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Saudi Arabia after U.S.-Iranian Détente: Left in the Lurch?

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Examine all the big Arab portfolios — Lebanon, Palestine and Iraq. They are gradually being stolen from Arab hands, which have traditionally handled these issues, and turned over to Iranian hands.[1]
– Mishari al-Zaydi, *Asharq al-Awsat*

The recent thawing of relations between Washington and Tehran has fueled Arab apprehension about Iran's growing influence in the region, in Iraq in particular. In this context, Arab regimes sometimes attempt to exploit the Shiite and Persian nature of Tehran's policies, portraying them as threatening Sunni Arabs all over the Middle East. Examples of where sectarian sentiments in the arab media, in particular via newspapers like *Asharq al-Awsat* and the satellite TV network al-Arabiya. The most (in)famous examples were delivered by the Jordanian monarch (warning of a "Shiite crescent") and the Egyptian president (declaring that the "loyalty of Arab Shiites is always to Iran").

Notwithstanding the remarkable resilience of U.S.-Saudi relations,[2] there are also worries in the kingdom about President Obama's cozying up to the Islamic Republic of Iran. The new U.S. administration has indicated its willingness to follow a fundamentally different policy vis-à-vis Iran, abandoning the Bush administration's policy of confrontation and isolation. Ironically, however, it sometimes seems that the more American officials offer assurance that "nothing will harm historical and strategic ties between the United States and its Arab partners and allies in the region," the greater the sense of insecurity. The Arab states, Saudi Arabia included, do realize that the United States needs Iran to play a constructive role in Iraq, Afghanistan and the Arab-Israeli arena; hence, they fear an eventual U.S.-Iranian strategic collusion. This has led to the belief, widely held in some circles at least, that a rapprochement between the United States and Iran will negatively influence Saudi Arabia (and the smaller Arab states of the peninsula). Thus, any overture from Washington to Tehran is seen as coming at the expense of the Arabs.

Such a zero-sum notion of Gulf politics can be challenged on many different levels. Our starting point is a meaningful improvement in U.S.-Iranian affairs. We do not intend to be prophetic about such events, but this is a natural point of departure, given our argument.[3] We will break our analysis down into three different fields: security, the Arab-Israeli

conflict and the economy. In all three, it is important to focus on two different relationships. On the one hand, we need to understand what these changes in U.S.-Iranian relations might mean for the special relationship between Saudi Arabia and the United States. On the other hand, changes in U.S.-Iranian relations necessarily entail changes in the Saudi-Iranian relationship as well.

We intend to show that the "disquieting" rapprochement between the United States and Iran need not be the nightmare that some suggest. Rather, a much more balanced image will emerge, where potential problems and rewards vie for prominence, and where policy choices for the Arab leaders of the Gulf mitigate the notion of a "fait accomplit."

AFTER IRAQ, WHAT?

A brief historical review of turbulent international relations is not an easy task. It must necessarily resort to simplifying models that fall short of providing full coverage of a complex reality. One such model that does, however, do justice to much of the Gulf's modern political history is Henner Fürtig's notion of a triangular power order in the oil-rich Persian Gulf, in which three powers — Iran, Saudi Arabia and Iraq — have long been rivals for dominance. Much of the region's balancing game can be applied to this triangle. When the Baath took power in Iraq for the second time, in 1968, Iran and Saudi Arabia were quick to join forces. Similarly, the Islamic revolution drove Saudi Arabia and Iraq towards one another, and later the Iraqi invasion of Kuwait brought Saudi Arabia and Iran a little closer together again.[4] It is important not to disregard the influence of factors such as outside interference, ideological imperatives, domestic politics and state-formation. Still, the explanatory power of this regional balancing act appears convincing.

Twin-Pillar Policy

During the decades preceding the Islamic Revolution, the regional order can be explained largely through a blending of both the regional explanation above and Cold War strategic imperatives: Saudi Arabia and Iran were both firmly in the Western camp. Indeed, the two were essential in the American twin-pillar policy.[5] There was already an element of rivalry between the two concerning supremacy in the Gulf and leadership of OPEC, but the common interests of the two monarchies kept such rivalry in check. The non-threatening nature of the secular Pahlavi ambitions vis-à-vis the Saudi claims to Islamic leadership also helped to maintain this balance.

The fault lines ran quite differently from today's popular, though certainly not uncontested, Sunni-Shia divide. Rather, as David Long aptly points out, the divide in previous decades was between conservatism (the pro-status quo between the Al Saud and the Pahlavis) and radicalism (the anti-status quo of Nasserist pan-Arabism, though some would start with the Hashemites in the 1920s),[6] then Baathist nationalism and later Khomeinism.[7]

In short, the radicalism of others in the Middle East, later combined with the Cold War, resulted in a general convergence of Saudi and Iranian interests and strategic goals, both in cooperation with, first, the British and, later, the Americans.

Iran: From Confrontation to Pragmatism

The single most important event that altered Gulf affairs in the second half of the twentieth century was the overthrow

of the Pahlavi regime in Tehran. In any case, it drastically reshuffled the triangular relationship and the strategic imperatives for the United States. It took some time for the model to kick in, though. At first, the Al Saud, in their traditional nonconfrontational manner, congratulated Khomeini on his victory. Within months, however, it became clear how diametrically opposed the two countries would be for quite some time and how Saudi fears of the pan-Arab aspirations of Iraq would be overshadowed by the Iranian foreign-policy credo of exporting the revolution. The Saudi monarchy sought refuge from this perceived threat by supporting Iraq's war against Iran.[8]

While it is often suggested that Saudi-Iranian relations started to tangibly improve after the election of Khatami in 1997, they failed to get better beyond a certain point of "cautious pragmatism," and this happened much earlier, quite soon after the end of the first Gulf war in 1988. The Iranian threat, for one, had been considerably weakened. What is more, Saddam Hussein acted as an undisputed winner and started to flex his muscles, which was an important reason for the Saudi king at the time, Fahd, to rethink and reorient his position within the triangle. In hindsight, his courting of the Iranians was a wise move, given the Iraqi invasion of Kuwait. It was largely in vain, however, even though there were clear signs that many in the Iranian establishment, including the commander of the armed forces, Hashemi Rafsanjani, opted for a policy of rapprochement even before the death of Khomeini in 1989.

Many (including ourselves elsewhere) have drawn attention to the severely limited impact of this rapprochement between roughly 1990 and the early twenty-first century. A first, rather obvious but highly convincing, explanation for the limitations of this détente is the fact that Saudi Arabia and Iran were diametrically opposed in their relations to the United States. The second factor was that, during the 1990s, mounting economic problems in both Saudi Arabia and Iran (though more pressing in the latter) and the reduced leverage of OPEC resulted in fierce competition between Iran and the Arab states of the Gulf. This latter dark cloud had a small silver lining, however: these same economic difficulties (in both cases serious domestic consequences could not be ruled out) started a drive for economic diversification, and foreign investments required a stable regional environment. Thus, many in the Gulf recognized that they had a vital interest in the pragmatism that was developing.[9]

The Iraq War

One could easily argue that the "containment" of Iraq after the second (1991) Gulf war already signaled the end of the triangle described above. But, leaving this argument aside, it is perfectly obvious that it is of little use after the invasion of Iraq in 2003.

It has often been argued that Iran is the undisputed winner of the 2003 Iraq war. Though it has most certainly served Iran's interest, there are some limitations to this conclusion: Iraqi Shiites are also nationalists (they defended their home country against Iran during the first Gulf war); religious sites in Iraq surpass in importance those in Iran (making Iraq a threat in terms of religious leadership); and most Shia leaders in Iraq reject the notion of *velayat-e faqih*. Thus, though Iran clearly benefited from the removal of Saddam, it also has an interest in a not-too-strong Iraq.

The Al Saud, on the other hand, also reaped benefits. They too hailed the removal of Saddam and felt rather safe under the U.S. umbrella, especially after the 1991 Gulf war. The decision to support the United States at this stage, however, had a domestic repercussion that manifested itself in the embarrassment of the kingdom on September 11, 2001, and a shock wave of domestic violence after May 2003.[10]

Given all the above, both Iran and Saudi Arabia have a firm interest in two things in particular: a stable, peaceful but definitely not-too-strong Iraq and a pragmatic limitation of irredentist and sectarian claims and actions.[11] As such, there is clearly more common ground than generally suggested, common ground that is currently often overlooked because of Iraqi volatility, Iranian triumphalism and general uncertainty about the regional balance. But, as the authors of a recent RAND report convincingly argue, sectarianism and ideology shape relations, but do not define them.[12]

SECURITY: MORE ENGAGEMENT THAN CONFRONTATION

For almost 30 years, U.S.-Iranian relations have been entangled in a cycle of distrust and confrontation. In 2007, however, when the occupation forces in Iraq were confronted with ever-growing instability, the United States cautiously tried to engage Iran. Talks were held but failed to lead to any significant breakthrough. In the same year, other attempts at engagement were undertaken, none of which has led to the type of dramatic opening hoped for and often promised by their architects.[13] Gradually, the United States realized it had common regional interests, not just in Iraq, but also in Afghanistan (stability, opposing the Taliban, controlling drug trafficking), energy matters (gas in particular, challenging Russia's leverage over Europe), the Arab-Israeli conflict (trying to make Iran stop acting as a spoiler) and the "war on terror" (fighting al-Qaeda as the common enemy). It is not yet clear whether Washington realizes that a "grand bargain" à la 2003 is no longer possible because the United States is now in a weaker position than five to six years ago.[14] The outcome of the recent Iranian presidential elections, among other things, makes it somewhat unpredictable whether the leadership of the Islamic Republic is as eager to make a deal as some in Washington may hope.

It is a truism that both Saudi Arabia and Iran have gained from the fall of Saddam Hussein, be it in different ways and for different reasons.[15] Since April 2003, the two have emerged as the most significant competitive power brokers in the region. Saudi Arabia's alignment with the Western camp might lead to a further bifurcation, assuming that the kingdom will act in lockstep with the other GCC states against Iranian influence. Iran's new-found regional sway has often been interpreted as the product of a deliberate Iranian policy of renewed regional subversion, rather than the shrewd exploitation of opportunities.[16] Actually, considering the longstanding structural tensions between Saudi Arabia and Iran, it is not that far-fetched to adopt this line of argument. Not only does each possess aspirations for Islamic leadership and different visions of regional order, buttressed by disparate political ideologies; they also differ within OPEC on output levels and the optimum price for crude.[17]

Accordingly, after April 2003 and the ensuing balance-of-power shifts in the region, the kingdom has shown a new kind of assertiveness, acting more directly and sometimes even proactively in regional affairs. In contrast to this limited regional role, which consisted of pulling strings

in the shadows, the moment had arrived for a more determined and open attitude. The burst of activism clearly started after the House of Saud's perception of rapidly evolving regional dangers: the outcome of the summer 2006 Israeli-Arab war in Lebanon; the armed confrontation between the Palestinian Hamas and Fatah factions in the Gaza Strip; and the civil war in Iraq with its Sunni-Shiite and al-Qaeda dimensions. In all three events, the "Iran factor" came to light, and this is what Riyadh is deeply worried about. On all these issues, Saudi Arabia is now taking a bold position, while at the same time seeking a kind of modus vivendi with Iran.

Until late 2006, the Saudis seemed paralyzed.[18] Cognizant of Iranian ambitions and wanting to keep open the channels of communication, it did not want to antagonize the United States too much. The Saudi leadership also seemed to have learned its lesson from its support of the Islamists who fought in Afghanistan in the early 1980s and now realized the risks involved in sponsoring militants (the "blowback" phenomenon). There is certainly not much official encouragement in Saudi Arabia for countrymen to go fight Shia in Iraq, though many Saudis are probably doing so. Nobody knows the numbers.[19] The kingdom's primary concern is preventing a spillover of the conflict in Iraq.[20] Only after the release of the Iraq Study Group's recommendations (December 2006), when the contours became clear of a possible U.S. withdrawal that could leave an Iran-friendly regime in place, did the Saudis start showing more interest in Iraqi politics. Undoubtedly, Riyadh dislikes the government of Nouri al-Maliki, which it sees as a client of Tehran. For quite some time, it sent confusing signals, such as King Abdullah's unexpected denunciation before the Arab League (March 2007) of the U.S. occupation as "illegitimate."

Obviously, Saudi-Iranian relations will be affected by the future trajectory of the Iraqi state. In a worst-case scenario, after a substantive U.S. withdrawal, the polity may fracture, provoking Saudi intervention because the kingdom is considered the "natural defender" of Iraq's apparently beleaguered Sunni population. Iran, in its turn, through the Revolutionary Guard Corps-Qods Force, will pull out all the stops and massively intervene. It should again be noted, however, that neither Saudi Arabia nor Iran has an interest in chaos and the fragmentation of Iraq into mini-states. Though the situation on the ground is still fragile, recent developments indicate that Iraq may have seen the worst and is stabilizing. A stable Iraq dominated by a Shia-led government might lead to some sort of condominium between the two states. "In this trajectory, Riyadh would offer tacit, if grudging, recognition of the Iraqi regime, accept a degree of Iranian influence, and continue to quietly expand its soft-power via the media, charitable organizations, tribal patronage and other means."[21] It would not be the first time that the Al Saud have tried to appease or achieve a consensus with regional competitors.[22]

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There is another development that goes against the assumed Saudi-led bifurcation ("Iran versus the rest," or "the rest versus Iran") in the Gulf region. As developments in the GCC have shown, member governments have not only shown a determination to maintain control over their own trade, defense and monetary policies; there are also significant differences in the GGC states' policies towards Iran. Apart from the positions of Kuwait and Bahrain (though for different reasons) vis-à-vis Iran, which are close to Riyadh's position, the other GCC states — Oman, Qatar and the United Arab Emirates — have taken a much more independent stand. Qatar and Oman, in particular, have exploited Saudi-Iranian competition to carve out a sovereign niche in Gulf affairs, Qatar sometimes following a seemingly paradoxical policy.[23] The UAE's attitude towards both Iran and Saudi Arabia is more nuanced and complicated than is commonly assumed. A major explanation for this is the often overlooked differences in priorities and outlooks of the member emirates, with Dubai being the most Iran-friendly. Generally speaking, the smaller Gulf states are worried about Riyadh's new activism and even fear what one UAE official termed the "hegemonic overreaction" of Saudi Arabia, "in which Riyadh would exploit the threat from Tehran to win Washington's recognition of Saudi pre-eminence in the Sunni Arab world."[24] Most important, the net result of all this is a tempering of Saudi-Iranian rivalries.

Finally, let's turn to the possible consequences of a U.S.-Iranian détente for U.S.-Saudi relations. Conventional wisdom would predict a deterioration of relations between Washington and Riyadh, but a closer look might lead to a different perspective. For a while after 9/11 and during the later Bush years, it seemed that U.S.-Saudi relations were no longer what they had been. Increasingly, Riyadh and Washington followed different policies in dealing with major problems in the region. King Abdullah sought to avoid confrontation with Iran, to bring Syria back into the Arab fold, and to promote reconciliation between Fatah and Hamas. The United States, on the other hand, did its best to isolate Iran and Syria and to build coalitions against them, while punishing Hamas with sanctions and isolating Gaza.[25]

In recent years, U.S.-Saudi relations have assumed a more "normal" character, though a touch of "specialness" remains. After the changing of the guard in Washington (and the new administration's reaching out to Tehran), some differences have been ironed out and Riyadh's relationship with Washington remains strong. This also means that the kingdom remains dependent on the United States to serve as the ultimate guarantor of its security. When it comes to Iran, some Saudi officials at least have repeatedly stressed that they do not want a confrontation. It sometimes looks as if the Saudi elite is divided on this and that some Saudi decision makers have contradictory desires. They want the United States to do something to stop the Iranian nuclear program, but they also want to avoid a direct U.S. (or Israeli) military assault, because the kingdom would pay a price for that.

It is not only in the Arab-Israeli realm that Washington can profit from Riyadh's standing as one of the Arab world's main protagonists. In the fight against terrorism, the support of the Saudis looks indispensable. Saudi leaders and official religious figures have launched multifaceted public outreach and detainee rehabilitation campaigns that seek to portray al-Qaeda supporters as "misguided" followers

of a "deviant ideology."[26] According to some sources, Saudi Arabia is one of the few countries where the struggle against extremism has yielded real success. The Counseling Program, an important element of domestic counterterrorism strategy, is said to have a 90 percent success rate (90 percent of the prisoners who had been through the program recanted their deviant beliefs).[27] Though these figures are most probably inflated, it is a fact that an al-Qaeda-inspired terrorist campaign inside the kingdom appears to be ebbing as security improvements and anti-terrorism campaigns are implemented. Washington cannot but be pleased with that result.

THE ARAB-ISRAELI ARENA

Compared to the more-engagement-than-confrontation approach that the Saudis are undertaking in the Gulf region, their relationships in the Levant are more confrontational. This has mainly to do with Iran's more assertive, if not belligerent, attitude in the Arab-Israeli realm, which has provoked a more concerted rollback response from Saudi Arabia. First, we will examine how deep Saudi-Iranian contentions run in this subregion of the Middle East. Second, taking this as a backdrop and keeping in mind a possible détente between Iran and the United States, we will look again into present and future U.S.-Saudi relations.

Regarding Saudi-Iranian competition for the support of the "Arab street," it is an understatement to say that the symbolic stakes of the conflict in Palestine and the political struggles in Lebanon are high. When it comes to Saudi Arabia, the Arab-Israeli conflict has always been used as a domestic legitimating device and, more important in the context of this contribution, as a weapon to discredit political rivals in the region. The June 1967 war and the ensuing occupation of Jerusalem put the kingdom at the forefront of the anti-Israeli coalition. Throughout the years, Riyadh has managed to keep up an image of defending the rights of the Palestinians, but the picture has drastically changed since the 2006 Israel-Hezbollah war in Lebanon and Israel's incursion into Gaza in December 2008. By upstaging the Saudis through its support for Hezbollah and Hamas, Tehran has been able to challenge the legitimacy of the Al Saud before regional and domestic audiences.

During the early part of the 34-day Lebanese-Israeli war, Riyadh harshly criticized Hezbollah for its "irresponsible adventurism," thereby laying the blame for the bloody events that followed not on Israel but on Hezbollah. As Korany and Fattah aptly recall, "The clear and swift words of condemnation made many observers think that Saudi Arabia, like Egypt and Jordan, had decided to side with the U.S.-Israeli plan to eliminate the sources of threat and instability in the region."[28] Saudi Arabia has tried to counter the rise of Hezbollah with increased support for the country's Salafi factions. According to some sources, this support for Sunni forces in Lebanon has even involved different kinds of clandestine operations, like funding sectarian political movements and paramilitary groups (not only in Lebanon but also in Iraq, Iran and the Palestinian territories), something that met with the obvious approval of the Bush government.[29]

On the other hand, due to Hezbollah's rise as a "model of resistance," the Saudi leaders are indeed under pressure from public opinion, both inside the country and in the region. Halfway through the war, they started adjusting to a groundswell of support by Arab public opinion for what was increasingly seen as Hezbollah's

heroism in the face of an unjust Israeli onslaught.[30] This pushed them to attempt to reassert their role as leaders of the Arab and wider Muslim worlds, and it is in this new framework that they sometimes dared to talk tough against Washington. By distancing himself from the United States, King Abdullah tried to regain credibility in the vital fight against Tehran for Arab hearts and minds.[31] At the same time, Saudi Arabia also played a major role in easing tensions between the Hezbollah-led opposition, on the one hand, and the Siniora government and the Saad Hariri camp, on the other. Without a doubt, Iranian cooperation was crucial here, and visits and exchanges of letters between Saudi and Iranian dignitaries have contributed to calming sectarian and political tensions in Lebanon. This leads to the conclusion that despite the fact that Lebanon had been a site of competition between Saudi Arabia and Iran, it has also been a site of collaboration when their interests converged.

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More than Lebanon, it is the Israeli-Palestinian issue that has acquired unusual ideological salience for Saudi-Iranian relations. Since the invasion of Iraq, and in particular during Ahmadinejad's presidency, the Islamic Republic has pursued an explicitly nonsectarian public diplomacy toward Arab audiences. As an astute observer noted: "At the heart of Iran's foreign policy there are two key issues: the Palestinian cause and confronting Washington's hegemonic schemes in the region. There is nothing particularly Shia about the two issues. Indeed, both have been presented as causes for the majority of Sunni Arabs. *In this sense, Iran's foreign policy is Sunni*."[32] Much to Riyadh's annoyance, and that of Cairo and Amman for that matter, Tehran had been able to get closer to Hamas, both politically and financially. In reaction, Saudi Arabia has been raising its profile on the Israeli-Palestinian issue. It provided the strategic motivation behind the Saudi-brokered "Mecca agreement" between Hamas and Fatah in February 2007 (when the Saudis also called for the end of the U.S. and European boycott of the Palestinian Authority). A unity government was hammered out, and almost a year of increasingly bitter internecine fighting was brought to a halt. The Saudis were trying to bring Hamas back into the fold, thereby "clipping the wings" of the Iranians, as one observer put it.[33]

In March 2007, the heads of states of most of the Arab League countries met in Riyadh and confirmed their support for King Abdullah's peace proposal. This was, however, a short-lived success of Riyadh's multilateral Arab approach; the December 2008 Israeli incursion into Gaza once more led to a split in the Arab ranks. Saudi-Egyptian coordination on Gaza led to concerted opposition of Qatar and Syria, which attacked Cairo for not opening the Rafah border crossing. Early in 2009, it even led to opposition by these countries to the revival of King Abdullah's peace initiative. As a result, it was not too difficult for Iran to hold the stage by lambasting Arab regimes

for their inaction and paralysis, while at the same time drawing the world's attention to its own humanitarian contributions to Gaza.

Against this backdrop, let's shift the focus to U.S.-Saudi relations. Many Saudi policy makers and citizens alike are deeply troubled by the fact that their country and Israel are objectively in the "same camp," both having always been privileged allies of the United States. Often this has led to a split in U.S. policy formulation. Since the 1940s, Saudi-U.S. relations have frequently been challenged by stark differences over the Israeli-Palestinian question. Although the kingdom has generally supported U.S. policy by endorsing Israeli-Palestinian peace agreements since the early 1990s, the second Palestinian Intifada and the ensuing collapse of the peace process ushered in a period of renewed tension between Saudi Arabia and Israel. The Israeli incursion into Gaza further worsened relations, though this hardly improved Riyadh's image in the Arab world (as noted above).[34] It goes without saying that this deterioration was not welcomed by Washington.

Enter Obama. Though the new U.S. administration kept silent during Israel's siege on Gaza, in recent months there has been more tough talk toward the Israelis, which obviously is praised in Riyadh. This might give Saudi Arabia an opportunity to reassert its role as an important regional player — "moderate" as it has been labeled both in the region and in Washington — to help solve the vexed Israeli-Palestinian question. In this context, the relevance of King Abdullah's peace initiative can hardly be overstated. After its launch in March 2002 by then Crown Prince Abdullah, continuing violence and subsequent political developments precluded further consideration of the proposal for several years. As mentioned above, as recently as March 2007, the Arab League reconfirmed its support for the Abdullah plan. The war in Gaza pushed it to the background, but certain terms in Obama's recent Cairo speech sounded quite similar to the original Saudi proposal. Time will tell whether the United States has enough stamina to confront its Israeli ally with this "American-Saudi" peace initiative, but it is clear that the Saudis are being seen as a key player by Washington.

BUSINESS AND PEACE

In much the same way as sectarianism shapes relationships but does not define them, so does the political economy of the Gulf. History shows that the borders of the acceptable are largely defined by the politics surrounding them. Though Saudi Arabia and Iran had very similar, and thus competing, industrial plans in the 1970s, politics dictated a peaceful competition. Similarly, it wasn't until the mid-1990s that mutual economic interests between the two could be recognized and further enhanced in the light of cautious détente.[35] Today, it is clear that the volatile political playing field and the mistrust between Riyadh and Tehran leave little room for considerations other than the grand political ones. However, a serious improvement of U.S.-Iranian relations would quite logically also redefine the regional economic realm.

But first, let us state the obvious: any rapprochement between Tehran and Washington would not alter the fact that Saudi Arabia sits on top of a quarter of the world's proven oil reserves.[36] It also would not annul the many strategic, long-term and multi-million/billion-dollar contracts between Saudi and American firms over a wide range of sectors.

In the short term, the United States has no viable alternative to Saudi oil imports, especially as long as Iraq remains volatile.

But even were this situation to improve, growing global demand for oil and still-growing U.S. imports, despite recent rhetoric in Washington, all underline the continued importance of Saudi Arabia in the global energy market. What is more, the United States has for decades also used oil as leverage in global politics. Many consecutive U.S. administrations have acknowledged the need to "control" Persian Gulf oil as a means to limit the autonomy of potential rivals such as China. Finally, through its oil wealth and subsequent industrial development, Saudi Arabia (and the same applies to the smaller Gulf monarchies) has become both a market for Western goods and an investment opportunity.[37] More recently, the U.S. financial crisis has highlighted the importance of Saudi wealth. Prince al-Waleed reportedly injected huge sums into Citigroup last November,[38] and the United States has a firm interest in the Saudis maintaining their American reserves. According to Jean-Francois Seznec,

> "[t]here's an important financial issue of interest to the Obama administration. I think the U.S. will ask the Saudis to maintain their $500 billion in reserves, in Treasury bills, and not switch them to other currencies or reinvest them in Saudi Arabia. We're pretty desperate in funding our various activities — saving the banks, and what not in this country. So the Saudi reserves are of great importance to the U.S. right now."[39]

There is a second implication of this oil wealth: U.S. (and European) firms have many interests in Saudi Arabia, both as a market for Western goods and as an industrial provider. The latter mainly, but certainly not solely, manifests itself in oil-derived sectors such as fertilizers and petrochemicals.[40] While during the Pahlavi era, both Iran and Saudi Arabia had quite similar industrial development plans, it has, for understandable reasons, been the Arab side of the Gulf that has succeeded in developing cutting-edge industries — now even capable of moving in a counter-intuitive direction, into the West — and in signing strategic deals with the European and American pioneers in these sectors to further enhance their technological basis.

Between 2004 and 2006, Saudi inward Foreign Direct Investments (FDI) as a percentage of gross fixed capital rose from 4.5 percent to 32.1 percent (for comparison, in Iran, it rose from 0.7 to 1.9 percent; the average in the developing world in 2006 was 13.8 percent).[41] These inward FDI create an interdependent relationship; the interests of, among many others, Chevron Phillips, Dow and ExxonMobil are clearly important to the United States, and the interest of such companies in Saudi Arabia currently surpasses the traditional "access to feedstock."[42]

Looking at Saudi-Iranian relations from the same economic perspective,[43] while Riyadh saw a true leap in inward FDI, Tehran is still in dire need of foreign capital. One could even say that Iran is "on the verge of bankruptcy."[44] While the obvious source of such capital after a détente would be the West, it is important to consider Arab sources of foreign investment for Iran. Indeed, almost a third of Arab (and especially Gulf Arab) foreign investment in recent years have been intra-Arab and FDI has been at the core of regional economic integration since 2000. It has accelerated much more rapidly than trade and is cross-cutting subregions in a way that commerce has never managed.[45]

As we have established elsewhere, however, there are two important limitations that hinder the Iranian inclusion into

this equation. On the one hand, economic mismanagement in Iran is an obstacle to foreign, including Arab, investment that cannot be overstated. But probably equally important is the current global political atmosphere. Under these circumstances, small economic gestures such as trade agreements or border regulations are not unthinkable, but large-scale, long-term cooperation in strategic industries clearly is. However, given the starting point of our argument, the latter is about to drastically change, and this will probably also affect the first, at least in the mid- to long-term.

Another important argument in this regard is Iranian natural gas. The Saudi Arabian petrochemical industry has an ever-increasing need for natural gas, and Iran holds the second largest reserves in the world. Whether this is a basis for the future courting of Iran by Riyadh, however, is a source of disagreement. Much of this depends on the confidence one has in Saudi gas exploration, especially in the Rub al-Khali (the Empty Quarter), and the country's ability to keep up with its petrochemical demands. Iran, on the other hand, holds some 15.5 percent of the world's proven reserves. The downside is that its production rate is particularly low — 3.7 percent of total world production at the end of 2006. Saudi Arabia, which has only 3.0 percent of proven reserves, produced 2.6 percent. Iran even had trouble meeting domestic needs in the winter of 2007-08. However, ambitious plans exist to upgrade production more than threefold, from 130 bcm in 2007 to 475 bcm in 2020, leaving room for exports. Some estimates of possible production are even higher, up to 600 bcm/per year.

It must be noted, though, that such increases require structural industrial changes and the right foreign and domestic investment atmosphere.[46] Under these circumstances, and given a politically more suitable environment (peace is good for business), a quid pro quo is not unthinkable: Saudi investments in return for natural-gas supplies. This, in turn, would entail an economic interdependence in which "business is good for peace" as well.

In economic terms, one more issue needs our attention. What is the impact on the above of the current global financial downturn? It is obvious that in our globalized economic world, no one will be unaffected. There are, however, differences in impact. For both Saudi Arabia and Iran, the global pricing of oil is important. While prices have dropped dramatically since their peak in July 2008, they have steadily increased again to the roughly $70 per-barrel level of mid-June. This is a more than reasonable level for Riyadh, while Iran needs higher crude prices to maintain a positive balance.[47] We will not try to predict the future of the price of oil but another sharp decline is not very likely[48] and would hit Iran first.

From the point of view of the at least stable and likely upward movement of crude prices, there is hardly any need to seriously question the December 2008 Jadwa economic forecasts,[49] which predicted a slowdown of growth, rather than a contraction for the Saudi economy. Also, bear in mind the roughly $40 oil price at that time. What is more, the projections for 2010 are again rather positive, especially compared to the outlook for Western industrial economy, even though the Saudi stock market lost 60 percent of its value and combined GCC assets in sovereign wealth funds diminished by an estimated $600 billion in just a few months time.[50] Moreover, the impact on smaller Gulf monarchies is more

severe at the moment, given their larger dependence on banking, real estate and tourism. Hence, it can be said with some certainty (if such applies in economics) that many of the above-mentioned possibilities for bilateral quid pro quos will remain intact.

CONCLUSION

As noted above, the regional triangle has extremely limited meaning in current times. What then is the best schematic representation of the current complex state of play in Gulf affairs? Fürtig suggests an "artificial triangle" of Iran, the United States and the Kingdom of Saudi Arabia. Though a U.S. presence in the Gulf is not new, it is more direct now (in Iraq) and allows for the two-against-one notion to be upheld as well (Iranian containment). In fact, he adds, given the strong dependence of the Arab Gulf countries on the United States, it could also be referred to as bipolar.[51] In any case, it is important to emphasize the artificiality of the triangle: although the United States has for decades played a role in the regional order, it has never been an integral part of it, nor does it wish to be. A withdrawal from Iraq, leaving the *when* aside, will inherently alter this temporary balance.

Fürtig then suggests the following: what should be upheld is the Gulf triangle. However, what should be abandoned is the equally persistent two-against-one notion. Given the overlap in Saudi Arabia and Iran's interests in Iraq, and given the tentative cracks in U.S.-Iranian animosity, a balanced and more harmonious triangle is envisioned.[52] In this sense, Saudi Arabia can be an important interlocutor to establish this balance, and both Saudi Arabia and Iran should then be encouraged to pursue this multilateral security system. Thus, should something of this sort be the vision in Washington, the Desert Kingdom is essential, as is Iran.[53]

Besides this Gulf security system, we have demonstrated the importance of the kingdom in other fields as well, ranging from its oil wealth and evolving economic interdependence to its role in the Arab-Israeli conflict and in the war on terror. Riyadh would remain important when tensions ease between Tehran and Washington, even though it might not remain the *single* most important U.S. pillar in the Gulf.

Though it is not a surprise that some would label this a loss for the kingdom, there are also gains that must be balanced against it. A stable order with a stable Iraq is in the kingdom's best interest. An easing of tensions could help improve Saudi relations with Qatar and Oman, in particular, and might even further GCC cooperation. An American-Iranian detente could severely limit the current Saudi-Iranian competition for the "Arab hearts and minds" (and thus the need to walk a tightrope; this has at times harmed Saudi credibility both within the country and abroad). Finally, peace is good for business, and we have demonstrated that there are important possibilities of economic cooperation between Riyadh and Tehran. Currently, politics hinders these economic imperatives, but, should the political environment alter significantly, the barriers could fall.

Saudi interests would best be served if those involved took all these considerations into account, both the positive and the negative. While it is easy to fear Iranian or even "Shia dominance," it is more fruitful to imagine what a less isolated Iran would look like and what the potential benefits of normalizing relations might be.

[1] Mishari al-Zaydi, "Uhadhir an taqdhi alihi al-amaim" [Warning Against the Religious Establishment], *Asharq al-Awsat*, July 19, 2007. Al-Zaydi is a prominent Saudi columnist.
[2] Events in recent years have shown that U.S.-Saudi relations tend to assume a more "normal" character, though a touch of "specialty" remains. Overall, the bilateral relationship between Riyadh and Washington remains strong, with Saudi and American officials consulting regularly on regional issues. Though greater Saudi independence in its foreign policy is possible, and tensions do occur, it looks like Saudi Arabia will stay dependent on the United States to serve as the ultimate guarantor of its security. See Paul Aarts, "Events versus Trends: The Role of Energy and Security in Sustaining the U.S.-Saudi Relationship," in Paul Aarts & Gerd Nonneman, eds., *Saudi Arabia in the Balance; Political Economy, Society, Foreign Affairs* (New York University Press, 2005/2006), pp. 399-429.
[3] At the time of writing (mid-July 2009), in the aftermath of the fraudulent presidential elections, an American-Iranian détente might seem less likely. Not only due to its repressive policies at home, but also taking into account Hezbollah's defeat during the recent Lebanese elections and Syria's warming up to the United States, one might conclude that Iran's overall position is less comfortable than before. This might be true. However, we do think that engagement remains the only path forward for Washington, even if Iran regains its strong position. "The show must go on," as Suzanne Maloney aptly remarked (*Foreign Policy*, June 24, 2009, accessed online at http://experts.foreignpolicy.com/blog/8428). Most probably, President Obama will take refuge in the famous quotation of John F. Kennedy that "We should never negotiate out of fear, but we should never fear to negotiate."
[4] Henner Fürtig, *Iran's Rivalry with Saudi Arabia between the Gulf Wars* (Reading, Ithaca Press, 2002).
[5] We will not go into detail here. See, for instance, B.A. Roberson, "The Impact of the International System on the Middle East," in Raymond Hinnebusch and Anoushiravan Ehteshami, eds., *The Foreign Policies of Middle East States* (London/Boulder, Lynne Rienner, 2002), pp. 55-70; Raymond Hinnebusch, *The International Politics of the Middle East* (Manchester/New York, Manchester University Press, 2003); Louise Fawcett, ed., *International Relations of the Middle East* (Oxford, Oxford University Press, 2005); Fred Halliday, *The Middle East in International Relations. Power, Politics and Ideology* (Cambridge, Cambridge University Press, 2005).
[6] For instance F. Gregory Gause III, "The Foreign Policy of Saudi Arabia," in Hinnebusch and Ehteshami, *The Foreign Policies of Middle East States,* p. 197.
[7] Cited in Fürtig, *Iran's Rivalry*, p. 4. Also see Anwar Gargash, "Iran, the GCC States and the UAE: Prospects and Challenges in the Coming Decade," in Jamal S. al-Suwaidi, ed., *Iran and the Gulf: A Search for Stability* (Abu Dhabi, The Emirates Center for Strategic Studies and Research, 1996), p. 139.
[8] Henner Fürtig, "Conflict and Cooperation in the Persian Gulf: The Interregional Order and U.S. Policy," *The Middle East Journal*, Vol. 61, No. 4, Fall 2007, p. 629.
[9] Joris van Duijne and Paul Aarts, *Saudi-Iranian Ties: Stocktaking and Look into the Future* (Durham, UK: SGIARWP08-4, August 2008), p. 6; Fürtig, *Iran's Rivalry,* pp. 237-238; Jamal S. al-Suwaidi, "The Gulf Security Dilemma: The Arab Gulf States, The United States and Iran," in al-Suwaidi, *Iran and the Gulf*, pp. 344-346; Gwenn Okruhlik, "Saudi Arabian-Iranian Relations: External Rapprochement and Internal Consolidation," *Middle East Policy,* Vol. 10, No. 2, Summer 2003, pp. 114-115.
[10] Fürtig, *Conflict and Cooperation in the Persian Gulf,* pp. 634-639. For details on the Saudi domestic repercussions, see, among others, Thomas Heghammer, "Terrorist Recruitment and Radicalisation in Saudi Arabia," *Middle East Policy*, Vol. 13, No. 4, Winter 2006, and Paul Aarts and Joris van Duijne, "The Saudi Security Environment, Plus Ça Change," in Laura Guazonne and Daniella Pioppi, eds., *The Arab State and Neo-Liberal Globalization, The Restructuring of State Power in the Middle East* (Reading, Ithaca Press, 2009), pp. 280-282.
[11] For an elaborate explanation of this latter point, see RAND, *Saudi-Iranian Relations since the Fall of Saddam: Rivalry, Cooperation, and Implications for U.S. Policy* (Santa Monica, CA, 2009), pp. 36-43.
[12] Ibid., p. 43.
[13] RAND, *Dangerous But Not Omnipotent. Exploring the Reach and Limitations of Iranian Power in the Middle East* (Santa Monica, CA, 2009), p. 165.
[14] Trita Parsi, *Treacherous Alliance. The Secret Dealings of Israel, Iran and the U.S.* (New Haven/London, Yale University Press, 2007).
[15] Anoushiravan Ehteshami, *Competing Powerbrokers of the Middle East: Iran and Saudi Arabia* (Abu

Dhabi, The Emirates Center for Strategic Studies and Research, 2008), p. 16.
[16] Suzanne Maloney, *Iran's Long Reach. Iran as a Pivotal State* (Washington, DC, United States Institute of Peace Press, 2008) p. 47.
[17] For a comprehensive survey on "fault lines of geopolitical" and "geocultural and ideological competition," see Ehteshami, *Competing Powerbrokers in the Middle East*, pp. 25-40.
[18] Interview with F. Gregory Gause III, "U.S. Trying to Soften Saudi Hard Line toward Maliki Government," Council on Foreign Relations, August 6, 2007, accessed online at http://www.cfr.org/publication/13988/gause.html?breadcrumb=%2Fpublication%2Fby_type%2Finterview.
[19] RAND, *Saudi-Iranian Relations since the Fall of Saddam*, pp. 62-63.
[20] U.S. Institute of Peace and The Stimson Center, *Iraq, Its Neighbors, and the Obama Administration; Syrian and Saudi Perspectives* (Washington, DC, February 9, 2009), pp. 11-15.
[21] RAND, *Saudi-Iranian Relations since the Fall of Saddam*, p. 63.
[22] Gerd Nonneman, "Determinants and Patterns of Saudi Foreign Policy: 'Omnibalancing' and 'Relative Autonomy' in Multiple Environments," in Paul Aarts & Gerd Nonneman, eds., *Saudi Arabia in the Balance; Political Economy, Society, Foreign Affairs* (Hurst/New York University Press, 2005/2006), pp. 315-351.
[23] RAND, *Saudi-Iranian Relations since the Fall of Saddam*, pp. 48-53.
[24] As quoted in Dalia Dassa Kaye and Frederic M. Wehrey, "A Nuclear Iran: The Reactions of Neighbours," *Survival*, Vol. 49, No. 2, Summer 2007, p. 112.
[25] Marina Ottaway and Mohammed Herzallah, "The New Arab Diplomacy: Not with the U.S. and Not Against the U.S.," Carnegie Papers No. 94 (Carnegie Endowment for International Peace, July 2008), p. 9.
[26] CSR Report for Congress, "Saudi Arabia: Background and U.S. Relations" (May 22, 2008), pp. 25-26.
[27] Abdullah F. Ansary, "Combating Extremism: A Brief Overview of Saudi Arabia's Approach," *Middle East Policy*, Vol. XV, No. 2, Summer 2008, p. 121.
[28] Bahgat Korany and Moataz A. Fattah, "Irreconcilable Role-Partners? Saudi Foreign Policy between the Ulema and the U.S.," in Baghat Korany and Ali E. Hillal Dessouki, eds., *The Foreign Policies of Arab States; The Challenge of Globalization* (Cairo, American University in Cairo Press, 2009), p. 374.
[29] Seymour M. Hersch, "The Redirection: Is the Administration's New Policy Benefitting Our Enemies in the War on Terror?" *The New Yorker*, March 5, 2007, accessed online at www.newyorker.com/reporting/2007/03/05/07030fa_fact_hersh?; D. Samuels, "Grand Illusions," *The Atlantic Monthly,* June 2007, pp.46-76; RAND, *Saudi-Iranian Relations*, pp. 83-84.
[30] Ehteshami, *Competing Powerbrokers,* p. 29.
[31] Graham Fuller, "The Hizballah-Iran Connection: Model for Sunni Resistance?" *The Washington Quarterly*, Vol. 30, No. 1, Winter 2006-2007; Paul Aarts, "Saudi Arabia Walks the Tightrope," *The International Spectator*, Vol. 42, No. 4, December 2007, pp. 549-550; Korany and Fattah, "Irreconcilable Role-Partners?, pp. 373-377.
[32] As quoted in RAND, *Saudi-Iranian Relations*, p. 22 (italics added). The RAND authors rightly remark that Iran's hyperactivism on pan-Arab issues is not necessarily proof of its influence, but rather just the opposite — an effort to overcompensate for its fundamental isolation from the rest of the region. Despite its claim to universalism, it remains the "odd man out."
[33] Interview with F. Gregory Gause III, "Saudis Aim to Roll Back Iranian Influence," Council on Foreign Relations (March 16, 2007) accessed online at http://www.cfr.org/publication/12895/.
[34] In the intervening years, there was some kind of rapprochement, in particular when Saudi Arabia attended the U.S.-sponsored Annapolis meeting in November 2007.
[35] See Okruhlik, "Saudi Arabian-Iranian Relations...," pp. 116-119, for details of the economic dimension of this rapprochement. One should bear in mind, however, the competition in OPEC at that time.
[36] In addition, it has been a swing producer for decades. Though some have questioned its ability in this regard, more recently it has at least within OPEC been at the forefront of keeping prices stable. What is more, Riyadh is doing Washington a large favor by holding onto the dollar as the single currency for its oil exports. See the SUSRIS interview with Thomas Lippman at http://www.saudi-us-relations.org/articles/2007/interviews/070929-lippman-interview.html, published on September 29, 2007.
[37] Aarts, "Events versus Trends…," pp. 408-422.
[38] Accessed online on June 7, 2009, at http://www.guardian.co.uk/business/2008/nov/20/citigroup-bank-saudi-arabia.

[39] Interview by SUSRIS with Jean-François Seznec (June 3, 2009), accessed online at http://www.saudi-us-relations.org:80/articles/2009/interviews/090603-obama-visit.html.
[40] See, for instance, Giacomo Luciani, "The GCC Refining and Petrochemical Sectors," *Gulf Yearbook 2006–2007* (Dubai, Gulf Research Centre, 2007), p. 163.
[41] UNCTAD, FDI Country Fact Sheets, http://www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1.
[42] Patrick Rooney, "Factors That Influence the Petrochemical Industry in the Middle East," *Middle East Economic Survey*, Vol. 48, No. 23, June 2005. Also see Eckart Woertz, "A New Age of Petrodollar Recycling?", in Woertz, *Gulf Geo-Economics* (Dubai: Gulf Research Center, 2007), pp. 77-106; Giacomo Luciani, "The GCC Refining and Petrochemical Sectors," *Gulf Yearbook 2006–2007* (Dubai, Gulf Research Center, 2007), pp. 149-169; Luciani, "The GCC Refining and Petrochemical Sectors in Global Perspective," in Woertz, *Gulf Geo-Economics*, pp. 165-197; also see http://www.saudienergyforum.com/index.php?page=sponsor for additional information on key players and joint ventures.
[43] The following largely draws upon Van Duijne and Aarts, *Saudi-Iranian Ties.*
[44] Interview by SUSRIS with Jean-Francois Seznec, June 3, 2009.
[45] Steffen Hertog, "The GCC and Arab Economic Integration: A New Paradigm," *Middle East Policy*, Vol. 14, No. 1, Spring 2007, p. 59.
[46] HSBC Global Research, *Company Report: Saudi Basic Industries Co.*, (April 12, 2007), pp. 9-10; BP, *BP Statistical Review of World Energy 2007* (June 2007), pp. 22-24; Nasri Ghorban, "Iran's Future Gas Development and Exports in View of the January 2008 Gas Crisis," *Middle East Economic Survey,* Vol. 51, No. 8, February 23, 2008. This argument was further discussed at the symposium "Industrialization in the Gulf: A Socioeconomic Revolution," organized by the Center for Contemporary Arab Studies at Georgetown University, March 27-28, 2008. Most observers are pessimistic about the possibility of large quantities of natural gas in the Rub al-Khali. What is more, while it is sometimes argued that Saudi Arabia would prefer Qatari natural gas, it was argued that the possibilities in this regard are severely limited due to Qatar's LNG commitments and the often troubled bilateral relations between them.
[47] There are several reasons for this, including the higher production costs, limited refining capabilities in combination with larger domestic fuel demands and thus the need to import 40 percent of its gasoline (which is also subsidized) and, less directly oil-related, problems like inflation.
[48] Given the pricing of contracts, it is clear that energy traders see it rising still in the coming months and years. "The Outlook for the Oil Price: Burst and Boom," *The Economist*, May 21, 2009.
[49] Jadwa Investment (Brad Bourland), "Saudi Arabia and the Global Financial Crisis," *Jadwa Economy Monthly Bulletin* (December 2008). Accessed on July 7, 2009, online at http://www.jadwa.com/Research/store/Monthly%20Bulletin%20December%202008.pdf. Especially see the data on page 14.
[50] For details, see Atif Kubursi, "The Global Financial Crisis and the Arab Sovereign Wealth Funds: Implications and limitations," in Sven Behrendt and Bassma Kodmani, eds., *Managing Arab Sovereign Wealth in Turbulent Times — and Beyond*, Carnegie Papers, No. 16 (Carnegie Endowment for International Peace, April 2009), pp. 28-32.
[51] Fürtig, *Conflict and Cooperation in the Persian Gulf,* p. 640.
[52] Ibid.
[53] RAND, *Saudi-Iranian Relations...,* pp. 100-101 and 104-105.