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Building bridges of understanding

Confrontation or Conciliation: How the Nuclear Agreement is Reshaping GCC-Iran Relations

Edited by Hussein Ibish

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The Arab Gulf States Institute in Washington (AGSIW), established in 2014, is an independent, non-profit institution dedicated to increasing the understanding and appreciation of the social, economic, and political diversity of the Arab Gulf states. Through expert research, analysis, exchanges, and public discussion, the institute seeks to encourage thoughtful debate and inform decision makers shaping U.S. policy regarding this critical geo-strategic region.

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About This Paper

This paper was compiled and edited by Hussein Ibish following the AGSIW panel discussion "Negotiating the Gulf: How a Nuclear Agreement Would Redefine GCC-Iran Relations," held on July 21, 2015.

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Contents

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Confrontation or Conciliation: How the Nuclear Agreement is Reshaping GCC-Iran Relations

Introduction

On August 3, U.S. Secretary of State John Kerry joined a meeting of Gulf Cooperation Council (GCC) foreign ministers in Doha, Qatar, after which the Arab Gulf states unanimously and publicly endorsed the international nuclear agreement with Iran. The Joint Comprehensive Plan of Action (JCPOA), which promises Iran phased sanctions relief in exchange for limitations on its nuclear activities, was agreed to in Vienna on July 15 by Iran and the P5+1 international consortium, comprising the United States, Russia, China, the United Kingdom, France, and Germany. The Gulf countries had not been a party to the talks, and several of them had expressed official and unofficial concerns about the negotiations while they were ongoing. However, the joint statement released by the GCC foreign ministers and Kerry unified the Gulf position in favor of the agreement. In the statement, the United States and its GCC partners also "reiterated their opposition to Iran's support for terrorism and its destabilizing activities in the region and pledged to work together to counter its interference… "

The Doha statement tracks strongly with the U.S.-GCC joint statement issued after the Camp David Summit on May 14, in which the Gulf states endorsed the nuclear negotiations with Iran, and the United States pledged support to ensure their security. Although the Gulf states endorsed the negotiations, following the signing of the JCPOA, the six member states of the GCC all issued their own responses to the accord. As might be anticipated from such a diverse group, each with its own national interests and strategic priorities, the responses reflected a variety of different emphases.

Oman, which has developed and maintained the warmest relations with Iran of the GCC countries, welcomed the agreement, calling it a "historic win-win." On the other end of the Gulf spectrum, Saudi Arabia's Foreign Minister Adel al-Jubeir welcomed the accord, saying "all of us in the region want to see a peaceful resolution to Iran's nuclear program." But he emphasized, "If Iran should try to cause mischief in the region we're committed to confront it resolutely." He also stressed that Iran should use anticipated sanctions relief revenue in a constructive manner, saying "we hope that the Iranians will use this deal in order to improve the economic situation in Iran and to improve the lot of the Iranian people, and not use it for adventures in the region." The United Arab Emirates (UAE), Qatar, and Kuwait all issued statements welcoming the agreement and expressing hopes that it would strengthen regional security and stability, but also noting that Iran cannot continue to pursue aggressive policies in the region.

The joint statement issued in Doha articulates a unified Gulf-state position on the JCPOA that emphasizes the strategic imperative of preserving and enhancing the countries' collective partnership with the United States. But the new diplomatic reality raises as many questions as it answers. Gulf states plainly retain a diversity of national interests, and hence strategic priorities. Yet they have come together in agreement on the most basic points: securing the partnership with the United States, finding as much common ground as possible among themselves, and working together to identify and exploit whatever opportunities the JCPOA might offer to enhance their own security and promote regional stability and order.

In order to begin exploring the potential answers to some of the more pressing questions raised by these developments, and trying to discern the outlines of new ones, this Arab Gulf States Institute in Washington (AGSIW) paper offers a variety of perspectives on crucial aspects of the GCC-Iran relationship in the immediate aftermath of the signing of the JCPOA. The first section provides a quick summary of some of the key historical bases for tension in the relationship, since these are the obstacles that will have to be overcome if progress is to be achieved. Karen Young then looks at how sanctions relief might position Iran to be a potent new trading partner for some, if not all, of the GCC countries. Nadim Shehadi considers the impact of the Islamic State in Iraq and the Levant (ISIL) and the Islamic Revolutionary Guards Corps (IRGC) as competing poles in an emerging sectarian binary that fuels conflict throughout the Middle East. Jamal Khashoggi provides a Saudi perspective that helps to explain the kingdom's more assertive foreign policy and regional role. Mohammad Ayatollahi Tabaar explains how the JCPOA is viewed in Iran, in particular by conservative factions that are alarmed by the agreement and hope to use it to restore anti-Americanism and support for a hard-line foreign policy. Finally, Suzanne DiMaggio explores the potential for low-key diplomacy and person-to-person exchanges in helping to ensure that the JCPOA contributes to regional security rather than intensified conflict.

Sources of GCC-Iran Tension

The grounds for the antagonism in the Gulf region are simultaneously simple and complex. In its simplest terms, this tension reflects a competition for power and sway in the Gulf and throughout much of the Middle East between rivals who see each other as encroaching on their legitimate spheres of influence. But this rivalry is also tinged by an ethnic competition between Persians and Arabs that is deeply rooted historically. And that divide is now compounded by a more modern, but no less powerful, sectarian suspicion between Sunni and Shia Muslims. International relations rarely reach the level of enmity seen in, for example, Iraq, where Sunnis and Shias call each other "Umayyads" and "Safavids," respectively, seeking to paint each other with the historical baggage of ancient resentments of bitterly remembered imperial oppressors.

The key to constructing a new relationship between Iran and the Arab Gulf countries must be to break the tendency on both sides to view each other in zero-sum terms, which, at its worst, can function as a dangerous self-fulfilling prophecy. Such a transformation in perceptions may already have been accomplished between the United States and Iran. The task must now be to promote a similar re-evaluation between Iran and the Gulf states. There are ample grounds – including mutual interests, the range of GCC relationships with Iran, and the complex history of those relations – that strongly contradict any zero-sum analytical framework. Yet zero-

sum thinking still exerts a powerful gravitational pull on Arabs and Iranians alike, particularly given the impact of profoundly emotive sectarian fears, animosities, and grievances.

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Territorial Disputes

Perhaps the most significant of the territorial disputes between Iran and the GCC states involves a long history of Iranian claims to the island kingdom of Bahrain. These claims were dropped in the early 1970s by the last Shah, and then again by the Islamic Republic after making a brief reappearance immediately following the 1979 revolution. However, the presence of a majority Shia population in Bahrain – a significant portion of which is of Persian ethnic heritage – and a long history of unrest by this community aimed at the island's Sunni royal family has fed considerable anxieties among Bahrain's government and its allies about Iran's intentions.

An ongoing territorial dispute between Iran and the UAE involves the three islands of Abu Musa and the Greater and Lesser Tunbs. The islands were under Iranian control until 1921, when they were seized by Britain. In 1971, when the UAE was formed and the British protectorate ended, Iran seized control of the islands. The issue has never been formally resolved and continues to be raised by the UAE and its allies. However, it has not prevented the UAE from developing strong trade and other ties with Iran. Territorial disputes, therefore, will remain a source of tension but should not preclude cooperation on other matters.

Shia Populations in GCC States and Sunnis in Iran

Another key and underappreciated source of tension, as well as potential cooperation, is the presence of several large communities of Shias in GCC states, as well as the less frequently considered but also important Sunni population in Iran. The relationship between the Shia majority and the state in Bahrain remains highly fraught. There is also a large, albeit minority, Shia population in Kuwait. This group is relatively well integrated and prosperous, and does not appear to represent any significant threat of disloyalty or antagonism toward the government.

The large Shia population in Saudi Arabia – estimated at 10 to 15 percent of the overall population – represents a complex political challenge. The community frequently complains of significant repression and discrimination, and has been further discomforted by the rise in anti-Shia rhetoric in the context of the Saudi intervention in Yemen. An Iranian-inspired Saudi Shia group, often known as Saudi Hizballah, was responsible for several acts of violence in the 1980s, and, most significantly, the June 1996 Khobar Towers bombing that killed 19 U.S. servicemen. Since the late 1990s, however, violent actions by such groups more or less ceased. To the contrary, a series of attacks against Shia mosques in eastern Saudi Arabia this year by ISIL indicates the continued vulnerability of this community, despite significant government efforts to crack down on the suicide bombers and their accomplices.

A less well-considered but also potentially highly significant factor in the sectarian equation in the Middle East is the range of Sunni communities in Iran and the challenges they face. The

overwhelming majority of Iranians are Muslims, but only about 10 percent of those are Sunnis of various ethnicities and orientations. Kurds, Arabs, and Baluchis are all significant minorities in Iran that are predominantly Sunni. All three of these communities have given rise to armed groups that have challenged the authority of the Iranian state in one way or another. As with Shias in Saudi Arabia, few Sunni Iranians have achieved social or economic prominence under the Islamic republic, and none have achieved national political or governmental administrative authority.

A less well-considered but also potentially highly significant factor in the sectarian equation in the Middle East is the range of Sunni communities in Iran and the challenges they face.

The mistreatment of religious minorities on both sides is an open wound, especially in a sectarian-conscious Middle East, which can readily be exploited to exacerbate tensions. However, promoting the interests and well-being of these minority or marginalized communities could, under the right circumstances, emerge as a vehicle for greater understanding and cooperation and play a positive role in the people-to-people exchanges outlined by DiMaggio.

Regional Conflicts

Iranian tensions with GCC states are most apparent, perhaps, in a number of highly volatile regional conflicts. The largest and, perhaps, most difficult of them is the civil war in Syria. The narratives embraced by Iran and the GCC states regarding Syria are almost entirely mutually exclusive and place a heavy burden of blame for the political fallout and human suffering directly at each other's doorstep. There is virtually no common ground in the narratives and, seemingly, little basis for the two sides to cooperate in seeking a political solution in Syria. As Khashoggi's explication of a Saudi perspective suggests, even the mutual menace posed by ISIL to Iran and the Gulf countries may not be enough to promote any degree of cooperation in Syria. This assessment is bolstered by Tabaar's account of the perspective of Iran's conservatives and hard-liners.

The Saudi-led intervention in Yemen that began in March initiated a new phase in the confrontation between GCC states and Iran. A group of Sunni Arab states perceived that the growing power of the Iranian-supported Houthi militia amounted to an Iranian proxy force taking over a crucially important and strategically located neighbor. As Saudi and Emirati-backed forces seem to be seizing momentum on the ground from the Houthi rebels, a political solution may be on the horizon. But for the immediate future, continued conflict seems unavoidable.

Despite serious obstacles, Iraq might provide the best early opportunity for some degree of cooperation between Iran and the GCC states. The parties have been profoundly polarized over Iraq, particularly during the era of former Prime Minister Nouri al-Maliki. Now, however, both the GCC and Tehran are committed to working with Prime Minister Haider al-Abadi, and the Gulf countries have been parties to a number of documents and diplomatic instruments that emphasize the crucial role of the Iraqi government in the battle against ISIL.

But working together to secure the defeat of ISIL requires abandoning narratives that blame the other party for the rise of the terrorist movement. Iran typically casts ISIL as a cat's paw

of Saudi Arabia and its Gulf allies, the United States, or Israel. Gulf states view the rise of ISIL largely as a function of the sectarian policies of the government in Baghdad. These mutual suspicions are outlined by Shehadi, who also emphasizes the role of the IRGC in contributing to the sectarian tension.

Trade

The area of trade relations may offer the most realistic prospect for greater GCC-Iran cooperation, though it could be limited to certain states and have a circumscribed political and diplomatic impact. In the first of the focused sections of this survey, Young looks at how Iran's economy could be primed for greater trade with the Gulf countries.

Post-Sanctions Prospects for GCC-Iran Trade

By Karen E. Young

A post-sanctions reality will see Iran re-enter the regional and international economy as a serious competitor. A number of Gulf Cooperation Council (GCC) states see potential benefits of economic ties with Iran, and may also find some instructive similarities with their own economies and some natural avenues for investment and mutual gain. The juncture facing Arab Gulf states now is not unlike many they have navigated in the past: in 19th century tribal rivalries for trade routes and British protection; in the formation of early states in the 1970s after British colonial withdrawal; in 1981 to form the GCC as a defense against the spread of political Islam and (Iranian) revolution, and in the 1990s to confront Iraqi aggression with the invitation of U.S. military bases and cooperation. What is different is that there are six increasingly independent states of the GCC further differentiating their respective foreign policies and articulating their economic priorities, this time with substantial financial reserves, new military capacity, and a will to deploy both. Identifying the opportunities in a shifting Iran, and a shifting international security and trade environment, should provide significant opportunities for Arab Gulf social and economic development in the next decade and beyond.

Identifying the opportunities in a shifting Iran, and a shifting international security and trade environment, should provide significant opportunities for Arab Gulf social and economic development in the next decade and beyond.

Of the small group of states that have emerged from sanctions and isolation from the international community, Iran has many advantages. Unlike post-apartheid South Africa, it has a strong, cohesive national identity. Unlike post-war Germany, Iran is not saddled with sovereign debt. Unlike Cuba, Iran has a healthy middle-class population that does not suffer from years of poverty and crumbling infrastructure. Perhaps most like Libya in the early 2000s, a post-sanctions Iran will face re-entry into the international community with its governing structures unchanged and a political future unchartered. But differing from Libya, Iran has significant experience with political mobilization and building party identification.

GCC states will recognize that the Iranian economy is diversified, at least by oil and gas producing state standards. Real estate, manufacturing, transport, trade, hospitality, and construction account for a combined 70 percent of real gross domestic product (GDP) in Iran. Energy resources, of course a major asset in Iran, will propel investment there. Iran has 18.2 percent of the world's proven gas reserves (topping Russia and Qatar) and 9.3 percent of oil reserves. Once sanctions end and the currency stabilizes with increased capital flows, Iran should be able to access its significant reserves, which the International Monetary Fund (IMF) estimates at nearly $110 billion.

Similar to many Arab Gulf economies, there is a heavy state presence in the Iranian economy, especially its financial sector. However, the Iranian economy is concentrated in ties to its military, while GCC states innovate in state-related entities that function as private firms with significant state investment, often in the form of ruling family private investment and control via board membership. The evolution of GCC corporate governance, though flawed by Western standards, is vastly more transparent and profit-centered than Iranian counterparts.

Like the GCC states, the line between private and public sector in Iran is often blurred. The Iranian economy is structured differently in this regard, in that state-related entities are more likely to be related to the military or the Islamic Revolutionary Guards Corps (ICRG) than to industrial, real estate, or infrastructure firms as in the Arab Gulf states.

In contrast, many Iranian state-related entities tend to be social organizations, similar even to what would be termed civil society in the West. Arab Gulf states tightly regulate civil society organizations, including religious groups and charities. In Iran, charitable organizations (*bonyads*) and religious foundations are not only tolerated, but are also actively funded by the state. This difference could be important in any potential opening of the Iranian economy. A religious foundation cannot be privatized and economic ties would not change its mission. While increased economic ties with the West and the GCC might, over time, shift the political orientation of the current Iranian regime, any change will hinge on how vested interests in positions of authority and economic power choose paths. Many scholars agree that in political and economic transitions, violence and repression are more likely when elites perceive their economic interests will be destroyed in any political transition. Especially in the case of Iran, in which there is very little optimism of political opening, an economic opening will sustain, and even reward, the financial privilege of the military.

Iran's business competitiveness is not good; and this difficulty for outside investors, especially those from the Arab Gulf, could be a stubborn obstacle to financial ties. Alongside the downward trend of ease of business is a lack of government efficiency and responsiveness in services. According to the World Bank's 2015 survey of "Doing Business," Iran ranks 130th of 189 countries. There are significant problems in registering a new firm, obtaining construction permits, paying taxes and fees, and protecting minority investors.

Iran has a track record of implementing economic reforms and securing credit when its elected leaders prioritize and gain popular support for reform. There are two recent episodes in which political leaders were able to implement change under difficult international circumstances. The era of former President Ali Akbar Hashemi Rafsanjani after the Iran-Iraq war included privatization programs, trade and currency liberalization, and subsidy reform, as well as securing finance from the World Bank and international financial institutions. The reforms were short-lived and the exchange liberalization was abandoned after 1993, but the reform effort created a precedent. Again in 1997, the administration of President Mohammad Khatami tried an Economic Rehabilitation Plan, also securing a better credit rating for sovereign debt (B+ in 2002, withdrawn by 2008). Oil price declines hampered the reformers' ability to sustain difficult restructuring of the economy. Conversely, in 2005 the presidency of Mahmoud Ahmadinejad coincided with an oil boom that allowed massive fiscal expansion and programming changes, many rewarding inefficient state-linked firms. The current administration of President Hassan Rouhani, elected in 2013, faces sustained lower oil prices, but has also managed to implement a number of reforms during a period of intensified trade and financial sanctions after 2012.

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Interestingly, the sanctions allowed Iran to make some difficult fiscal policy decisions, ones

that Gulf neighbors have struggled to make. The "resistance economy" doctrine, issued by decree by the supreme leader in February 2014, included provisions to further develop a "knowledge economy" by privileging the information and communications technology (ICT) sector, reducing domestic energy consumption (and subsidies), and reforming financial sectors to support private sector growth. The reforms have attempted to reduce the size of the government, while also increasing taxes, a rare, if not impossible, reform across the Gulf. Another silver lining of the sanctions regime has been the insulation of the Iranian economy to the volatility of international markets. Iran is a domestic demand driven economy, with domestic demand representing an average of 85 percent of real GDP over the last five years, according to the IMF. Given the opportunity, many more Iranians would be glad to invest their skills and money abroad, contributing to the growth of regional economies. More than 500,000 Iranians live in the United Arab Emirates. Trade, real estate, bank sector, and infrastructure firms stand to capitalize on these linkages, especially as the Dubai port system can serve (and does serve) as a proxy access to Iran.

Perhaps the most immediate mechanism for economic engagement with Iran from the GCC will be related to energy supply. Though oil exporting countries, much of the domestic electricity capacity requires gas. Kuwait, Oman, the UAE, and Turkey are all experiencing an increase in gas demand for power generation. Domestic gas supplies are often tied to long-term contracts as export, as is oil production. Neighbors can benefit in refining, gas trading, gas production (including the South Pars/North field shared with Qatar), and infrastructure development (including new pipelines that can reach Pakistan and the European Union).

Even under sanctions, Iran is the world's 18th largest economy by purchasing power parity. In the Middle East North Africa (MENA) region, Iran's economic size is second only to Saudi Arabia, and its population, with 78 million people, trails only Egypt. Iran is a country of young people, like most of the MENA region, with 52 percent of the population under 30. However, according to the United Nations Development Program, Iran rivals Poland in its education participation (expected years of schooling is about 15), outperforming Russia, Turkey, South Africa, and Tunisia.

Iran shares some of the challenges of its neighbors in youth unemployment and female participation in the labor force. Official Iranian statistics cite unemployment levels at 11.9 percent, while youth unemployment is probably closer to 30 percent. Female labor participation is a dismal 16 percent. Sanction relief will not change these problems. But, as is the case with similar demographic and social structure obstacles in Saudi Arabia, consumer product, financial services, and infrastructure growth find ways around these challenges.

The Arab Gulf states are at a critical juncture in their political and economic trajectories. An opening with Iran will involve new opportunities as well as risks. Arab Gulf states will assess these in the context of domestic political goals, positioning themselves in relation to each other and to their aspirations for leadership in the region and beyond.

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Saudi Arabia is Determined to Defend its Interests

By Jamal Khashoggi

At this early stage, it seems unlikely that the nuclear deal will enhance relations between Iran and most of the Gulf Arab states. And I'm not the only person who thinks this way: Former Saudi Ambassador to Washington Prince Bandar bin Sultan has suggested that this deal will lead to the eruption of small wars because it's a nonproliferation agreement, and will not change Iran or its policies. The Iranians have shown no commitment to change their behavior in the region. Three key examples of their misbehavior illustrate my point. First, Lebanon has been without a president for the past few years and Iran is primarily to blame. Second, the civil war in Syria continues, and Iran is primarily to blame. Third, in Yemen the Houthis are refusing all reasonable peace proposals – not just coming from Saudi Arabia but from Oman and the United States – and Iran is primarily to blame.

Therefore, we shouldn't anticipate peace in the region but rather more regional conflicts. Saudi Arabia is publicly committed to confronting further Iranian disturbances. Actually I think we should use a stronger term, because what we are talking about actually are violations of international law. And from Libya to Iraq, Syria, Lebanon, and Yemen, the whole Middle East is becoming a war zone. This requires serious regional and international intervention, and Saudi Arabia is taking the lead.

But don't expect bilateral dialogue, because the two sides are just too far apart on so many issues. Syria needs regime change, but Iran refuses that. Hizballah in Lebanon has to become a political party within the Lebanese constitution and the Taif Accord, but Iran refuses that. Saudi Arabia is seeking reconciliation in Yemen, but can't accept Houthi control of the country and their coup d'etat to prevail – although Saudi Arabia doesn't seek to eliminate the Houthis from the country's political future either – but Iran refuses that as well.

I argue that Saudi Arabia is standing on the right side of history. Of course Iran wants peaceful relations with Saudi Arabia. The Iranians want Saudi Arabia to leave President Bashar al-Assad alone in Syria, leave Hizballah intact in Lebanon, and let the Houthis control Yemen, and on that basis have peaceful relations and come together to fight the Islamic State in Iraq and the Levant (ISIL). But this makes no sense. Of course Saudi Arabia sees ISIL as the enemy, but it also sees Assad, the Houthis, Hizballah, and the sectarian conflict in Iraq as major contributors to the rise of ISIL. And Iran wants to say "salam," "we are all Muslim brothers," and "let's have unity" while continuing to support the bombing of Syrian civilians. And these things simply do not go together.

Iran cannot be seen as equal to Saudi Arabia in the Arab world.

Saudi Arabia is not opposed to other regional powers. It accepts Iran as a regional power with legitimate interests, including in the south of Iraq, where there is a Shia majority. But in other Arab states like Syria, Lebanon, and Yemen, those are Arab interests. Iran cannot be seen as equal to Saudi Arabia in the Arab world. Saudi Arabia is very much on the defensive. It is not fighting in Iran or in its legitimate sphere of influence. On the contrary, Iran is coming into Saudi areas aggressively.

And Saudis feel targeted. Saudis strongly believe that Saudi Arabia is the grand prize in Iran's campaign of expansionism. No Islamic Empire ever existed and claimed supremacy without Mecca and Medina. And when Saudis look at the leadership in Iran, they see a medieval mentality. They are still thinking

like Muslim conquerors.

And because Saudis feel targeted, Saudi Arabia had to take the lead. It doesn't want to be the regional power. It has become a reluctant leader. It was hoping that other countries, such as Egypt, would help and be by its side. But at present it is the only Arab country that is strong enough, capable and willing to lead, so it is taking the initiative.

So these policies of Iran need to change before there are better relations or a dialogue. Hopefully if the deal goes through and the Iranians begin to open up and sanctions are lifted, there will be a change. Iranians want a good life. They don't want to go to Syria as fighters; they would rather go to Dubai or Istanbul as tourists or students. In the long run, opening up could help to change the Iranian mindset.

With the opening of the Iranian economy as a consequence of sanctions relief, increased trade is certainly possible. But people in the Middle East have learned how to separate politics and economics, and some countries are better at this than others. Turkey and the United Arab Emirates will benefit most economically, and they will trade heavily with the Iranians. And Saudi Arabia, despite its differences with Iran, will also trade with the Iranians. Theoretically, trade ought to be an incentive for greater cooperation, but people in the Iranian leadership are still thinking in terms of empire building. So trade is likely to remain purely economic without much political impact, at least at first.

Within the Gulf Cooperation Council there are hard-liners – Saudi Arabia, Qatar, and Bahrain – and soft-liners – the UAE, Oman, and Kuwait – which are in a less confrontational mode with Iran. Saudi Arabia has to deal with the regional implications of Iran's policies in Syria and Yemen and so forth, which means it has a different point of view than some of the smaller states. It is Saudi Arabia that has to protect Arab interests throughout the Middle East. And, frankly, the small states take Saudi Arabia for granted. They know Saudi Arabia will always be there, whatever relationships they maintain with Iran.

Leaving the task of opposing Iran's hegemony strictly up to Saudi Arabia is a very dangerous approach. It could eventually lead to a major conflict with Iran. So the world needs to gather the major players, particularly Saudi Arabia, Turkey, and Iran and have a diplomatic process culminating in a major summit to resolve these matters once and for all, similar to the Yalta conference. Bilateral negotiations aren't possible as things stand, and the status quo is too dangerous.

So it's going to require a major international initiative for the major players to start making big decisions and leading the region in a better direction, and it needs to begin right away because regional events are moving in dangerous directions very quickly.

Saudis cannot wait for things to get better on their own. The Middle East will not wait for the U.S. Congress to decide what it thinks of the nuclear agreement. Regional events are moving very quickly, and the United States needs to intensify its engagement. As things stand, the decision makers are not in Riyadh or Tehran. The real decision maker is a Syrian rebel leader sitting under an olive tree in Idlib. He is the one who is going to decide whether his forces march on Latakia tomorrow or not. And these guys don't check with Riyadh or Tehran or Washington. So it's going to require a major international initiative for the major players to start making big decisions and leading

the region in a better direction, and it needs to begin right away because regional events are moving in dangerous directions very quickly.

Adapted from remarks given at the AGSIW panel discussion "Negotiating the Gulf: How a Nuclear Agreement Would Redefine GCC-Iran Relations," on July 21, 2015.

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Iran's Alarmed Conservatives Anticipate Confrontation

By Mohammad Ayatollahi Tabaar

The most dangerous misunderstanding about the nuclear agreement between Iran and the P5+1 is the widespread perception that Iran has been the big winner, or, more precisely, that Iranians universally perceive that they are the winners. This understanding informs the debate from Washington to Riyadh to Tel Aviv. But when you look at the debate inside Iran, the reality is completely the opposite. In fact, Iranian conservatives are as worried about the agreement and the post-agreement environment as are their neighbors, including the Persian Gulf Arab states.

They complain that Iran has agreed to abandon, or at least permanently suspend, limit, and restructure, its nuclear program in exchange for very limited sanctions relief that is insufficient and that could be reversed at any moment. They say only 13 percent of sanctions will be removed, and that most sanctions will remain in place or at least could be quickly reimposed. They also describe the inspections regime as a humiliating capitulation. Meanwhile, Iran's regional rivals and neighbors are being given extensive high-tech weapons transfers and an intensification of their close military cooperation with the United States.

The whole issue is framed as a plan to try to contain Iran and, eventually, initiate regime change in Tehran and overthrow the government. Iranian conservatives warn that the United States may use the agreement to concoct a series of excuses to pressure Iran into various retreats. Moreover, they are concerned that the agreement and its implementation will be intended to strengthen the hands of their moderate Iranian rivals.

Ultimately, Iranian hard-liners close to the current regime fear these and other factors will combine to produce an externally driven alteration of the existing system. The scenarios include an implosion or an explosion of the political system, each of which they see as a logical consequence of the nuclear agreement. This is a sincere belief and a genuine anxiety, not a pose or false posture. They not only fear, they even expect, such an existential challenge to their authority and even to the present system itself.

There are important consequences arising from this deep-seated alarm among Iranian conservatives, especially since it is coupled with the widespread international misperception that Iranians, especially those close to the ruling faction, believe that they have won a major victory, and have succeeded in fooling the United States. Between external misperceptions and the fears of hard-liners in Tehran, the potential for the agreement to actually increase uncertainty and insecurity in the region is significant. Though, that can be avoided through a series of bilateral and multilateral negotiations that reassure all parties and calm frayed nerves.

Between external misperceptions and the fears of hard-liners in Tehran, the potential for the agreement to actually increase uncertainty and insecurity in the region is significant.

Under the circumstances, it falls to the United States to initiate these negotiations. But it's important that outreach to the Persian Gulf Arab states, particularly Saudi Arabia, is also pursued. The more pragmatic factions in Iran are interested in such a dialogue, but they believe that, at present, the Saudis are not. Iranian conservatives

argue that there is no point in even trying. The pragmatists sound more conciliatory and hard-liners more aggressive. But the overall belief in Iranian policy circles is that Saudi Arabia is just not as interested in dialogue as is Iran.

However, the desire for outreach is real. Former President Ali Akbar Hashemi Rafsanjani said a few years ago that he regretted the deterioration of relations under the presidency of Mahmoud Ahmadinejad and stated his belief that, together, Iran and Saudi Arabia could solve most of the problems afflicting the Middle East. The faction led by current President Hassan Rouhani is deeply interested in such a dialogue, and although it is not the most powerful group, the members are part of the polity. WikiLeaks recently revealed that Saudi Arabia is providing a scholarship to the son of Rafsanjani's former vice president. Saudi Arabia knows these Iranians and has a working relationship with them, and obviously doesn't see all of Iran as represented by the hard-line elements of the Islamic Revolutionary Guards Corps (IRGC).

Under both Rafsanjani and former President Mohammad Khatami, security relations between the two countries improved and several agreements were signed. Relations can change again, and Saudi Arabia is well aware of this, but its policy is dictated by a misperception about Iran's appropriate regional role. Iran is naturally a power in the Middle East because of its size, population, history, and so forth. But some countries, particularly Saudi Arabia, would like to see Iran artificially boxed-in and weakened. That is not sustainable.

Relations can change again, and Saudi Arabia is well aware of this, but its policy is dictated by a misperception about Iran's appropriate regional role. Iran is naturally a power in the Middle East because of its size, population, history, and so forth.

This pressure to isolate Iran, along with other external coercive measures, such as sanctions, play into the hands of the hard-line power centers. In 2001, after the U.S. invasion of Afghanistan, Iran and the United States were negotiating to bring down the Taliban and put Hamid Karzai in power. However, after then President George W. Bush delivered his 2002 State of the Union address describing Iran, Iraq, and North Korea as the "Axis of Evil," the balance of power inside Iran shifted to the right and the IRGC gained the upper hand. Its grip on power has intensified given the conflict in Iraq. Most forms of external pressure translate into more power for the IRGC and hard-liners. On the other hand, the IRGC is not a monolith. There are different factions and groups within it, and more engagement with Iran could empower pragmatists within its ranks.

The conservatives in Iran have a counter-strategy, however. And an understanding of this is almost entirely missing from the debate outside of Iran. The agreement signals the culmination of the death of anti-Americanism in Iran. Iran is probably the least anti-American country in the Middle East, in terms of public opinion. That's partly why the negotiations happened in the first place. It's not just sanctions, as are often discussed, but also public pressure to open to the outside world, especially the United States.

But Iranian conservatives are hoping that the agreement, particularly the implementation phase, will be an educational process for the Iranian population that will confirm that the United States is, in fact, an untrustworthy enemy. They are preparing themselves and the public for the United States to come up with a lot of excuses about sanctions relief, either by not removing them or just temporarily suspending them. The Iranian hard-liners are looking forward to using these moments to engineer the return of anti-Americanism in Iran.

This will be much more advantageous to them than the acquisition of nuclear weapons. They are banking on the return of the anti-Americanism that characterized much of the Iranian political culture in the 1970s and 80s. Iranian conservatives will also try to use any negative atmosphere to gain popularity for Iran's regional interventions, which do not seem to be very popular, as evidenced by slogans that emerged during the Green Movement of 2009, such as "Neither Gaza, nor Lebanon." The Iranian policy in Syria can't be justified only on ideological grounds, either. Instead it's framed as "If we don't fight in Damascus now, we will have to fight in Tehran tomorrow."

A return of anti-Americanism could also signal the revitalization of a popular and ideological foreign policy. That would preclude, or at least complicate, any prospect for improved relations with the Persian Gulf Arab states. In order to avoid this, U.S. leadership is crucial. As I noted in a recent commentary for The Washington Post, "President Obama and Secretary John F. Kerry should be urgently advised to now move beyond the deal and translate its initial success into more compartmentalized confidence-building measures and agreements between Iran and other regional powers with the same tenacity they showed during the last two years of nuclear negotiations."

Adapted from remarks given at the AGSIW panel discussion "Negotiating the Gulf: How a Nuclear Agreement Would Redefine GCC-Iran Relations," on July 21, 2015.

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Breaking the Sectarian Deadlock

By Nadim Shehadi

The future of relations between Iran and the Gulf Cooperation Council (GCC) states will depend on the outcome of U.S.-Iranian rapprochement through the Iran nuclear deal and the impact of this rapprochement on Iran itself and, subsequently, on the broader region. The optimistic view holds that the lifting of sanctions and opening up of the economy will weaken the revolutionary element in Iran, which is playing a negative role in the region, and strengthen moderate elements that can play a positive role not only in the region but also in Iran – a kind of soft and gentle regime change. The pessimistic view is that the deal will strengthen the radical elements in Iran at the expense of more moderate factions, and will embolden Iran in its regional interventions. Either way much is at stake for GCC countries.

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The United States is perceived by many Arabs to be underestimating the danger posed by Iran's Islamic Revolutionary Guards Corps (IRGC) and its sponsorship of non-state actors throughout the region, possibly even beyond the obvious cases like Gaza, Lebanon, Syria, Iraq, and Yemen. While both the United States and its GCC allies see the Islamic State in Iraq and the Levant (ISIL) as a threat, the United States alarmingly seems to perceive the IRGC as the "lesser evil." The GCC countries, by contrast, tend to view both ISIL and the IRGC as equally existential threats.

It is also possible that the United States sees the problems of the region as disconnected fragments that can be dealt with one at a time with no clear strategy or vision of the final outcome. Actors in the region see the fragments as connected symptoms of a broader regional malady that will deteriorate if ignored, and to which their very existence is tied. For them, an overall vision is essential.

ISIL and the IRGC are the type of enemies that reinforce each other: They both gain legitimacy from the conflict and define themselves through it. ISIL claims to be fighting the regime of President Bashar al-Assad and Iran in Syria and Iraq, and gains popularity by claiming to protect the population from the IRGC and its subordinate militias. An increased IRGC threat therefore greatly enhances ISIL's legitimacy. ISIL's ideology and theology is also compatible with fighting Iran and the Shia, whom it considers heretics.

For its part, the IRGC gains legitimacy by fighting ISIL and protecting the Shia from the dangers it poses to them. The IRGC has also made significant strides in getting an increasing number of international actors to perceive it as a potential ally in the War on Terror. Its client, the Assad regime in Syria, is also gaining from the conflict. The U.S. policy of training Syrian rebels and equipping them on the strict condition that they only fight ISIL, and not the Assad regime,

compounded this trend. Making matters worse, some supporters of the nuclear negotiations with Iran appeared keen to avoid any confrontation with Tehran over Syria during the talks.

Both ISIL and the IRGC have hegemonic aspirations and intense internal rivalries within their constituencies. The internal divides within the Sunni and Shia communities are far more important than the broader Sunni-Shia divide. Thus ISIL's stated aim is to control the Sunni world, and the IRGC's is to consolidate its hegemony over Shia-majority areas and populations.

ISIL is vehemently anti-Saudi and against mainstream Sunnis whom it considers to be heretics, corrupted by their "collaboration" with the West. ISIL is a monster that has survived its creator: It owes its origins in part to former Iraqi President Saddam Hussein, in particular his turn toward radical Islamic rhetoric to legitimize his fight against Iran and his own population of Shias and Kurds in the 1990s. Much of the violence, brutality, and tactics of ISIL are reminiscent of the Baath party, and so is the aspiration to topple the regimes of the region and unify them under its banner. Thus ISIL is far more dangerous to its fellow Sunnis in the region than it is to either Iran or the United States. For the GCC countries and Jordan, the struggle with ISIL is a zero-sum game.

The IRGC is similarly a greater threat to Shias who do not subscribe to its radical version of Shiism led by the Islamic Republic and the supreme leader. Its hegemonic model is derived from Iran itself, where the IRGC is part of a parallel establishment to the rest of society, with military, business, and social service wings as well as a street militia called the Bassij that it can unleash when necessary. The IRGC model is to take over by fighting the other Shia first, as Hizballah did in Lebanon, and consolidate through elimination or co-option of rival factions. In Iraq, the IRGC's main rival is the mainstream and quietist Shia establishment in Najaf. The rivalry between them is also a zero-sum game, where one can totally delegitimize the other, but they cannot share power or authority.

Regarding the badly needed vision of the future for the region, and especially how the Iran deal will impact GCC-Iran relations, the best case scenario is a future that includes neither ISIL nor the IRGC. It is often overlooked that these antithetical polarities, and all they stand for, feed off of each other. In such a scenario, the aspirations of the advocates of the Iran deal would be realized and the IRGC would lose domestic political power in Iran. In this scenario the moderates prevail. For this to happen, the United States needs to be seen as fighting radical trends and supporting the moderates on all sides.

The worst case scenario is undoubtedly one in which both ISIL and the IRGC prevail, gaining control over Shia and Sunni areas, respectively. Hamas would prevail over Fatah; Hizballah would consolidate its power and hegemony over Lebanon; Assad and his militias would continue to rule over parts of Syria; and ISIL would control the Sunni areas in Iraq and Syria, and possibly even start to destabilize Jordan and some GCC countries.

At the crux of the differing perceptions between the United States and its GCC allies is a developing Arab impression that, whatever its intentions might be, in effect Washington is getting caught up in a de facto alliance against ISIL with Iran, particularly in Iraq, while in Syria, its sole focus on ISIL suggests a willingness to let the Assad regime survive. This belief not only contributes to strengthening both ISIL and the IRGC, it is also an existential threat to the more moderate majorities on both sides. Moreover, the GCC states could face some loss of

political credibility if the coalition is perceived to be fighting alongside the IRGC and Iran and against an ISIL that claims to protect Sunnis from these sectarian enemies.

How the United States manages its relations with Iran following the nuclear agreement is therefore crucial for the GCC states and for their future relations with both Tehran and Washington. The United States should now address Iran's interventions in the region and support the mainstream elements on both sides of the Sunni-Shia divide in order to help the Middle East return to its traditional and normal state of equilibrium and mutual coexistence in a pluralistic region.

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Rebuilding Relations with Iran

By Suzanne DiMaggio

Now that a nuclear deal has been reached by the P5+1 and Iran, the big question on everyone's mind is whether it will result in a more aggressive and emboldened Iran or a more pragmatic and moderate Iran. The answer will depend to a large extent on how Iran reacts to the policies of other powers in the region, with important implications for both U.S. and Arab Gulf interests and strategic calculations.

The Joint Comprehensive Plan of Action (JCPOA) is a nonproliferation agreement that prevents Iran from obtaining a nuclear weapon and puts in place the most intrusive inspection regime ever negotiated. It is not a "let's transform Iran" agreement. So Iran should not be expected to abruptly abandon groups and initiatives it has been supporting in the region or to suddenly become a model citizen of the international community. However, there now is an opportunity to build on the momentum of this breakthrough deal and attempt to decrease tensions with Iran.

With this deal, Iran's President Hassan Rouhani – who was elected with a mandate to improve the Iranian economy, get international sanctions removed, and increase Iran's interactions with the world – has scored a victory. In terms of popular support, it should provide him with a boost. And with two very important elections coming up in Iran in the next year, this outcome should serve to help the moderates.

In order to sustain popular support, the Rouhani government is under pressure to deliver on the promise of sanctions relief. Iranian decision makers must focus on how to manage and meet public expectations as the nuclear agreement is being promoted as an initiative that will improve the Iranian people's economic well-being and quality of life. Given current demographics in Iran – 80 million people, with more than half of the population under the age of 30, 70 percent living in urban areas, and high literacy and education rates, including more women than men studying at Iranian universities – that's a very potent message of hope. If left unfulfilled, it could quickly become a source of widespread disappointment and frustration. Against this backdrop, a significant portion of the billions of dollars that Iran stands to receive in unfrozen assets and oil revenue will likely be directed toward reviving the economy.

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When it comes to the region, influential Iranians, such as Parliamentary Speaker Ali Larijani, are emphasizing post-deal cooperation with other Islamic countries in the Middle East. In his address to the country following the conclusion of the JCPOA, Rouhani said that Iran wants "more cooperation and more harmony in the region." Most importantly, Supreme Leader Ayatollah Ali Khamenei has said that Iran would be willing to talk to other regional powers about contentious issues following the successful conclusion of a nuclear deal.

There is now an opportunity to test Iran's leaders to see if they are serious about moving these words into action. To be sure, we are entering into a murky period, particularly if Iran decides to increase its support of militant groups whose activities undermine the interests

of the United States and its allies. This uncertainty only underscores the need for the United States to continue its approach of principled and pragmatic diplomacy with Iran that led to the nuclear deal.

A key place to start is Syria, where Iran will have to be part of a political settlement. An emphasis should be placed on initiating a diplomatic process as soon as possible in order to see if Iran is serious about playing a constructive role as Iran's Foreign Minister Mohammad Javad Zarif has proposed in his four-point plan on Syria.

Iran doesn't have to wait to be invited to a negotiating table to demonstrate its readiness to help bring stability to the region.

Iran doesn't have to wait to be invited to a negotiating table to demonstrate its readiness to help bring stability to the region. For example, it could take the initiative and send an immediate and very clear signal that it is ready to help Lebanon overcome the obstacles that have for more than a year prevented the election of a president.

To help move the ball forward, the United States should encourage Saudi Arabia to respond to the overtures for engagement that Iran has been making since the Rouhani administration came into office in 2013. Bridging the widening divide between the Iranians and Saudis, whether it is seen as sectarian, geopolitical, or geostrategic, can only come about through dialogue. A modus vivendi that leads to a balance in the region or a "live and let live" approach could offer a way forward.

Commercial and trade diplomacy also offers opportunities to have an impact within Iran while providing incentives to comply with the nuclear deal and refrain from carrying out illicit activities. Rouhani is emphasizing economic reforms to a system that is in dire straits, partly because of sanctions and partly because of the woeful mismanagement of his predecessor. Reform of the banking system and other economic measures would help to facilitate Iran's reintegration into the global economy, and should also have a positive impact on empowering pragmatists and moderates.

The Arab Gulf states will benefit from an opening of trade with Iran. The United Arab Emirates and Oman have traditionally been Iran's biggest trading partners in the region. Some analyses suggest that Iranian trade with the UAE could increase by between 15 and 20 percent within the first year after the lifting of sanctions.

Moreover, relations with Iran could be strengthened through an increase in people-to-people exchanges, involving artists, scientists, athletes, students, etc. It may sound frivolous on the surface, but such interactions offer an important way to develop and solidify relationships at the societal level. Many of these ties between Iran and the West, and Iran and the Arab states, were severed over the past decades. It will take time to rebuild these relationships, but that shouldn't stop us from thinking creatively and pursuing such exchanges as a priority.

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