

CHAPTER 7

DUAL CONTAINMENT AS AN EFFECTIVE COMPETITIVE STRATEGY

Patrick Clawson

I wish to demonstrate that the dual containment strategy in the Persian Gulf plays to enduring U.S. strengths and exploits the vulnerabilities of U.S. competitors. As an economist, I am at a considerable disadvantage in making such an argument in front of a distinguished group of political scientists, because I have never taken a political science course in my life. Therefore, my method will be to make use of a competitive strategy: I will make use of my enduring strengths by using the tools of economics, while I will avoid my weakness, which is my ignorance of political science. I will also focus the argument on Iran, both because I know that case better and because it has been the more controversial.

My thesis is that dual containment has been an effective competitive strategy because it has aligned the enduring U.S. strengths in the realms of military power projection and of economic power against enduring Iranian weaknesses, especially socio-economic discontent and a troubled oil industry. In the jargon of economists, dual containment has been the least cost approach for achieving U.S. aims, with its benefits substantially exceeding the costs.

This chapter is structured to follow a set of questions posed by the organizers. I am afraid that makes the presentation rather disjointed, but it has the advantage of facilitating comparison between this case and other cases examined with the same methodology.

The Context of U.S. Strategy.

Formulating an effective U.S. competitive strategy for the Persian Gulf is a challenge because of the peculiar strategic situation. The United States has vital interests in the Persian Gulf: ensuring the steady supply of oil at a reasonable price and preventing implacably anti-Western governments from acquiring the modern armaments with which to pose an intolerable threat to the United States and its allies. The problem for the United States in securing those interests is that the Gulf has two large powers (Iraq and Iran), both of which are hostile to the United States, and one medium-sized power (Saudi Arabia), which has a political and social system alien to U.S. values and which is uncomfortable with too close an association with the United States.

Evolving Nature of the Strategic Environment.

The strategic environment in which U.S. policy towards Iran is being shaped includes five major trends which, starting with the most favorable, are:

- The Iranian regime faces popular discontent and the indifference of the senior clergy. To be sure, the Islamic Republic is unlikely to fall, in part because it adapts to domestic pressure, expressed through hotly contested elections fought between candidates carefully screened to ensure their loyalty to the revolution. However, dramatic changes in Iran's hostility to the West could well occur.

- Oil is in ample supply, which reduces U.S. concern about an Iranian-induced oil shock. Crude oil prices are at about the same as in the mid 1980s, while the average price level for other goods has risen about 35 percent. Prices are likely to be kept low by the drop in the cost of producing oil, thanks to rapidly advancing technology. As costs drop, more output is coming from less attractive oil fields in countries outside the Gulf, e.g., Venezuela is on track to increase its oil

output capacity from 3.5 million barrels per day (mbd) to 6 mbd by 2002.

- The United States has had some limited success in generating support for its campaign against Iran's unacceptable behavior. European Union (EU) members and Japan enforce their bans on sales to Iran of arms and dual-use technology, but they reject U.S. arguments for economic pressure on Iran. China has suspended deliveries to Iran of the most destabilizing arms it was selling—namely, advanced anti-ship missiles—due both to U.S. pressure and \$900 million in Iranian arrears in payments for arms. Russia cooperates some on blocking dual-use technology, but it is building a nuclear power plant and continues arms deliveries; President Boris Yeltsin's agreement not to enter into new arms contracts has had little practical effect, since so much remains undelivered under a 1989 agreement, which Iran had to stretch out as its finances deteriorated.

- The United States is losing the propaganda war about Iran. Washington is seen as the barrier to dialogue, whereas in fact Ayatollah Khamenei and the other senior clerics categorically refuse to talk. U.S. sanctions are seen as ineffective, whereas in fact Iran has been unable to attract the foreign financing it needs to remain an oil exporter over the long run.

- Iran's pursuit of unconventional weapons continues. Its nuclear weapons program appears to be advancing slower than had been feared in the early 1990s, and its adherence to the Chemical Weapons Convention suggests an avenue to eliminate its chemical weapons over the next decade. On the other hand, after years of little progress, its missile program is finally moving ahead. And in his criticism of the government of President Mohammad Khatemi, the new commander of the Islamic Republican Guard Corps (IRGC), Yahya Rahim Safavi, signaled the military's continuing interest in unconventional weapons, saying, "Can we withstand American threats and

domineering attitude with a policy of détente? Will we be able to protect the Islamic Republic from international Zionism by signing conventions to ban proliferation of chemical and nuclear weapons?"¹

Futures the United States Prefers and Futures It Wishes to Avoid.

The United States would prefer continued access to ample Gulf oil supplies at reasonable prices and stable non-aggressive governments friendly to the West in each of the major Gulf powers—Iran, Iraq, and Saudi Arabia. The first of those goals seem eminently attainable, both for the short run and the long run. The second goal is implausible. For the near future, Iran and Iraq are likely to remain hostile to the West and at least Iraq will be probing to see if it can get away with external aggression. For the medium term, Iran and Iraq may become less problematic for the West—Iranian politics may evolve and Saddam may be replaced—but it is possible that Saudi Arabia will become more of a problem, if succession to the next generation of leaders goes poorly or if structural economic reforms are delayed so long that socio-economic discontent feeds the ever-present religio-cultural hostility to the West.

The future of the Gulf could become unpleasant for the United States in several ways, most likely of which are:

- Violent bid for domination of the Gulf. There is every reason to worry about Iraq's intentions. As National Security Council Near East and South Asian Director Bruce Reidel told The Washington Institute,

We all know it is not over. Saddam Hussein's track record is all too clear. He will continue to challenge the international community because his goals remain regional domination and revenge for past defeats. That is why he started two wars and tried to assassinate President Bush and the Amir of Kuwait.²

- Loss of a key ally. Saudi Arabia could become distinctly less friendly to the United States, either under a more Arab

nationalist monarchy or under the influence of conservative religious forces opposed to a close relationship with the West.

- Loss of prestige from mishandled initiatives to improve relations. The last U.S. initiative towards Iran, i.e., clandestinely selling Iran arms during the Iran-Contra affair, was not a success. It hurt the prestige of a popular U.S. president.

- Oil price rise. Were the world economy to become as heavily dependent on Gulf oil as it was in the early 1970s, the Gulf producers might be able to reform the cartel that drove up prices in 1973 and 1979. Those price increases reduced world economic output by approximately 2 percent for a period of 2 to 4 years. For the United States, that translates into a loss of national income of \$150 billion to \$300 billion.

The focus of U.S. efforts has been on avoiding the first in that list, namely a violent bid for domination of the Gulf. The U.S. approach is to deter external aggression. Deterrence in the Gulf is quite different from deterrence in Cold War Europe. In the Gulf, unlike Europe, there is no doubt that the United States could bring into the region sufficient force to reverse any aggression. It is obvious that the United States could, if it so wished, prevail in the Gulf if a conflict were to erupt: its national power vastly exceeds that of its potential opponents. But the U.S. aim is more ambitious than prevailing in a conflict were one to occur—its aim is to deter any conflict from ever occurring.

The Gulf deterrence problem is demonstrating that the United States has the will to bring sufficient force to bear, so as to prevent aggression rather than reversing it after the fact. It can be argued that Saddam would never have attacked Kuwait had he known how far the United States would go in opposing his invasion, and a larger U.S. presence in the Gulf might well have shown Saddam just how seriously the United States would oppose aggression there. Deterrence in the Gulf requires a level and type of

U.S. presence sufficient to persuade an opponent not to risk war, by demonstrating the degree of U.S. commitment. That may well be a level of presence greater than would be suggested by the method of war planning developed for the European Cold War theater, based on measuring the forces of the potential adversaries and calculating how much is needed to hold the line until reinforcements from the United States arrive.

Competitors and Key Third Parties.

Iran is the competitor that is the focus of this analysis. Iran is obviously not competitive with the United States on a global scale; the most it can achieve is to raise the cost to the United States of pursuing certain U.S. objectives, with the hope that these costs will induce the United States to decide the game is not worth the candle.

The question of third parties is quite complex. The most important third party for U.S. policy towards Iran is Russia. Iran places great store on its relation with Russia, with which it proclaims it has a strategic alliance against the West and which is its principal arms supplier. It is not clear to what extent Russia shares these sentiments. However, Iran and Russia have important common interests. Both are large producers of oil and gas, whose interests are ill served if Caspian Basin oil and gas reach markets that they could themselves serve. Under these circumstances, it is hardly surprising that Iran has cooperated closely with Russia on regional issues, such as establishing peace in Tajikistan.

The next most important third parties are U.S. allies, both in the Gulf and in Europe. As discussed below, a principal Iranian strategy has been to play those allies off against the United States.

The final important third party is Israel. The Islamic Republic has a strong ideological objection to the existence of the state of Israel, which it has backed up with financial and material support to those who would disrupt the peace

process with terrorist attacks. Iran has also concentrated on developing missiles with sufficient range to reach Israel. Not surprisingly, Israel's response has been to regard the Islamic Republic as an implacable foe, increasing its military budget to offset the Iranian threat and encouraging its friends in the United States to point out the dangers from the Islamic Republic.

In theory, Iraq could be an important third party, because Iranian-Iraqi cooperation could represent a more serious threat than either could pose alone. In practice, the two sides have been unable to cooperate much, due to historical rivalries, residual hostilities from their 7-year war, and the arrogance of each side towards the other.

Goals and Strategies of Competitors and Third Parties.

There is a broad consensus in Iran in favor of active assertion of Iranian interests in its neighborhood, including the Persian Gulf, the Caspian basin, and the Levant. Many of the reasons are based on Iranian national interests that would not change irrespective of who held power in Tehran. At the same time, some of the Iranian behavior to which Washington most objects—its use of terrorism, its destabilization of neighboring governments, and its opposition to the Arab-Israeli peace process—are largely specific to the Islamic Republic. Indeed, they are so intrinsic to that regime's self-conception that it is difficult to foresee them being changed as long as the Islamic Republic continues in its present form.

The major motives for Iran's policy towards its neighborhood are seeking economic advantage, realizing its self-conception as a great power, asserting leadership of the world's Muslims, forestalling unrest among Iran's minorities, and preventing attack. In general, the Islamic Republic of Iran behaves less assertively in its immediate neighborhood than in far distant areas, like Israel or the Balkans, where it is quite adventurous. In the Gulf, Iran

seems more interested in exercising influence, and perhaps supporting subversion, than in open aggression.

That said, the Islamic Republic is doing an effective job at persuading the United States that Tehran is in fact a conventional military threat to vital U.S. interests in the Gulf. Iran has concentrated on buying every ship-sinking system it can get its hands on, while doing little to improve its ability to defend against a land attack from Iraq. The apparent strategy is not to permanently close the Strait but instead to raise the cost to the United States of any power projection in a conflict. Specifically, Iran could pose a considerable danger to shipping which could affect world oil markets—the potential for damage to U.S. economic interests could conceivably deter U.S. intervention. Iran's threats to shipping could also complicate military operations. Civilian ships would be less willing to move in supplies vital to U.S. forces. It is even conceivable that Iran could be lucky enough to sink a U.S. Navy ship, allowing it to claim a propaganda victory irrespective of what its forces then suffered.

Iran seems to have in mind a repetition of the disastrous strategy of the tanker war of 1987-88. That is, if Iran comes under attack, its response could be to impede shipping in the Straits, to raise the stakes. When done last time, the result was to unite the industrial world against Iran, to bring the navies of eight countries into the Gulf to sweep for Iranian mines. And the tanker war brought the United States to support Iraq more actively—in Iranian eyes, to enter the war on Iraq's side (their interpretation of the Airbus downing). Despite this demonstrated record of failure, the strategy of impeding shipping seems to be what Iran is planning to do once again if attacked.

Statements by IRGC leaders suggest that Iran's strategy might also be horizontal escalation, that is, terrorism elsewhere in the region. Mohsen Rezai, IRGC commander from 1980 to 1997, warned that if the

slightest incident occurs in the region, it may led to a massive war which might spill over to other places, with the Americans losing the game. If the slightest pressure is exerted on us, we will disregard all restrictions and become engaged in conflict with the United States throughout the Persian Gulf up to the Sea of Oman.³

Iran's leaders seem to take a sanguine view of their prospects against the United States. They frequently refer to the ease with which the United States was forced out of Lebanon by terrorist attacks against U.S. forces. Even the risk of all-out war seems to be accepted. Rezai explained a strategy that could be used against U.S. forces: "If a war like that of the U.S. with Iraq were to be waged against Iran, at least 20,000 American troops would be captured before the United States had even launched its first attack. And this while the United States would be prepared to sit at the negotiation table even with the first thousand prisoners."⁴ Asked about what would happen if the United States attacked Iran with military force, then-Foreign Minister Velayati replied, "Iran is not weaker than Vietnam, and America is not stronger than it was at that time."⁵

As for the goals and strategies of third parties regarding U.S.-Iran relations, there is a widespread view in Washington that Europe is interested primarily in commercial advantage, the Gulf Cooperation Council (GCC) countries wish to avoid confrontation with a powerful neighbor, and Russian hardliners see Iran as a useful source of revenue and as a way to annoy the United States. There is a large element of truth in each of these characterizations, but it is also the case that each of these third parties sees engagement with Iran as the most effective means to encourage more moderate elements. It is particularly worth noting that to date, there is little indication Russia wants a strategic partnership with Iran: for Moscow, the relationship is tactical, based on the political inferiority complex in both countries and on Iran's role as a potentially attractive arms customer.

Current and Future States of the Competition.

It is obvious that the United States has vastly more national power in every realm than does Iran. Indeed, the question can be posed whether Iran represents in any meaningful sense a threat to the United States. In fact, there is one area in which there is some degree of competition, and that is for the control of the Strait of Hormuz. Iran has been acquiring a potent set of assets with which to dominate the Strait of Hormuz area, to harass shipping and threaten Gulf islands, including:

- three Russian *Kilo*-class submarines;
- 100 older model antiship HY2 missiles (based on the Soviet *Styx*) on 8-10 mobile launchers near the Strait;
- more than 100 C801 antiship missiles, with a 40 km range and a 165 kg payload, including some modified to be launched from planes;
- on Qeshm Island near the Strait, batteries of C802 antiship missiles, each with a 165 kg payload and a turbojet engine giving a 95-135 km range;
- 10 *Hudong* fast attack craft, each with 4 C802 antiship missiles;
- 10 *Combattante* patrol boats, which are being outfitted to carry C802 antiship missiles;
- 2,000 modern mines;
- 51 Swedish *Boghammer* boats capable of harassing shipping;
- 3 frigates and 3 light frigates;
- 6 landing ships of more than 2,000 tons each.

In view of these assets, it would be inappropriate to assume that a conflict in the Strait would be as one-sided as the U.S. victory over Iraq in DESERT STORM.

In response to the threats from Iran, the United States has relied on a light approach with assets that can be used either against Iran or Iraq. There is no need for large, permanent bases of the sort America has in Europe and East Asia. Instead, the United States relies on a combination of modern technologies that allow precise strikes from a long distance plus pre-positioned equipment allowing a surge into the area. Extensive use is also made of rotated units. In Kuwait, there has been a near-continuous presence of a battalion, with frequent presence of a brigade, often engaged in live-fire exercises. Air Expeditionary Forces (AEF), which are deployments for some months of a squadron or more along with all support equipment and personnel, have been sent to Bahrain, Qatar, and Jordan. Along similar lines, intensive use has been made of commercial ports, including about 200 calls a year at the Jebel Ali port in the United Arab Emirates (UAE). Several thousand airmen have been located in Saudi Arabia since Operation DESERT STORM, but the United States has not constructed any permanent facilities, so as to demonstrate that its presence is strictly a function of the continuing threats. Indeed, most U.S. forces in Saudi Arabia are located in the middle of the desert, at Prince Sultan Air Base, far out of sight from ordinary Saudis, to minimize local sensitivities about the U.S. presence.

Enduring Weaknesses of U.S. Competitors.

A major enduring Iranian weakness is its economic problems. Living standards are now no more than half the pre-revolution level. And the future looks bleak. Oil income will be stagnant while population is growing quickly. The post-revolution baby boom, encouraged by conservative mullahs, is now graduating high school and looking for work. Iran has only been able to create 350,000 jobs a year for the 800,000 young men joining the labor force each year (setting aside the employment aspirations of Iran's young women). At the same time as the need for revenue is rising, the country's oil exports are falling. Iran is caught between

growing domestic oil demand, fed by massive subsidies, and aging fields; its official forecast is that the country will cease exporting oil in between 15 and 25 years. Foreign financing and technology could extend oil exports, but Iran has not offered particularly good terms to investors. Without U.S. technology and without funding from international capital markets, Iran will be hard pressed to increase oil output. While Iran has the world's second largest gas reserves after Russia, the potential for finding markets in the next decade is rapidly shrinking. By targeting investment in Iran's oil and gas industry, the Iran-Libya Sanctions Act (ILSA) hit Iran at its most vulnerable spot, while exploiting the U.S. major role in oil industry technology and in world capital markets.

Iran's economic problems have been an important factor in the widespread popular dissatisfaction with rule by the politicized clergy, which is the second and more important enduring weakness. The politicized clergy, it should be emphasized, are only a small part of the clergy as a whole and do not include those most respected for their piety. Many Iranians look forward to the end of the Islamic Republic as it has functioned until now, with its extensive social restrictions and blatant corruption. It is difficult to foresee the Islamic Republic surviving another decade in its present form: either it will evolve towards a more open society or it will abandon its claims to be based on popular will.

The third enduring Iranian weakness has been its inability to field a modern military. Its economic problems and its inability to persuade Iranians to sacrifice for the revolution have prevented Iran's government from developing its military as it had hoped. In the period 1989-96, Iran announced agreements with various suppliers to purchase many more weapons than it actually acquired, e.g., 1,000-1,500 tanks agreed to but only 184 acquired; 100-200 aircraft agreed to but only 57 acquired, and 200-300 artillery pieces agreed to but only 106 acquired.⁶ The reason for the shortfall was generally lack of

money. To quote Reidel, "Foreign exchange expenditures on arms have dropped from a high of \$2.5 billion in 1991 to less than one billion dollars last year."⁷ That shortfall in Iranian arms spending has had a significant impact on the balance of power in the Gulf. With an extra one billion to two billion dollars a year, Iran would have been able to add more weapons with which to threaten stability in the Strait of Hormuz. For instance, Chinese officials relate privately that the reason China stopped deliveries of advanced anti-ship missiles to Iran was that Tehran was behind in payments by most of a billion dollars.

Iran's inability to field a modern military has, until recently, extended to its unconventional weapons programs. In every field of activity, Iran has great difficulty with large-scale projects, especially those requiring integration of different technologies, e.g., the Tehran metro is 15 years behind schedule, the Tehran airport is at least 6 years late, the Isfahan steel complex took twice as long to build as the Soviets had expected, and the Bushehr nuclear power complex is proceeding at a fraction the pace the Russians predicted. The missile program long fit this pattern: for the first 10 years that the project became a national priority during the war of the cities of 1987, there was little progress. However, the recent test firing of the Shahab-3 intermediate-range missile suggests Iran is mastering the art of utilizing advanced foreign technology for missiles, which raises the possibility that the same systems integration skills will be used for other military projects, such as nuclear weapons.

That said, unconventional weapons would be of dubious value to Iran. The two most important cases are nuclear weapons and missiles. Thanks to years of U.S. warnings and pressure on other governments to limit export to Iran of any technologies useful for nuclear weapons, a broad international consensus has formed that an Iranian nuclear weapon would be unacceptable, both on its own and for its implications for the global Treaty on Nonproliferation of Nuclear Weapons (NPT). Were Iran to openly develop

nuclear weapons, Tehran would face a serious reaction: it would be politically isolated from Europe and the Arab Gulf states, and it might well face multilateral economic sanctions. The case of missiles is quite different in many ways, except the most important, namely, the missiles bring little advantage to Iran. Because the United States was able to pressure various governments around the world (most especially North Korea) not to assist Iran as much as had been planned, Iran's development of medium-range missiles was retarded from 1994, when Iran expected to have access to North Korea's *No Dong* technology, to 1998. That delay provided the window of opportunity for Israel, with U.S. funding, to develop the Arrow theater-missile-defense system. The Arrow, which will be deployed at least a year before the *Shahab-3*, is optimized against the *Shahab-3*. Furthermore, now that three batteries of Arrows are funded, the Arrow will be deployed in numbers quite sufficient to counter the *Shahab-3* threat for the next few years. And Israel is on track for enhancements to the Arrow which will make that system effective against the *Shahab-4* well before the Iranians are able to deploy that missile.

Enduring U.S. Strengths and Weaknesses.

The main U.S. strength *vis-à-vis* Iran is its economic might. One form that it takes is the preeminent U.S. role in the global oil and gas industry. Not only do U.S. firms have a technological lead, but the sheer weight of the U.S. market and of the U.S. firms means that the U.S. Government has leverage over the entire industry. Important as that instrument of power may be, even more important is the U.S. dominance of world financial markets. The U.S. Government is well positioned to pressure banks, foreign governments, and international financial institutions like the World Bank not to lend to Iran. To be sure, the United States cannot expect to cut off the flow of funds, but it can restrict the flow and raise the cost to Iran. Iran is particularly vulnerable because it needs long-term investment in large-scale infrastructure projects, like

pipelines, which are difficult to finance without participation by broad consortium of investors; the inability to include U.S. banks and U.S. capital markets in such consortia is a serious impediment for Iran.

The United States is well positioned to provide the forces needed to defeat aggression in the Gulf, because of the key features of U.S. forces, particularly:

- Power projection—forces designed to deploy quickly, lift to get them there, and logistics to sustain them.
- Strike power into even the most hostile battlefields, with an abundant arsenal of accurate weapons.
- Robust forces, imposing in quality as much as size.

An enduring problem for the United States is that its Gulf allies are nervous about U.S. presence and resolve. GCC elite opinion is worried about how lasting the U.S. commitment is, recalling that Britain left the Gulf in 1971 despite Gulf rulers' desire for it to stay. It is also concerned about the U.S. departure from Beirut in 1983 and Mogadishu in 1993 after taking casualties. At the same time, GCC elite opinion is worried that the United States presence may overwhelm the area. Cultural or religious conservatives, already concerned about what they see as the corrosive effect of American mass culture, may worry about the impact of thousands of young Americans, including working women. Also, too prominent a presence could inflame nationalist or religious sensibilities. The Middle East has a history of such reactions to Western militaries. For instance, the creation of the Baghdad Pact in 1955 led to the overthrow of the Iraqi monarchy, and the status-of-forces agreement with the United States was an important factor in the bloody rioting that shook Iran in 1963. The most important example was the Iranian Revolution, which was fueled by the presence of 50,000 U.S. military contractors and trainers, as well as the popular Iranian perception that the Shah had become a U.S. puppet. U.S. interests would be ill served were the presence in the

GCC states to lead to a similar reaction. This will continue to be a problem for the United States in maintaining sufficient presence in the region to deter Iran.

Core Competencies the United States Needs to Maintain and Develop.

The core military competencies that the United States needs to maintain with respect to Iran include power projection and long-distance strike power. The United States has an overwhelming lead in these areas, but that lead could be threatened were the U.S. military budget to be reduced or were the U.S. military to be reoriented more for Bosnia- and Haiti-style peace enforcement operations.

The main core competency that the United States needs to develop is a means to exercise economic pressure. Economic sanctions have not been a popular instrument with the U.S. business community. In some cases, economic engagement may be an appropriate economic policy instrument for modifying the behavior of other governments, but it is also desirable to have a means to apply pressure. Despite intense efforts in the think-tank and lobbyist communities, no effective alternative economic instruments have been developed to pressure hostile states.

Strategies the United States Can Employ.

The West has tried a wide variety of approaches, none of which has worked well:

- Reliance on a regional power to sustain peace, as done by the United States under the Nixon Doctrine, became a disaster when the chosen government, imperial Iran, proved to be unstable, revealing the powerful anti-Western currents that lurk below the surface of each of the region's states.

- Promotion of a balance of power among warring countries by providing first arms to Iran (by both Israel and the United States) and then intelligence to Iraq became an

even worse disaster, when the winner used his powerful army for aggression against weak neighbors.

- Engagement with Iranian technocrats, as done by Europe and Japan after Hashemi Rafsanjani became president in 1989, required a high price (\$30 billion in loans over 4 years) and produced little. Indeed, Iran responded by stepping up the killing of dissidents abroad, continued threats against Salman Rushdie, and vigorous sponsorship of violent opponents of the Arab-Israeli peace process.

- Armed overthrow of Saddam's regime by supporting the opposition, as the United States attempted half-heartedly to do in 1991-95, proved beyond U.S. means to accomplish, partly because the opposition has been so fractious and partly because of U.S. discomfort and clumsiness with providing vigorous support for such a covert operation.

Against this backdrop of failed past policy, the Clinton administration formulated the policy of dual containment, which has as its core a U.S. commitment to guarantee the security of the Gulf. The principal means to that end is the U.S. military presence in the Gulf. The other major component of the policy has been to use economic means to pressure both Iraq and Iran—to reduce their ability to engage in external aggression and to show the heavy price paid for the confrontational policies with the West in the hope that either the policies will change or the regimes will be replaced by a fundamentally different kind of government (almost assuredly by violence in the case of Iraq; most likely by peaceful means in Iran).

Competitor and Third Party Countermoves and U.S. Responses.

One Iranian countermove to the U.S. dual containment policy has been the naval build-up noted above. But the main countermove has been horizontal escalation: to

exacerbate tensions between the United States and its Gulf and European allies over how to deal with Iran.

Despite U.S. wishes to the contrary, Iran has been able to improve its relations with GCC countries, with a skillful combination of implied threats (drawing upon the perception that Iran was responsible for the 1996 Khobar Towers bombing) and sweet words (building upon President Khatemi's reputation as a moderate and the consensus-building approach Khatemi's government took at the December 1997 Tehran summit of the Organization of the Islamic Conference). On the other hand, it is easy to exaggerate the price containing Iran has exacted in complicating U.S. relations with GCC countries. To be sure, dual containment is not particularly popular in the GCC states. To some extent, the policy has been the victim of its own success: the demonstrated U.S. will and ability to check external aggression has led to complacency about the threats. On the other hand, the GCC governments are generally more aware than is popular opinion that the U.S. presence is what keeps Iran from carrying out aggression. At the same time, the U.S. umbrella over the Gulf has encouraged some GCC governments to explore an opening with Iran, secure in knowing that were there to be a real security threat, the United States would come to their rescue. This is hardly surprising behavior from a small neighbor to a large nearby threatening country. Indeed, much the same pattern was seen in Europe during the Cold War. Cold strategic calculation, not Arab deviousness, suggests the GCC states may publicly call for reconciliation with Iran while urging the United States to be vigilant against the dangers of its aggression.

More troubling has been the impact of containing Iran on U.S. relations with Europe. To some extent, the problems have been independent of Iranian action, being based instead on:

- European and U.S. differences about how to deal with difficult regimes. Europe prefers engagement, while the

United States is prepared to use containment where necessary. The two sides distrust the other's explanation for this difference in approach. The failure to secure broader support for containment of Iran has often been interpreted in Washington as a product of European interest in selling to Iran irrespective of that government's misdeeds. In Europe, the usual explanations for the differences across the Atlantic on Iran policy are, first, that Washington's exaggerated hostility to Iran is based on domestic politics rather than strategic interests, and, second, that engaging Iran and encouraging Iranian moderates will be the more effective route to change unacceptable Iranian behavior.

- European anger over trade issues. The most controversial issue in the sanctions strategy has been ILSA. Europeans complain that the secondary boycott provisions of ILSA—which they regard as the extraterritorial application of U.S. law—are unacceptable in principle, irrespective of the purpose to which it is put. In the U.S. view, ILSA is marginally extraterritorial since it applies only to those wishing to sell in the United States market, and this kind of extraterritoriality is not unusual.⁸ EU governments also argue that ILSA-style measures are contrary to the provisions of the World Trade Organization (WTO).

- European anger at what is seen as U.S. bullying. ILSA, combined with the Helms-Burton Act and noneconomic issues like the vetoing of a second term for U.N. Secretary-General Boutros Boutros-Ghali, have been seen as evidence that the United States insists on dictating to Europe on those issues where the two disagree. The perception of unfair U.S. pressure has hurt the overall relationship, which is arguably the most important foreign tie the United States has, and has impeded agreement on the specific issues of disagreement.

However, Iran has also been skillful at exacerbating U.S.-European differences. In particular, Iran dramatically shifted its earlier rigid opposition to foreign involvement in

its oil industry to instead offer up a wide range of oil and gas projects to foreign investors. That move brought to a head U.S. and European differences over whether to engage with Iran or to contain it. The Iranian proffer of investment opportunities greatly complicated Washington's hope for negotiations with Europe about measures against Iranian terrorism and weapons of mass destruction (WMD). Such measures could provide the means to grant EU countries a general waiver of ILSA, under its Section 4c.

The French government has been particularly uninterested in reaching agreement on how to respond to problems with Iran. In September 1997, when the French firm Total announced a two billion dollar deal with Iran to develop the South Pars gas field, in partnership with Gazprom of Russia and of Malaysia, Total went out of its way to spit in the eye of the United States. Its chairman Thierry Desmarest proclaimed, "Under any hypothesis, they (U.S. sanctions) would have only very minor consequences for Total. Our U.S. presence is very small (accounting for 3-4 percent of the group's FF180 billion annual sales). It is more important for an oil company to be in the Middle East than the United States."⁹

In May 1998, the United States clarified a change in policy that had been forming since October 1997, namely, the retreat from the threat of a secondary boycott over the South Pars deal. This decision had little to do with Iran: it was overwhelmingly a product of European pressure. A secondary factor was the U.S. business community's lobbying against sanctions as a whole, which served to reduce Congressional willingness to take a strong stand on Iran sanctions. A third factor, definitely less than the other two, was the perception that Iran may be changing, and therefore some gesture should be made to President Khatemi.

The Clinton administration has handled poorly its reaction to the Total deal. The deal was a poor case for the United States to push hard on—Total sold most of its U.S.

assets three days before announcing the deal, and the French government could gain on the domestic political scene by standing up to U.S. pressure. ILSA was crafted to provide great flexibility for such cases, but the Clinton administration did not make use of the act's possibilities. For instance, the U.S. Government could have quickly applied to Total limited sanctions. The law requires choosing two of six specific measures, and two of them—denial of credits from the Export-Import Bank and refusal of permission to be a primary dealer in U.S. Government securities—are entirely outside the domain of the WTO. Had Washington applied such sanctions against Total, France would have had no basis for a WTO complaint. And Washington could have sustained the deterrent effect of ILSA by darkly hinting that it would react more severely against other firms more vulnerable than Total.

It could be argued that a general waiver of ILSA was in the U.S. interest, because the strong EU reaction showed that ILSA does not work or that its cost is too high. If so, the time to proclaim such a waiver would have been just after Khatemi's inaugural in August 1997, the month before the Total deal was announced. Had that been done, the waiver could have been presented as a U.S. olive branch to the new government, which would have put the ball in Iran's court to respond.

By waiting instead to waive ILSA, the Clinton administration has given the impression that it will not stand up to Iran despite the past strong words, which could create problems for the credibility of U.S. policy globally. The risk is that a rogue government may decide that it can ignore strong declarations from Washington, on the grounds that similar statements about Iran led to no action. At some point, the United States may find that a rogue, who could have been deterred had Washington's word not been doubted, engages in aggression that must be reversed by use of force.

Balancing the Costs, Benefits, and Risks.

The military deployments to deter Iran have been relatively uncontroversial in part because they are of such low cost. So long as the United States maintains substantial assets in the Gulf to deter Saddam Hussein, there is little additional cost associated with the small extra margin needed to deter Iran.

Criticism of U.S. policy towards Iran has focused on the cost of sanctions. Much of that criticism has concentrated on the cost to U.S. business, which loses opportunities open to foreign business. That is not an appropriate criticism. As a rule of thumb, achieving a foreign policy objective requires paying a price, financial or otherwise. It is the unusual situation when the U.S. Government is able to achieve an interest without having to make some tradeoff or sacrifice. If sanctions had not been imposed on Iran, then some alternative means would have to have been found to accomplish the same purpose of promoting change in Iran's unacceptable behavior. It is inappropriate to contrast sanctions with no sanctions: sanctions must be contrasted with other policy instruments. Sanctions on Iran may be expensive, but they could still be the least-cost approach if all the alternatives cost more. The more compelling complaint against sanctions would be if it could be demonstrated that sanctions impose a heavier burden on the economy than do other foreign policy tools, or that sanctions cost more for what they achieve than do other foreign policy instruments.

Sanctions have had two major benefits from the perspective of U.S. interests. The first and most important has been on Iran's domestic political scene. Iran's economic problems have been an important factor in the widespread popular dissatisfaction with rule by the politicized clergy. There are certainly those in Iran who realize that the country's economic prospects are poor unless it is able to raise large amounts of foreign capital and that the only way to do so is to improve relations with the West. That has been

an element in the support for President Khatemi. We cannot know exactly how important for Khatemi's victory was the sanctions-induced economic pain. Probably it was a rather small factor; domestic issues predominated in that contest, as in nearly all elections. Still, the sanctions had some positive impact, and perhaps that is about all the U.S. Government can achieve.

In addition to their impact on the Iranian political scene, sanctions have made an important contribution to U.S. security by depriving Iran of the resources it could otherwise have used for a military buildup. Had the United States not gone down the route of sanctions to contain Iran, then the United States would have needed to implement other policies to respond to what would be a larger Iranian military—larger because an unsanctioned Iran would have more access to international capital and therefore been able to afford more weaponry. The usual estimate of the cost of present U.S. military preparedness in the Persian Gulf, against both Iran and Iraq, is \$50 billion a year.¹⁰ A greater Iranian threat would require an increase in that amount. For instance, a larger and more modern Iranian navy would require more antisubmarine and antimine ships and aircraft; more Iranian missiles would require a larger theater missile defense network; more Iranian fighter and attack planes would require the presence of more U.S. planes, probably including more frequent visits by aircraft carriers; and there would have to be a general increase in reconnaissance and intelligence assets. Plus there would have to be a variety of equipment and personnel held in reserve earmarked for a conflict involving Iran. It would not be a stretch to say that this could add 10 percent to the \$50 billion estimate for defense of the Gulf, i.e., \$5 billion a year. That is a hefty cost which more than counterbalances the costs Iran sanctions have imposed on the U.S. economy.

To say that the alternative to Iran sanctions is an extra \$5 billion military cost per year is to understate the case. The real cost of using military preparedness to counter Iranian unacceptable behavior is that the risk of war would

be greater. Seeing the larger U.S. forces in the region, Iran might fear attack and become jumpy. An accidental incident could escalate out of control, given the mutual suspicions and a high state of readiness by both sides' forces. The two sides could find themselves in a shooting match, which would inflame passions in both countries. Besides its other implications, a serious conflict would cost real money; the U.S. portion of Operation DESERT STORM/DESERT SHIELD cost \$61 billion, and Iran is three times the size of Iraq.¹¹ To calculate the cost of the war risk, the economist's approach would be to estimate the probability of conflict and then multiply that by the cost of a conflict, to get a notional cost; think of this as the annual cost of an insurance policy that would pay for a conflict were it to occur. Even if the risk of conflict is as low as 5 percent and the cost of the conflict as low as the \$61 billion for DESERT STORM/DESERT SHIELD, the annual risk premium would still be \$3 billion a year.

While the Iran sanctions have been the most cost-effective way to achieve U.S. goals *vis-à-vis* Iran, they have a price. Their costs fall into two large categories: the economic costs and the complications for other policy objectives. The economic costs have been small, because Iran is a small market and because there are ample opportunities elsewhere for investment in oil development. The complications for other policy objectives have been more important. The main problem with dual containment comes from the difficulties with European and Arab Gulf states over how to deal with Iran.

Overall, the U.S. containment policy towards Iran appears to have been successful at limiting Iran's conventional weapons buildup, slowing its WMD development, and raising the price Iran has to pay for its hostility to the United States to the point that Iranian elites are seriously considering changing their basic policy orientation on this issue. This considerable success may open the door to a future policy making more use of *détente* with Iran, if Iran decides to accept dialogue with the U.S.

Government and to begin negotiations for a compromise on outstanding issues.

CHAPTER 7 - ENDNOTES

1. In a speech to IRGC commanders meant to have been private, cited in *Abrar*, April 30, 1998, as printed in *Akhbaar Ruz* of the same date. In subsequent IRGC statements and Safavi interviews, there was no retraction of this view.

2. Bruce O. Riedel, Special Assistant to the President and National Security Council Senior Director for Near East and South Asian Affairs, "U.S. Policy in the Gulf: Five Years of Dual Containment," The Washington Institute for Near East Policy Soref Symposium, May 6, 1998.

3. *Tehran Times*, September 24, 1996, pp. 1, 10, as transmitted by *Foreign Broadcasting Information Service* (hereafter *FBIS*), September 24, 1996. It is not clear from the *FBIS* transmission if these words are direct quotes from Rezai or the newspaper's paraphrase.

4. *Resalaat*, September 24, 1995, as printed in *Akhbaar Ruz*, September 24, 1995.

5. Interview in *Al-Hayat*, August 8, 1996, reprinted in *Mideast Mirror*, August 8, 1996, p 15.

6. Michael Eisenstadt, *Iranian Military Power*, Washington: The Washington Institute for Near East Policy, pp. 36-7.

7. Reidel.

8. As noted in the *Wall Street Journal* editorial of October 6, 1997, p. A22.

France doesn't let foreign firms do as they will in France either, if their activities are in some way contrary to French law or policy. In fact, a lot of laws all over the globe are extraterritorial.

9. *Financial Times*, September 30, 1997, p. 9.

10. Cf. Scott Peterson, "US Stakes Out a Sentinel's Role," *Christian Science Monitor*, August 6, 1997, pp. 7, 9.

11. The U.S. war cost is from "Operation Desert Shield/Storm: Costs and Funding Requirements," Washington: U.S. Government

Accounting Office, September 24, 1991, which also lists the allied contribution towards those costs as \$54 billion.