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# Research Study

## *The Soviets in the Persian Gulf/Arabian Peninsula—Assets and Prospects*

**Secret**

PR 76 10077
December 1976



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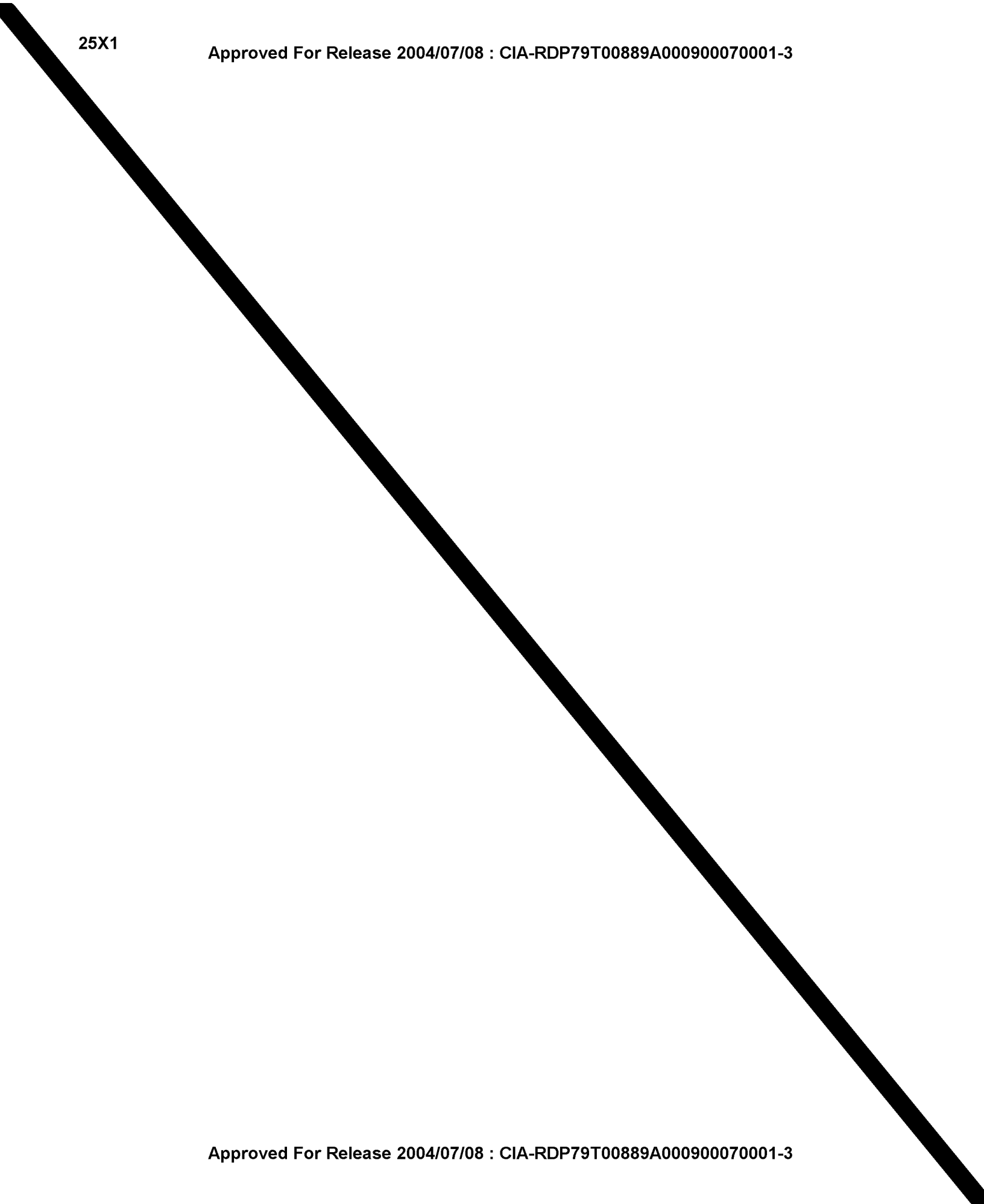

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CENTRAL INTELLIGENCE AGENCY

DIRECTORATE OF INTELLIGENCE

OFFICE OF POLITICAL RESEARCH

December 1976

# THE SOVIETS IN THE PERSIAN GULF/ARABIAN PENINSULA: ASSETS AND PROSPECTS

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In preparing this study, the Office of Political Research consulted with other offices of the Central Intelligence Agency. Their comments and suggestions were appreciated and used. The cutoff date on information contained in the paper is 15 December 1976. Comments would be welcomed by the author [redacted] 25X1

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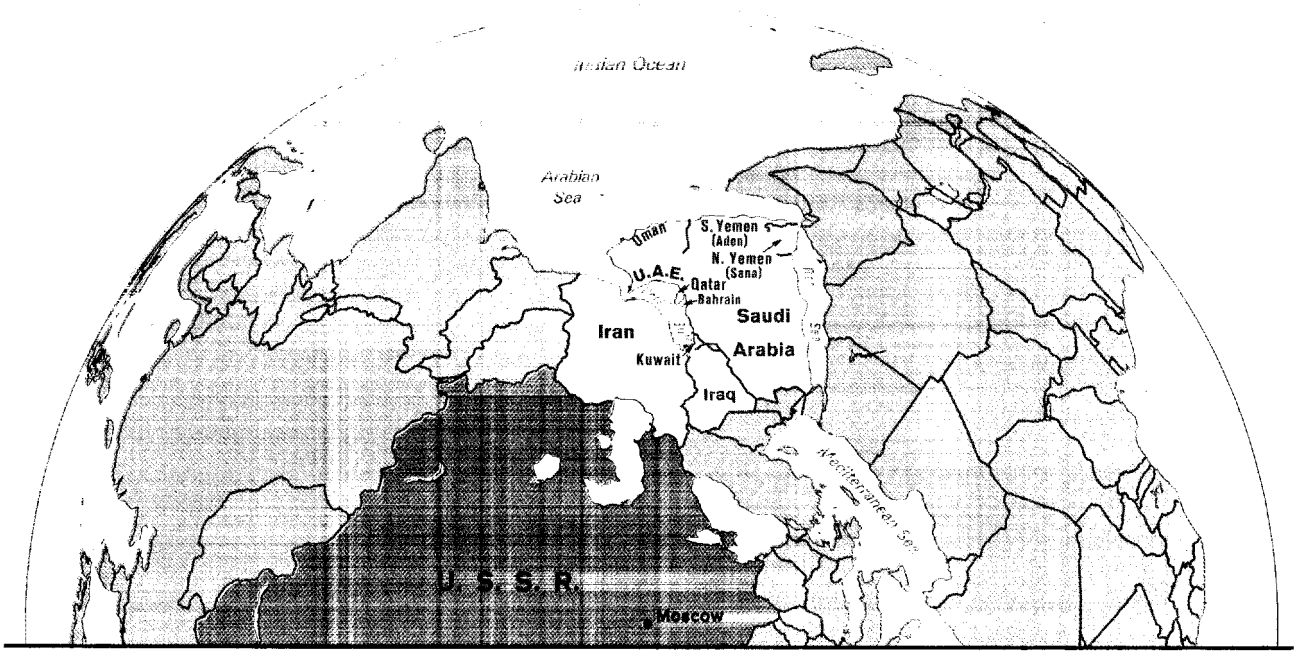


**Persian Gulf/Arabian Peninsula as Viewed from Moscow**

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Figure 1

## PREFATORY NOTE

As the British withdrew most of their remaining forces from the Persian Gulf/Arabian Peninsula region in the early 1970s, many Western observers felt that the Soviets would try to fill the vacuum thus created. Concern about possible Soviet inroads into the area was based both on the USSR's demonstrated desire to strengthen its position there and on the establishment of a Soviet presence in several of the Gulf/Peninsula nations. This paper deals with Soviet objectives, policies, achievements, and prospects in this important part of the world, aiming in the process to help define the appropriate scope of Western concern.

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## Relations of Gulf/Peninsula Countries with the USSR

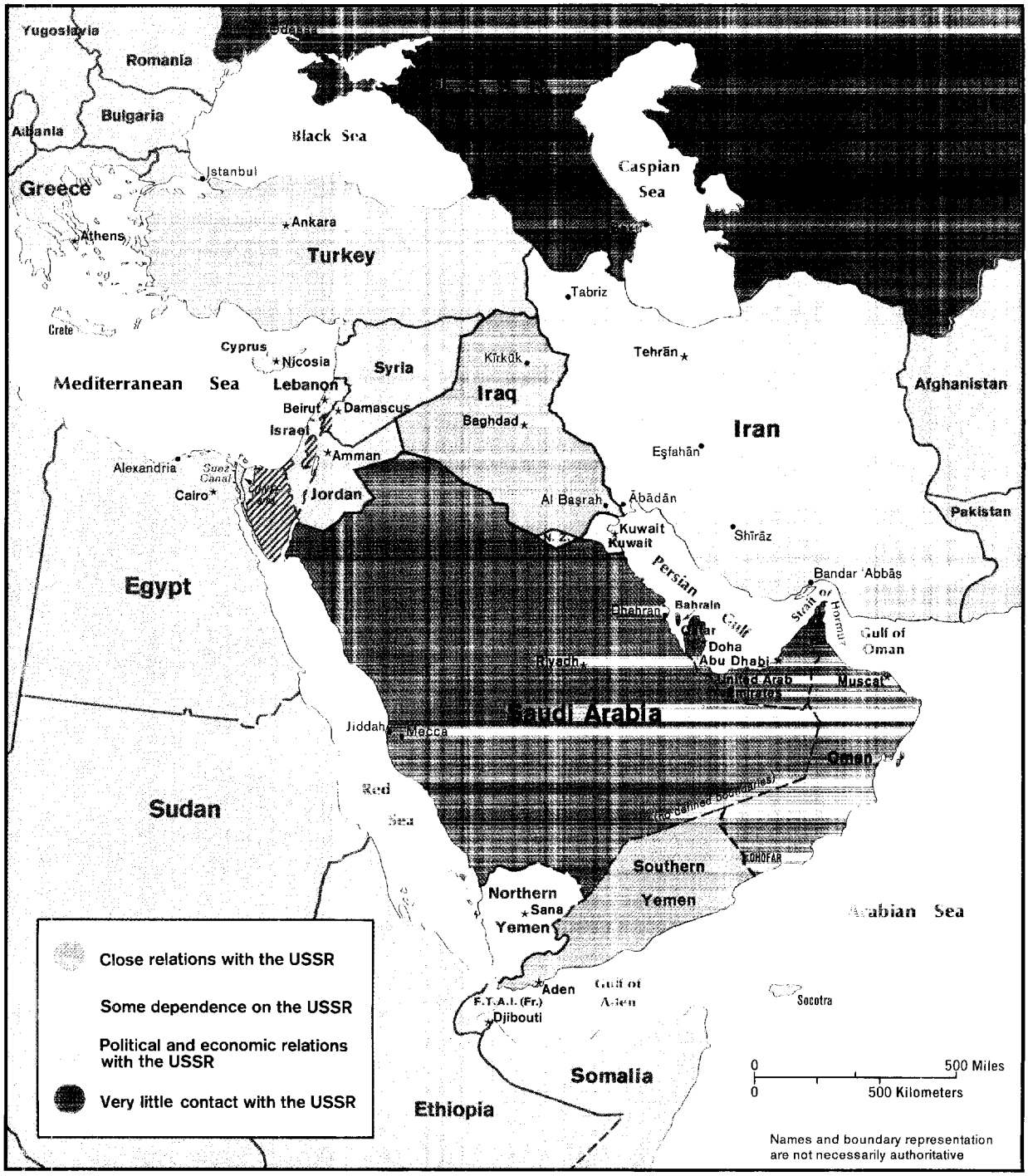


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Figure 2

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## PRÉCIS

The Gulf/Peninsula region is important to the USSR in the first place because it is important to the West, and the primary Soviet goal is a negative one—to deprive the West of influence there. This apart, the USSR's interest in the area is based on its geographic proximity, its strategic location between the Mediterranean Sea and the Indian Ocean, its status in the general Middle East context, and its economic significance based on vast oil deposits. While these elements translate into a broad desire on the part of the USSR to achieve the strongest possible position there, no vital Soviet interests are involved. This does not imply a lack of motivation to act. It does, however, suggest a lower level of intensity in the Soviet effort and less inclination to risk confrontation with the West than might be the case in an area of higher priority.

Before 1973, the Soviets had made good progress in developing their presence and influence in the area. Their 1972 Treaty of Friendship and Cooperation with Iraq is the most far-reaching security treaty which the Soviets have with any Third World country. The USSR gained access to the Iraqi ports of Basrah and Umm Qasr and fairly extensive use of the South Yemeni port of Aden. Soviet economic relations with Iran have developed significantly since the early 1960s, and the Soviets have many economic advisors in place in Iran as well as in Iraq and South Yemen.

The Soviets also have an impressive contingent of military personnel in Iraq and South Yemen. The Soviet role in providing economic assistance, military resupply, and spare parts has also helped give the USSR some leverage in its dealings with these two countries. Moreover, the Soviets have some compatibility of interest with these clients, which facilitates cooperative action. Both South Yemen and Iraq share the Soviet desire to radicalize the Gulf, and both provide assistance to the so-called "progressive forces" which the Soviets also back. While these states may be acting primarily on their own initiative and in their own behalf, they are also advancing Soviet interests in the Gulf, funneling Soviet arms and propaganda to subversive and revolutionary elements.

The Soviet position in the area has, however, deteriorated since the 1973 Middle East war, and the prospects of a resurgence are not

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impressive. This is due primarily to the growing wealth of the oil-producing Gulf states which has contributed to several trends inimical to Soviet interests. First, it has produced a new set of economic relationships between these states and the West based both on Western oil purchases and on the desire of the oil-rich nations to purchase products and technology from the advanced industrial states. The Soviets have been excluded from the resultant economic network.

Secondly, their increased wealth has permitted a new self-assertiveness on the part of the major local states, Saudi Arabia and Iran, which are determined to prevent Soviet encroachment. Iran, with some credibility based on its rapidly expanding military strength, has expressed a commitment to police the Gulf and exclude foreign intrusions. It demonstrated its willingness to act on this commitment by intervening in late 1973 to tip the balance for the Sultan in the struggle against Soviet-backed rebels in Oman's southern province of Dhofar.

Saudi actions, while less dramatic, may be producing even more profound long-term effects. The Saudi weapon is money, and the goal is to encourage moderation in the area. While Saudi policies are not often pressed forcefully, their net effect has increasingly been to constrain the expansion of Soviet influence in the area (and, as a consequence of the Saudi-Egyptian combination, in the Middle East in general).

Soviet bilateral relations with those Gulf/Peninsula nations with which they have had contacts have generally declined since late 1973. In the case of Iran, this has been due to the Shah's rapid arms buildup, aspiration to predominance in the Gulf, and intervention in the Oman struggle. North Yemen

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has been able to move away from the USSR. South Yemen has also sought money from the traditionalist oil states—a situation which may eventually have a moderating effect on its policies. And Soviet leverage over their major client in the area, Iraq, has declined as that nation has improved its economic position, patched up its relations with Iran, and turned to the West for technology and equipment.

At the same time, Soviet efforts to improve political and economic relations with the traditionalist Arab states of the Gulf have thus far proved unsuccessful, Kuwait being to some degree an exception. In spite of repeated Soviet initiatives, Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Qatar and Oman refuse to have any formal dealings with Communist countries.

The USSR's efforts to gain some leverage over the region's energy resources have, to date, also proved fruitless. It has established firm trade relations with Iran and Iraq, importing primarily gas and oil and exporting machinery and equipment. It does therefore have access to key energy markets. But the quantities involved are small, and both Iran and Iraq have proved tough in negotiating payment terms for their energy exports, preferring hard currency to barter arrangements and demanding market prices from the Soviets. The USSR has thus failed tc lay the groundwork for large-scale future purchases at concessionary rates.

In their effort to become the main patron of subversion and revolution in the Gulf area, the Soviets have registered only one gain in recent years: the fact that the Chinese have seen fit to abandon local competition with the Soviets. The USSR itself has accomplished little. The rebellion in Dhofar which the Soviets backed has failed abysmally, and subversive forces elsewhere in the Gulf have thus far made few gains. The main result of Soviet support of subversion has been to further alarm the traditionalist states which have been the objects of these efforts.

And finally, while some advantages have accrued to the USSR from its efforts to cultivate clients, the clients themselves have been frustratingly independent. In addition to North Yemen's movement away from the USSR in recent years, the Iraqi Baathists continue to pursue a number of policies which are objectionable to the Soviets. They oppose such Soviet Middle East policies as support for a Geneva conference, they repress the Iraqi Communist Party, and they are continually at odds with the USSR's other major Middle East client, Syria. In short, the extent of the influence which the USSR seems able to gain in these countries is limited. When there is a coincidence of interests, Soviet backing may enable the client state to pursue mutual goals for mutual benefit. When these interests conflict, the Soviets may try to force their will by threatening to slow down arms shipments or cut financial assistance. Such strong-arm tactics have brought immediate results on occasion, but at the cost of antagonizing the client.

In spite of the current adverse trend in the region, Soviet policy-makers do not appear to be shifting their tactics. They continue to pursue a two-track policy in the area. On the one hand, they seek improved relations with the conservative oil-rich states in the hope that

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they might neutralize and reverse the negative influence being exerted by Iran and Saudi Arabia, prevent Western domination of the oil resources of the region, insure their own potential access to the oil, and tap the hard-currency holdings of the wealthy Gulf states.

On the other hand, the Soviets try to foster the accession to power of sympathetic radically-minded regimes which will be responsive to Soviet policy interests, permit Soviet access to port facilities, welcome a Soviet physical presence, and deny the same to the West. To this end, the USSR supports subversive and revolutionary forces whose stated goal is the overthrow of the traditionalist governments of the area.

While these clearly contradictory approaches must complicate Soviet efforts in the region, the Soviets actually have little to lose by supporting subversion and revolution—their relations with the traditionalist states could hardly be worse. They probably reason, moreover, that the situation in the region is fluid and that they can well afford to wait for favorable opportunities to develop.

Such opportunities might include another Middle East war accompanied by an oil embargo which would again undermine Gulf-state relations with the West, or a deterioration in US relations with these states due to disagreements over the Arab trade boycott or US weapons sales. Either of these developments could lead to an improved Soviet political position in the region based largely on the desire of the Gulf states to put pressure on the US. However, the Soviets would still be unable to absorb or pay for the oil in which the Gulf states would be drowning and would still not have the technology and expertise which these states want to purchase. This, combined with the continuing regional antagonism towards the USSR, would act as a limiting factor on the extent of any rapprochement.

The Soviets will, in all likelihood, increase their oil imports in coming years, and, should their need to import coincide with either an oil embargo or substantially increased production in the Gulf states, it is likely that some barter arrangements could be made between the USSR and these states. This eventuality is unlikely to affect the long-term economic situation, however. Soviet imports will rise gradually, and the oil states, if they choose to do so, will probably have the capacity to meet both Soviet and Western oil requirements. In addition, the Western market will continue to be preferred, as the oil states will still want hard-currency payments rather than barter arrangements.

In the event one or more of the conservative governments of the region were overthrown and a radical government established, the

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Soviets would be the obvious beneficiaries. As Iran and Saudi Arabia would probably not tolerate such an occurrence in one of the smaller states of the region, with the possible exception of Kuwait, where their intervention might draw a countering Iraqi reaction, the main question becomes what effect such a change might have in one of these larger countries.

Should reformist elements prepared to deal with the USSR come to power in Saudi Arabia, doors now shut would open to the Soviets elsewhere in the Gulf, and they would quickly enlarge their presence. Saudi efforts to check Soviet influence throughout the Gulf might cease and Soviet-backed radical groups in the smaller Gulf states, particularly Kuwait and Bahrain, might be tolerated. This would certainly be even more the case if radicals were to come to power in Saudi Arabia. However, economic reality would presumably continue to limit the extent of Soviet-Saudi cooperation.

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Iran may be more vulnerable to a radical takeover. And the potential benefit to the USSR would be more obvious. A complex economic relationship already exists between the two and geographic proximity makes further cooperation feasible and desirable from the Soviet point of view. Iran has overwhelming local military superiority and the capacity to control passage through the Straits of Hormuz. This has strategic implications for the West as well as for Iran's Gulf neighbors. For these reasons, the Soviets would be strongly motivated to provide clandestine assistance to radical forces in the event of insurgency in Iran.

While the above contingencies or other, as yet unforeseen, developments could disrupt the pattern and alter prevailing tendencies, the current combination of factors is clearly detrimental to Soviet interests in the Gulf/Peninsula region. Continued antagonism toward and suspicion of the Soviets by the major Gulf states, contradictory Soviet policy approaches, the growing wealth of the Gulf states, and the expanding economic network between these states and the West all work to impede Soviet progress. Should these factors remain fairly stable, it seems likely that the forces working against Soviet penetration will remain dominant in the region.

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# THE DISCUSSION

## I. SOVIET INTERESTS AND EXPECTATIONS

### A. Interests and Goals

#### *1. Geostrategic Considerations*

With the exception of Iran, none of the countries of the Persian Gulf/Arabian Peninsula region* directly borders the USSR. But Soviet commentary frequently stresses the fact that the USSR is not indifferent to the development of events in this region close to the USSR's southern flank. This basic interest is bolstered by the area's location between the Mediterranean Sea and the Indian Ocean and by the USSR's desire to insure the ability of its fleets, both merchant and military, to move freely between these bodies of water via the Suez Canal, Red Sea, and Gulf of Aden. The Soviets have not become dependent militarily on the Suez Canal since its reopening in June 1975, as they continue to support their Indian Ocean fleet primarily via the Pacific. However, they have made extensive commercial and limited military use of the canal and have a vested interest in keeping this shipping route open.

The general expansion of the Soviet naval presence in the area over the past 10 years** has been paralleled by Soviet attempts to improve relations with the littoral states of the Middle East, East Africa, and South Asia. The aim has been to fortify the USSR's general position in the region and to maintain a growing transportation, communications, and trade network. In addition, the USSR has sought access to port facilities in these states as part of the effort to maintain its fleets. Such access provides a number of potential advantages: it can be of symbolic significance, offering the USSR a chance to show the flag; it can offer a range of practical benefits—rest and rotation of ship crews, resupply, and ship repair; and it enables the Soviets to establish a physical presence in these countries from which to expand their contacts throughout the region. While vigorously denying any desire to establish bases in the Middle East, the USSR has sought the substance of base rights, if not the name.

While the littoral states of the Arabian Peninsula, particularly South Yemen, are clearly part of this general Soviet strategic interest, the Persian Gulf itself is peripheral. It is a closed waterway and plays little part in Soviet Indian Ocean activities, although any increased access to port facilities in the Gulf undoubtedly would help in supporting the Indian Ocean fleet. The Soviets do, however, have extensive commercial dealings with Iraq, and Soviet merchant vessels make frequent use of the Gulf. Thus the Soviets are anxious to preserve their access to the Gulf through the narrow Straits of Hormuz.

While the Soviets' own general strategic interest in the Gulf would appear to be of rather limited intensity, their interest in preventing the establishment of a US presence in the region is strong. They have frequently voiced concern about alleged US efforts to dominate the Gulf and Peninsula and to control the exits from the Persian Gulf and Red Sea. The Soviets have also registered concern at what they see as the growing tendency of both Iran and Saudi Arabia to act as US surrogates in the region and the growing ability of these nations to frustrate Soviet objectives. Since Iran's intervention in the Oman

* The nations included in the Gulf/Peninsula region are Iran (population 33 million), Iraq (population 11 million), Saudi Arabia (population 6 million), the Yemen Arab Republic (YAR or North Yemen—population 6.5 million), the Peoples Democratic Republic of Yemen (PDRY or South Yemen—population 1.5 million), Kuwait (population one million), Bahrain (population 240,000), Qatar (population 185,000), and the United Arab Emirates (UAE—population 179,000).

** Between 1967 and 1973, the Soviets steadily augmented their fleets in both the Mediterranean Sea and Indian Ocean. Since 1973, this presence has stabilized—and Soviet ship-days in the Indian Ocean actually decreased in 1975. Fuller discussion of Soviet military interest and involvement in the region can be found in NIE 11-10-76, "Soviet Military Policy in the Third World," 21 October 1976,

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insurgency in December 1973, Soviet press commentary has attacked Iran's military buildup, the so-called revival of the Central Treaty Organization (CENTO),* and what it terms US-British-Iranian collusion aimed at frustrating the "national liberation struggle" in Dhofar. Similarly, Soviet propaganda has charged that Saudi rulers are acting in the interests of the US and its monopolies, using their vast oil revenues to fight progress in the Arab world.

This new Soviet view of Iranian and Saudi capabilities and intentions has been reflected in a change in the Soviet position on the question of Persian Gulf security. Through 1973, the Soviets had strongly affirmed the position that the people of the Gulf should determine their own destiny without outside (i.e., Western) interference.** In the past several years, however, the Soviets, rather than stressing the need for Gulf-state cooperation to head off Western intrusions, have shown anxiety that Gulf-state cooperation might instead lead to a loss of Soviet influence. Iran's intervention in Oman demonstrated to the Soviets that settlement of questions relating to the Gulf by Gulf nations themselves is not necessarily beneficial to the USSR. They are therefore anxious to forestall any agreements among the nations of the region which would undermine their presence—for example, by prohibiting their use of port facilities.

### 2. Role in Broader Middle East Context

A strengthened Soviet position in the Gulf/Peninsula area would bolster the declining credibility of Soviet claims to an equal share of influence with the US in shaping the future of the Middle East. In the past three years, Soviet fortunes in the area have suffered, largely because of Egyptian President Sadat's shift toward the US. Saudi Arabia both encouraged this move and provided the support which has enabled Egypt thus far to survive the consequences of its rift with the USSR. This Saudi-Egyptian alliance, fashioned in the months before the 1973 war and continued thereafter, has caused a major setback to the Soviet position in the Middle East and has become an obstacle to Soviet penetration.

Egyptian President Sadat meets with Saudi King Faysal.

### 3. The Oil Angle

While Soviet interest in Gulf oil itself is currently minimal, it may well grow in the next 10 years. The USSR is presently self-sufficient in oil and is, in fact, a net exporter.* Given Soviet determination to develop Siberian reserves, this will probably remain the case through this decade. However, predicted shortfalls in projected oil production by 1980** will force the Soviets either to curb domestic consumption, cut projected increased exports to Eastern or Western Europe, or import more oil. The Soviets have already begun encouraging the East Europeans to seek other energy sources and will probably continue to do so. But they will also probably remain obligated to provide a substantial portion of East Europe's expanding energy needs. This, as well as their desire to earn hard currency through sales of oil to the West, argues against a sharp curtailment of exports. Thus, if the Soviets are unable or unwilling to slow their own consumption, they will be seeking increased quantities of foreign oil either for themselves or their allies. Given geographic and logistic considerations, they would undoubtedly look to the nations of the Gulf. In that case, considering their own shortage of hard

* Current members of CENTO are the US, UK, Iran, Pakistan, Turkey.

** Moscow's position that the Gulf countries alone have the right to determine their own fate was authoritatively set forth in a TASS statement of 3 March 1968, and it has not been officially changed.

* In 1975, the USSR imported for its own use 150 barrels per day (b/d) of oil, up from 110 b/d in 1974. At the same time, they were exporting 2,600 b/d in 1975, compared with 2,340 b/d in 1974.

** The current plan calls for the production of about 12.6 million b/d (630 million tons annually) by 1980. Delayed development of West Siberian fields is expected to reduce this to about 11.8 million b/d (590 million tons annually).

currency, they would be trying to arrange barter deals, possibly involving military equipment.* In short, they would try to trade for Gulf oil and sell their own to the West for hard currency.

### 4. Appeal of Hard Currency

The Soviets, in view of their shortage of hard currency, would like to tap the holdings of the wealthy Persian Gulf oil nations by selling both goods and expertise or by obtaining long-term loans. While politics has been an inhibiting factor with many of the conservative states, the Soviets have also had increasing trouble competing with the more advanced Western nations both in selling goods and in promoting new development projects even in the more receptive Gulf countries (Iraq, Kuwait, Iran). The only major funds flowing to them from the Gulf comprise repayment for project and military aid. The only product area in which the Soviets are competitive is that of weapons, and they would like to sell weapons to Gulf countries.

### 5. Revolutionary Credentials and the Chinese Factor

The Soviets are committed to the support of "national liberation" movements and to the advancement of "progressive" elements in the Gulf/Peninsula region as elsewhere in the world. They have long condemned "feudalist" Gulf sheikdoms (including Saudi Arabia), helped revolutionary elements either attain or keep power (as in the Yemens), and given verbal and material assistance to those who would change the established order (the Dhofar rebels). They have committed time, resources, and prestige to the support of such elements, and they have a vested interest in maintaining their revolutionary image and appealing to radical forces.

This interest is reinforced by the fact that in the Gulf, as in all Third World areas, the Soviets have been waging a struggle with the Chinese for patronage of the few revolutionary elements there are. In the Gulf and Peninsula, the Chinese have now withdrawn from any practical involvement in this struggle. They cut off their support to the Dhofar rebels in 1973, and they apparently give no material assistance to other dissident elements in the region. Nonetheless, China and Maoism continue to appeal to the imaginations of young rebels, and the Soviets are sensitive to this fact.

In assessing the various objectives described above, it seems clear that the Soviets do not have a vital strategic interest in the Gulf/Peninsula region. Strategic interests motivating them relate to broader policy interests—the drive to bolster their strategic presence in the Mediterranean Sea-Indian Ocean area, a felt need to minimize US influence and prevent Western control of the region's oil resources, a desire to strengthen their own leverage in Middle East politics, and the general aim of strengthening ties with nations on their southern flank. Their own local interests—insuring their own future access to the region's oil resources, tapping the hard-currency holdings of wealthy Gulf nations, and promoting radical changes in local governments—are secondary, although they may well gain added weight in future years.

The fact that this region, in and of itself, may not yet be considered a high-priority area by the Soviets does not imply a lack of Soviet interest in penetrating the region and advancing the USSR's position there. It does, however, imply a lower level of intensity in Soviet efforts than might be seen elsewhere, less anxiety about unfavorable occurrences and trends, and less inclination to risk confrontation with the West in pursuit of Soviet objectives.

## B. Constraints on Achievement

In trying to advance their own position in the region and curtail that of the West, the Soviets face a variety of obstacles. Most importantly, they are dealing with nations which have deep-seated anti-Communist and anti-Soviet attitudes. In addition, there are a variety of forces hostile to each other in the area; this both invites and complicates Soviet efforts at manipulation. And there are inherent contradictions in the USSR's own objectives—support for revolution and subversion is clearly incompatible with pursuit of good state relations. And finally, this is an area of strong Western economic interest and influence; its strategic importance for the West is clearly a factor which the Soviets must continually weigh.

* These general conclusions were contained in the Office of Economic Research's "International Oil Developments" of 20 May 1976.

### 1. Intrinsic Hostility and Suspicion

The ideological and religious rejection of Communism by the conservative Muslim nations of the area, led by Saudi Arabia, and the longstanding suspicion of Soviet intentions held by these nations, particularly Iran, pose a strong impediment to substantial improvement in Soviet relations with them. These attitudes are coupled with a determination on the part of the rulers of these nations to assert their own independence and to prevent any kind of Great Power domination of the area.

### 2. Conflicting Interests

Many of the Soviet interests described above would seem to be best served by the improvement of political and economic relations with the existing governments of the region. The glaring exception to this general premise is the Soviet ideological commitment to the subversion of these same governments. Obviously this commitment is incompatible with the promotion of harmonious relations with a country in which the USSR is actively supporting insurgency (e.g., Oman); and it seriously jeopardizes good relations with other nations which are either supporting the nation concerned (as Iran is assisting Oman) or strongly oppose such actions generally (Saudi Arabia). In such a case, the Soviets have the constant problem of deciding which of their objectives is more important to them.

A similar, though less dramatic, contradiction occurs whenever the Soviets support dissident elements in a country with which they are also trying to establish close bilateral ties. While pursuit of both is possible, and is the approach usually taken by the Soviets, it tends to weaken both elements of the policy. For example, Soviet support for the tiny Saudi Communist Party in exile antagonizes the Saudi elite with which the Soviets are simultaneously trying to establish relations; and because they are trying to cultivate the Saudi government, the Soviets give only limited support to the Saudi Communists.

A variety of contradictions is continually being encountered by the Soviets in the Gulf/Peninsula area itself. For example, Soviet assistance to the Iraqi government in its battle with the Kurds during the early 1970s was detrimental to Soviet relations with Iran, which was supporting the Kurds. Similarly, the Soviets might antagonize Iraq by selling arms to Kuwait, which wants them partially to deter Iraqi aggression. Soviet efforts to cultivate both North and South Yemen have been complicated by the hostility of the two Yemens toward each other.

### 3. Economic Appeal of the West

The oil-rich states of the Gulf have looked almost entirely to the West as both the market for their oil and the supplier of products and technology. The West pays hard currency for its oil; the Soviets for now have neither the need nor hard currency. And the Gulf nations, given the choice, clearly prefer Western over Soviet civilian technology; even Iraq has been reorienting its foreign trade position and is looking increasingly to the West for advanced technology.

### 4. US Response

Finally, Soviet action is inhibited by the West's vital strategic interest in the area. The Soviets probably expect that any strong action on their part in this region would draw a US response—for example, a buildup of the Soviet naval presence in the Gulf might lead to a similar buildup in the US presence, and attempts to gain access to port facilities might produce a corresponding US interest in further expanding its own facilities in the region. Such actions, would, in addition, have a negative effect on US-Soviet detente. While this factor does not rule out aggressive Soviet policies, it is certainly a strong restraining element.

## II. THE TOOLS OF SOVIET POLICY

In seeking to translate their objectives in the Gulf/Peninsula region into operational policies, the Soviets have a host of tactical approaches open to them. These range from the cultivation of diplomatic and cultural relations with existing regimes to support of subversive activities against such regimes. In between lie such options as development of trade, economic and military assistance, and the use of propaganda.

### A. Bilateral Contacts

Obviously, the first step in promoting state-to-state contact is the establishment of diplomatic relations and an exchange of representatives. This provides at least a formal level of communication and establishes

a basis for the further development of political, economic, and cultural ties. Subsequent progress in developing contacts generally involves the exchange of delegations in an effort to promote closer relations through personal contact and the trading of information. Depending on the circumstances, such delegations might involve cultural or parliamentary representatives, economic and financial officials, military personnel, or high-level political figures. And finally, the Soviets like to formalize their relations with other countries in protocols, agreements, and treaties.

The Soviets have to date failed to make a breakthrough in establishing diplomatic relations with the traditionalist Gulf states.* The latter, headed by Saudi Arabia** and including the United Arab Emirates (UAE), Bahrain, Qatar, and Oman have refused to have any formal dealings with Communist countries.

Sporadic Soviet efforts to overcome the resistance of these smaller nations have been frustrated primarily because of the opposition of Saudi Arabia, [redacted] The emergence of the UAE, Bahrain, and Qatar as independent states in 1971 and the 1973 Middle East war presented the USSR with potential openings which it tried unsuccessfully to exploit. After independence, Moscow cabled its official recognition to each and, at least in the case of Qatar and the UAE, has indicated its wish to establish diplomatic relations. The Soviets have devoted more attention to the UAE than to the others, probably because the latter, in the early 1970s, at a time when its relations with Saudi Arabia were strained,*** gave hints of responsiveness to Soviet overtures. For example, in early 1976, the Soviets reportedly offered to sell anti-aircraft missiles to the UAE's defense forces as part of a deal involving diplomatic relations. The UAE's need to avoid antagonizing the Saudis continues, however, to prevail over any desire it might have to establish contact with the Soviets.

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In the case of those Gulf/Peninsula states with which the Soviets have exchanged delegations, in general the frequency of such visits, the scope of their missions, and level of representation has increased as bilateral state relations became closer.* While basically a straightforward foreign policy tool with overt and obvious objectives, visiting groups can also be used to advance less clear-cut aims, such as clandestine collection and the establishment of contact with sympathetic elements which can subsequently be cultivated. One example of a delegation's being used for several purposes arises in the Saudi-Soviet context.

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* The USSR has had diplomatic relations with Iran since 1921, Iraq since 1958, and Kuwait since 1963. Its ties with North and South Yemen go back to its announced support for the forces which came to power in those nations in 1962 and 1967 respectively.

** In 1926 the USSR became the first nation to recognize King Faysal's father as King of Saudi Arabia and in 1929 became the first nation to raise its Consulate General in Jidda to legation status. The Soviet Union subsequently withdrew its legation in the 1930s, but Soviet diplomats maintain that relations were never formally severed. The Saudis, however, claim that no relations exist.

*** A territorial dispute between the two countries was finally resolved in the summer of 1974. Only then did Saudi Arabia recognize the federation.

* This is demonstrated visually in Figure 3 which shows Iraq leading all nations of the region in exchanging visits with the USSR.

Saudi Arabia's King Khalid.

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The Soviets have concluded a number of cultural and economic agreements with countries of the region, including Iran, Iraq, Kuwait, and both Yemens. They also have friendship treaties with Iran and North Yemen, but these are of little significance, certainly as compared with their Friendship and Cooperation Treaty with Iraq, signed in 1972 for a 15-year period. This is the only security-related treaty the Soviets have with a nation in this region, and it is probably the most extensive treaty the USSR has with any Third World nation. It provides for consultation on international and bilateral matters and binds the two sides not to allow their territory to be used for any action that might cause military harm to the other. The treaty also states that the parties will develop cooperation in the strengthening of their defense capabilities. This particular provision was not included in similar Soviet treaties with India and Egypt; the former contained no defense provision and the latter mentioned only the strengthening of Egypt's defense capability. As there obviously is little contribution that the Iraqis can make to Soviet defenses, this provision probably covers Soviet use, present or potential, of Iraqi port and airfield facilities.

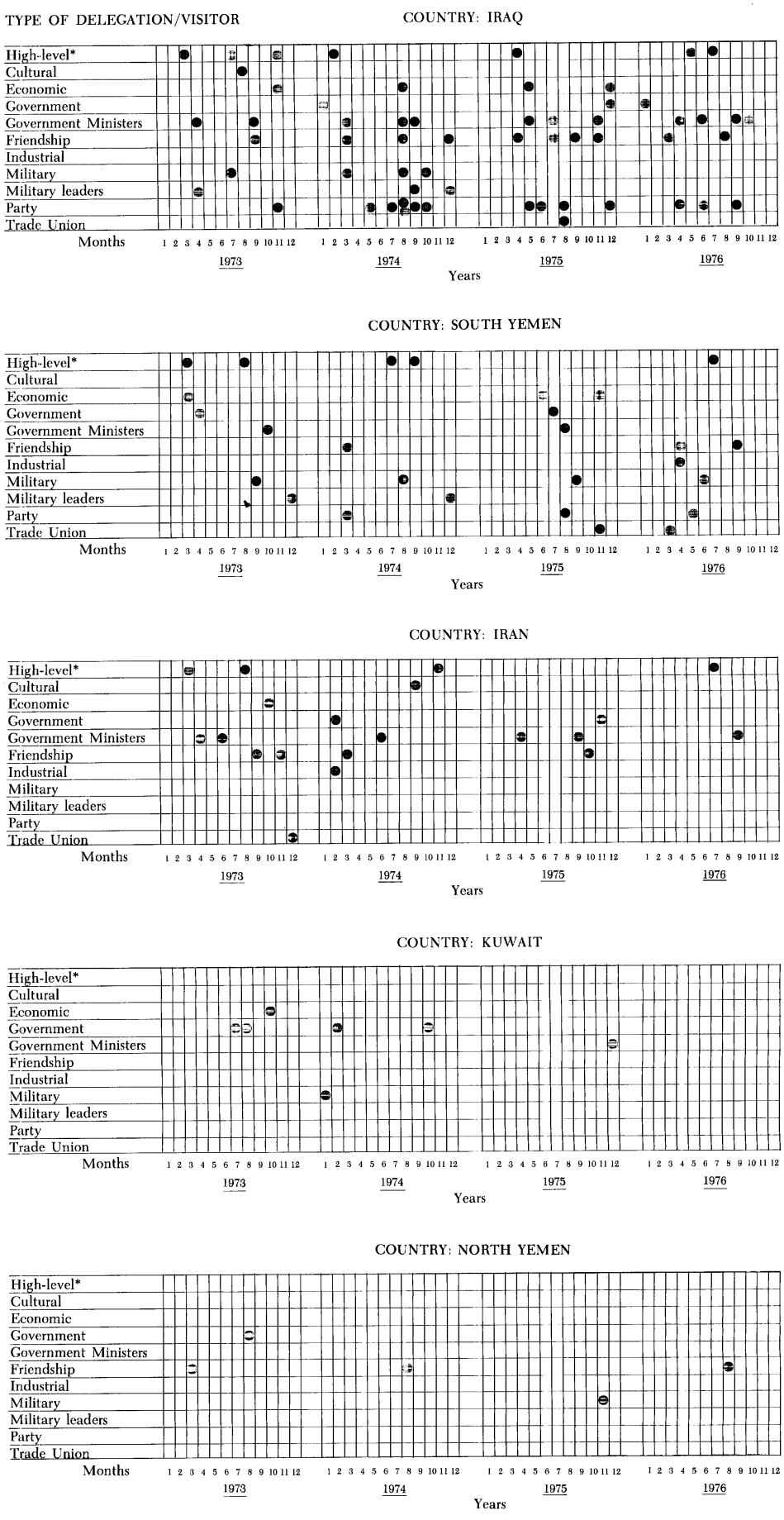
### B. Economic Inducements

Over the years, the USSR has extended economic aid—primarily in the form of credits to be drawn for specific development projects and to be repaid at favorable rates—to Iran, Iraq, North Yemen, and South Yemen. Because economic patterns are designed and imposed from above in the USSR and do not evolve from a multitude of unrelated business and economic decisions, the Soviets are better able than Western leaders to coordinate foreign trade decisions with general policy objectives.

During the past 15 years, the USSR has granted considerable assistance to both Iraq and Iran. Iran has received six percent and Iraq five percent of total Soviet aid to developing nations since 1954, and East European countries have also extended credit to these states. In Iran much of this assistance has gone to finance construction of a large steel mill in Isfahan and construction of a gas pipeline. The latter has enabled Iran to service its debt to the USSR with gas, which was previously a waste product. Soviet funds and expertise in Iraq have been used for a variety of projects—most importantly, the development of petroleum fields, refineries, and pipelines. Such assistance to energy production capabilities enables the USSR to generate future repayment in oil or gas, clearly desirable to the Soviets to whom such resources represent hard currency.

Soviet efforts to cultivate significant economic ties to Iran and Iraq have, however, been severely diluted since 1973 as these nations have sharply increased their purchasing power. While trade between these states and the USSR has continued to grow, the level of Iran and Iraq's trade with the rest of the world has increased at a far greater rate. For example, while Iraqi imports from the USSR grew by some 25 percent in 1975, its imports from West Germany grew by over 200 percent and from Japan by over 150 percent in the same year. Iraqi imports from the USSR represent-

FIGURE 3 EXCHANGE OF DELEGATIONS BETWEEN USSR AND GULF/PENINSULA COUNTRIES




*Politburo Members, Prime Ministers, Heads of Government

FROM SOVIET UNION TO COUNTRY
FROM COUNTRY TO SOVIET UNION





SECRET

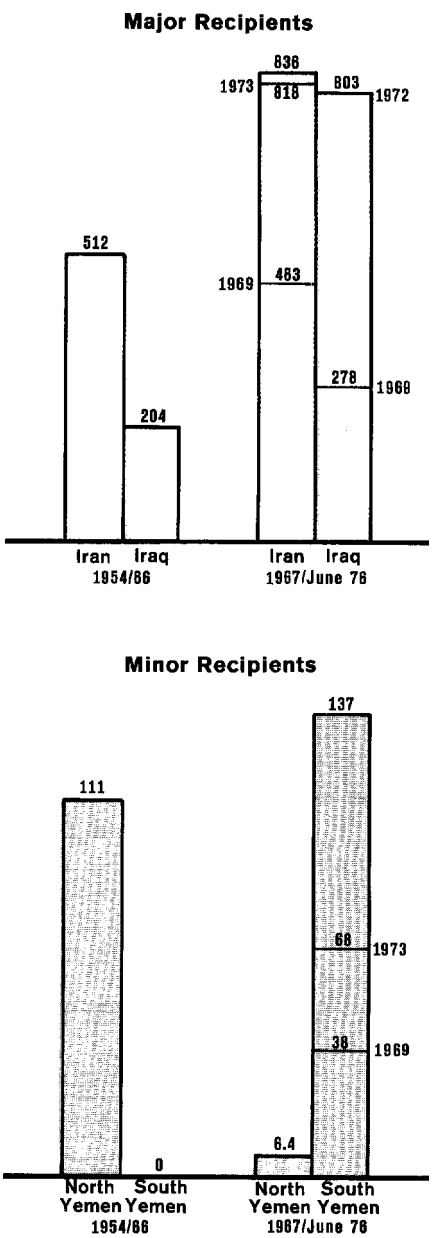
ed only 15 percent of total imports. Similarly, while Iraq exported $373 million worth of goods to the USSR in 1975, total Iraqi export earnings for that year were about $8 billion.

As the economic situation of these states has changed, the nature of their economic relationship with the USSR has also shifted. For example, Iraq's $800 million foreign debt now appears slight when compared with its $2.5 billion in reserves. The fact that Iraq has some 30 percent of these reserves in Soviet and East European banks is a positive development for the Soviets but hardly leaves them in a donor-recipient role vis-a-vis Iraq. Similarly, as Iran's wealth has increased, it has itself become a capital-lending nation. In 1975, Iran for the first time extended credits to three East European nations and agreed to provide Moscow with long-term credits to build a paper complex in the USSR. And finally, since 1972, no new economic credits have been extended by either the Soviets or East Europeans to Iraq and, since 1973, only a small credit extension has been made to Iran by these nations.*

The comparative Soviet economic position in Iran and Iraq thus appears to be both declining and changing, and Soviet economic leverage has clearly diminished. But the USSR will undoubtedly continue to be involved economically with both these nations. Much of the credit extended by the Communist nations remains to be used, and development projects continue to be negotiated.** In Iraq, for example, discussions were held in May 1975 on joint projects including a steel plates plant, a cement plant, and several irrigation projects. And, in October 1975, agreement was reached to cooperate in developing the Luhays oil field in southern Iraq. Similarly, a 1975 agreement calls for cooperation between Iran and the USSR on projects in both countries whose estimated eventual cost could run as high as $3 billion.

As the Soviets continue to seek expanded commercial relations with Iran and Iraq, they are also anxious to enter the financial and commercial markets of the other Gulf states. While they have virtually no dealings with the traditionalist Gulf states,*** they

**Soviet/East European Economic Credits Extended to Gulf/Peninsula Countries**
**(in million US$)**




Communist Aid to Less Developed Countries of the Free World, 1975, OER.

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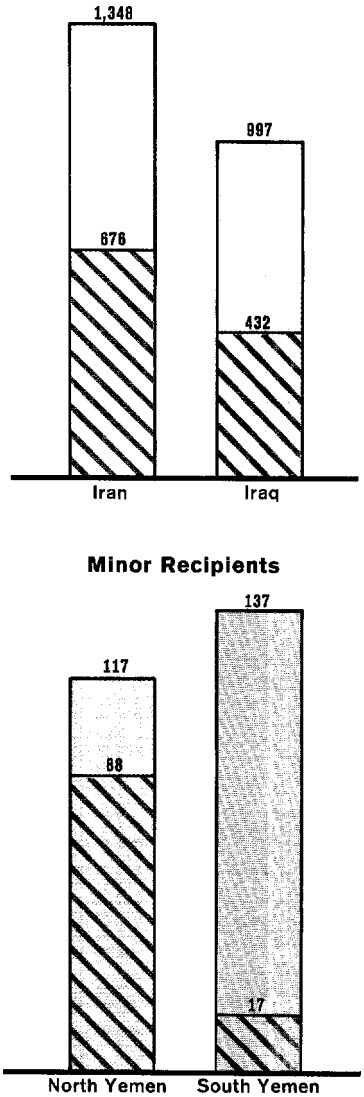
Figure 4

* See Figure 4.

** See Figure 5.

*** There is a modicum of trade between the USSR and Saudi Arabia which never ended when relations worsened in the 1930s. This involves Soviet sales of some steel, cotton, and cheap consumer items. In 1975, it amounted to less than $8 million worth of goods.

**Soviet/East European Credits Extended and Drawn 1954-June 1976**
(in million US$ )




Communist Aid to Less Developed Countries of the Free World, 1975, OER.

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Figure 5

are currently trying to develop such ties with Kuwait; they have recently sought joint project cooperation as well as financial cooperation. Kuwaiti leaders have been dubious about the quality of Soviet work, however, and thus far little has been accomplished. Except for arms, the USSR has little to offer Kuwait, which prefers Western technology and is in a strong enough financial position to purchase what it wants.

The Soviets have provided assistance to both North Yemen and South Yemen—to the former mostly before 1967 and to the latter since 1967.* Of the $137 million extended to it thus far by the Soviets and East Europeans, South Yemen has drawn only $17 million,** suggesting that it has not organized itself to use the credits in a meaningful way.

## C. The Military Lever

The capacity to supply large quantities of weapons, including highly sophisticated systems, is probably the most significant tool the Soviets have for advancing their interests in the Third World. It is a flexible device which can be used in several ways depending on circumstances and desired objectives. The Soviets can sell such materiel outright or they can extend credits to finance such purchases. Soviet credits, when extended, are generally for specific projects and usually involve lenient terms—typically a two percent annual interest with 8 or 10 years to repay. Increasingly, however, the Soviets have been seeking cash payment for military goods as this is the best means they have for gaining hard currency.

In theory, arms agreements serve to bind the contracting parties together as a dependency is established for training and spare parts. Soviet military agreements generally include equipment, technicians and advisors, and the training of military personnel in the USSR. The presence of Soviet technicians and the purchasing nation's need for their expertise as well as for training gives the Soviets a degree of leverage. As the Egyptian example has demonstrated, however, there are limits to the Soviet ability to use this leverage. The Soviet physical presence may serve to alienate rather than bind, and Soviet efforts to use the military supply lever to exert pressure may antagonize rather than persuade. The

* See Figure 4.
** See Figure 5.

Soviets may then be faced with the prospect of losing it all—weapons, repayment, presence, and influence.

Iraq has been one of the major recipients of Soviet military assistance (some 13 percent of total Soviet military aid extended to less developed countries);* only Egypt and Syria have received more. In addition, Iraq has contracted for some of the most sophisticated Soviet systems, including MIG-23 fighters, SU-20 fighter bombers, TU-22 supersonic bombers, sophisticated SAM systems, and SCUD surface-to-surface missiles.** Iraq has received the bulk of its military deliveries from the Soviets in the 1970s,*** and, in 1976, the deliveries continued at a high rate. By mid-year, equipment worth over $400 million, mostly MIG-23s, had already been delivered.

The USSR has also extended large-scale credits to Iran for the purchase of military equipment (about 5 percent of all such Soviet aid).* The agreements have totalled $826 million of which $589 has been used. While these figures are significant, they are much below the comparable figures for US arms deliveries to Iran,** and the discrepancy is growing. Furthermore, the USSR and East Europe have extended over twice as much military aid to Iraq as to Iran over the same

* See Figure 6.

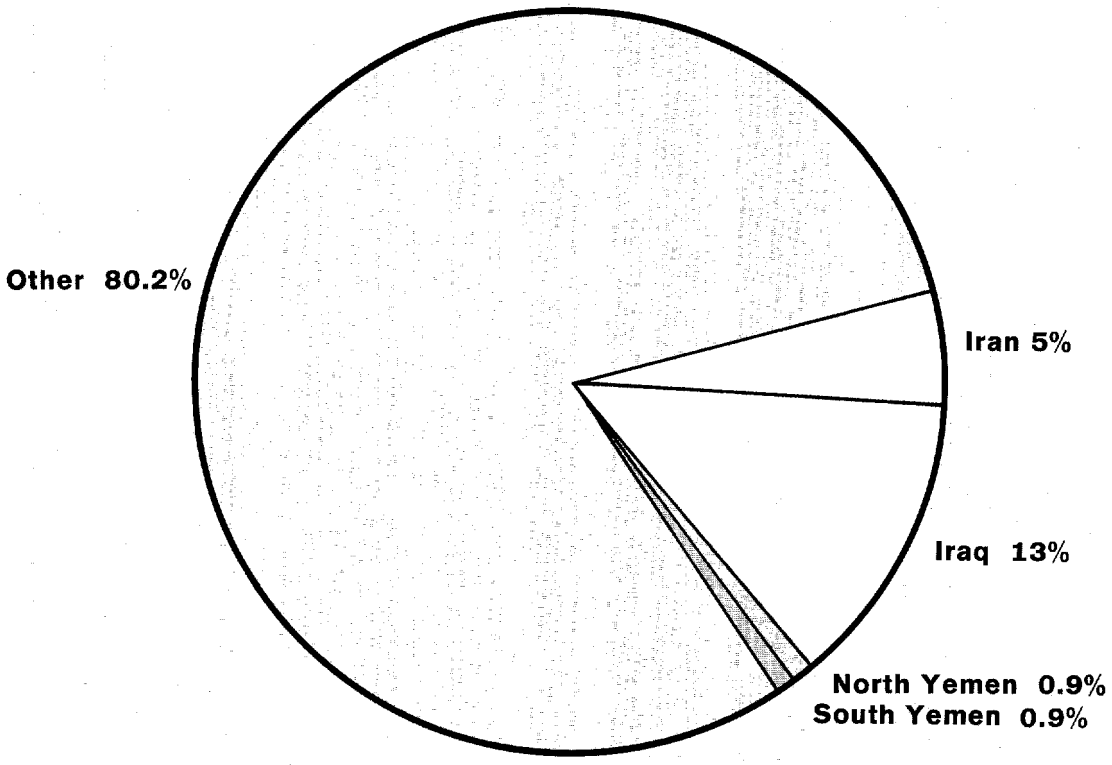
** See Figure 7.

*** See Figure 8.

* See Figure 6.

** Between 1955 and 1974, the US delivered $2,346 million in military goods to Iran.

**Soviet/East European Military Agreements with Less Developed Countries 1955-1975***




*Including cash sales.

Communist Aid to Less Developed Countries of the Free World, 1975, OER.

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Figure 6

MAJOR COMMUNIST MILITARY EQUIPMENT DELIVERED
TO GULF/PENINSULA COUNTRIES
1955-1975*

| | IRAN | IRAQ | NORTH YEMEN | SOUTH YEMEN |
|---|---|---|---|---|
| LAND ARMAMENTS | | | | |
| Medium tanks | — | 1446 | 155 | 138 |
| Light tanks | — | 100 | — | — |
| Assault guns | — | 188 | 60 | — |
| Personnel carriers | 1370 | 1889 | 175 | 185 |
| Artillery pieces | 1337 | 2220 | 470 | 265 |
| NAVAL SHIPS | | | | |
| Minesweepers | — | 5 | — | — |
| Submarine chasers: escort vessels | — | 3 | — | 2 |
| Motor torpedo & missile boats | — | 22 | 5 | 3 |
| Auxiliary vessels (e.g., landing craft) | — | 14 | 3 | 12 |
| AIRCRAFT | | | | |
| Medium jet bombers | — | 24 | — | — |
| Light jet bombers | — | 15 | 9 | 8 |
| Jet fighters | — | 387 | 21 | 52 |
| Large transports | — | 11 | — | — |
| Other (helicopters, trainers,etc.) | — | 287 | 46 | 19 |
| GUIDED MISSILES | | | | |
| Air to surface | — | — | — | — |
| Air to air | — | 156 | — | 16 |
| Surface to air | — | 21 | — | — |
| Surface to surface | — | 15 | — | — |

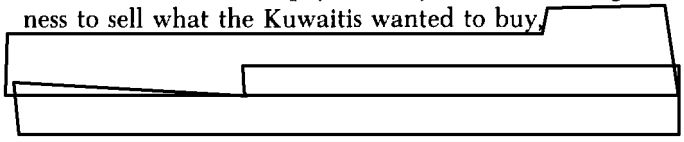
*Communist Aid to Less Developed Countries of the Free World, 1975, OER.

Figure 7

period. And, most importantly, Iran, by its own choice, has purchased no sophisticated arms from the USSR, preferring to purchase these in the West and avoid dependence on the Soviet Union.*

The Gulf oil countries, with their great wealth, have become a tremendous market for military equipment. Iran and Saudi Arabia are making large-scale purchases from the West, and Kuwait alone contracted for $1 billion worth of military equipment in 1974 and 1975. Even the small Gulf emirates are in the market for arms and are willing to pay cash. The Soviets would certainly like to tap this reservoir of hard currency by selling arms, but have been deliberately kept at a distance.

With the exception of Iraq, which is probably paying cash for much of its most recent arms purchases from the USSR, Kuwait has been the only potential buyer among the Gulf states. Arms negotiations between Kuwait and the USSR, under way since 1974, have been complicated by Soviet concern that such an accord would antagonize Iraq, by disagreement over the terms of payment, by Soviet unwillingness to sell what the Kuwaitis wanted to buy.



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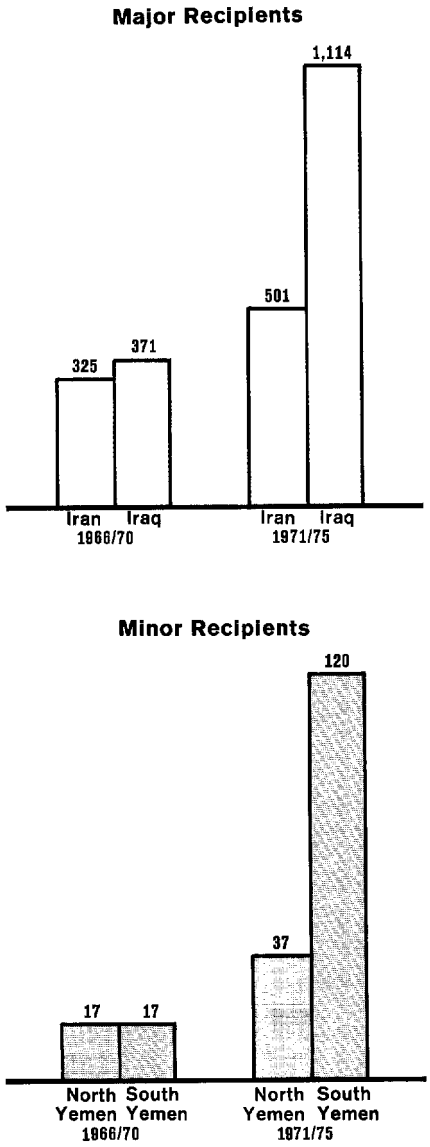
* See Figure 7.

**Soviet Arms Agreements with Gulf/Peninsula Countries 1966-1975**
(in million US$ )




Communist Aid to Less Developed Countries of the Free World, 1975, OER.

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Figure 8

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While the amount of the deal, reportedly $400 million, is small compared to total Kuwaiti arms purchases, such a sale would represent a significant success for the Soviets.

## D. Propaganda

Soviet use of the media as an arm of policy is obvious given centralized control of both the press and broadcasting services in the USSR. Soviet press articles present general Soviet policy in the Persian Gulf/Arabian Peninsula region in an altruistic light and condemn the imperialist designs of the West. Official Soviet broadcasts beamed into the area do the same. Similarly, the propaganda machine is organized to support the favored forces in local struggles—such as the rebels in Dhofar—and to encourage preferred domestic policies—such as formation of a progressive national front in Iraq. In addition to this official network, the Soviets support clandestine broadcasting operations which take more extreme positions than the former, for example, supporting the Tudeh Communist Party of Iran.

## E. Subversion

A major tool of Soviet policy has always been the use of subversion designed to strengthen local forces sympathetic to the Soviet cause, influence policy, and eventually replace existing, unfriendly governments with responsive ones. The Soviets may choose to operate through the local Communist Parties, through local dissident groups, or through active support of armed insurrection.

### *1. Local Communist Parties*

Soviet support for local Communist Parties is more a liability than an asset in the Gulf/Peninsula region. The Parties are illegal in the strongly anti-Communist Gulf countries and unable to function effectively underground. Soviet backing for the exile or underground groups which do exist serves mainly to antagonize those governments with which the USSR would like to improve relations. Even in Iraq, where the Communist Party is legal, it is perceived as a competitor by the ruling elite, and Soviet support for the Party thus serves to undermine relations with that elite. In spite of these drawbacks, the USSR remains committed ideologically to backing the Parties and

must therefore at least go through the motions of furnishing political and material support.

As stated, the underground Parties of the region are weak. For example, the leader of the Communist Party of Saudi Arabia, after spending several years in Moscow in the 1960s, now lives in Syria

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reports of the existence of an ineffective underground Communist Party in Bahrain with which the Soviets try to maintain contact, there is no available evidence on any such organizations in Qatar and the UAE. Such groups, if they exist at all, are not particularly noteworthy.*

Kuwait allows no political parties to function, but, at least until August 1976, did permit Communists and Marxists to openly espouse their philosophy. A number of non-Kuwaiti Communists live in the country

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The Tudeh Party of Iran has historically had close ties with the USSR, but it is not clear how close the current relationship is. It is an illegal Communist Party which operates underground and has received some Soviet support, although there is little evidence on this subject. While official Soviet radio broadcasts are circumspect, clandestine broadcasts beamed into Iran from East Europe support the Party. The Party's leaders are in East Europe and its Iranian organization—if any—is small.

The Communist Party of Iraq (CPI) functions both openly and underground. A member of the National Front government of that country established in 1973, the CPI has had a history of competition and bloody confrontation with the dominant Baath Party (BPI). It was largely because of Soviet pressure that the Communists participated in the National Front, and animosity between the CPI and BPI persists. The BPI has rejected a number of Soviet-supported proposals for joint military and economic undertakings with the CPI and has in fact tried to curtail the authority of Communist representatives in the civil service and other organizations. Because of its obviously beseiged position, the CPI intends to continue to function as an underground organization as well as a member of the government.

Despite clear indications that the Iraqis are annoyed by Soviet representations on behalf of the CPI, the Soviets have chosen to sacrifice a measure of their strength with the Iraqi government and expend some of their political capital in the interests of the CPI. They continue to make CPI advancement or at least protection an important element of their policy. In his speech during Iraqi leader Saddam Husayn Tikriti's visit to the USSR in April 1975, Soviet Premier Kosygin urged the further "consolidation of the progressive forces of the country" and specifically encouraged further CPI and BPI cooperation.

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Iraqi officials have also indicated irritation with CPI criticism of Iraq's March 1975 agreement with Iran and have expressed concern that the Soviets might become more actively involved in Iraq's internal affairs through the CPI.

The smoothest situation which the Soviets have at the moment is in South Yemen, where the Communist

Iraqi leader Saddam Husayn is greeted by Soviet Premier Kosygin.

* The Communist Party of Dhofar is essentially joined with the Popular Front for the Liberation of Oman (PFLO) which will be discussed below.

Party, called the Peoples Democratic Union, merged with the ruling National Front Party and the Baath Party in October 1975. The Soviets applauded this merger which was reportedly strongly backed by their main supporter within South Yemen, General Secretary of the National Front Abd Al-Fattah Ismail. It is less clear that President Salim Rubayyi Ali, who is not so firmly in the Soviet camp, was in favor of the action. And there are some recent indications that the Communist Party itself feels threatened as a result of the merger.

### *2. Dissidents and Potential Subversives*

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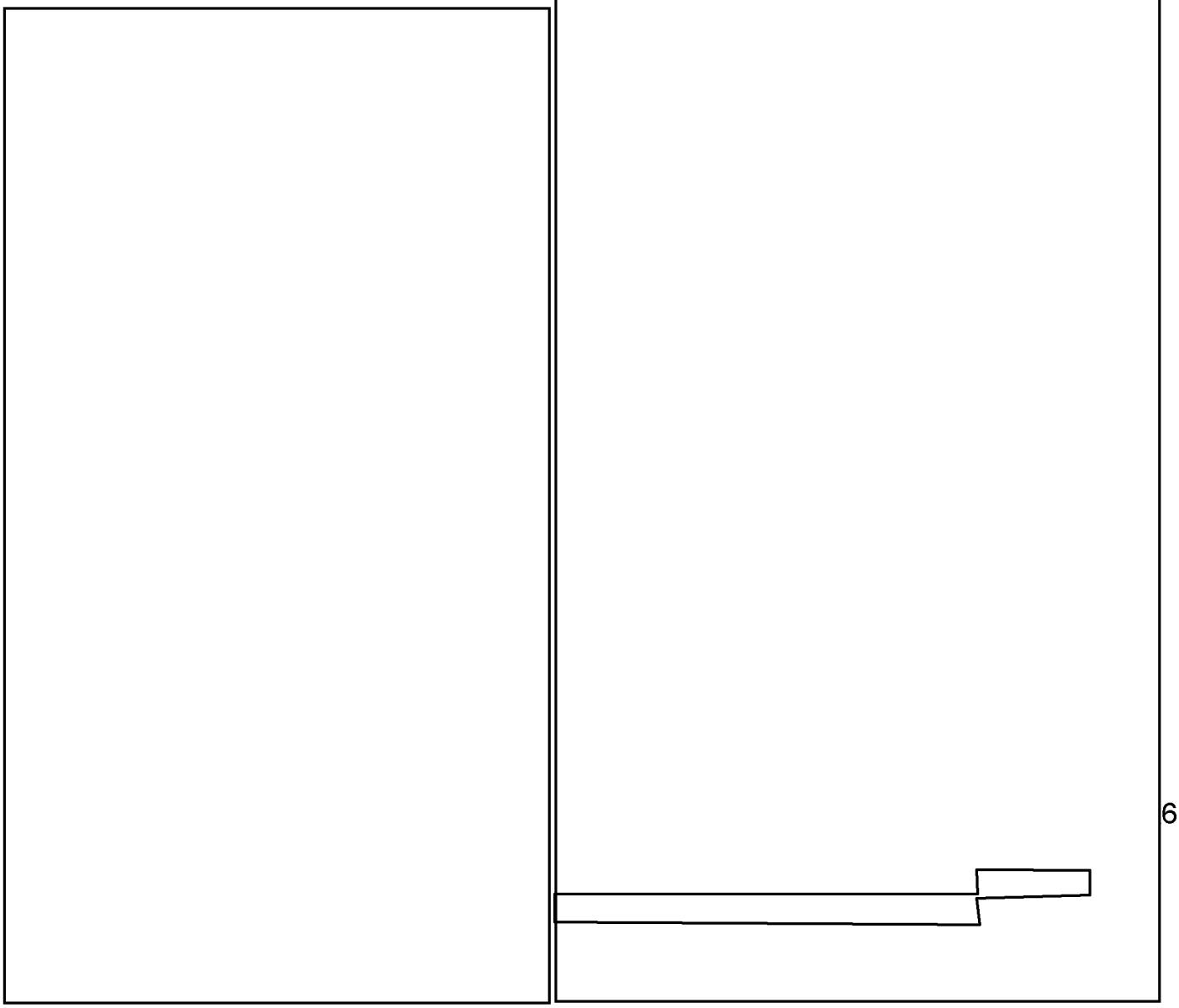

6

## Small Gulf States

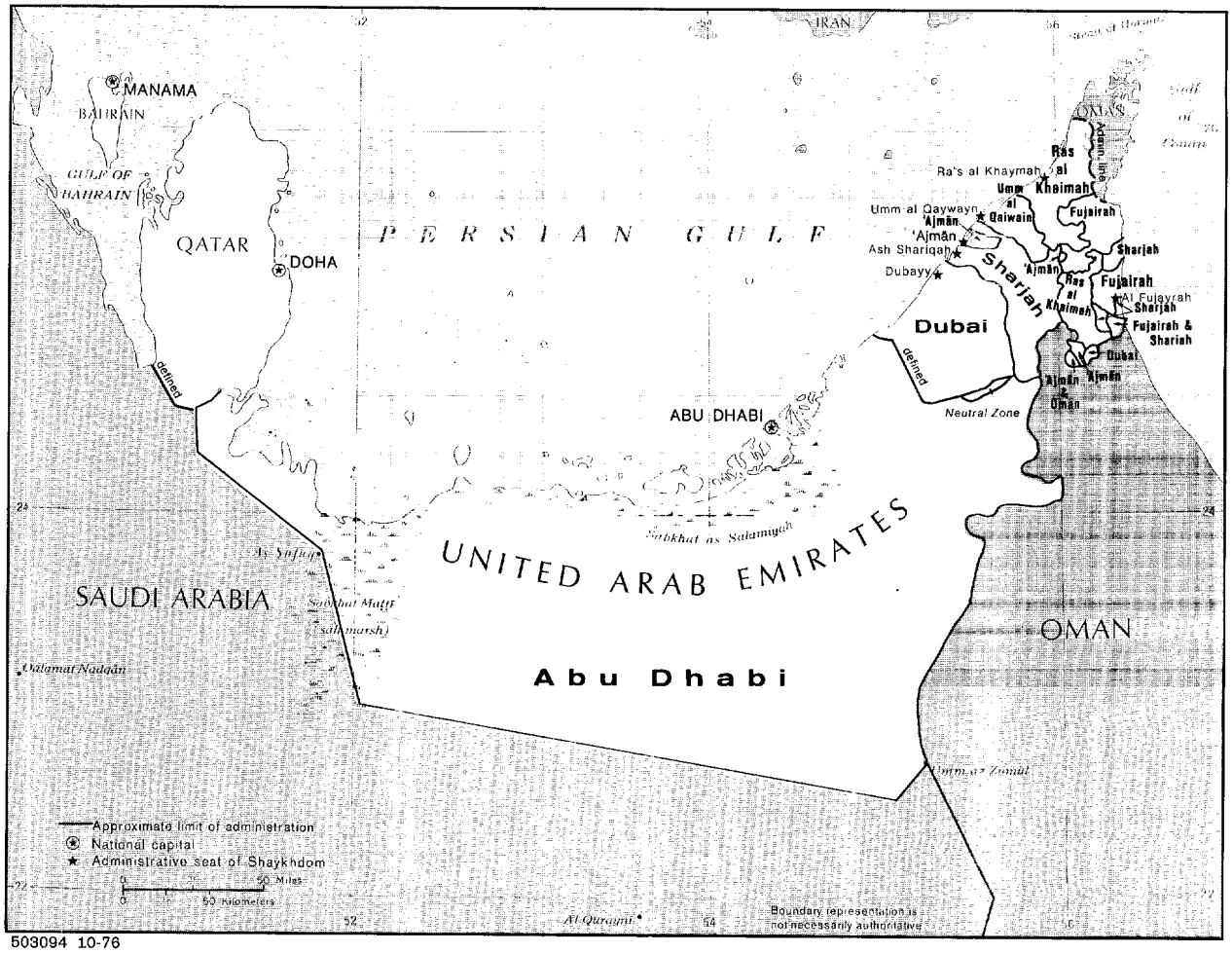


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Figure 9

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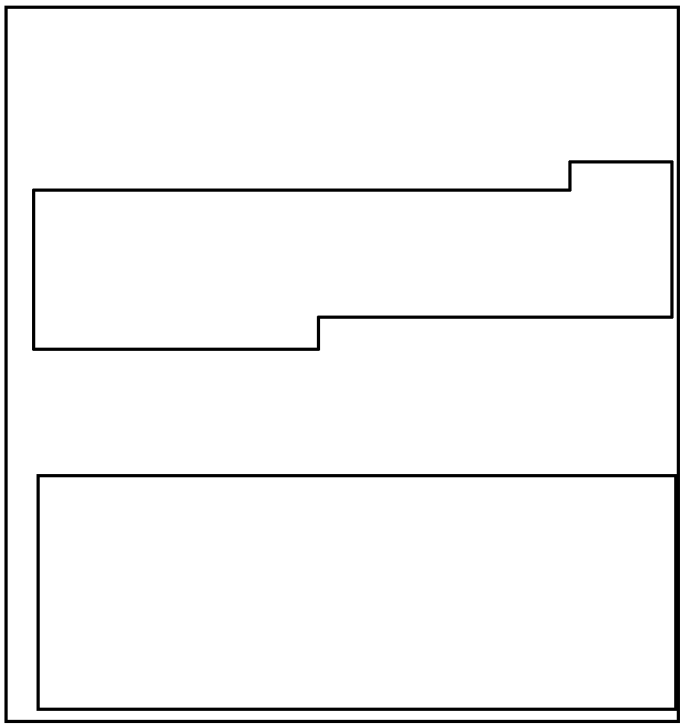

## III. SOVIET GAINS—WORTH THE COST?

### A. Geostrategic Achievements

Efforts by the USSR to bolster its military-strategic position in the Gulf/Peninsula region and thus to reinforce its broader strategic posture have met with only limited success in the past decade and virtually none since the 1973 war. As we have seen, while they have established close relations with several radical nations of the area, their hopes of parlaying the victory of revolutionary forces in South Yemen into rapid and continuing gains elsewhere in the area have been frustrated in Dhofar, and they have made no progress with the traditionalist states.

In contrast, the 1972 conclusion of the Soviet-Iraqi Friendship and Cooperation Treaty was certainly a major achievement of Soviet policy. The Soviets have also gained access to port facilities in both Iraq and South Yemen. Soviet ships have access to two Iraqi ports—Umm Qasr and Basrah. While Soviet naval auxiliaries and a few warships have called at the latter on a fairly regular basis since 1971, there is no evidence that the Soviets consider it an important support facility. They do, however, use Umm Qasr for occasional refueling, and a small portion of the Soviet-constructed facilities at the port has apparently been allocated to joint Iraqi-Soviet naval support. The Soviets have used the port of Aden in South Yemen more extensively than either of the Iraqi ports, and they also have anchoring privileges at South Yemen's Socotra Island. In addition, Aden has served as a staging base for Soviet airlifts of military supplies to other areas. Compared with the USSR's expanding operations in Somalia, its use of the Iraqi and Yemeni facilities is of secondary importance. In addition, both states retain control over the use of the ports, and reported requests by the Soviets for base rights have been denied.

During the 1970s, the Soviets have established an impressive physical presence in the Gulf/Peninsula area. They have over 1,000 military advisers and technicians in Iraq and over 250 in South Yemen.* In addition, a number of Cuban military personnel have been stationed in South Yemen, serving largely as advisers. The Soviets and the East Europeans also have over 3,500 civilian technicians involved in various projects in Iran and some 2,500 in Iraq, with smaller numbers participating in the economic development of South Yemen. The Soviets are also training both military and civilian officials from these countries and have a number of students from the region studying in the Soviet Union. In the past two years, the numbers involved in these programs have remained fairly constant.

### B. The Question of Western Influence

The Soviets took satisfaction in the 1973 Arab oil embargo, the subsequent oil-price rises and the mounting independence of the oil-rich nations of the Gulf from the US and other Western nations. They have had to watch in some frustration, however, as former Western ascendancy over these oil nations has given way to influence which is indirect and subtle, but no less significant. Previously dependent on the West to run their petroleum operations and sell their oil, these nations now control their own production and reap their own financial benefits. But, as indicated previously, they remain dependent on the

* Simultaneously, the Soviets were conducting their airlift to Angola, which reached its peak in November 1975.

*The Chinese continue to participate in economic development projects in the region; in 1975, they had more civilian technicians working in both North and South Yemen than the Soviets and East Europeans combined. They are not involved in military programs, however, and have no military presence in the area.

West to purchase their oil, and they themselves look to the West for purchases, technology, and investment. The Soviets also continue to worry about a possible anti-Communist alliance in the area, directed by the US.

## C. Relations with Target States—Intangibles

### *Iraq*

While formal Soviet-Iraqi ties are fairly close at this point, relations between the two nations have always been complicated and frequently strained. This is partly because of differing approaches to the general Middle East situation. Iraq opposes both the Moscow-backed Geneva conference and Soviet acceptance of Israel's right to exist and supports the militant wing of the Palestinian movement. In addition, the Soviets have often found themselves in the middle as their two clients, Syria and Iraq, have clashed. Iraq's active involvement in the Middle East has thus served frequently to complicate rather than complement Soviet policy. Bilateral strains have also resulted from previously-mentioned differences over Iraqi domestic politics and from Iraq's keen nationalist sensitivities. Added to this have been Iraq's increasing wealth and ability to indulge its preference for Western goods.

The chronic Kurdish rebellion in Iraq, which flared up most recently between the spring of 1974 and March 1975, and the resultant Iraqi dependence on the USSR for arms provided the Soviets with a lever which they apparently exercised with some enthusiasm. They regulated the flow of equipment and ammunition to suit their own purposes. During this period, Iraq slowed its 1973 drift toward the West and again turned to the USSR for assistance in oil exploration and production, although it continued to purchase considerable equipment from the West.

The Soviets were very upset by the Iran-Iraq agreement of March 1975, which effectively ended the Kurdish uprising. They had lost their leverage and been excluded from the negotiations. They reportedly went so far as to ask the PDFLP to wage a propaganda campaign against Iraq, and the Iraqi Communist Party came out against the agreement.

The Soviets were also concerned by the possibility of collaboration between Iraq and Iran in a pact which might harm the Soviet position. The March accord had included wording regarding the exclusion of foreign influence from the area. The Soviets felt this was directed at them. Furthermore, in the spring of 1975, Saddam Husayn visited Tehran, and subsequent reports indicated that Iran and Iraq had agreed to discuss security in the Gulf.

While it seems highly probable that any formal cooperation between Iran and Iraq was doomed given those nations' differing views of what collective security in the Gulf should entail,* the Soviets were worried. They clearly felt that any agreement on Gulf security would be directed at limiting their influence and eliminating their presence from the Gulf—particularly from the use of port facilities in Iraq.

In June 1975, the Soviets reportedly told the Iraqis that they were suspending all action on outstanding military sales agreements with Baghdad. They linked the suspension to a demand for clarification of Iraqi policy in the Gulf, implying that any collective security agreement might limit Soviet access to the Gulf through the Straits of Hormuz. The fact that there were no major Soviet arms deliveries to Iraq reported between June and late August suggests that the Soviets may have suspended deliveries until they were sure that Iraq had changed its position. By late June 1975, the Iraqis had made it clear that they did not support Iranian initiatives on a Gulf-security pact. At that time, Iraqi President Ahmad Hasan al-Bakr publicly announced that he was opposed to the formation of any military or political organization by the Persian Gulf states.

The Soviets were also annoyed during mid-1975 by what they considered to be the watering down of the National Front government and the suppression of Iraq's Communist Party as well as by Iraq's expanding economic relations with the West. And they were upset by Iraq's attempts to smooth relations with its conservative Arab neighbors while its relations with another Soviet client, Syria, deteriorated.

While none of these situations had been relieved by mid-1976, the Soviets and Iraqis had at least found a common interest in their opposition to Syrian intervention in Lebanon. This intervention threatened

* Iran has wanted a collective security agreement in the Gulf both to gain the exclusion of both superpowers from the Gulf and to curtail Iraq's support for subversion. Iraq has wanted a guarantee of freedom of navigation in the Gulf in order to protect its own fleet from Iran's superior forces.

Soviet and Iraqi-backed leftist and Palestinian interests in Lebanon. In this instance, Iraq's pressure on Syria reinforced Soviet warnings to the latter. In June 1976, Kosygin visited Iraq as well as Syria, and while the visit did not resolve any of the outstanding differences between the two, the final communique carried implicit criticism of Syria in its endorsement of the view that the Lebanese should be permitted to resolve their own problems. In addition, the Soviets seem to have made some concessions to the Iraqis in the communique's section dealing with a Middle East settlement.*

### Iran

During the mid-1960s, the Soviets shifted their policy towards Iran, stressing rapprochement rather than belligerence. The new approach paid off as economic relations developed between the two nations and diplomatic contacts became more cordial. The gradual improvement appears to have peaked in the early 1970s, and, since late 1973, political relations have deteriorated, although economic dealings have remained strong. There are several immediate causes for the political decline, all of which have been mentioned previously; they include Iran's involvement in Oman, its rapid military buildup, and what the Soviets perceive as Iran's intention to serve as policeman of the Gulf. In addition, with its new wealth, Iran has been able to pursue its own economic objectives aggressively and has proved a tougher economic negotiator than was previously the case.

The Soviets have made their displeasure with the trend known in various ways. They apparently communicated it to Shah Mohammad Reza Pahlavi directly during his visit to Moscow in November 1974, and the communique issued after his visit was the coolest in some years. In addition, Soviet propaganda has been very critical of Iran's policies. And, in the sharpest indication of Soviet disapproval, Brezhnev completely failed to mention Iran in his report to the Soviet Communist Party Congress in February 1976. An Iranian official subsequently took note of the intended snub, commenting that this was the first time since Lenin that Iran had not been mentioned in such a report and that all other neighboring states had been referred to. A Soviet official in Iran stated at the time that this "spirit of silence" would prevail until Iran demonstrated its desire for friendly relations. Iran has thus far shown no inclination to change its policies as a result of Soviet pressure and, in fact, took a further step away from the Soviets in April 1976, when it broke diplomatic relations with Cuba because of the latter's expressed support for the banned Tudeh Party.

Shah of Iran is greeted in Moscow by Soviet leaders.

### South Yemen

The Soviets have scored their most distinct success in South Yemen, where a radical Marxist government came to power in 1967. But even here the situation has become more complex in the past several years as South Yemen has sought to smooth relations with its conservative Gulf neighbors in order to benefit from the rapidly increasing wealth of these nations. While the Soviets apparently encouraged South Yemen's initial attempts to gain conservative Arab financial support, there are indications that they are not pleased with South Yemen's rapprochement with Saudi Arabia in early 1976.

In 1974, as the conservative Arab states grew wealthy and as the Dhofar rebellion began to suffer defeats, even the radical South Yemeni leaders were torn between their ideological commitment to subvert the other states in the region and the potential benefits of modifying this support. Kuwait had reportedly offered financial assistance in return for such modification, and the other oil-rich nations were

* One of the standard Soviet positions, support for the right of all states in the area to exist, was omitted; and the reference to the withdrawal of Israeli troops from all occupied Arab territories did not specify 1967 as the benchmark date. These omissions did not represent a permanent Soviet change—simply a temporary gesture toward the Iraqis.

also potential donors. During 1974 and 1975, South Yemen did take steps aimed at mending its fences in the Gulf and broadening its contact with the rest of the world.*

The USSR reportedly encouraged South Yemen to move in this direction. The Soviet rationale was that South Yemen could pursue a two-tiered policy, appearing to modify its politics while in fact building up its strength, courting the rich Gulf states while

25X1 increasing subversion within Oman

25X1 In March 1976, after prolonged negotiations, Saudi Arabia and South Yemen announced their intent to normalize relations. In the spring of 1976, there were some indications that the Soviets were not happy with the agreement, and several East European diplomats expressed concern that South Yemeni President Ali was not sufficiently attuned to the Communist side ideologically and that he might have come under the influence of Egyptian President Sadat.

25X1 In spite of these apparent reservations, the Soviet position in South Yemen remains strong.

maintain an extensive presence in the PDRY armed forces, and the East Germans reportedly have influence within South Yemen's security apparatus.

### *North Yemen*

Soviet relations with North Yemen have fluctuated but on a generally downward spiral since the late 1960s. The Soviets had given considerable assistance to the revolutionary forces in North Yemen during the protracted civil war of the 1960s and were displeased when the forces they had supported compromised with royalist elements in 1967. Relations were further strained because of Soviet support for the new radical government in South Yemen in that year. Given the mutual antagonism existing between the two Yemens, the Soviets would have had trouble supporting each equally, and they clearly sided with the South. Some Soviet involvement in North Yemen has continued, however, because of the latter's dependence on Soviet military equipment and advisers and because of prior commitments and ongoing projects.

In recent years, there have been a number of reports of Soviet pressure on North Yemen to adopt a more pro-Soviet posture. The Soviets have keyed their approach to the vulnerabilities of North Yemen, which needs outside assistance, both economic and military, if it is to survive. The Soviets have on occasion threatened to hold back on military assistance; on other occasions, they have held out the promise of increased assistance. The North Yemenis have indicated that they believe the USSR has backed provocations on their borders with South Yemen.

This combination of implied threats to North Yemen's security and offers to help that nation resist such threats might well have been more effective if North Yemen had not received support and assistance elsewhere. By 1973, however, North Yemen was receiving some help from Saudi Arabia, several other Gulf states, and the US and was receiving multilateral assistance from the World Bank.

25X6 Throughout 1975 and 1976, North Yemen has tried to play the Saudis and Soviets off against each other.

* South Yemen had an additional motive—the hope that when the Suez Canal reopened Aden would once again become a major port. The PDRY was thus also anxious to re-establish ties to the shipping nations of the world. In fact, since the canal opened in June 1975, Aden has received less traffic than anticipated.

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In the absence of a positive Saudi response in November 1975, North Yemen agreed to discuss an arms deal with the Soviets. While details of these negotiations are not known, it is likely that North Yemeni leaders told the Soviets that such talks would preempt the Saudi deal. In any case, the Soviets are reported to have agreed to supply North Yemen with modern weapons, including MIG-21s, as well as replacement equipment. The initial Saudi reaction to these arms talks was reportedly one of annoyance; however, they agreed to a new plan of assistance shortly thereafter.

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The saga of the arms deal continued during 1976 and culminated in June 1976 with an apparent North Yemeni decision to accept no more Soviet weapons. The Deputy Commander in Chief of North Yemen's Armed Forces publicly stated on 16 June that his country would do without Soviet experts and that cooperation between the two countries was being suspended. He claimed that the Soviets had stopped supplying spare parts, but there is no evidence to support this. The deputy went on to give what was undoubtedly the real reason—that North Yemen had contracted for arms from the US, to be financed by Saudi Arabia. Thus, in mid-1976, the Saudis appeared to be conducting a successful effort to wean North Yemen away from the Soviets.

### *Kuwait*

The Soviet situation in Kuwait is in some ways the reverse of that in Iran. The Kuwaitis have not been in general as hostile toward the Soviets as some of their neighbors. Moreover, they have reckoned that they might benefit from closer relations with the Soviets if thereby they could induce the Soviets to reduce suppport for Iraq in the latter's border claims against Kuwait. But there is little common economic ground to be developed. The one point at which Soviet-Kuwaiti interests converge has been the Soviet desire for hard currency and the Kuwaiti desire to purchase arms. As indicated previously, agreement on such a purchase may have been reached.

## D. Leverage on Energy Questions

The Soviets have been frustrated in their efforts to inject themselves in a substantial way into the Gulf energy picture. While they are importing increasing quantities of oil from Iraq and gas from Iran, the figures involved are insignificant compared with the total energy exports of these countries. And, as noted, both Iran and Iraq have become increasingly tough about the terms of Soviet payment for the energy being purchased.

Soviet efforts to become more deeply involved in the logistical aspects of energy production also have been only slightly successful. They have given strong backing to Iraq's energy exploration and production, but there are indications that Iraq prefers Western technology in this area as in others and is contracting with Western firms for such operations. The Soviets have also been involved in some unsuccessful exploration in South Yemen. Otherwise their efforts have not borne fruit. In 1975, Kosygin reportedly suggested to Iranian Prime Minister Hoveyda that Iran and the USSR cooperate in manufacturing oil production equipment so that Iran and other nations could reduce their heavy reliance on the West; the offer seems to have fallen flat. Similarly, in January 1976, *Pravda* carried a major article suggesting that the USSR assist OPEC states in marketing and transporting their oil by helping in the construction of tankers and port facilities. This suggestion, confirmed by a senior Soviet foreign ministry official, has apparently received no response. In this, as in other economic areas, the Soviets seem to have little to offer the oil states.

## E. Access to Hard Currency

The Soviets have watched in dismay as the huge oil profits of the last several years have poured back into the US and West Europe for equipment and expertise. In addition, most OPEC holdings and investments are in the West; only 5 percent of total OPEC holdings were in Communist countries in 1975. Of the OPEC countries, only Iraq has sizeable holdings in the Communist world (some 30 percent of its total holdings). In fact, the Soviets have little means of

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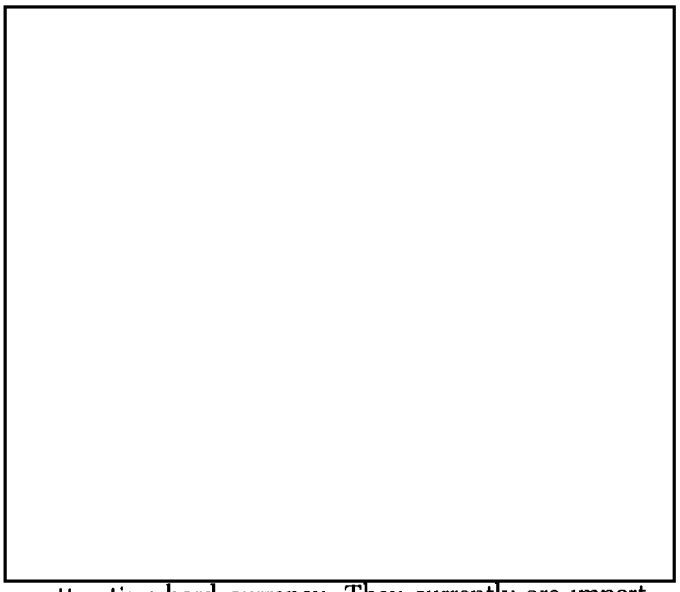


attracting hard currency. They currently are importing more from Iraq than they are exporting and the terms of their trade with Iran have been subject to considerable negotiation. Kuwait has indicated a willingness to extend loans at commercial interest rates to the USSR, and, as indicated, may have agreed to purchase arms. However the amounts involved remain relatively small.

### F. Revolutionary Image

With Chinese withdrawal of military support for the PFLO in 1973, the Soviets became the unchallenged outside backer of the "national liberation" struggle in the Gulf region. This can be little consolation at the moment given the low state of subversive forces in the area. However, there is little doubt that the Soviets, through their material support for these forces, have established themselves for the foreseeable future as the patrons of revolution in the Gulf.

## IV. PROSPECTS

### A. Prevailing Trends Work Against USSR

The gains which the Soviets have made in the Gulf/Peninsula region were made before the October 1973 Middle East war. As we have seen, since that war, they have accomplished little and, in fact, have suffered a number of setbacks. On the face of it, this is incongruous, as the Soviets appeared to have emerged from the war with enhanced prestige and the US with damaged relations in the region. In this particular case, however, US losses did not result in corresponding Soviet gains.

We have discussed various underlying factors which have contributed to the decline in Soviet fortunes since the 1973 war and which will probably continue to militate against Soviet gains in the region. The first is the basic antagonism towards the USSR held by both Iran and Saudi Arabia. When combined with the new financial independence of these nations, this antagonism becomes not only an effective obstacle to Soviet progress but an active force working to undermine existing Soviet influence.

Secondly, contradictory tactics will continue to impede Soviet penetration of the area. The Soviets will try to establish closer economic and political ties with the conservative nations of the region in order to limit Western influence and gain access to oil and hard currency. At the same time, they will continue to promote subversion in these nations—thus intensifying antagonism rather than encouraging responsiveness. Their continued pursuit of both courses will complicate the former without providing significant chances of influencing the latter.

The growing wealth of the Gulf countries will remain the third, and perhaps the most significant, long-term impediment to Soviet progress in the area. This is only partly because of the effect of new wealth on Saudi Arabia and Iran. Of far more long-term importance, as we have seen, is the fact that the Soviet Union has proved unable to attract any of this wealth to itself and has been largely excluded from the growing set of relationships and interdependencies developing between the rich Gulf states and the nations of the West. This wealth is also having a ripple effect on the poor nations of the area with which the Soviets have previously made their biggest gains. The wealthy Gulf states have begun to actively support the poorer nations of the area which oppose Soviet influence (e.g., Iran's support for Oman) and to obtain influence over the policies of the poorer nations which have been dependent on the USSR for assistance (e.g., Saudi Arabia vis-a-vis North and South Yemen).

And finally, reduced friction among the nations of the Gulf works to Soviet disadvantage. Conflict can act as a catalyst producing a need for Soviet assistance and ultimately presence and influence. For example, the degree of warmth in Soviet-Iraqi relations has

varied with the intensity of Iraq's conflicts with the Kurds and with Iran. Thus, it seems clear that future Soviet strength in the region will depend to a considerable extent on the stability of the region itself. As this is an area noted for local antagonisms and tensions, it seems likely that exploitable situations will occur from time to time in the years to come.

### B. Alternative Scenarios

While there is little indication that prevailing tendencies in the Gulf/Peninsula region are about to change significantly in the short-term, it is always possible that new events and changed circumstances will combine to alter the situation. The following scenarios are presented as conceivable eventualities—not as probabilities.

#### *1. Deterioration of Gulf-State Relations with US*

It is entirely possible that, for one of several reasons, the relatively close political ties between the Gulf-state nations and the United States could be disrupted. The most obvious and likely cause of this would be the outbreak of another Arab-Israeli war. While Iran's relationship with the US might be little affected, Saudi Arabia would undoubtedly identify closely with the Arab protagonists—and an oil embargo directed at Israel's supporters might well occur again. While the effects of such an embargo would depend on a host of variables—including the duration of the war, the Western response to an embargo, and the oil states' willingness to absorb continuing financial losses—it would almost certainly undermine Gulf-state relations with the West.

Whatever the damage to the West from an oil embargo, it is not clear that the Soviets would gain proportionally. They could not move in to fill any economic vacuum created, as they could neither pay for nor absorb the oil in which the Gulf states would be drowning. Their support would therefore be primarily verbal. While it is conceivable that they would pledge to defend the oil states in the event of threatened Western military intervention, this seems unlikely given Soviet recognition of the West's vital strategic interest in the matter. It is also unlikely that the traditionalist Gulf states would want Soviet military backing in such a situation.

The Soviet political position in the Gulf might improve incrementally, however, as a result of renewed Middle East fighting. Following the 1973 war, there was some sentiment in the smaller Gulf states for closer relations with the USSR, and it is possible that the Saudis and their smaller neighbors might establish relations with the USSR in order to put pressure on the West. Once in place diplomatically, the Soviets would certainly seek to expand contacts and develop commercial ties with these nations. It seems likely, however, that once the war and the embargo ended, the economic dynamics currently prevalent would again emerge. This, combined with continued regional antagonism towards the Soviets would serve to limit the extent of any Soviet rapprochement with these nations in the long-term.

It is also possible that relations between the US and the Gulf states could deteriorate for reasons less dramatic than renewed war. Political differences over matters such as the Arab trade boycott or the sale of weapons could well cause an increase in friction. In this case, once again, these nations, possibly joined by Iran, might choose to seek improvement in relations with the Soviet Union in order to put pressure on the US. Such moves for the traditionalist states could conceivably include the opening of diplomatic relations and the establishment of commercial ties. Iran, for its part, might choose to purchase increased quantities of Soviet military equipment—although its preference would probably be to deal with Western Europe. The Soviets would try to establish themselves as much as possible in the region and to maintain their contacts with dissident elements as well. Even in this case, however, the basic complementary nature of Western and Gulf-state relations would be working to pull the US and these nations again into a working relationship from which the USSR would continue to be largely excluded.

#### *2. Changes in Oil Terms of Trade*

In the next several years, there are unlikely to be any major developments (other than an embargo) which could sharply alter the oil balance of trade. Most developments in this respect are gradual and the adjustments to them take considerable time. Even sharply increased oil prices might produce only somewhat reduced consumption as the oil-consuming states have little alternative to buying their oil abroad. Over the next decade, however, the West could be motivated by high oil prices or major new oil

discoveries to increase its own self-sufficiency (by increasing oil production or by substituting other energy sources for oil). Should this result in reduced sales for the Gulf oil states, the latter would certainly be more interested in developing trade relations with the USSR. Similarly, should the Gulf states increase their oil production capability and production beyond Western purchasing capacity, they might also seek Eastern markets.

While the USSR is currently in no position to absorb large quantities of oil, this too could change in the next 10 years. It is in fact quite possible that the Soviets will continue to fall short of their oil production goals, that they will be either unable or unwilling to curb domestic consumption, and that they and the East Europeans will therefore have to purchase increased quantities of oil. For logistics reasons, they would certainly look to the Gulf for these purchases. While the oil producers are not likely to prefer selling to the East, given the lack of hard currency and attractive exports, they would undoubtedly bargain with the Soviets if faced with the loss of Western markets (as a result of an oil embargo or otherwise).

Should the oil balance of trade shift in this fashion, it would certainly have a significant effect on the structure of Gulf-state relations with both East and West. The fabric of economic interrelationships between Western and Gulf-state nations would be weakened and new ties between the Eastern bloc and these states would be forged. Political reorientation would presumably accompany the economic shift.

For a number of reasons, the above scenario is unlikely. For, while some of the necessary contingencies are possible, they are not likely to be of long enough duration, profound enough, or in the right combination to produce a dramatic shift in trade patterns. The oil states are not apt to price themselves completely out of Western oil markets. As far as a decrease in Western demand for Gulf oil is concerned, major oil discoveries take considerable time to develop and exploit, and the substitution of other energy sources for oil is a time-consuming and difficult process. Furthermore, many of the most important oil states do not appear inclined to increase their production radically; rather, they are concerned about conserving their chief, in some cases only, national resource. And it would be in the interests of neither oil producer nor oil consumer to permit a prolonged oil embargo. Finally, increased Soviet need for imported oil will be gradual rather than dramatic, and the Soviets will be in no position to replace the West as a major consumer of Gulf-state oil for many years.

While any dramatic increase in Soviet purchases of Gulf-state oil is therefore highly unlikely even in the next 10 years, it is probable that the Soviets will gradually increase their purchases and that the oil states will have enough capacity to sell them the desired quantities while maintaining their sales to the West. The preferred Soviet approach will be to invest in the oil production capacity of the oil states—as has already occurred in Iraq—with oil being the repayment commodity. This process is not likely, however, to substantially alter the economic or political orientation of the main Gulf states.

### *3. Internal Changes in Gulf States*

Given their apparent inability to improve their political position in the Gulf under current conditions and their lack of the assets necessary to make economic gains, the Soviets undoubtedly realize that their best chance of making significant breakthroughs lies in the overthrow of one or more of the conservative governments of the region. Saudi Arabia and Iran have made it clear that they would not tolerate such an occurrence in one of the small Gulf sheikhdoms, and it is highly unlikely that the Soviets would involve themselves in any but the most circumspect fashion should insurrection threaten in one of these states. They would, however, certainly be tempted to assist radical elements involved in an attempted takeover in Iran, Saudi Arabia, or Kuwait if they saw some prospect of their succeeding.

Kuwait is probably the most vulnerable of the three nations as it has permitted various dissidents from other Gulf nations to reside there and it has a large foreign (mostly Palestinian) labor force. Neither Saudi Arabia nor Iran would look favorably on a radical takeover in Kuwait, and either might intervene to prevent it. But this is not inevitable given Iraq's possible involvement, and it is conceivable that such a change could take place. In the event of insurgency in Kuwait, the Soviets might be prepared to funnel arms and other material support to the radicals through Iraq. The Soviets would clearly benefit politically from a radical takeover in Kuwait. Kuwait would be more open to Soviet influence and might become a partner with the Soviets in supporting radical ele-

ments throughout the Gulf. Radical causes in the area would receive a boost, both psychologically and financially.

There is little to suggest that the Soviets are optimistic about the chances for promoting radical change in either Saudi Arabia or Iran in the near future. Soviet commentary does not reflect any hope of internal Saudi upheaval, although there is an occasional reference to the growth of a modern working class and the influx of immigrant labor coupled with the assertion that this trend will eventually undermine the feudal-theocratic foundation of the nation. This line suggests an underlying Soviet belief that time will work to Soviet advantage. In the unlikely event insurgency should develop within Saudi Arabia, the Soviets would probably try to provide clandestine support to radical forces. Should such forces come to power in Saudi Arabia, the Soviets would benefit greatly. Saudi money, currently directed at preventing Soviet encroachment, would presumably be placed at the disposal of radicals throughout the Gulf, and the smaller Gulf sheikhdoms would be in considerable jeopardy of falling similarly into radical hands.

It is somewhat more possible that reformist elements amenable to dealing with the USSR would come to power in Saudi Arabia. In that case, the doors would probably open to the USSR in the smaller Gulf states as well, and with the establishment of embassy and consular offices, the Soviets would quickly become more visible throughout the area. They would undoubtedly use this presence to try to develop economic relations with the Gulf states as well as to expand their contact with leftist elements there.

While viewing the chances of either radical or reformist change in Saudi Arabia as basically long-term, the Soviets may meanwhile be hopeful that the current Saudi regime will make a modest shift towards the Soviet Union in order to offset its present one-sided relationship with the West. They may anticipate that in the event of renewed and intense Saudi-US friction, the Saudis would seek improved relations with the USSR in order to put pressure on the West.

Soviet relations with Iran are already far more advanced than those with Saudi Arabia, and efforts to promote closer ties with the Iranian government probably inhibit official Soviet commentary concerning the prospects for radical internal change in that country. While there is no evidence that the Soviets anticipate such change in the near future, they may consider it a possibility given Iran's large population and developing economy. The Soviets may have hoped at one time that Iran would move toward neutrality because of the Shah's determination to prevent any foreign domination of the area. But they have become increasingly disenchanted in the past several years.

Nonetheless, the potential for developments in Iran favorable to the USSR, particularly in the post-Shah period, appears somewhat more promising than in the other states of the area. As a more developed state than Saudi Arabia, Iran is more vulnerable to radical forces. Should a radical takeover occur, moreover, the Soviets are in a better position to benefit than they are elsewhere in the Gulf. Because of its larger population and rapid development, Iran continues to have more need of assistance and technology than its Gulf neighbors. A complex economic relationship has been developed between Iran and the USSR, and geographic proximity makes further cooperation feasible. Even without a radical change, Iran may become more deeply involved economically with the Soviets. Economic problems have arisen recently as a result of over-extension, and Iran may want to engage in additional cooperative ventures with the USSR in order to conserve capital.

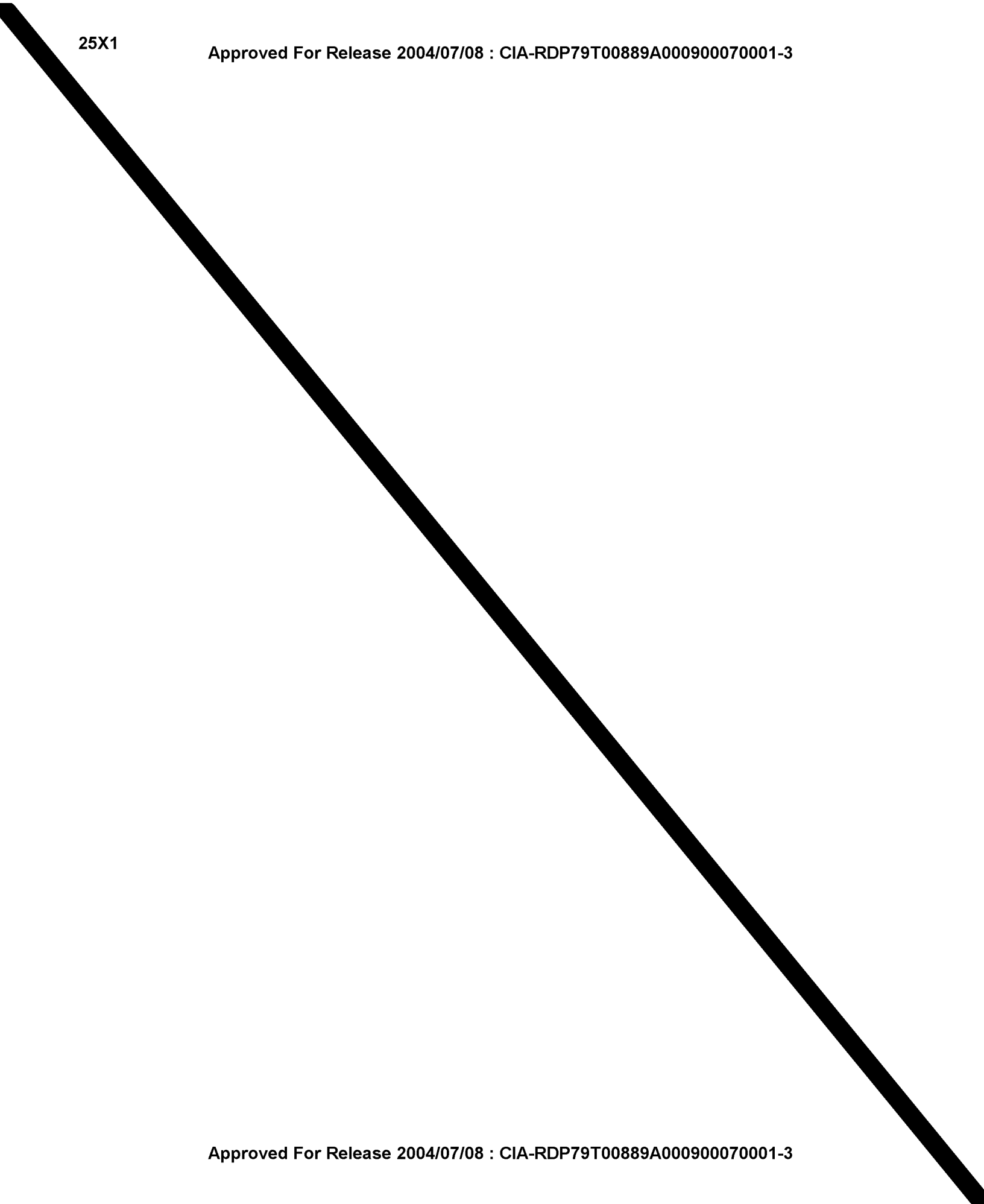
The Soviets obviously would have a great deal to gain from a radical takeover in Iran and would be strongly motivated to assist radical forces in the event of insurrection. Because of their common border, the task would be fairly simple. The Soviets would provide arms and material support to the radicals, but would probably refrain from having Soviet personnel become involved directly.

Should a radical takeover occur in Iran, the implications for Gulf politics would be extensive. Iran has overwhelming local military predominance and the ability to threaten navigation in the Straits of Hormuz. This has strategic implications for the West as well as for Iran's Gulf neighbors. What is now an active force in opposition to radical penetration would become a major proponent of such penetration—and a major obstacle to Soviet advancement in the region would be removed.

* * * * *

Having presented the worst-case possibilities for the major traditionalist Gulf states, it is essential to re-

emphasize that radical change in either Iran or Saudi Arabia is very unlikely in the next few years and in Kuwait only somewhat less unlikely. Furthermore, even should radical change occur, certain important factors would probably remain stable. The oil states would need to continue selling oil to the West and would probably continue to prefer Western equipment and technology. This, combined with traditionalist religious conviction, inherent distrust based on geographic proximity, and the desire for independence would limit the extent of a turn by any of these nations towards the USSR.



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