

*Working Paper*

## **The Gulf States and Iran: Two Misunderstandings and One Possible Game-Changer**

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The regional rivalry between Iran and Saudi Arabia is one of the salient features of the current regional crisis in the Middle East. For those who see the crisis as a sectarian fight between Sunnis and Shia, these two regional powers are simply taking their assigned roles in a centuries-long drama between the two major sects of Islam. This sectarian framing profoundly misunderstands the nature of the regional crisis. Sectarianism is certainly a part of regional politics. People are being killed in large numbers in Iraq and Syria now, in part because of their sect. However, sectarianism is not imposed on the region by Riyadh and Tehran. These two powers take advantage of sectarianism, but they do not cause it. Rather, the salience of sectarianism in Middle East politics today is the result of the weakening and collapse of the state across the eastern Arab world. State weakening brings forward sub-state identities, like sectarianism. In the ensuing civil wars, the local players seek out regional allies. Sunnis naturally look to Saudi Arabia; Shia to Iran. Sectarianism is a bottom-up phenomenon. Saudi Arabia and Iran are simply playing a balance of power game, driven not by age-old sectarian hatreds but rather by regional geopolitics.

The second misunderstanding about the Gulf states and Iran is not as profound as the first, about sectarianism, but is important for understanding the foreign policy dynamics of the Gulf region. Saudi Arabia does not lead a unified Gulf Cooperation Council in an anti-Iranian policy, despite what some of the GCC summit resolutions might say. The five smaller states in the Gulf each has its own policy toward Iran. Bahrain and the United Arab Emirates are relatively close to Saudi Arabia on this issue, but Kuwait, Qatar and Oman follow their own path toward Iran. Any effective policy in the Gulf has to recognize that fact.

Given the intensity of regional conflict at this time, it is hard to imagine how it all might end. But the dramatic decline in oil prices since 2014 might actually hold out some hope for a moderation in the level of conflict between Iran and Saudi Arabia. A rapprochement between the two regional powers would not end the conflicts in Syria, Iraq, Yemen and Lebanon, which have their own domestic roots in state weakening and collapse. However, an understanding between the two could reduce the regional temperature and open up the possibility of diplomatic progress in these conflicts.

### Saudi Arabia vs. Iran: A Balance of Power Game

The salient reality of the current Middle East regional crisis is the weakening and collapse of state authority in a number of Arab states. Lebanon has not seen an effective central government since the 1970's. An Iraqi state enfeebled by military defeat and economic sanctions was destroyed, as a matter of policy, by the United States in 2003, in the

misbegotten notion that a new state could easily be rebuilt upon its ashes. The nascent state of Palestine split between Hamas in Gaza and the Palestinian Authority in the West Bank in 2007. The Arab Spring knocked over the historically weak regime in Yemen, leading that normally fractious country into full-scale civil war. The uprisings of 2011 led to state collapse in Libya, abetted by NATO intervention against the Qaddafi regime, and a brutal civil war in Syria.

Nature abhors a vacuum, and politics abhors a political vacuum. With the collapse of state authority around the Arab world, local groups have actively sought out the assistance of regional and international players in their own civil conflicts. In some places, because of demography and history, local societies have split along sectarian lines. That has certainly been true in the Fertile Crescent, though even in Iraq and Syria the divisions are not purely sectarian, with the Kurds – an ethno-linguistic group that includes both Sunnis and Shia – asserting their own local autonomy. In Yemen, sectarian differences between Zaydi Shia and Shafi'i Sunnis mix with tribal and regional identities, along with ideologically extremist groups al-Qaeda and ISIS, to create a hodge-podge civil war. In Libya, where almost everyone is a Sunni Muslim, the divisions are tribal, regional and ideological, but no less violent.

The direction of politics in these civil conflicts will determine the future of the region, which is why so many outside powers are getting involved. Saudi Arabia and Iran are the primary among them, but not the only players in the game. They seek to advance their interests in a balance of power game. Iranians have in the past backed Sunnis, like Hamas, and Saudi Arabia has backed Shia, like Iyad Allawi, the former prime minister of Iraq and head of the Iraqiyya Party. Mr. Allawi is a secular man, to be sure, but a Shi'i by birth. For the most part, the Iranians and the Saudis are invited into these civil conflicts by co-sectarians, because Iran has developed long relationships with Shi'a groups in Iraq and Lebanon, and because Sunnis in Syria and elsewhere, faced with Iranian support for local Shi'a, naturally turn to the leading Sunni power in the Arab world in Saudi Arabia.

The good news here is that Riyadh and Tehran are not playing out some primordial, centuries-long conflict. They can in the future, as they have in the past, compose their differences. The bad news is that, as long as states are weak and civil conflicts are raging in the eastern Arab world, the incentives for them to be involved in these conflicts, to balance off and contain the influence of the other, will continue.

The Gulf States and Iran

Any realistic view of regional geopolitics has to take into account the different positions the smaller Gulf states take toward Iran. They hardly fall in lock-step behind Riyadh. Bahrain and the UAE are closest to Saudi Arabia on regional geopolitics. The Al Khalifa regime in Bahrain, a Sunni ruling house in a Shia majority country that experienced massive upheavals in the Arab Spring, has affixed itself tightly to the Saudis. The Bahraini regime sees an Iranian hand behind its domestic opposition, sometimes with reason but frequently using the Iranian bogeyman as an excuse not to acknowledge the real political grievances of its citizens. The UAE leadership nurses a grudge against Iran over the islands of Abu Musa, Greater Tunb and Lesser Tunb, occupied by the Shah on the eve of British withdrawal from the Gulf in 1971. It has joined Saudi Arabia in the current intervention in Yemen, against the pro-Iranian Houthi movement, in a new experiment in regional military muscle-flexing. Still, the merchants in Dubai maintain an active trade with Iran across the Gulf.

The other three Gulf monarchies take some amount of distance from Riyadh regarding policy toward Iran. Oman has maintained a business-like relationship with Tehran since the Revolution. It hosted the secret talks between the Obama and Rouhani administrations that led to the recent breakthrough in Iranian-American relations. Kuwait has a substantial Shia minority, but, unlike Bahrain, has integrated its Shia citizens more fully into the political system, to the extent that the Kuwaiti Shia community is now among the most enthusiastic royalists in the country, while tribal Sunnis vote for “opposition” parliamentarians. Qatar shares the extensive North Dome gas field in the Persian Gulf with Iran. A normal relationship with Iran is an absolute necessity for Doha.

### Lower Oil Prices: A Possible Game-Changer?

Sustaining a forward and aggressive foreign policy is an expensive proposition, for both Saudi Arabia and Iran. It is possible that, over the course of 2016, the fiscal realities of lower oil prices might induce both sides to rethink, if not their overall rivalry, at least its intensity. There are two drivers here. One is the simple cost of sustaining clients throughout the region and, for the Saudis, direct intervention in Yemen. The second is the realization that only through some kind of production-restraint agreement among major OPEC and non-OPEC oil producers can oil prices be pushed up significantly in the short term.

The Saudis already seem to have arrived at this point. They are talking with the Houthis about a political solution in Yemen. They have engaged with Russia on the idea of capping oil production, though they made clear at the meeting of OPEC and non-OPEC oil producers in Doha on April 17, 2016 that they will not agree to a freeze if the Iranians do not join as well. It will

take some time for Iran to get there. Tehran is still in the throes of sanctions removal after the signing of the Joint Comprehensive Plan of Action, and is hoping to increase its share of the world oil market. It is likely to be disappointed in the results, at least on the fiscal side. Selling a bit more oil at a vastly decreased price is hardly going to provide Tehran with a windfall. But it is possible, by the end of 2016, that the Iranians might be willing to talk with the Saudis about a deal for an oil production freeze, or even cuts, among major producers.

Such a deal could lead to a greater willingness in both Tehran and Riyadh to lower the regional temperature. A Saudi-Iranian rapprochement will not solve the regional crisis. Only the restoration of state authority in Iraq and Syria will do that, and that is not happening anytime soon. But even a modest movement by the two regional powers toward a more normal relationship could set the stage for diplomatic moves to reduce, if not end, the killing and provide some greater stability to the region.

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