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PRC: Impact of Iran on the Persian Gulf

Thursday, 22 February, 1600

*ST/DC
22 Feb 1979*

Agenda

State Discussion Paper (with CIA input from Tabs A, F, G, and H)

TAB

- A Implications of Iran for Middle East Peace Negotiations
- B Implications of Iran for Saudi Arabia
- C Implications of Iran for Iraq
- D Regional Impact of Iranian Revolution; the Smaller Gulf States
- E Effect of Events in Iran on Turkey + Draft Paper: A Look Ahead
- F Implications of Iran for India
- G Implications of Iran for the Soviet Role in the Persian Gulf
- H Implications of Iran for Afghanistan
- I Implications of Iran for Pakistan + Selected Background

DOS and NSC review(s) completed.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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February 20, 1979

MEMORANDUM FOR: THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
CHAIRMAN, JOINT CHIEFS OF STAFF
DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Agenda for PRC Meeting: Regional Policy
Relating to Events in Iran
February 22, 1979 - 4:00 pm
White House Situation Room (C)

Following agenda will be the basis of discussion at this meeting. Additional background papers will be sent directly by the State Department: (C)

I. SAUDI ARABIA, GULF, EGYPT, JORDAN, ISRAEL

- Review of Harold Brown's Trip
- ✓ - ~~Preparation for Prince Fahd Visit~~ FAHD VISIT POSTPONED
- Assessment of Oman Minister of State's Visit

II. SOUTH ASIA

- Christopher Trip to India and Pakistan (including specifically review of what should be said on economic and military assistance to Pakistan and linkage with nuclear problem, reaffirmation of US-Pak 1959 agreement, and what can be said on debt rescheduling for Pakistan)
- Afghanistan (question of cutback on assistance)

III. - TURKEY

✓ Postponed per NODIS
JIDDA 1515 20 Feb

Christine Dodson
Christine Dodson
Staff Secretary

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DEPARTMENT OF STATE

Washington, D.C. 20520

February 20, 1979

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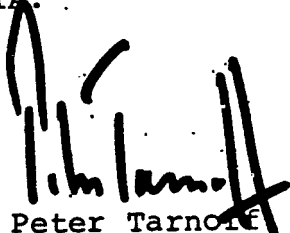
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MEMORANDUM FOR: THE VICE PRESIDENT
SECRETARY OF THE TREASURY
SECRETARY OF DEFENSE
NATIONAL SECURITY ADVISER
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
DIRECTOR OF CENTRAL INTELLIGENCE AGENCY ✓

SUBJECT: SCC Meeting on Iran

The attached paper is provided with NSC approval for the February 22 SCC meeting on Iran. It was prepared jointly by State/INR and CIA.


Peter Tarnoff
Executive Secretary

SECRET ATTACHMENT

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Regional Implications of Events in Iran

The collapse of the Shah's regime and the current uncertain situation in Iran are arousing serious concern among neighboring states. Moreover, the Iranian situation is having an impact on the peace negotiations, regional stability, and relations of various states with the US. Finally, the Soviets are likely to view the fluid situation in Iran as an opportunity for advancing their interests.

Middle East Peace

As a result of events in Iran, Egypt and Israel appear to be adopting more rigid positions on unresolved issues in the peace negotiations.

Although the upheaval in Iran has directly affected only one issue--Israel's desire to secure oil supplies from Egyptian fields in the Sinai--it has caused both sides to reconsider their approaches to negotiations in light of broader concerns, which include:

- the diminution of US influence in the region;
- the inspiration that religious revolutionaries in Iran have given right and left-wing extremists elsewhere; and
- the consequent potential for greater instability in the area.

We do not believe these concerns have eroded either side's fundamental commitment to continuing the peace effort. Nevertheless, both countries have been shaken by the fall of the Shah. They seem more determined than ever to protect their own equities and less inclined toward the kind of flexibility necessary to hasten the conclusion of a treaty.

Concern over US losses in Iran and the perception that Washington was either unable or unwilling to act in ways to protect its interests there seem to be at the heart of Egypt's greater caution and to have reinforced

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longstanding Israeli suspicions about the value of great power security commitments.

--Sadat's decision to embark on a high-risk pursuit of a peace settlement was based on a calculation of US power in the region and a belief that the US would be able to use those strengths to engineer a comprehensive settlement and to stand as its guarantor.

--Israel, although much less inclined to depend on the benefits of superpower guarantees, nevertheless has integrated its special relationship with the US into the basic assumptions underlying its peace moves. Although both sides have expressed some appreciation of our difficulties in dealing with rapidly unfolding events in Iran, confidence in US power and reliability has clearly been shaken.

We have detected an attitude emerging in Israel and Egypt of stricter self-reliance which contains the seeds of an uncertainty whether a treaty can be concluded which could withstand new shifts in the power balance and political currents in the region.

The tide of Islamic fervor in Iran, Khomeini's explicit endorsement of the Palestinians, and the collapse of the de facto security system in the Persian Gulf region have added significant pressure on Sadat to demand from Israel a more explicit commitment to a comprehensive settlement and respect for Egypt's sovereignty and pan-Arab obligations. Even before the crisis in Iran, the Egyptians were deeply disturbed by the force of Arab rejection of their independent dealings with Israel and particularly by Saudi Arabia's endorsement of the anti-Egyptian resolutions by the Baghdad summit. Now the Egyptians face:

--a coalition of Arabs spearheaded by Syria and Iraq, which has added reason in the wake of events in Iran to maintain an alliance;

--a Saudi leadership deeply worried about its increased vulnerability and seemingly less willing to risk taking positions unacceptable to the Palestinians and other Arabs;

--an emboldened Palestinian movement which is exploiting its relationship with Iranian revolutionaries in

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order to enhance its image as a force to be reckoned with; and

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--early signs of greater assertiveness among Egypt's own Muslim conservatives on such sensitive issues as Egypt's relations with the US, Israel's designs on Arab territory, and inequities in Egypt's political and social system.

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Sadat has countered these pressures with the argument that regional stability depends more than ever on a just Middle East peace settlement. Implicit in this argument, however, is a notice to the US and Israel that a stable peace must include greater satisfaction of Arab demands and greater assistance to Egypt and other moderate Arab governments. In addition, Egypt's perception that it is the best choice to replace Iran as the area's policeman appears to have led Cairo to conclude it has more leverage with Washington.

Israeli perceptions of the Iranian crisis seem to have reinforced their determination to nail down specific language and commitments ensuring that a peace treaty with Egypt outlives Sadat and minimizes as much as possible the need for US security guarantees. The Israelis have not substantively changed their negotiating positions, but they have in recent months dug in their heels more deeply over a number of issues they consider vital, including:

- guaranteed access to quantities of Egyptian oil equal to those Israel currently obtains from its operations in the Gulf of Suez;
- US commitments to provide generous financial assistance and advisory support to facilitate Israeli military relocation from the Sinai to the Negev;
- ironclad language in the treaty minimizing if not neutralizing Egypt's options to intervene on the Arab side in future Arab-Israeli conflicts.

The Israeli leadership believes that one effect of the Iranian crisis has been to deepen Egypt's reluctance to depart from Arab consensus attitudes. Dayan and others in the leadership anticipate that Sadat, in an effort to reaffirm his solidarity with Arab interests, had taken a

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tougher position on major negotiation issues still at impasse. This assessment has probably contributed to the stiffening of Israel's own negotiating posture.

Regional Stability

Iran's neighbors are deeply worried about the impact of the collapse of the Shah's regime on regional stability. They are particularly fearful that recent events in Iran will give the Soviets an opportunity for inroads and for spreading radicalism.

These concerns are increased by a perception that the US is not able or willing to look after American interests in the region and those of its friends as well.

Saudi Arabia

Events in Iran raise the question whether Saudi Arabia will face internal disturbances over the next few years that could destroy its social and political system. The similarities between Iran and Saudi Arabia include:

- a monarchy with virtually absolute power;
- a pervasive Islamic culture; and
- an expanding, development-oriented economy fueled by high prices for crude oil and accompanied by inflation, mismanagement, housing shortages, and corruption.

One of the most obvious differences between Iran and Saudi Arabia is the nature of the Saudi monarchy. In contrast to the Shah's one man rule, Saudi Arabia is ruled by a royal committee headed de jure by King Khalid and de facto by Crown Prince Fahd. Devoid of the pomp that surrounded the Shah, the House of Saud follows the much simpler traditions of the Arabian Peninsula that emphasize accessibility to its citizenry.

Moreover, the Saudi dynasty, unlike the Pahlavis, is widely regarded as legitimate. This legitimacy derives from the al-Sauds' historical role as unifiers of much of the peninsula, from their leadership of a purifying Islamic movement, and from their kinship with influential families and tribes.

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The position of religion in Saudi Arabia is very different from that in Iran. While Shi'ism considers the rulers at best the temporal stand-in for the messiah and at worst a usurper, the ruler in Saudi Arabia is viewed as the leader of the community of the faithful, whose commands are to be obeyed so long as they conform to Islamic law. The Saudi ruling family, therefore, has carefully avoided actions that might antagonize the religious establishment.

This cautious policy contrasts vividly with the performance of the Shah, who paid scant heed to the religious sensitivities of his subjects and who regarded the religious establishment as an obstacle to his reform program.

A remarkable degree of political, religious, and social consensus exists in Saudi Arabia. Few Saudis seriously question traditional values, and the Kingdom actively supports the reinvigoration of Islam elsewhere. This consensus obviates many of the tensions that have long plagued Iran. The continuation of this consensus, however, depends on the success of the Saudi leadership in achieving modernization without violating traditional values.

There is also in Saudi Arabia a high degree of economic satisfaction, even among students returning from abroad. There are economic and social inequalities, but the government is using its ample income to deal with these problems before they generate serious resentment. Iran, on the other hand, with much larger population, less money, and heavier military spending, was unable to build a Saudi-style welfare state. This created popular frustration and responsiveness to the revolutionary messages of the religious leadership and the opposition politicians.

Another important difference is the role of students. In contrast with Iran, Saudi students generally are politically inactive. Graduates returning from abroad are coopted by the assurance of employment and good chance of becoming reasonably wealthy.

What happened in Iran is unlikely to happen in Saudi Arabia within the next few years. Beyond that period, however, the outlook for Saudi Arabia is uncertain. By then, economic deterioration and social unrest stemming from the impact of rapid change may have become a serious problems.

Although the US and Saudi Arabia continue to share a strong mutuality of interests, the US-Saudi relationship is going through its most difficult period since the

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imposition of the Arab oil embargo in 1973. The collapse of the Shah's regime and the inability of the US to effect the situation in Iran are contributing factors.

The Saudis have particular difficulty discerning a strong sense of direction in US policies most directly affecting them--Free World security, energy, and the Arab-Israel problem. They think that US "isolationism" in the wake of Vietnam has gone on long enough and that it is time for the US to face up to its responsibilities as the protector of the Free World.

In the field of energy, the Saudis feel under US pressure to adopt production policies inimical to their own economic interests and to keep oil prices down with no commensurate sacrifices by the US. They note the absence of a comprehensive US energy policy, coupled with considerable public criticism if they fail to meet US requests on oil price rises.

It is over the Arab-Israeli peace process, however, that the strains have been greatest. The Saudis were disappointed with US peace efforts prior to November 1977 but have been greatly upset by events since the Sadat initiative. Though temporarily euphoric over the F-15 sale last spring, their distress had returned by the summer when they became convinced that the US was unwilling to apply sufficient pressure on Israel to produce significant progress.

Their reaction to the Camp David accords was even more negative. From the Saudi perspective, the accords did not contain enough Israeli concessions to produce a just peace, and they failed to reflect a strong US commitment to dealing effectively with what the Saudis consider the heart of the question:

--Palestinian self-determination, and

--the return to the Arab side of Gaza and the West Bank, including Jerusalem.

The Gulf States

The five smaller Persian Gulf states (Kuwait, Bahrain, Qatar, the United Arab Emirates (UAE), and Oman) are deeply concerned about the events in Iran which brought the issue of regional security in the Arabian Peninsula into sharp focus. Kuwait, traditionally the leader in advancing the

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idea of Peninsula cooperation, dispatched its Crown Prince and Prime Minister on a tour of neighboring states in December. The Bahraini Foreign Minister said recently that he is proposing "top level" meetings to discuss regional security. The Federal Council of the UAE called an extraordinary session to discuss the problems of the area.

The Gulf states see potential for trouble in several areas:

- The Yemen Arab Republic (YAR) and Oman are vulnerable to PDRY-based hostility.
- Conservative Shia nationalism could bring unrest to the small sheikhdoms on the western shore of the Gulf and to Saudi Arabia's eastern province.
- The large foreign populations in Kuwait, the UAE, and Qatar could be the source of civil unrest.

So long as the fears for regional security continue we can expect Peninsula states (except PDRY) to:

- pay more attention to internal problems which threaten stability, such as the Omani-UAE border dispute, ownership of Hawar Islands, and the quarreling within the UAE federation;
- look to Egypt as a source of military assistance (in the case of Oman and the YAR);
- keep closer watch on dissident nationals and foreign residents; and
- attempt to spread the benefits of oil income more widely to eliminate the dangerous economic gaps which now exist between the elite and some segments of native and foreign populations.

The image of the US standing by helplessly while nations fall to radicalism and communism is growing in the Peninsula. Nevertheless, these countries still look to the US for a large measure of political, psychological and military support to help each maintain its status quo.

They will seek US support but probably not a US presence. (The US, the UK, and other Western states are

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already heavily represented in the Peninsula.) Iran provides a lesson to the Peninsula states: a massive US presence does not guarantee stability.

A large US or Western presence could:

- give ammunition to critics of the Gulf regimes who charge that they are pawns of the West; and
- create problems for these countries in dealing with their more conservative Islamic communities.

Iraq

Events in Iran that have upset Arab moderates are no less unsettling to the Iraqi leadership. Although the collapse of the Shah's regime gives Baghdad an opportunity to acquire more influence in the Persian Gulf, this is a relatively long term possibility. In the meantime, the Iranian situation poses several problems for the Iraqis:

- Iraq's Shia population (55 percent of the total) may be emboldened by the events in Iran;
- Iraq had good relations with the Shah in the almost four years since Iraqi-Iranian relations began to improve. The Iraqis now face the prospect of dealing with Khomeini, the man whom they forced out of the country last year.
- The possibility that the Soviets will take advantage of uncertainty in the area or anarchy in Iran to extend their influence.
- The possibility that Saudi Arabia and the Persian Gulf states will side more closely with Egypt and the US, putting self preservation over their commitment to Arab goals.

To deal with the possibility of trouble from their Shia population, the Iraqis are resorting to their traditional approach of patronizing Shia religious activities while cracking down on expressions of political diversity. In addition, the regime is diverting economic resources from showy industrial projects to such basic needs as health, education, and housing. Much of this is intended for poorer Shias. Gambling has been curtailed, and Christian religious activities with evangelical overtones are being suppressed.

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The Iraqis will approach Khomeini and his associates gingerly. They will look for signs of hostility to Baghdad and evidence of activities among Khomeini's former contacts in Iraq. A recent Iraqi newspaper editorial may be a signal of Iraq's plans to solve this problem. The editorial said that the Iraqis had asked Khomeini to leave because of their policy of non-interference in the domestic affairs of other nations; not because they had acceded to the Shah's demands.

The Iraqi campaign against local Communists--and against the possibility of their use as a Soviet tool--has ranged from harassment to arrest and execution. The effects of this campaign were felt acutely after the coup in Afghanistan in which a government friendly to Iraq was overthrown by a Soviet-guided communist cadre.

In its external relations, Iraq will probably try to build on its image of what Baghdad calls "a closet moderate." Talks with the Syrians continue. Although some progress has been made toward better relations, events seem to be moving more slowly than Iraq wishes. Iraq's diplomatic initiatives have been welcomed cautiously by the Arabian Peninsula states. They are happy to see Baghdad using diplomacy rather than intimidation to accomplish its political goals.

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The Iraqis are upset that the effects of the Baghdad Summit--which was the principal vehicle for Baghdad's movement toward the Arab mainstream--are weakening. So far, Iraq is the only country that has paid its share of the subsidies and has been trying to get other states assurance that they will not support Egypt if it signs a treaty with Israel, another commitment from the summit.

The Iraqis are also fearful of events in Iran because of possible reaction by the great powers. They fear that:

--the demise of the Shah will bring an extension of US influence and an increase in US presence in the Arabian Peninsula; and

--a greater US presence will prompt the Soviets to respond.

An increased US military presence in Saudi Arabia would probably bring a sharp Iraqi reaction. Despite Iraq's interest in improving relations with the Saudis, the Baath Party's daily newspaper condemned the F-15 visit. The Iraqi

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reaction is not easy to predict, but stronger links with Syria would be a likely objective. Syria would not necessarily share this view, however.

This attitude toward a US presence stems from the Iraqi emphasis on freedom from foreign domination--an important tenet of Baathi ideology. The Iraqis will want the Saudis and other states of the region to hew to non-alignment and unified Arab opposition to Israel.

Turkey

Although they are concerned about the destabilizing potential of events in Iran, the Turks now see developments there more as an opportunity for obtaining the assistance they need than as a threat to Turkey. Contrasted to their Soviet and Arab neighbors, and now to Iran, the Turks regard their nation as an island of democratic, Western-oriented stability in a sea of hostility and potential chaos. They believe Anatolia's historic strategic importance has been reconfirmed and that the value of Turkish strength and friendship to the West has increased accordingly. This has heightened expectations of substantial amounts of economic and military aid.

At the same time, Ecevit's government has avoided moves that might antagonize the eventual winners of Iran's domestic conflict. Turkey did not derive any special security or economic benefit from the Shah's regime, bilaterally or through CENTO. But the border did not require the military assets devoted to Turkey's other frontiers. Ecevit hopes for friendly, or at least correct, relations with any strong central government in Tehran.

An "Islamic Republic" next door may cause some unease among Turkey's doctrinaire secular elite. But the conservative religious element in Turkey which might emulate the Iranian experience is Sunni. Its partisans feel no affinity, and probably a touch of hostility, for their Shia neighbors. Theocratic excesses in Iran will only add to Turkish faith in the superiority of the secular system Ataturk created over 50 years ago.

The Turks perceive that the most worrisome aspect of the current situation in Iran would be a breakdown of central authority that could lead to Azerbaijani or Kurdish mini-states. Most Turks fear this could encourage separatism among Turkey's Kurdish population. Turkish military forces along the border have been reinforced to interdict cross-

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border tribal movements and gunrunners taking advantage of the collapse of the Iranian security forces. So far, however, there is no evidence that the urban violence in Turkey has been encouraged directly, or by example, by any of the competing factions in Iran.

A possibility that may cause Turkish military planners more concern is that of a pro-Soviet government emerging in Tehran. The Turks are confident that they can handle any internal or external threat in their region except one from the Soviet Union. They will argue that the Iranian situation makes all the more important the acquisition of modern military equipment to meet their NATO force goals.

Events in Iran seem to have had little impact on Turkish confidence in the US as an ally. The Turks would not be unduly alarmed by Iran's withdrawal from CENTO. They have never regarded CENTO as a valid defense alliance and look to NATO and the US for the assistance they need against a Soviet threat. Indeed, a stronger US role in support of the Shah might have fanned latent, but widespread, fears of US intervention in Turkish affairs. The Turks believe that neither the US nor the Soviets had significant influence over the events of the past year in Iran. They hope this remains true in the future.

Afghanistan

The leftist Afghan regime probably views the events in Iran as a mixed blessing. On the one hand, the pro-Soviet People's Democratic Party of Afghanistan would welcome the demise of CENTO, a weakening in Tehran's ties with the West, and the eventual installation of a leftist government in Iran. Afghan leaders believe that the Shah's government was involved with insurgent groups inside Afghanistan, and have been unhappy that Iran has not implemented massive aid programs discussed several years ago.

On the other hand, the toppling of a government in Iran by Muslim conservatives is hardly an encouraging sign for the increasingly unpopular Afghan regime. Khomeini has been outspoken in his criticism of the "godless, communist" Taraki government. Since seizing power last April, the PDPA has been challenged by Muslim dissidents who believe the regime is Communist, and therefore athiest. The Muslim Brotherhood claimed responsibility for several assassinations and acts of sabotage last year. The regime arrested approximately 150 Muslim leaders earlier this month. The victory of

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Khomeini may well be seen in Kabul as likely to encourage further Muslim opposition to authority on the Afghan side of the border.

Should the new government in Tehran be unable to establish its authority quickly throughout Iran, the present government in Afghanistan might be tempted to meddle in Iranian affairs. One of its most obvious targets would be the Baluchi minority in Iran, which has long resented control from Tehran; fellow tribesmen constitute a large minority in southern Afghanistan. The border between the two nations is long and regarded as porous to infiltration. Strong countervailing pressure against intervention in Iran at this time, however, comes from the Afghan government's internal problems--in particular, its inability thus far to eliminate armed opposition within the eastern provinces.

The heavy reliance of the present Afghan government on the Soviet Union is firmly established. It is probable, therefore, that Kabul, in its relations with Iran, will continue to be guided by advice from Moscow; in any case the Afghan attitude toward the Khomeini regime, is unlikely to deviate greatly from the attitude of the USSR.

Pakistan

The turmoil in Iran is very unsettling to Pakistan leaders. Pakistanis are concerned about the loss of the strong support the Shah gave Islamabad in economic aid, in Pakistani's regional disputes, and in controlling rebellious tribesmen in Baluchistan.

The Shah maintained a strongly pronounced "pro-Pakistan tilt," especially toward Afghanistan and India. The Shah resented the Indians as his main rivals for influence in South Asia, quarreled with the Afghans over smuggling, borders, and development, and distrusted them both for their close ties to the USSR. His consequent backing for Pakistan, where fear of Afghanistan and India is almost paranoid, therefore came naturally.

Pakistan depended on Iran for moral support and financial aid. President Zia visited Tehran to consult his ally no fewer than four times after he took over in July 1977. Iran deferred \$260 million of Pakistan's debt in a sympathetic gesture, while other donor countries were refusing to reschedule. The Shah made unequivocal statements after the 1971 Indo-Pak war that he would come to Islamabad's aid if any country attempted to dismember Pakistan (he would

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have wanted to insure Iranian hegemony over Baluchistan). This reassurance that the Shah would physically aid Pakistan in a conflict against India was highly valued in Islamabad.

Under a Khomeini-backed regime, the Pakistanis can no longer expect such aid. The close support of Pakistan by Iran, while not likely to turn into enmity, probably will become less pronounced for several reasons:

--The Shah's "Forward Policy" of extending Iranian influence in the region has vanished; as such, Pakistan can expect less attention from Iran on all fronts--political, economic, and military.

--The Indians have been quick to establish good relations with the Khomeini faction; they sent emissaries to Paris early in the game to propound their point of view.

--Zia has publicly supported the Shah, but two religious parties in Pakistan made statements supporting Khomeini.

--Khomeini's attitude toward Pakistan has not been made crystal-clear, but he has made at least one reference to the Zia government as "corrupt."

Nevertheless, Islamabad believes it can get along with nearly any leadership in Iran, except a strongly leftist one. Pakistan has certain bridges to Iran:

--Afghanistan's belligerent posture and perceived designs on the Baluch and other tribal groups worry both countries;

--the Islamic policies of both governments, despite Khomeini's comments;

--both governments share an interest in a pan-Islamic movement; and

--both distrust communism and the Soviets.

While the uprising in Iran probably will not directly affect the internal situation in Pakistan, Islamabad will view it as damaging to regional security. Already feeling isolated, Pakistan will become even more anxious and hence probably more determined to obtain a nuclear weapon "equalizer."

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The Shah's downfall will lower the level of Pakistan's confidence in the West and the US. Islamabad already feels that the US abandoned it by failing to supply arms or to support Pakistan in the last two wars with India. The Pakistanis have been talking for years of getting out of CENTO and will probably make this move now that Tehran announced its intention of leaving.

This is not to say, however, that Islamabad will move toward to the Russians. Even if it wanted to, Moscow has too much invested with India and Afghanistan to risk a serious flirtation with Pakistan. For its part, Islamabad's trump card since the late 60's has been its close ties to Peking, something it does not wish to weaken. While both the USSR and Pakistan may make motions toward closer ties, they will be careful to avoid alienating present friends.

India

New Delhi's swift recognition of the Bazargan government on February 12 is an attempt to get off on the right footing with the new Iranian regime which Indian officials fear will be less favorably disposed toward India than was the Shah, particularly during the last 5 years of his rule.

In recent months, India has been concerned that the surge of Muslim fundamentalism will promote instability in the Persian Gulf region, decrease prospects for better relations between predominantly Hindu India and its Muslim adversary, Pakistan, and foil India's ambition to play a more influential role in the Indian Ocean/Persian Gulf region.

Although religious affinity linking India with the Muslim world is absent, New Delhi was making progress, after the onset of the oil crisis in 1973, toward improving relations with Pakistan and its Muslim neighbors in the Gulf.

Indian overtures toward Iran were reciprocated by the Shah, despite his suspicion of India's close ties with the USSR. New Delhi, for its part, was apprehensive that the Shah's support for Pakistan could entail the transfer of military equipment to that nation in the event of another Indo-Pakistani war. The Indians were also wary of the Shah's apparent determination to dominate the Gulf and possibly to extend Iran's naval influence into the Indian Ocean. An Iranian blue-water navy, New Delhi feared, would be used to support Western political objectives and thus exacerbate super-power rivalry both in the Indian Ocean and in the littoral states.

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Nonetheless, India's need for crude oil imports and its recognition of the Gulf's vast trade and market potential motivated Indian diplomats and businessmen to intensify efforts to establish closer ties with the Persian Gulf states.

Iran has traditionally supplied India with oil and petroleum products in return for minerals, jute, tea, and skilled and unskilled manpower. The upswing in economic relations since 1974, however, has involved a broader range of Indian exports, including aluminum, steel, cement, transmission towers, and power generating units.

Iranian funds for completion of the \$700 million Kudremukh iron ore project and for three other proposed joint-venture projects in India now may be in jeopardy. New Delhi is generally apprehensive about the prospects for economic relations with the new Iranian government, fearing its first priority will be to move closer to Islamic countries. Of immediate concern to New Delhi is the interruption of Iranian oil exports--6.5 million tons were expected to arrive in India in 1979. (India's total crude oil requirements for 1979 are 30 million tons, of which 16.5 were to be imported.) The UAE and Iraq have agreed to increase their exports to India, but New Delhi claims to still will face a shortage of 4.5 million tons, with some .5 million tons urgently needed within the next three months. New Delhi has asked the US to encourage the Gulf States to be more responsive to India's needs.

According to Indian estimates, several thousand of the estimated 25,000 Indians in Iran have recently returned home. A massive exodus of Indian workers from Iran and other Gulf States, where the bulk of Indian expatriates are working, would substantially reduce the flow of foreign exchange into India, which, with the rise of Indian exports to the region, has contributed to India's record foreign exchange holdings.

New Delhi's outwardly optimistic attitude toward the new Iranian government masks an underlying sense of regret at the sudden turn of events. In the last several years, India had come to view the Shah as an important force for regional stability, partly because he has prevailed upon Pakistan not to escalate tension with India and with Afghanistan. Now the Indians fear that the new Tehran government may revert to the older Iranian policy of strongly favoring Pakistan over India. New Delhi is

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particularly concerned that Iran might supply sophisticated weapons to Pakistan and thus encourage Pakistani intransigence vis-a-vis India.

The Indians are doing what they can to avoid a downturn in relations. In January, two Indian emissaries visited Khomeini in France to express Prime Minister Morarji Desai's greetings and India's desire for continued good relations with Iran. Khomeini reportedly said nothing to discourage the Indians and promised an even better economic relationship between the two countries. While the Indians welcome Khomeini's commitment to non-alignment, New Delhi probably is more concerned at this point about the consequences of protracted political turmoil in Iran. India fears that a continuation of unrest in such a strategically important state invites super-power interference. New Delhi, moreover, is apprehensive that a radical leftist state might eventually emerge and such a state would undermine the regional stability that India is trying to build.

Soviet Union

The Khomeini revolution offers Moscow both opportunities and difficulties. The Soviets had always considered the Shah a conservative leader who had built Iran into a Gulf region power and who had worked against Soviet interests. They attributed an anti-Soviet purpose to the Shah's foreign policy, such as his:

- links with the US, Pakistan, and the conservative Persian Gulf states;
- acquisition of sophisticated military hardware and the increased US military presence;
- efforts to improve ties with Iraq which were designed to reduce Soviet influence in Baghdad;
- successful efforts to suppress the Dhofar insurgency in Oman which the Soviets had supported;
- military assistance to Jordan and Pakistan which represented an effort to forestall Soviet influence in the area; and
- sponsorship of a Persian Gulf security pact and an Indian Ocean "zone of peace" which were certainly viewed by the Soviets in a similar context.

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The new regime will almost certainly reverse or cut back on most of these initiatives and will embark on policies that will be less threatening for Soviet interests in the area. Both Khomeini and Bazargan have long advocated a non-aligned foreign policy.

On the other hand, the new government's ideological orientation is anti-communist and anti-Soviet. Moreover, the Soviets are the most direct threat to Iranian independence and the very nationalistic Khomeini regime is likely to be very chary of any Soviet advances in the region.

In a prolonged period of change in Iran, the Soviets would be increasingly inclined to back those forces which they considered sympathetic to their own interests. There are indications that the role played by the Tudeh Party and other leftist elements is growing, and a continued state of instability would provide an atmosphere conducive to the organization and growth of such forces. The Soviets will probably not try to establish direct contacts with the terrorist groups currently operating in Iran, and both the USSR and the Tudeh have already criticized the use of terror as a tool.

The Soviets will have to move cautiously to exploit these new opportunities in the Gulf area, however, because key Arab states already perceive an expansion of Soviet influence in the area. These concerns have been heightened by:

- the toppling of the non-aligned Afghan government in April by a Soviet-trained army;
- the assassination of the North Yemeni president by a South Yemeni, and the coup in South Yemen in June that brought to power a leadership more receptive to the Soviet leadership;
- the Soviet-Ethiopian friendship treaty in November which will lead to closer bilateral ties and an expanded Soviet presence in Addis; and
- the internal explosions in Iran as well as the increase of radical leftist activity on the heels of these other events.

The Soviets appear to realize that they must position themselves carefully in order to exploit the opportunities that stem directly from the chaos in Iran. Moscow's first

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steps to date suggest that the Soviets will resort to a public approach designed to reassure the regional states of the USSR's peaceful intentions.

--In late January, the Soviets sent the director of their foreign ministry's Middle East Department to Kuwait, Iraq, the Yemens, Jordan, and Lebanon to stress Moscow's opposition to foreign intervention in the "internal affairs of another state."

--An authoritative article in Literary Gazette on January 31 encouraged Saudi Arabia to reconsider its hostility toward the USSR and to rethink its "special relationship" with the US.

The sensitive question of border security with countries that share nationality groups with the Soviets--such as Turkey and Iran--may be another reason for the Soviets to avoid hasty responses to the current turmoil in the Islamic area.

Some trends in the region will be favorable to the Soviets even if their responses are minimal. The US and West Europe are already faced with higher oil prices. Soviet allies in the area--particularly the Libyans, the South Yemenis, and the Palestinians--will have high-level contacts with the Khomeini government, and presumably serve as advocates for the USSR.

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