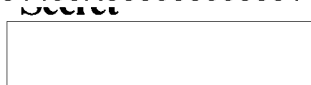


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Gulf Arab States: Coping With Peace



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An Intelligence Assessment

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Gulf Arab States: Coping With Peace

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An Intelligence Assessment

This paper was prepared by [Redacted]
[Redacted] Office of Near Eastern and South
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Comments and queries are welcome and may be
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**Gulf Arab States:
Coping With Peace**



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Key Judgments

*Information available
as of 6 October 1988
was used in this report.*

The Gulf Arab states are likely to emerge from the Iran-Iraq war stronger and more unified than at any time in their modern history. They will continue to rely on a combination of diplomacy, financial inducements, and political accommodation to influence the regional balance of power and offset their military weakness. The Gulf states view an end to the war as an opportunity to normalize relations with Iran and to use these ties to balance their relationship with Iraq. An end to the conflict will not allay Gulf concerns about potential threats from Iran, however, and will prompt renewed worry about Iraqi ambitions.



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The conclusion of the war will have a mixed impact on the internal stability of the Gulf states. Tensions between Shias and Sunnis are likely to decrease, but socioeconomic problems, including rising unemployment, cuts in social services and subsidies, Islamic fundamentalism, and a lack of political participation are likely to become greater sources of potential discontent.



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An end to the conflict will have a varied impact on the economies of the Gulf states. These economies probably will be reinvigorated by renewed trade with Iran and Iraq, as well as by commercial opportunities presented by reconstruction efforts. Although they probably will reduce some forms of aid to Iraq, the Gulf states will provide assistance to Iraq as well as Iran as part of a reconstruction fund, which we estimate may amount to roughly \$20-40 billion. An increase in oil production by Iran or Iraq would put downward pressure on oil prices, further troubling the Gulf states' oil-dependent economies.



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The Gulf states will continue to support the Gulf Cooperation Council (GCC) and cautiously expand cooperation as a counterbalance to Iraqi and Iranian influence in the region. A coordinated postwar GCC regional policy toward Iran and Iraq is unlikely, however, because current differences over how to deal with Iran will probably continue. The Gulf states will resist Iraqi pressure to join the Council after the war, but both Iran and Iraq may demand—and obtain—trade privileges that will provide economic benefits without a voice in GCC political or military matters.



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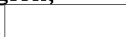


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The Gulf states will work to improve their defensive capabilities against long-term Iraqi and Iranian military threats, but they could not defend successfully against a major attack from either Iran or Iraq during the next decade. In addition to diversifying their military suppliers, Gulf Arabs will try to develop broader regional political and security relationships outside the GCC framework with Western Europe and moderate Arab states, and reduce their overt reliance on US protection. 

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The Soviet Union will continue to expand its presence in the Gulf states, including efforts to improve its diplomatic position with Saudi Arabia and Bahrain and to secure a larger niche in the GCC arms market. Gulf leaders generally view a measure of Soviet involvement in the region as useful and are becoming more receptive to Soviet offers of closer ties. Moscow's attempts to translate these gains into significant influence, however, will continue to be limited by lingering suspicions of Soviet intentions among conservative Gulf leaders and the attraction of Western technology. 

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The Gulf states will see less need for intense or expanded security cooperation with the United States after the war but will continue to support a low-profile security relationship to bolster their defenses against long-term Iranian and Iraqi threats. Despite a broadening of security cooperation brought about by the US escort program, the Gulf states will continue to avoid close public alignment with US policies in the region, particularly those dealing with the Arab-Israeli conflict. Discretion   will remain fundamental for future cooperation, precluding highly visible security arrangements with the United States. Gulf leaders will continue to view US willingness to sell them sophisticated arms as a test of Washington's commitment to their security. 

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Scope Note

This paper analyzes the impact of a negotiated settlement of the Iran-Iraq war on the political, military, and economic policies of the Gulf Arab states and on their relations with the United States and other key countries. The discussion is presented in a question and answer format and reflects what we believe will be the key issues facing the United States in its relations with the Gulf Arab states in a postwar environment. [Redacted]

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Discussion of the Gulf Arab states—Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman—as a single bloc does not imply that they will act alike. Instead, this approach reflects the commonality of thinking and perception of national interests that recently have bound them together and sharply distinguishes them from Iran and Iraq. We will highlight significant differences. [Redacted]

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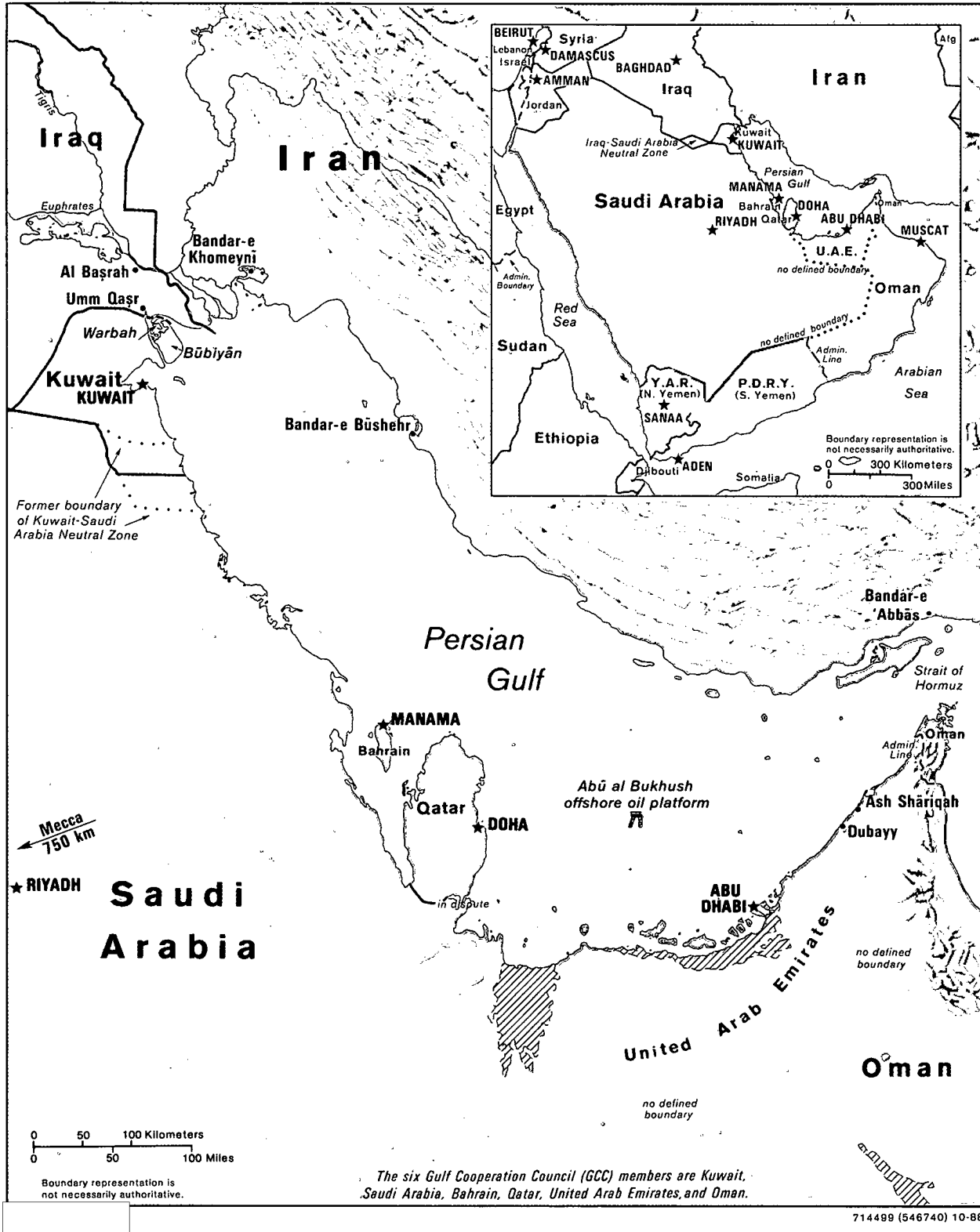
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Figure 1
Gulf Arab States



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**Gulf Arab States:
Coping With Peace**



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The Postwar Environment

We judge that a negotiated settlement to the Iran-Iraq war will not improve relations between Iran and Iraq beyond a "cold peace" even if the two countries sign a full peace treaty. Tension, distrust, and occasional low-level conflict will be the norm for future Iraqi-Iranian relations as it has been historically. Nonetheless, Baghdad and Tehran are likely to re-focus their energies from the battlefield to diplomatic competition for a dominant role in the region:

- *Iraq.* If UN Resolution 598 is fully implemented, Baghdad will see itself as victorious and as the dominant regional political and military power. Iran will remain Baghdad's primary security threat. Iraqi leaders will expect Gulf Arabs, especially Saudi Arabia and Kuwait, to acknowledge Baghdad's political leadership and will expect continued financial support in return for defending the Arabian Peninsula against Iran.
- *Iran.* Although Iran's postwar strategy will be heavily influenced by internal political developments and the pace of reconstruction, it is likely to seek political accommodation with the Gulf states. Iran's objective will be to draw the Gulf states away from Iraq's political orbit by demonstrating friendly intentions and the mutual benefits of normal trade and commercial links.

We expect that both Iraq and Iran will occasionally use heavyhanded measures, including subversion and military posturing, to gain compliance from the Gulf states and to demonstrate their regional power.

Will the Gulf States Contribute to War Reconstruction?

The Gulf Arab states probably will finance a portion of reconstruction costs for Iran and Iraq as part of a negotiated settlement.

we estimate that the Gulf states may be willing to contribute roughly \$20-40 billion for this purpose. Partly to demonstrate their sincerity

in normalizing relations with Iran, the Gulf states probably would skew their payments in favor of Iran, although they are still unlikely to meet Tehran's inflated expectations. Baghdad would continue to receive some payments, but at a much lower rate than the roughly \$2 billion received annually during the past few years. The Gulf states almost certainly will want to limit cash transfers, which have increasingly been a strain on their budgets, and may look for alternative ways to provide financial relief, including increasing OPEC quotas for both Iran and Iraq. (See figure 13, foldout in back.)

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The Gulf states probably view participation in the reconstruction of Iran and Iraq as a way to guarantee an end to the war and influence the postwar environment. Gulf leaders probably hope their financial leverage will:

- Ensure continued peace and prevent postwar economic problems from destabilizing these two neighboring regimes.
- Lessen the inclination of either Iran or Iraq to pursue policies hostile to the Gulf States.
- Limit the temptation for Iran or Iraq to produce oil above their quotas and maintain price stability in a soft oil market.

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Of the six Gulf Cooperation Council (GCC) states, Saudi Arabia, Kuwait, and the United Arab Emirates are the most likely to contribute to a reconstruction fund, but they may offer their assistance under the umbrella of the GCC to demonstrate Gulf unity. The United Arab Emirates' contributions probably will be considerably more modest than those from Saudi Arabia or Kuwait because it is less wealthy than these two states, and Abu Dhabi will have to carry the burden for all the emirates. Qatar may make token contributions. Bahrain and Oman receive significant amounts of financial assistance from other Gulf Arabs and are unlikely to contribute to a reconstruction fund.

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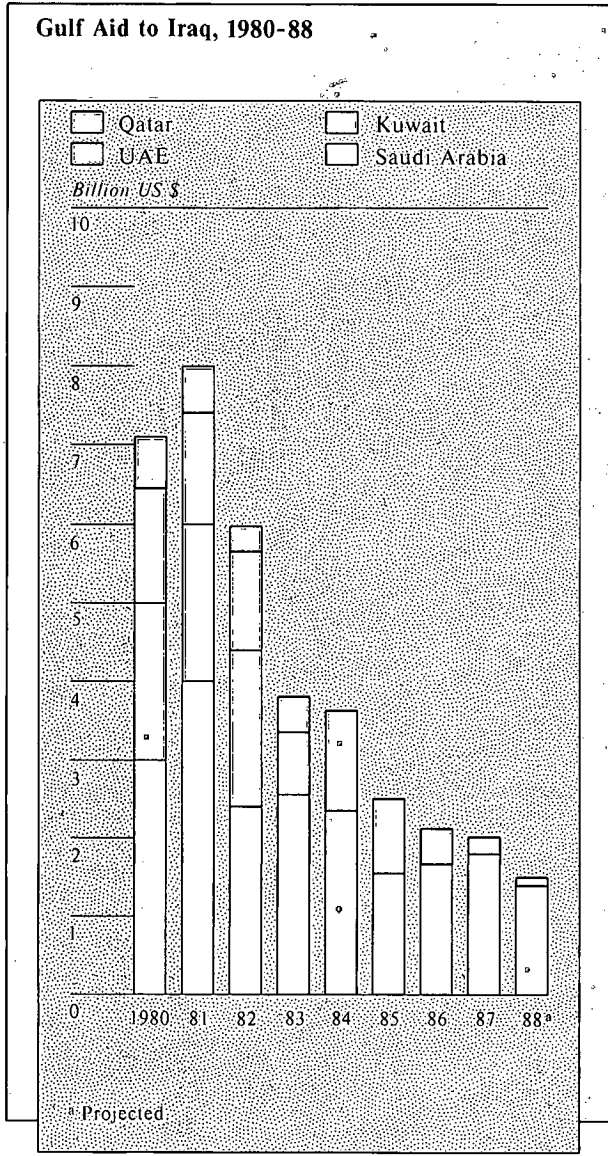
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Figure 2



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Even if Tehran and Baghdad obtain large financial commitments from the Gulf states, we do not believe they will be fully honored. We believe Kuwait and the United Arab Emirates, in particular, will gradually withhold or curtail their support after an initial period of contributing. We believe the dwindling support

Kuwait and the United Arab Emirates have given to the Arab confrontation states against Israel over the years sets a precedent for aid to Iran and Iraq.

How Will the Gulf States Adjust Their Relations With Iran and Iraq?

The Gulf Arabs almost certainly view an end to the war as an opportunity to normalize relations with Iran and to use these ties to balance their relations with Iran and Iraq. They will remain concerned about the threat from Iran but increasingly will be fearful of Iraqi ambitions in the Gulf. Although the Gulf states are likely to emerge from the war stronger and more unified, we believe they recognize their relative military weakness and will use a combination of diplomacy, financial inducements, and political accommodation to influence developments in the region. Although sharing common security concerns, the differences that have sometimes marked the Gulf states' separate approaches to Iran and Iraq during the war are likely to persist.

Fearing that Tehran's acceptance of UN Resolution 598 is tactical, the Gulf states will be skeptical that a negotiated settlement will last. Gulf leaders reacted with a mixture of relief and caution when Iran announced its acceptance of UN Resolution 598 in July, according to US Embassy reporting. We expect the Gulf Arab states, particularly Saudi Arabia, Kuwait, and Bahrain, to be slow to respond to Iranian overtures of friendship. The Peninsula states aligned themselves to varying degrees with Iraq during the war because they believe that only Iraq could thwart Iranian expansionism and Shia activism in the Gulf. They are unlikely to end their financial support for Iraq until they are convinced that Tehran no longer poses a near-term threat.

Saudi Arabia will set the pace for the other Gulf Arabs in their relations with Iran and Iraq after hostilities end. Riyadh will probably seek to chart a path of political balance between Iraq and Iran for the Gulf states to follow. The Saudis will reassure Iraq of their strong support while opening channels to Iran. Relations between Riyadh and Tehran have been

complicated severely by tension over Iranian political activity at the Hajj—the annual Muslim pilgrimage to Mecca—oil policy, and Riyadh's severing of diplomatic relations last spring. We believe, however, the Saudis will try to encourage Iranian moderation by restoring diplomatic ties and by opening up trade and commercial channels with Iran. [redacted]

Most Gulf leaders believe that the war disrupted the balance of power in the region, forcing them to align themselves too closely with Iraq for protection against Iranian aggression. As a militarily weak power bloc, they will try to play off one strong neighbor against another. We believe that Gulf states efforts to improve ties to Iran will depend largely on Tehran's willingness to abandon its support for subversion and terrorism in the Gulf. [redacted]

The Iranian clerical regime's influence among the Peninsula's Shia population will continue to be viewed as a potential long-term source of regional instability. The Iranian revolution has aroused Peninsula Shias and encouraged them to seek redress of grievances arising from Sunni dominance. Although most have been co-opted by Gulf regimes, the Shias are economically, socially, and politically disadvantaged compared to the Sunni Muslims. Gulf leaders are probably most concerned that, after years of Iranian support and propaganda, dissidence among these groups may be self-sustaining. [redacted]

The Gulf states also remain extremely wary of Iraq, which some Gulf leaders, particularly the Saudis and Kuwaitis, regard as a greater long-term threat than Iran. Iran's capture of Iraqi territory and Tehran's bellicose stance toward the Gulf states have only temporarily eclipsed Gulf fears of Baghdad's trouble-making potential. Gulf leaders clearly recall Iraqi support for Gulf subversive groups in the 1960s and 1970s and the kidnappings and assassinations of opponents of the Baghdad regime by Iraqi intelligence operatives in Kuwait. Iraq's desire for improved access to the Gulf, which would entail pressing long-standing territorial demands on Kuwait is likely to lead to tension with Kuwait and the other Gulf states. [redacted]

Iraqi Territorial Claims on Kuwait

Iraq's territorial claims on Kuwait were a frequent source of tension before the Iran-Iraq war.^a Iraq has only about 80 kilometers of Gulf coastline. Its experience during the war—the closure of Al Basrah, the Iranian seizure of Al Faw, and Iran's blockade—further convinced Baghdad of its vulnerability in that area. It also increased the strategic importance of the Kuwaiti islands of Bubiyan and Warbah, which have long been claimed by Iraq. Because Kuwait supported Iraq in the war, however, Baghdad temporarily shelved these territorial claims. [redacted]

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Shortly after Iran accepted UN Resolution 598 in late July 1988, Kuwait moved quickly to initiate talks with Iraq about security issues related to the demarcation of the border, according to the US Embassy in Kuwait. Kuwait and Iraq are also considering joint projects to decrease the salinity of the Shatt al-Arab and bring additional fresh water to support Iraqi agriculture in the area. Kuwait probably hopes that cooperation in developing the border area during the postwar period will encourage Baghdad to accept Kuwait's territorial integrity. [redacted]

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Despite Kuwait's intentions, two unresolved issues could lead Baghdad to revert to its prewar bullying of Kuwait:

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- *Baghdad's continuing claim to Bubiyan and Warbah Islands. The boundaries around Bubiyan and Warbah Islands are particularly sensitive because of their ties to Gulf boundaries that affect navigational rights and future oil exploration by Iran, Iraq, and Kuwait.*

- *Baghdad's refusal to cede the small strip of Kuwaiti territory that it annexed in 1973, largely because the land adjoins Iraq's naval base at Umm Qasr.* [redacted]

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^a *The dispute is based on Iraq's claim that Kuwait was an integral part of the territory administered by Baghdad under the Ottoman Empire. The Iraqis acknowledged Kuwait's sovereignty in 1963 but still lay claim to tracts of Kuwaiti territory.* [redacted]

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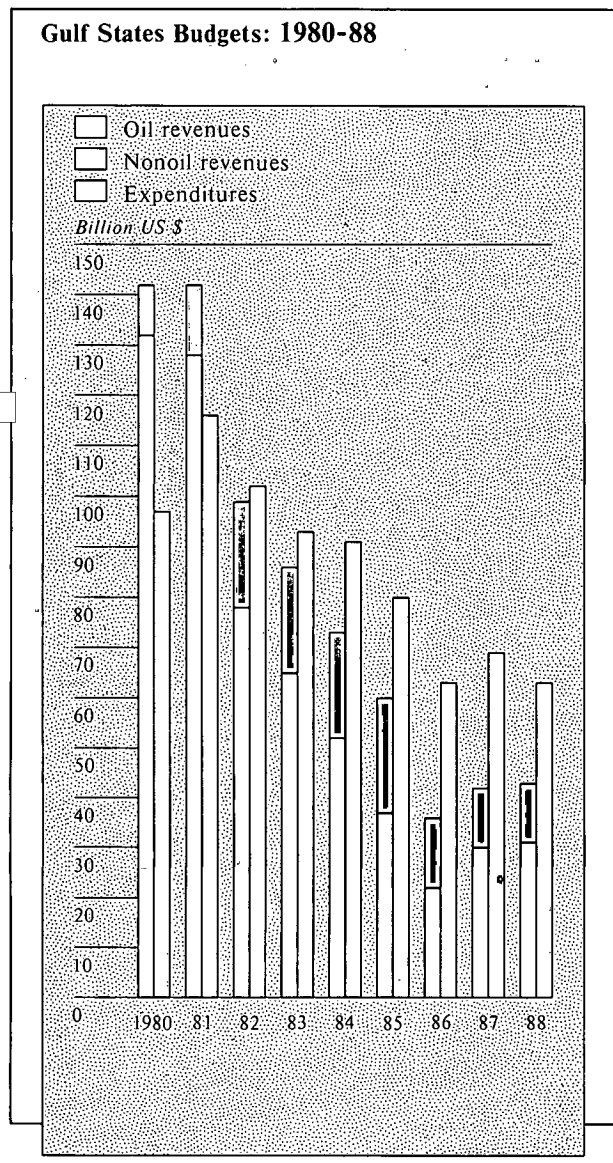
What Economic Impact Will Peace Have on the Gulf States?

The end to the Iran-Iraq war will lead to new economic opportunities as well as problems for the Gulf states. International confidence in the flagging economies of the Gulf states will receive a boost, and Iranian and Iraqi reconstruction activity will open new commercial and trade opportunities for the Gulf states. On the other hand, Gulf state reconstruction aid for Iran and Iraq as well as continued defense spending will be a burden on Gulf budgets. The Gulf states will be particularly hard hit if Iran and Iraq greatly increased exports of crude oil to finance reconstruction, a move that would put downward pressure on oil prices and reduce revenues.

Most Gulf Arabs hope that an end to the war will restore confidence among the international business community in the languishing Gulf economies and bring new business to the region, according to US Embassy reporting. Although declining oil prices have been largely responsible for the sluggish economic conditions in the Gulf states over the past several years, many Gulf Arabs also believe that the war has also disrupted trade and encouraged capital flight. Gulf businessmen probably hope that the expanded economic opportunities in the region will bring back capital from the West.

Although political relations between the Gulf states and Iran will mend slowly, we believe the Gulf states will quickly try to restore their traditionally strong trade links. For most Gulf states, exports to Iran have steadily declined during the war, coming to a virtual standstill for Saudi Arabia and Bahrain. Kuwait's important merchant families, many of whom are Shias, will be eager to retrieve the business they have lost to Dubayy during the past eight years and return Kuwait to its position as the key port in the northern Gulf. The US Embassy in Kuwait reports that Iran's acceptance of UN Resolution 598 sparked a burst of frenzied trading activity on the local stock market and currency exchanges in anticipation of the reopening of the Iranian and Iraqi markets. Even the United Arab Emirates—which through the emirates of Dubayy and Ash Shariqah has maintained the most active and lucrative trade ties to Iran during the war—will seek to increase reexports to Iran.

Figure 3



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Figure 4. Iran's acceptance of UN Resolution 598 on 18 July 1988 caused stirring on the Kuwait Stock Exchange, and dealers and observers flooded in to monitor price fluctuations in anticipation of renewed commercial activity with both Iran and Iraq. [redacted]

The Gulf states will be hard hit if efforts by Iran and Iraq to raise revenues by increasing oil production lead to downward pressures on oil prices.¹ We believe Iran and Iraq might increase their combined oil exports by up to 1.5 million barrels per day by the end of the year. Although reductions by Saudi Arabia, Kuwait, and the United Arab Emirates could offset much of this additional production, we believe these states for both political and financial reasons will be unwilling to cut production by such a large amount. Although Iran and Iraq will seek to increase production and exports to maximize revenues in the short term, they are likely to proceed cautiously to avoid a price collapse that would be counterproductive by reducing total revenues (see foldout in back). [redacted]

The Gulf states have several tactics they could use to influence Iranian and Iraqi oil production in the immediate postwar period, but in the long term most are unlikely to be effective:

- Saudi Arabia, Kuwait, and the United Arab Emirates could insist that Iraq and Iran respect OPEC quotas, as a condition for reconstruction aid. At the same time, they could support an increase in Iraqi

[redacted]

Cost of the War

We estimate that the war has cost the Gulf states at least \$100 billion. Saudi Arabia and Kuwait have borne the brunt of supporting Iraq through oil concessions and financial subventions totaling nearly \$35 billion since the beginning of the conflict, but all of the Gulf states have incurred higher defense costs as a result of the war. Saudi Arabia and, to a lesser extent, the other Gulf states have forgone the value of roughly 1 million barrels per day of oil exports because of higher production by Iraq. More expensive tanker insurance, the cost of the US tanker escort program, and Iranian sabotage and terrorist attacks against the Gulf states' oil infrastructure probably have totaled nearly \$8 billion. [redacted]

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The impact of the war on the oil sectors of the Gulf states has created problems for their national finances and economic growth. Diminished oil sales, fluctuating oil prices, and increased defense costs have contributed to mounting budget deficits despite sharp reductions in spending. For example, defense as a share of government budgets has increased to as much as 40 percent of total spending. We estimate reduced oil revenues and development spending as a result of the war have trimmed at least several percentage points off regional real growth in recent years. [redacted]

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and Iranian quotas in the context of overhauling OPEC allocations after the war. In Iraq's case, they could sweeten the deal by renegotiating Baghdad's war debt.

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- Saudi Arabia is unlikely to tamper with the flow of Iraqi oil through the IPSA II pipeline, scheduled to be completed in September 1989, because Iraq is likely to exert considerable pressure to maintain the right to dictate the level of flow through the pipeline.

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- As a last resort, if Baghdad and Tehran tried to boost production without regard for the disruption of the oil market, Saudi Arabia and Kuwait could wage a short-term "oil war" by increasing production, driving prices so low that actual revenues declined. This tactic, however, would risk an uncontrollable free-fall of prices, and Riyadh is more likely to use this strategy as a bluff to gain Baghdad's cooperation on oil production quotas. [redacted]

The smaller Gulf states—Bahrain and Oman—are the most vulnerable to unstable postwar oil market conditions. They have the lowest levels of financial reserves, the smallest capacity to adjust exports, and rely on the generosity of the wealthier Gulf Arabs to support their budgets. Although Saudi Arabia holds about \$55 billion in liquid financial reserves, the government could experience severe cash problems if national oil export receipts are sharply reduced. Kuwait and the United Arab Emirates are in the best economic position to weather the long-term effects of reduced oil revenues. Both states have small populations and relatively large levels of financial reserves—\$80 billion for Kuwait and \$40 billion for the United Arab Emirates. [redacted]

Will the Gulf States Face Greater or Reduced Threats to Their Internal Stability?

We expect the end to the war to have a mixed impact on the internal stability of the Gulf states. With the war over, tension between Shias and Sunnis is likely to decrease, but long-term socioeconomic problems—increased unemployment, cuts in social services and subsidies, Islamic fundamentalism, and a lack of political participation—will become greater sources of discontent. [redacted]

If Iran abandons terrorism and subversion in the Gulf, domestic tension between the Sunnis and Shias will be reduced. Most Gulf Shias are likely to reduce their identification with Iran to rebuild the government's trust in them. For a small group of Shia extremists, however, a negotiated settlement may symbolize an embarrassing defeat, prompting further violence in the Gulf states. The indoctrination and terrorist training that Iran has provided some of the groups during the war may have given them a life of their own, and they may seize traditional grievances to maintain

Gulf States: Population, 1988

Thousands

	Native	Foreign	Shia
Total	14,856	5,899	1,905
Bahrain	364	100	325
Kuwait	731	1,134	653
Oman	1,015	250	40
Qatar	66	250	35
Saudi Arabia	10,700	3,600	535
United Arab Emirates	1,415	565	317

support among local Shias. Those Gulf states with sizable Shia populations—Saudi Arabia, Kuwait, and Bahrain—will face the greatest threat in the coming years. [redacted]

Islamic fundamentalism in both Sunni and Shia communities is likely to resurface as a major concern for Gulf Arab regimes. Fears of Iranian-sponsored terrorism and subversion have taken the limelight from fundamentalist groups that have largely honored their governments' demands to help the country appear more united in the face of the Iranian threat. Nonetheless, the Iran-Iraq war has done little to slow the growth of Islamic fundamentalism. Although Gulf leaders have tried to curb fundamentalism through a combination of co-optation, compromise, and suppression, traditional Islamic religious organizations have continued to flourish, attracting a greater number of sympathizers during the past eight years. As the threat of the war diminishes, we expect regimes to relax their tight control over the population and fundamentalist groups to feel bolder about challenging the Gulf regimes to adhere to more traditional Islamic policies. Iran may no longer be seen as the leader on fundamentalist issues, encouraging the emergence of homegrown leaders who might be more appealing and popular among the native population. [redacted]

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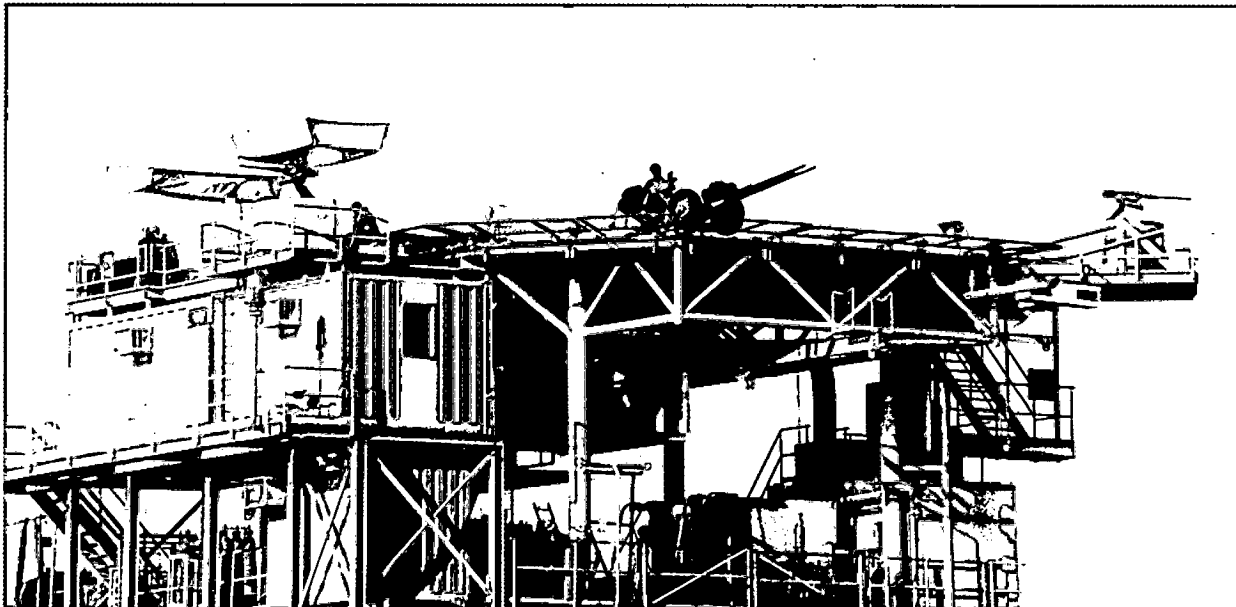


Figure 5. Following Iran's attack on Abu Dhabi's Abu al Bukhush oilfield in 1986, the United Arab Emirates installed Yugoslav-made antiaircraft artillery and RBS-70 missiles to defend the oil platform. [redacted]

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We believe the native populations of the Gulf states will begin to focus more closely on the impact of the economic slowdown of the past several years that, to a large extent, has been overshadowed by the Iran-Iraq war. Disgruntlement over the lack of political and economic opportunities, [redacted] and generational differences are likely to become more obvious problems for Gulf Arab regimes. Although the wealth of most of these Gulf states has shielded the native populations from the continuing recession and stiffer austerity measures, efforts by Gulf leaders to trim expenditures over the next several years increasingly will be felt by this politically important sector of the population. In addition, the competition for important and prestigious positions by an increasingly young, better-educated native population could add to resentment toward the ruling families because of their domination of government-generated business and policy positions. Unless oil prices rebound sharply, prospects for economic growth in most of the Gulf states are poor for the next several years (see foldout in back). [redacted]

How Will Peace Affect the Postwar Defense Needs and Planning of the Gulf States?

The Gulf states will continue efforts to improve their military and security capabilities after the war, although they could not defend themselves successfully against determined attacks by Iraqi or Iranian forces during the next decade (see foldout in back). The Gulf states view both Iran and Iraq as long-term military threats and have committed themselves to multi-billion-dollar defense projects that will not be completed before the mid-1990s. These ambitious efforts, however, will be limited by economic constraints, a chronic military manpower shortage, and reliance on expatriate military personnel. [redacted]

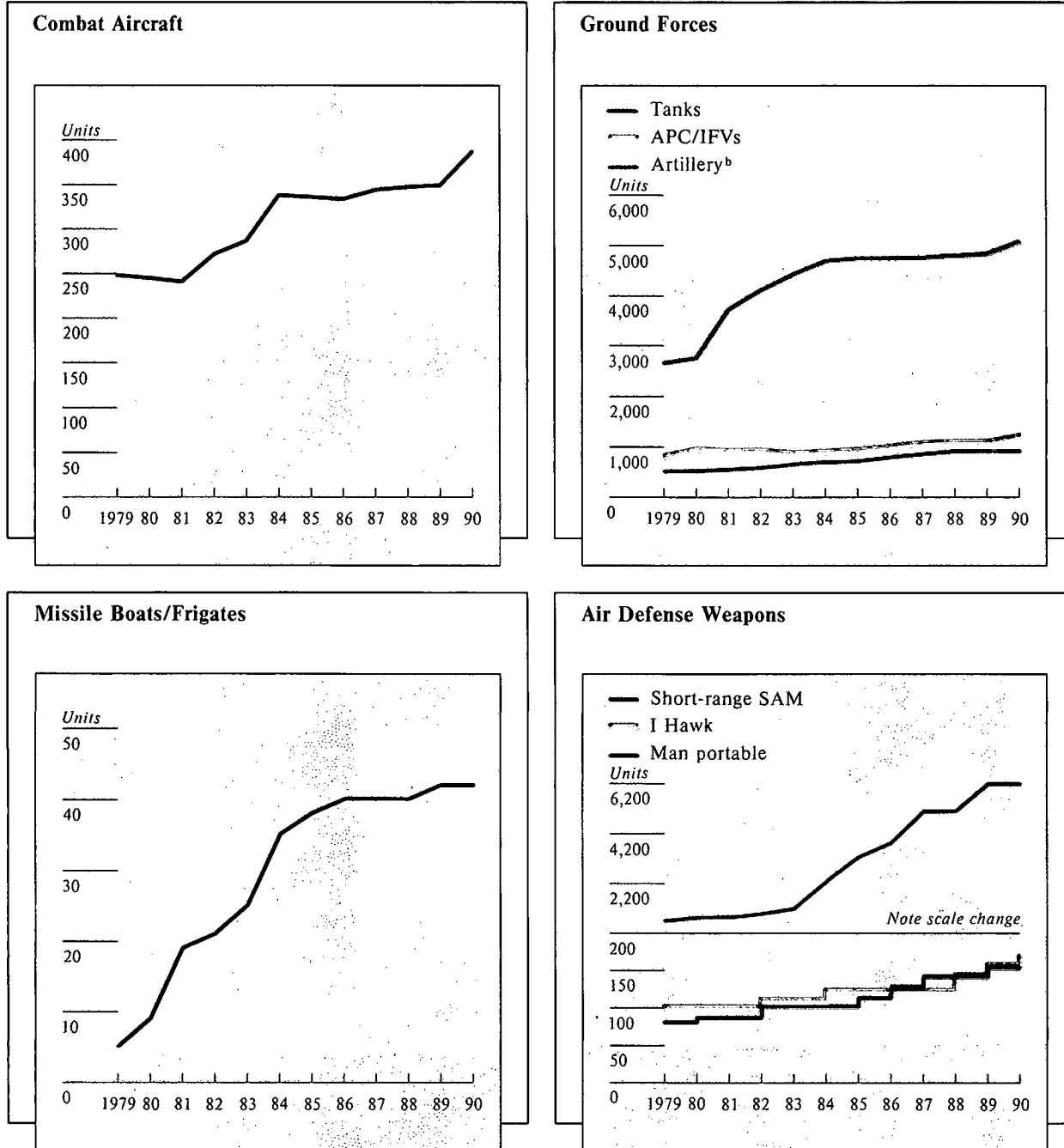
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Impressed by the role of air operations in the Iran-Iraq war, the Gulf states have given priority to improving their air defense capabilities. In particular, Iranian airstrikes against Kuwaiti oil export terminals in 1981 and Emirian offshore oil facilities in 1986

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Figure 6
Growth of Gulf Military Forces (Major Trends in Equipment Aquisitions), 1979-90^a



^a Projected 1988-90.

^b Includes towed, self-propelled artillery, and multiple rocket launchers.

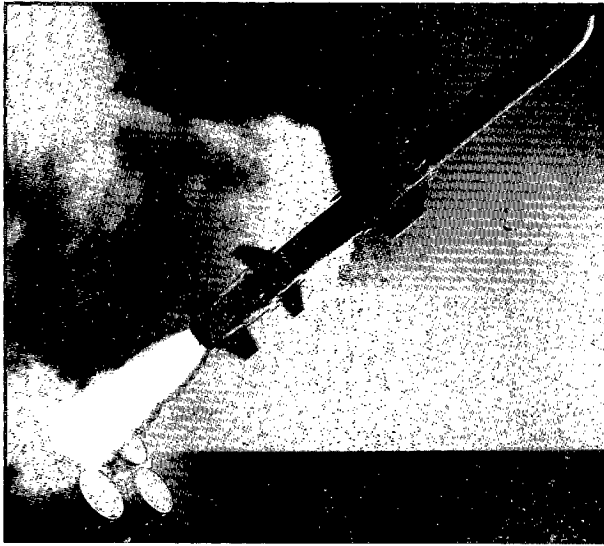


Figure 7. The Harpoon missile—part of the Gulf Arab states' growing arsenal of antiship missiles.

[Redacted]

dramatized the importance of protecting oil facilities from air attacks. All of the Gulf states have purchased advanced fighter aircraft, surface-to-air missiles, and early warning radars and have invested heavily in sophisticated air defense communications systems. [Redacted]

During the next few years, we expect the Gulf states will also try to purchase other advanced weapon systems to improve their capability to deter ground and naval attacks and to compensate for their manpower disadvantage vis-a-vis Iran and Iraq. The Gulf states are especially interested in acquiring multiple rocket launchers, attack helicopters, and advanced fighter aircraft armed with cluster and precision-guided munitions, according to US Embassy reporting. They also want to obtain more firing platforms for their antiship missiles—including more helicopters and patrol boats armed with Exocet missiles. [Redacted]

Major new arms purchases after 1990, however, will become less frequent because the Gulf states will face reduced revenues, particularly if the oil market remains soft. Gulf leaders already are scrutinizing their military spending because of stagnant oil revenues and competing domestic programs. Although they are

Trends in Gulf Military Spending

The drastic reduction in Gulf oil revenues since 1981, coupled with military threats to the Gulf states from the Iran-Iraq war, has led to a prioritization of military procurement programs during the 1980s. Although lower priority programs, such as force expansion or replacement of aging equipment, have been deferred, acquisition of higher priority items, such as air force and air defense equipment, has continued. Large arms purchases have sustained high net military spending by the Gulf states, although they have been forced to cut spending in other sectors of the economy. The United States has not benefited from the high priority purchases because most of the air force and air defense equipment has come from non-US suppliers. The Soviets have made only limited inroads into the Gulf states' arms market. Saudi Arabia's purchase of Chinese CSS-2 missiles so far represents the most significant arms sale to the Arab Gulf states by a Communist country, which we estimate may be as high as \$3 billion. [Redacted]

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Although spending a lot to improve their air defense capabilities, the Gulf states have postponed most other major arms purchases. [Redacted]

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[Redacted]

prepared to commit several billion dollars toward modernizing their armed forces during the coming years, as demonstrated when Saudi Arabia in summer 1988 signed a letter of intent to purchase up to \$20 billion worth of additional British arms, the days of virtually unrestricted acquisition of arms are over. Instead, we believe the Gulf states will focus more on maintenance and support for weapons in their inventories. [Redacted]

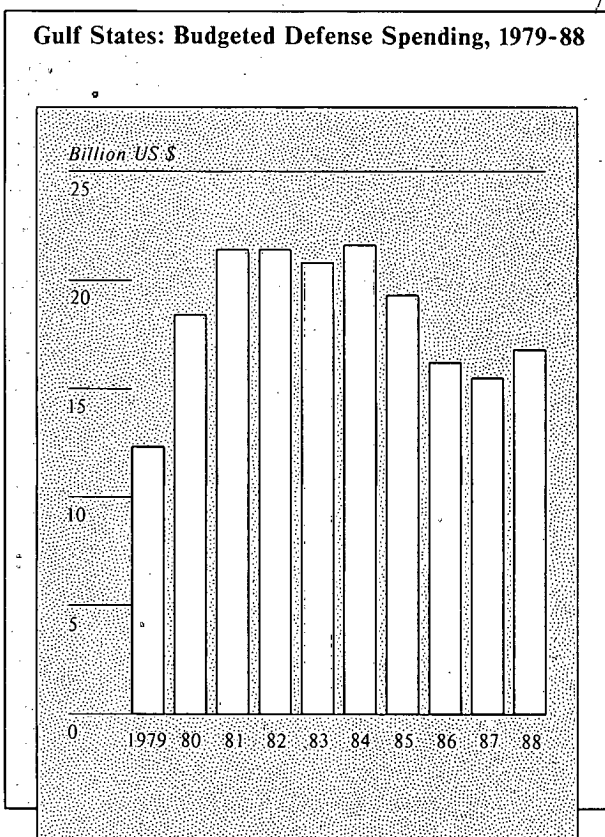
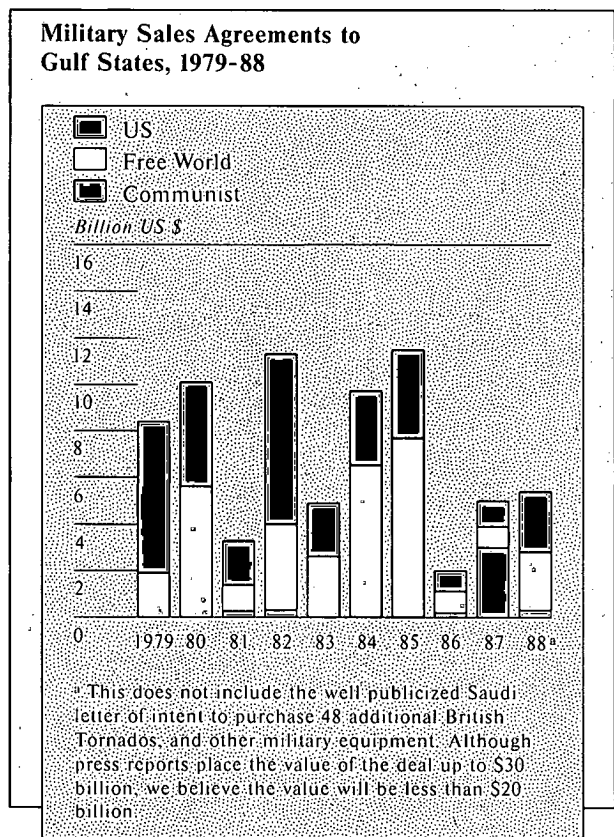
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Figure 8



[Redacted]

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A severe military manpower shortage limits efforts by the Gulf states to expand their military forces through arms acquisitions. The Gulf states do not recruit enough military manpower to meet current operational needs, and conscription probably would be inadequate as well as politically unpopular. For example, Saudi Arabia—which has the largest military force on the Arabian Peninsula—maintains its army 40 percent below authorized strength. The Gulf states also have not trained enough qualified personnel to maintain and operate military equipment in the air, air defense, and naval forces, which have acquired the most sophisticated arms. [Redacted]

Recent Gulf states' arms purchases will increase their dependence on foreign military personnel, whose willingness to fight against Iran or Iraq is questionable.

[Redacted]

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In addition to providing up to 85 percent of the soldiers employed in some Gulf militaries, particularly the United Arab Emirates, expatriate military advisers and technicians in the Gulf states perform virtually all major maintenance and operate most

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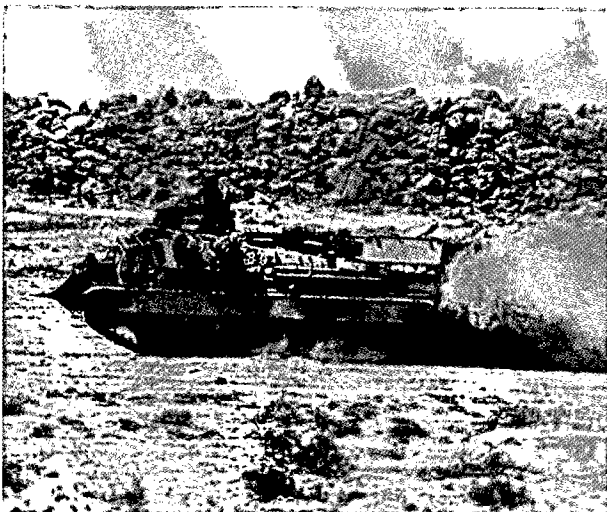
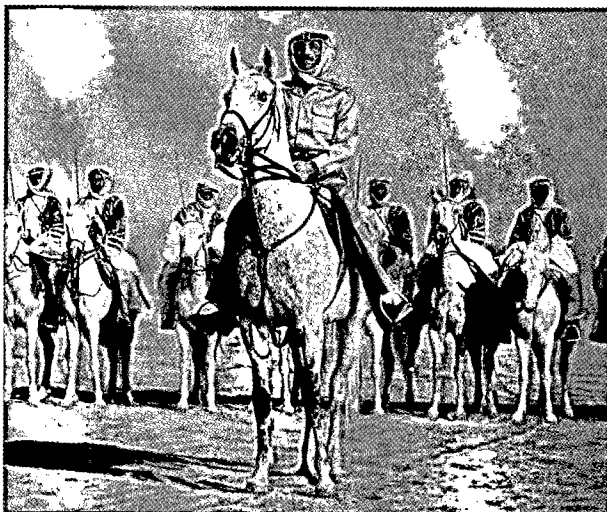


Figure 9. The old and the new: Saudi Arabia's National Guard horsemen patrolling the desert (upper) and its mechanized army on maneuvers (lower).

sophisticated equipment. The United Arab Emirates and Oman depend on expatriate pilots and naval personnel to operate their aircraft and ships. Although competent and unlikely to become a political threat to the ruling families, most military expatriates serve in the Gulf only for the money and have little or no stake in defending the Gulf regimes. Although the Gulf states have tried to nationalize their militaries, they

lack the population base and training infrastructure to replace foreign military expertise in the foreseeable future.

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What Impact Will Peace Have on the Gulf Cooperation Council?

We do not believe peace will significantly alter the pace of developments within the Gulf Cooperation Council (GCC). The Gulf states will probably continue to expand slowly their cooperation within the GCC as a counterbalance to long-term Iraqi and Iranian ambitions in the region, but the Council faces overwhelming political barriers to full-scale integration. The Council will continue to cooperate most closely in the economic sphere, except on oil-related issues in which the Gulf states do not want to relinquish national control over oil policies.

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Despite differences over tactics, Gulf leaders have been surprised and pleased at their success in countering threats from Iran and enhancing the stature of the GCC. Formed in 1980 to deal with regional threats and increase formal cooperation among the Gulf states, the Council has made tangible progress toward its objectives. The Iran-Iraq war and the escalation of the conflict to include attacks on merchant shipping demonstrated to Gulf leaders that only together could they emerge as a strong political and military bloc.

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The Council is unlikely to broaden its membership to include Iraq. It is an exclusive club of traditional and benevolent autocracies, whose political similarity binds them together. Early in the Council's existence, its members rejected Iraq's bid for membership on grounds that to do so would require admitting Iran and because the forms of government in those two states differed significantly from the conservative Gulf monarchies. In the immediate postwar environment, Gulf concerns over Iraqi and Iranian attempts to dominate the region are likely to be increased, and Gulf leaders will remain adamant about the Council's exclusivity. The GCC, however, might extend economic and commercial privileges to both Iraq and Iran as a political gesture to foster cooperation in the region.

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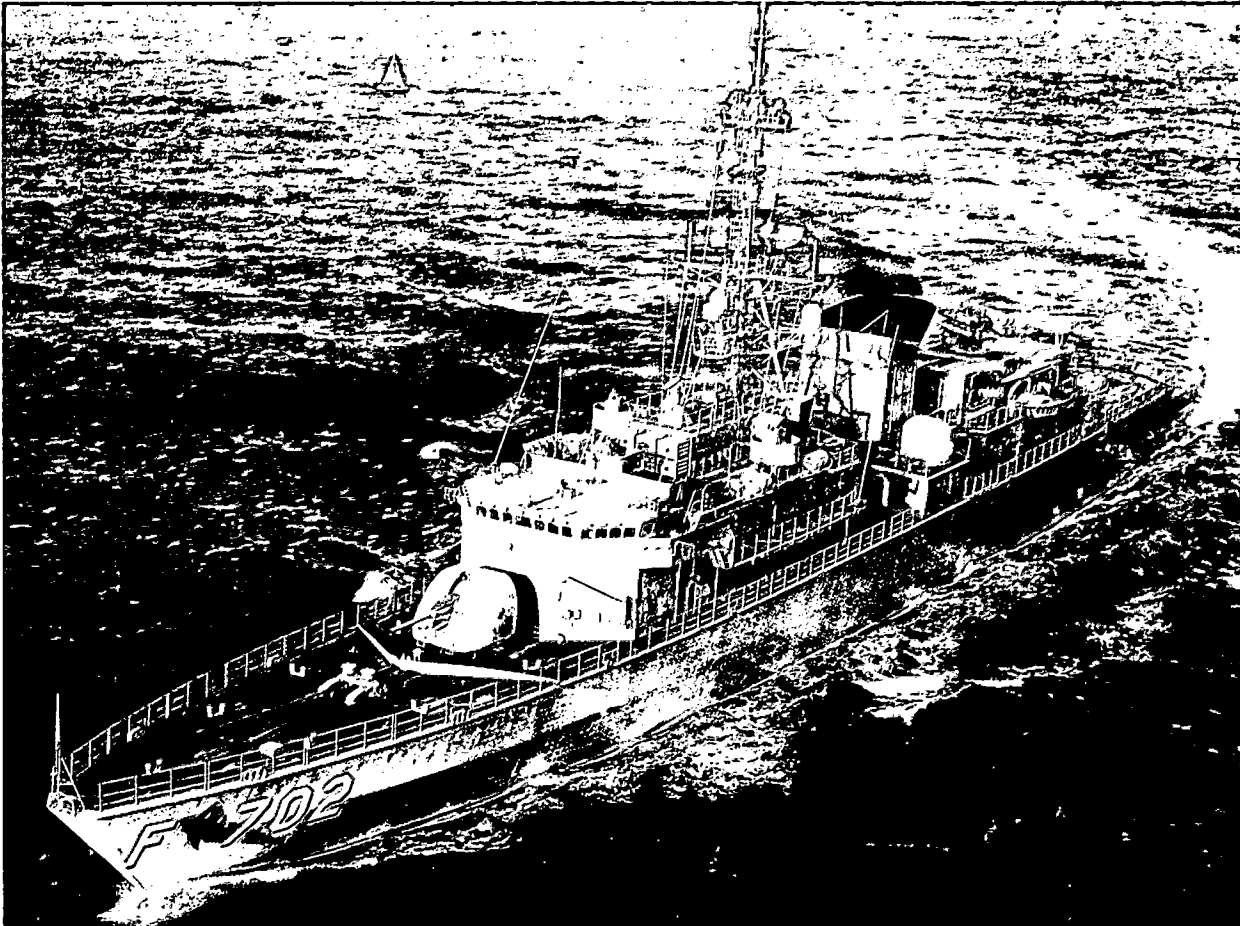


Figure 10. Saudi frigate *Madina*, sister ship to the *Hafuf*, *Abha*, and *Taif*. Riyadh's frigates, acquired after 1986, were used to patrol the Gulf waters during the height of the tanker war in mid-1987. [redacted]

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A coordinated postwar GCC regional policy is unlikely, however, because differences between the northern and southern Gulf states over how to deal with Iran are likely to carry over into the postwar period. Bolstered by what they see as the success of their stand against Iran during the war, Saudi Arabia, Kuwait, and Bahrain probably will advocate a tough stand against likely efforts by Tehran—or Baghdad—to intimidate the Gulf states and divide the GCC. Oman, Qatar, and the United Arab Emirates, on the other hand, are more willing to accommodate Iran and Iraq, while opposing joint initiatives in the GCC against the two countries. We believe the members' ability to submerge differences on major political and

security issues, however, will ensure at least the appearance of a united front against any external threat. [redacted]

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The Gulf states probably will continue to support already approved joint defense projects as a signal of GCC resolve against external aggression, but new cooperative efforts will be more difficult to undertake:

- They will continue to support the 4,500-man multinational Rapid Deployment Force stationed in northern Saudi Arabia since 1985.



Figure 11. Joint exercises of the Gulf Cooperation Council will enhance force capabilities but are not likely to alter the outcome of an all-out attack from either Iraq or Iran. [redacted]

- They are likely to continue to stage joint military exercises, such as Peninsula Shield—a combined-arms exercise hosted annually by a different Gulf state. Although most Gulf states contribute only token forces to these exercises, they lend political credibility to GCC military cooperation.

[redacted]

- The Gulf states will probably continue to coordinate counterterrorist policies and intelligence sharing.

[redacted]

Although the Gulf states will pursue closer military cooperation, practical and political obstacles will limit GCC military integration. The GCC Rapid Deployment Force, for instance, has never conducted a significant training exercise and remains more a symbol of the GCC's long-term commitment to unity than an effective fighting force. Essential steps by the Gulf states to integrate their military forces, such as developing centralized command and control and standardizing military training and equipment, will be impeded by the reliance of individual states on diverse sources of foreign military equipment and advisers and their reluctance to coordinate arms purchases.

[redacted]

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GCC military cooperation in the postwar period also may be impeded by recurrent border disputes between several of the Gulf states. Bahrain and Qatar have been on the verge of conflict since 1986 over offshore islands claimed by both countries. Borders between Saudi Arabia, Oman, and the United Arab Emirates are still undefined, occasionally provoking military skirmishes among the three countries. Although Kuwait and Saudi Arabia have delineated all their borders, the Kuwaitis have refused to sign the hot pursuit portion of a 1985 antiterrorist agreement with Saudi Arabia because the agreement would have allowed Saudi security forces to enter Kuwaiti territory.

[redacted]

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To What Extent Will the Gulf States Seek Alternative Security Partners to the Superpowers?

We believe the Gulf states will try to develop broader regional security relationships outside the GCC framework after the war to reduce their reliance on US protection. The Gulf states believe that arms diversification enhances their political independence and provides them with ready alternatives if they cannot obtain US arms. Saudi acquisition of the CSS-2 missile from China is unlikely to spur a strategic arms race in the GCC. It probably will encourage a firmer stance by Riyadh and several other Gulf states if faced with more aggressive foreign and security policy threats.

[redacted]

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Contingency military arrangements between the Gulf Arabs and other moderate Arabs, largely precipitated by the war, will pave the way for broader economic and security ties as well. In return for sizable financial remittances from the Gulf states, Jordan, Egypt, Morocco, and Pakistan will continue to supply the Gulf state militaries with thousands of seconded advisers, technicians, and enlisted personnel.

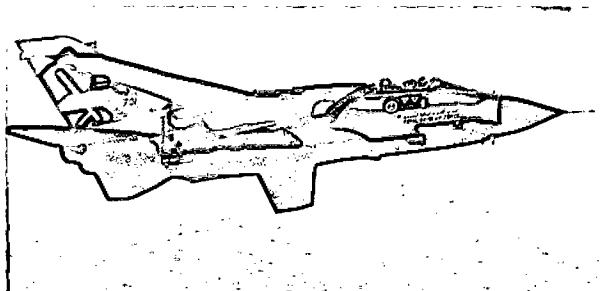
[redacted]

[redacted] also have offered to deploy troops to the Gulf states on a contingency basis, and Morocco has set up a 2,500-man force that is earmarked for service in Saudi Arabia in the event of a Gulf crisis. The Gulf states probably may subsidize military weapons purchases for Jordan and Morocco—possibly including major aircraft acquisitions. Although they also are likely to purchase limited amounts of Egyptian arms to subsidize Cairo's defense industry, Gulf preference for Western arms will limit the development of a Gulf-subsidized arms industry promoted under Egyptian auspices.

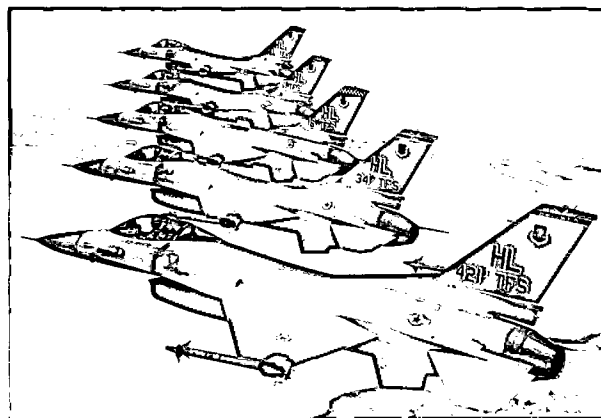
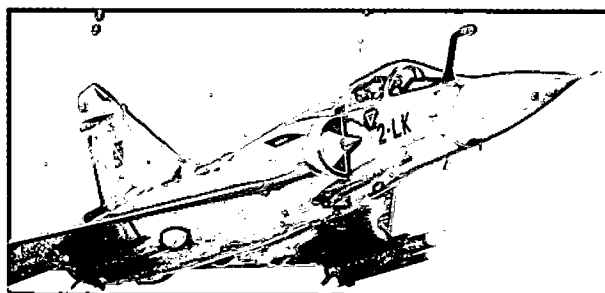
The Gulf states probably will maintain a diversified arms procurement policy after the Iran-Iraq war. Spurred by Congressional resistance to US arms sales to the Gulf Arabs, the GCC states have purchased arms from a number of other countries—primarily West European but more recently Brazil and China. These sellers provide the Gulf Arabs with access to new technology, attractive financing, few political restrictions, and multiple sources of military supply. Although the United States is unlikely to regain a dominant position in the Gulf arms market, Gulf Arabs will continue to seek selected US military equipment and training.

Will the Gulf States Cultivate Closer Ties to the Soviet Union?

We believe Gulf leaders will maintain their gradual and deliberate pace for improving relations with the Soviet Union. Soviet influence in the Gulf is likely to remain minor. Gulf leaders have accepted Moscow as



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Figure 12. The Gulf Arab quest for new aircraft, a major Gulf military priority, have included the British Tornado (top), the French Mirage 2000 (middle), and the US F-16 (bottom).

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an important regional actor, but they will remain suspicious of Soviet intentions in the region. Their traditional, conservative, and pro-Western orientation will militate against a dramatic increase in cooperation with Moscow.

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We expect the Gulf leaders to monitor closely Moscow's role during the peace negotiations between Iran and Iraq as well as its efforts to improve relations with Iran. A supportive Soviet role in negotiations would enhance Moscow's position as a constructive force in the region, particularly if the Soviets continue to withdraw from Afghanistan. On the other hand, if Moscow appears to be favoring Iran, the progress the Soviets have made in improving relations with the Gulf states in recent years would erode quickly. [redacted]

Moscow's most significant inroads into the Gulf over the past several years—the establishment of relations with Oman and the United Arab Emirates in 1985 and Qatar in 1988, as well as several high-level contacts with Saudi Arabia—reflect, in our view, a broadening of Gulf Arab foreign policy objectives and a disappointment with the United States. Those Gulf states that do not have diplomatic relations with Moscow—Saudi Arabia and Bahrain—are moving in that direction, and we believe the establishment of relations between them and Moscow is inevitable. [redacted]

Formal relations between Riyadh and Moscow, however, probably will come only after Riyadh has established diplomatic ties to Beijing or an East European country. Even after the Soviet withdrawal from Afghanistan, the normalization of relations may be slowed if Riyadh believes that it can achieve its goals within the current, unofficial communication channels. Nonetheless, cultural exchanges and trade relations are likely to expand. The Saudis, who traditionally have tried actively to contain the Soviet presence in the region, probably would not oppose a decision by Bahrain to establish diplomatic relations sooner. A sudden loss of Saudi faith in the US willingness to help defend the kingdom would hasten Saudi willingness to recognize Moscow. [redacted]

As part of a postwar policy to balance superpower relations, more of the smaller Gulf states probably will find it politically expedient to purchase small amounts of Soviet arms, in part to soften Congressional opposition to proposed US arms sales in the region. Kuwait and the United Arab Emirates purchased Soviet surface-to air missiles after Washington

turned down their requests for Stingers in 1984. We believe that Kuwait's recently announced purchase of 245 Soviet armored vehicles was intended, in part, to express Kuwaiti displeasure with the US Senate's attempt to cut Maverick missiles from a proposed US arms sales package that included F-18 fighter aircraft. Even if the Gulf states cannot obtain the arms they want from the United States, however, we believe they are unlikely to purchase major weapons systems such as aircraft from the Soviets because of the availability of higher quality Western military equipment and their desire to limit Soviet influence in their military forces. [redacted]

What Are the Prospects for US-Gulf States Cooperation?

We believe the Gulf Arabs will continue to support a low-profile security relationship with the United States to bolster their defenses against long-term Iranian and Iraqi threats. The durability of the US naval escort operation and Washington's measured but firm response to Iranian threats during the war have enhanced Washington's image throughout the Gulf states as a reliable security partner. Nonetheless, we believe many of the Gulf Arabs will avoid close public alignment with US policies in the region, particularly those dealing with emotional Arab-Israeli issues. Discretion [redacted] will be fundamental conditions for future cooperation, precluding highly visible security arrangements with the United States. Moreover, Gulf leaders will consider US willingness to sell sophisticated arms to the Gulf states as a litmus test of Washington's commitment to them. [redacted]

Once a peace agreement is implemented, Gulf leaders will expect security cooperation with the United States to return to the levels that prevailed before the naval escort operation. Kuwait and other Gulf leaders have indicated a willingness to allow Washington to determine the appropriate time to end the naval escort operation, hoping that negotiations between Iran and Iraq will show progress before the United States decides to draw down its forces. Although Tehran will

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insist that the United States remove all of its forces from the region, Gulf leaders will expect the United States to keep the small US presence previously stationed there as a warning to Iran not to renew hostilities in the Gulf and as a demonstration of Washington's commitment to the region. [redacted]

We believe Washington's recent role in the Gulf will set the standard for security cooperation after the war. Even though the US position remains fragile, Gulf states are now more likely to seek US military assistance and rely on the United States in a crisis. Until the next crisis, we expect Gulf states to:

- Support existing joint military projects.
- Continue to provide logistic support to routine US military operations in the Gulf region, including limited use of their port facilities and airfields.
- Approve pre-positioning of nonlethal equipment in support of the US Central Military Command and other forces.
- Be amenable to small-scale joint exercises so long as Gulf tensions are low. They might cut back on military cooperation during times of increased tension, however, as Oman did when it canceled joint exercises with the United States for the first time this year to avoid antagonizing Iran. [redacted]

The Gulf states probably will look to the United States to be more forthcoming on arms sales before they consider closer military ties. Notwithstanding the recently approved arms package to Kuwait, US refusal to sell advanced arms to the Gulf Arabs has strained Washington's relations with the Gulf Arabs. Moreover, US military ties to the Gulf states will be severely undercut if US training programs are not renewed. These continuing military projects provide the United States with major residual influence in the Gulf military establishments. [redacted]

The end of the war is likely to redirect Arab attention to the Arab-Israeli conflict and revitalize the issue as a major irritant to Gulf-US relations. The Gulf states will view well-publicized US-Israeli cooperation on developing strategic defense systems as further evidence of US collusion with Israel against the Arabs. [redacted]

Although most Gulf states continue to desire close ties to the United States, most have shown a willingness to more openly put their interests above those of the United States in the region. Most notable was Saudi Arabia's acquisition of the Chinese CSS-2 missile, marking a further step away from the "special relationship" with the United States. When the Gulf states feel militarily threatened by a neighbor, however, they are apt to remind Washington of their historic ties and the need for the United States to come to the aid of an ally. [redacted]

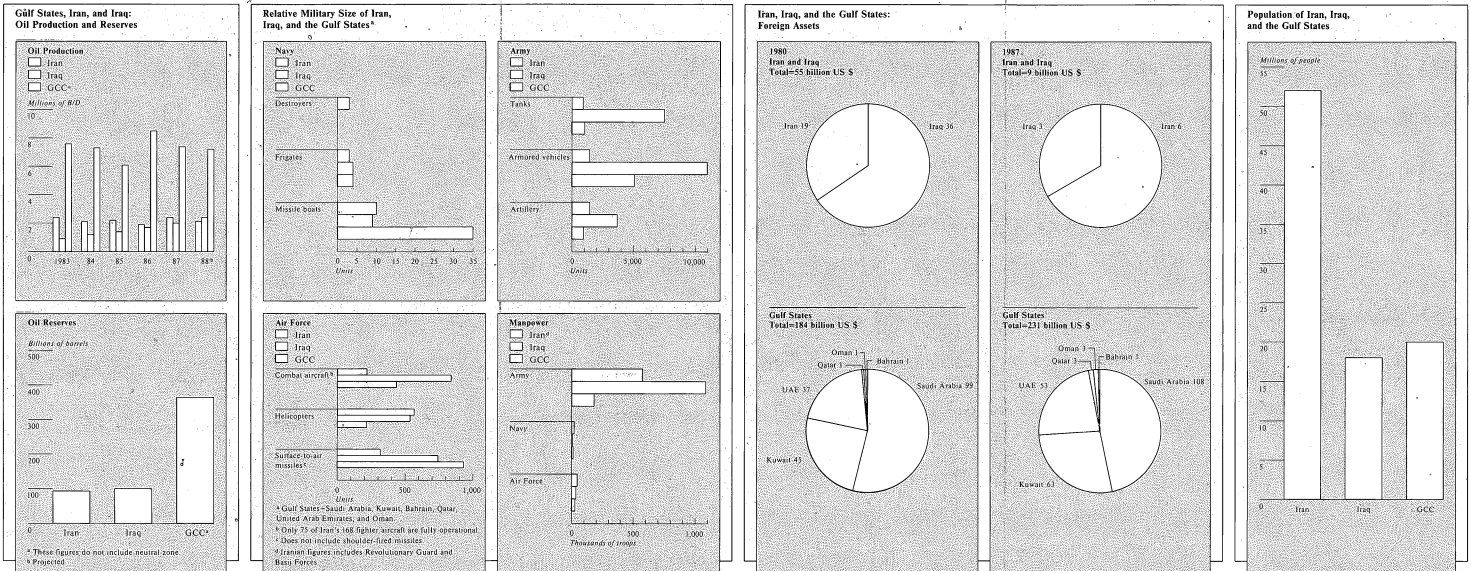
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Figure 13



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