeni Central Security Forces and other Yemeni Interior Ministry Departments. This included helping to create a coast guard to monitor the Bab Al-Mandab area.<sup>36</sup> The main goal of these efforts is to avoid another attack on the US or its allies

---

<sup>34</sup>"Background Note: Yemen," US Department of State, <http://www.state.gov/r/pa/ei/bgn/35836.htm#relations>

<sup>35</sup>Sharp, Jeremy M., "Yemen: Background and US Relations," Congressional Research Service, January 13, 2010.

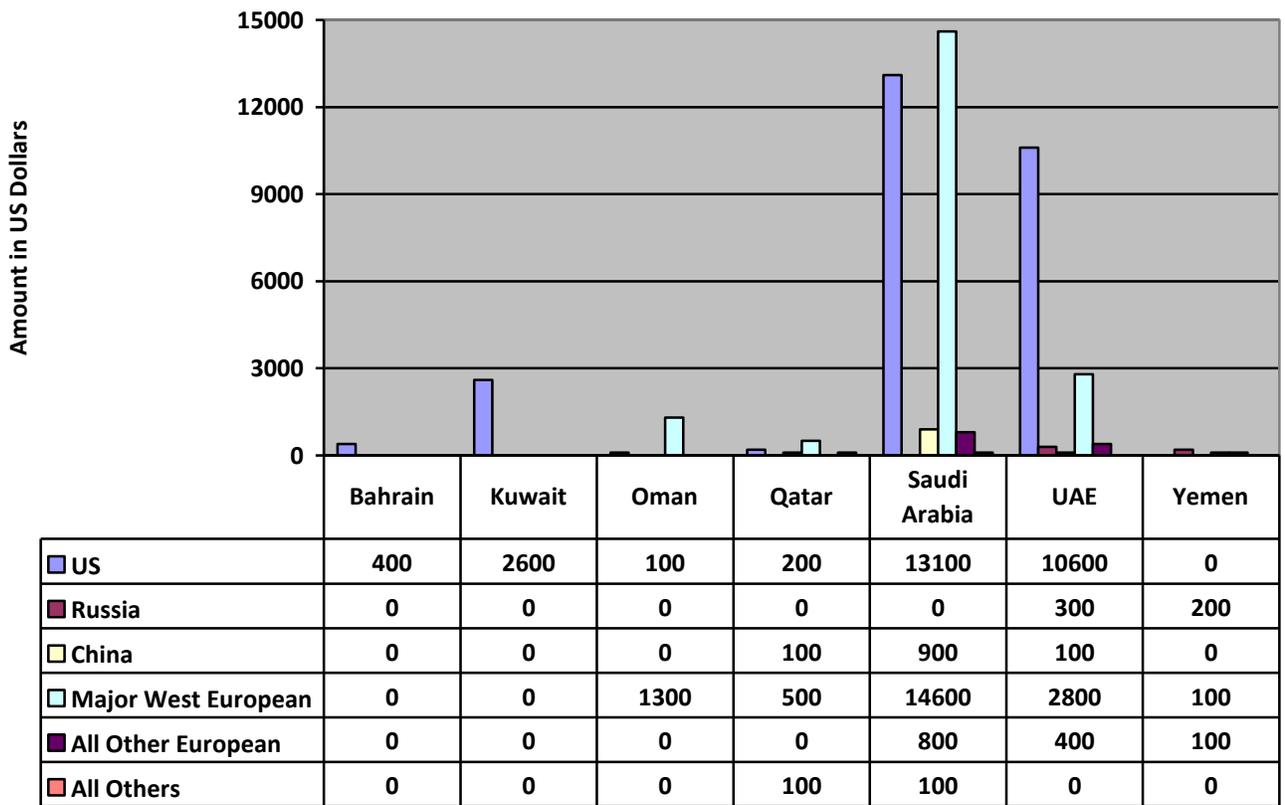
<sup>36</sup> Sharp, Jeremy M., "Yemen: Background and US Relations," Congressional Research Service, January 13, 2010.

by rebels, extremists, or pirates based in Yemen, and to preserve some sort of stability within Yemen.

For its part, Iran has been accused of supporting the Houthi rebellion in northern Yemen, which began in 2004. There is no real definitive evidence of Iranian involvement, and the Yemeni government has been accused of drumming up the Iranian threat in order to gain foreign assistance from other Gulf countries and the US. While the Yemeni government claims that Iran has been militarily, economically, and politically supporting the Houthi rebels, there is only evidence of Iranian political support. Such support is largely rhetorical and falls in line with Iran's larger program of undermining Arab regimes through populist appeals to the "Arab street."

As noted above, however, the results of these efforts by either the US or Iran are unknown and untested. It is unclear whether the Al-Salah regime will be able to maintain control, or if the country will deteriorate into failed state status, or once gain split into two separate countries. In either of the latter scenarios, strategic competition for influence in Yemen could turn from theoretical and rhetorical to actual. It remains unclear what Iran's actual capabilities are in Yemen, but if Yemeni government claims are correct that the Houthi rebels have been receiving tangible support from Iran, then Yemen could be the next center of ongoing US-Iranian competition.

**Figure 1-Arms Transfer Agreements in Gulf by Supplier**



Source: Adapted from Richard F. Grimmett, *Conventional Arms Transfers To Developing Nations*, Congressional Research Service, various editions.

## United States Policy

US policy in working with Saudi Arabia and the Southern Gulf states, and in competing with Iran, has two main priorities: first, to secure the stability of energy exports and trade through the Straits of Hormuz, and second to prevent harm to its allies, namely Israel as well as Arab Gulf allies. In its strategic competition with Iran, the US uses a strategy of coordinating its own regional priorities with Saudi ambitions. The US seeks to maintain a balance of power in the

region that keeps Iran from playing a lead role in regional affairs. The US has been pursuing this policy under the “Gulf Security Dialogue” which seeks to improve defense cooperation between the Gulf states themselves and also revive coordination between the US and the Gulf as a whole. While the latter goal has been successful for the most part, intra-Gulf cooperation is much more difficult and unlikely to be achieved due to major divisions in policy perspectives amongst the GCC states.

### ***Economic and Energy Competition***

US, Saudi, and Southern Gulf economic and military interests overlap in several key ways. In the economic realm, the US and the Southern Gulf states all have a defined economic interest in keeping the Gulf region stable and peaceful. As a result of these interests, these countries have a vested interest in curtailing Iranian abilities to disrupt shipping and exports in the Gulf. Also, as noted above, the Saudis have used economic incentives and oil pricing disputes in their attempts to alter Iranian policy.

The US also has used Southern Gulf economic competition with Iran in the oil market to pressure its European allies, China, and India into an anti-Iranian stance. The Saudis have significant power in this regard, as it is the largest supplier of oil to two of the world’s fastest-growing economies: China and India. This was most apparent in the effort to implement the new economic sanctions against Iran; Defense Secretary Robert Gates suggested that the US may provide the Kingdom with new military defenses in exchange for Saudi pressure on China to implement the new sanctions.<sup>37</sup> Likewise, the US encouraged the UAE and other Gulf suppliers to increase their output to China in order to compensate for any losses as a result of intensified

---

<sup>37</sup>Elisabeth Bumiller, “US Defense Chief Visits Saudi Arabia to Bolster Effort Against Iran” NY Times, March 10, 2010 <http://www.nytimes.com/2010/03/11/world/middleeast/11military.html>.

international sanctions against Iran.<sup>38</sup> Also, as noted above, the Saudis favor an economic approach which would maintain moderate prices in the near-term, which also aligns with Western economic interests.

### ***Military Cooperation and Competition***

While economic interests are of vital importance, military cooperation is also a key focus in US and Saudi strategic competition with Iran. At the moment, the US has no desire to open a third theater of warfare in Iran, so it has a defined interest in keeping Saudi Arabia and its other Gulf allies well-armed and protected against Iranian military threats. Essentially, the US is providing weapons, training, and support to the GCC in order to maintain a Gulf military balance characterized by competition between the US and Iran but backed by Gulf national forces.

From 2005 to 2009, the US sold up to \$37 billion in arms to Gulf states, including Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Qatar, Oman, and Kuwait, according to the US Government Accountability Office.<sup>39</sup> In addition, the US has a significant military presence throughout the Gulf. The US has the 5<sup>th</sup> Fleet headquarters in Bahrain, two major bases in Kuwait, two contingency bases in Oman, and a major air base and preposition facilities in Qatar. In addition, both Kuwait and Bahrain have been designated major non-NATO allies, a US designation which facilitates arms deals.

Ever since the fall of the Shah, the US has made a consistent effort to ensure that the Saudi military has some of most advanced equipment in the region. In September 2010, the Obama administration announced a new arms deal to Saudi Arabia, with an estimated worth of

---

<sup>38</sup>Katzman, Kenneth, "The United Arab Emirates (UAE): Issues for US Policy," Congressional Research Service, June 23, 2010.

<sup>39</sup>Chick, Kristen. "How Arms Deals Are Shaping the Mideast." October 6, 2010.  
<http://www.csmonitor.com/World/Middle-East/2010/1006/How-arms-deals-are-shaping-the-Mideast>

approximately \$60 billion. This deal, the largest-ever single foreign arms deal, would allow the purchase of 84 new F-15 combat aircraft, upgrade of 70 more, as well as the purchase of three types of helicopters- 70 Apaches, 72 Black Hawks, and 36 Little Birds. This deal gives the Saudis a realistic ability to offset Iran's theoretical abilities for in the upcoming years. While US officials publicly describe the deal as part of a wider effort to contain Iran by protecting its Gulf allies, this deal also helps protect borders, coasts, and assists in countering terrorist attacks. Furthermore, US officials are discussing a \$30 billion package to upgrade Saudi Arabia's naval forces. As a whole, these deals seek to improve Saudi abilities to counter increased Iranian capabilities, protect against terrorism within Saudi Arabia, and fight a limited war such as that in Yemen.

Prior to this most recent deal, the US has already sold the Saudis E-2A AWAC surveillance aircraft, Sikorsky's UH-60 Black Hawks, Raytheon-built Patriot and Hawk missile defense systems, and General Dynamic Corp's M1A2 tanks. Military cooperation is also compounded through joint exercises with an especially high level of cooperation in counterterrorism efforts. Indeed, the new arms deal provides for advancements in the Saudi counterterrorism capabilities. Furthermore, the US has worked with the GCC in developing counters to Iran's increasing capabilities in naval asymmetric warfare, and operations against offshore and coastal targets, and is upgrading the air defense forces of many GCC states to provide greater missile defense capabilities.

## **Iraq**

The US seeks Saudi and other Gulf countries' help in re-integrating Iraq into the regional political system. However, this is the area where it has faced the greatest Saudi resistance. The Saudis have been reluctant to acknowledge the Maliki regime and hesitant to accept Iraq into the

region, especially while it remains unstable. However, smaller Gulf regimes have restored relations with Iraq; the UAE was the first Arab regime to do so in June 2008.<sup>40</sup> On the other hand, neither the US nor the Sunni Gulf regimes would like to see Iraq completely under the thumb of the Iranians, and would rather have an Iraqi government that is strongly nationalist rather than strongly sectarian. This is yet another sphere for cooperation between the Southern Gulf and the US, and for competition with Iran.

## **Iran's Competition with the Other Southern Gulf States and the US**

The political competition between Iran and Saudi Arabia has a long history, pre-dating the 1979 Islamic Revolution. However, as the regional political environment has been transformed, with Saudi Arabia drawing closer to the US for military support, the competition has heated up, with Iran often viewing the Saudi regime as an agent of the US. This perception has led the Iranian regime to see competition with the Saudis as an opportunity to undermine the US strategy in the Gulf, while simultaneously undercutting a major regional competitor's legitimacy and influence.

Iran's current international affairs strategy has four main priorities: preserving the Islamic regime, safeguarding Iran's sovereignty, defending its nuclear ambitions, and expanding its influence in the region and the Islamic world.<sup>41</sup>

Within Iranian policy towards its Arab Gulf neighbors, there are a number of factors that shape its actions. First, religion and ideology carry significant weight in this region and in Iran especially. Most leaders in the Iranian regime do believe strongly in justification of the Iranian

---

<sup>40</sup>Katzman, Kenneth, "The United Arab Emirates (UAE): Issues for US Policy," Congressional Research Service, June 23, 2010.

<sup>41</sup>Blair, Dennis C. "Annual Threat Assessment of the US Intelligence Community for the Senate Select Committee on Intelligence," February 2, 2010.

Revolution and this belief colors their actions and policy regarding their Sunni neighbors. The religious element in Iranian foreign policy is particularly important in analyzing Iranian policy towards Saudi Arabia, because of the Saudi regime's own strong religious underpinnings and because it is home to Islam's holiest sites. This particular fact gives the Iranian regime an opportunity to criticize Saudi involvement with the US, in a way that resonates popularly and thus weakens the Saudi monarchy's Islamic credentials as well as its political sway with many Muslims.

Beyond the religious aspects of Iranian foreign policy, a central Iranian goal in the Gulf is to extend its own political, economic, and military influence while limiting the influence of foreign actors, most especially the US. Towards this goal, Iranian leaders have long used their populist influence and the "Arab Street" approach to reach over the heads of Arab regimes and speak directly to their populations and undermining the regimes' legitimacy by exploiting the Palestinian cause, criticizing the US presence in the Gulf, and portraying the rulers as puppets of Washington. This approach is made more threatening to regimes who are facing serious sectarian threats at home, like Bahrain and Kuwait.

From the economic standpoint, Iran's development of naval asymmetric warfare capabilities represents an emerging new threat to energy exports and all aspects of commerce in the Persian Gulf. In addition to its obvious implications for the worldwide energy sector, a potential military attack in the Gulf is particularly threatening to the Arab Gulf states because these states are already extremely vulnerable. The region is made up of highly urbanized environments, dependent on a single source of income, and without back up plans.

Iran is not an exception. Indeed, it is in an increasingly unstable economic situation. Iran has an unsteady and troubled economy, which is only expected to worsen as new international sanctions

continue to have an effect. Iran is increasingly unable to secure needed foreign investment, financing and technology to modernize its aging energy infrastructure, thus threatening its oil and gas production and export capacity.<sup>42</sup>

In the security sphere, Iran has actively competed with Saudi Arabia through exploiting intra-Gulf divisions. For instance, Iran has signed security agreements with Oman, Kuwait, and Qatar. While these agreements focus on issues of common concern such as criminal and smuggling networks rather than broad military cooperation, they do reveal a certain level of cooperation between Arab states and Iran. In Iranian foreign policy calculus, these agreements could be a first step toward expanding their influence in the region. These steps will have varying responses in each country; Oman, Qatar, and the UAE have welcomed stronger ties with Iran, while Kuwait, Saudi Arabia, and Bahrain tend to be more wary of this cooperation.

Likewise, Iran seeks to undermine US goals to develop a united Gulf security bloc with US backing, by calling for a separate regional security apparatus in which Iran would play a leading role. At the 2007 GCC summit hosted by Qatar, President Ahmadinejad stated, “We are proposing the conclusion of a security agreement. We want peace and security based on justice and without foreign intervention.”<sup>43</sup>

Iran also competes indirectly through limited support of non-state actors in the Gulf. While Iran has cut back on its tangible support to Shi’ite dissidents in the Gulf, it still uses its ideological and political influence to compete with its Sunni neighbors. For instance, in Bahrain, Iran continues to have influence over the radical Shi’ite group Al-Haq; in Kuwait and Saudi Arabia,

---

<sup>42</sup>Stuart A. Levey, Remarks at CSIS “Can Sanctions on Iran Create the Leverage We Need,” September 20, 2010, [http://csis.org/files/attachments/100920\\_levey\\_transcript.pdf](http://csis.org/files/attachments/100920_levey_transcript.pdf).

<sup>43</sup>Abu Zainab, “GCC Aims for Greater Integration,” *Arab News*. December 4, 2007. <http://archive.arabnews.com/?page=4&section=0&article=104278&d=4&m=12&y=2007>.

Iran uses its position as leader of the Shi'ites to gain influence amongst the minority Shi'ite communities, especially in times of greater sectarian tension; and, in Yemen, Iran uses Shi'ism as an excuse to rhetorically support the Houthi rebellion and to compete with Saudi Arabia for political influence. Iran's influence in each of these situations is strictly limited by nationalism, and is more about Iran displaying its theoretical abilities to incite rebellion amongst disaffected Shi'ites rather than actually doing so.

Meanwhile, Iranian interference in Iraq represents one of the most serious threats to both Saudi and American interests, although in different ways. This interference is not solely aimed at destabilizing the situation; like Saudi Arabia, Tehran has legitimate reasons to remain involved in Iraq and ensure its interests are secured by and in the Iraqi regime. Indeed, Iran has a deep interest in helping to develop Iraq's economy- the two countries now conduct about \$4 billion annually in bilateral trade and Iran has announced that it hopes to bring this to \$8 billion by 2011.<sup>44</sup> As neighbors of Iraq, both regimes have an interest in stability, but also in having a regime that is friendly to their own interests. However, because these interests are in direct contradiction, this makes Iraq a major sphere of competition between Saudi Arabia and Iran.

## **Looking Toward the Future**

As the US strengthens its military partnership with Saudi Arabia and other Gulf allies in an effort to both decrease the threat of terrorist activity and to combat Iranian influence, the strategic competition with Iran will continue to heat up. This competition in the Gulf is subject to a number of variants in the current political system, including the character of the future Iraqi

---

<sup>44</sup>Reuters, "Iran Eyes Doubling Iraq trade to \$8 Billion in 2010," <http://www.reuters.com/article/idUSTRE61K1PE20100221>.

government, the effect of international sanctions on Iran's policy calculus, Saudi succession, developments in the Arab-Israeli conflict, and global economic stability.

In spite of these variants, it seems likely that the competition will play out in much the same way as it has in recent years. Bilateral relations between Iran and Saudi Arabia will be characterized by public accommodation and underscored by fundamental distrust and competition in the economic, political, and military realms. Iran will continue to exploit divisions between the other Southern Gulf states in order to gain influence and undermine the US policy of military and security cooperation in the Gulf.

The US will continue to strengthen its military partnership with Saudi Arabia based on their mutual interest in deterring the Iranian threat to the Gulf's economic stability. In order to achieve this, the US will continue to supply the Saudis with counters to Iran's growing naval asymmetric and missile capabilities. However, the US will simultaneously seek to avoid arming the Saudis at the expense of other Arab Gulf countries, or Israel. As a result, the stepping up of arms deals with Saudi Arabia will be followed by a series of deals with other Gulf allies, including the likely provision of the THAAD missile system to the UAE, and ongoing cooperation with all Gulf states to increase security cooperation.

What is not clear, however, is how or if Iranian foreign policy calculus will change in response to these developments, international sanctions, or domestic pressure. What is clear is that Iran and both the US and Saudi Arabia have legitimate and structural grounds for competition in Iraq, both economically and militarily. It is unlikely that these grounds for competition will disappear in the near future, and as a result, Iran will continue to compete with both the US and Saudi Arabia for influence in the region.