



Middle East and Africa Business Intelligence

US is Unwise to Deny Iran's Key Role in the Gulf

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Over lunch last week in the United Arab Emirates, a friend from the emirate of Sharjah raised Senator Hillary Clinton's proposal to extend a US "nuclear shield" over allies in the Gulf. "A shield?" he exclaimed. "To protect us against whom, the Iranians or the Americans?" I heard the same sentiment a few days later in Dubai, at the preview for a bustling auction of Iranian art.

These comments, and many others, highlight the swiftly growing gap between the way the Arab Gulf states view their relationship with Iran, and the way the US believes – or wants to believe – they see their neighbour to the north. The US [seeks to defend](#) the Arabs from Iran, but they are increasingly trying to defend themselves from US efforts to defend them against Iran. It is hard to imagine how this might turn out well.

In spite of \$79bn (€50bn, £40bn) in foreign exchange reserves and revenues from \$100-plus oil, Iran's economy is slowing, not accelerating. The resource windfall masks a creaking infrastructure, a bloated public sector, astronomical unemployment and double-digit inflation, all within an environment of pervasive corruption. The problems go even deeper. Iranian businessmen complain that financial sanctions are seriously impeding Iran's ability to do business abroad; and natural gas for heating is in short supply, despite the fact that the country claims the world's second largest natural gas reserves. The government tries to buy off complaints with handouts, but they only add to inflation and misery.

Increasingly, the Arab countries of the Gulf have become Iran's lifeline, and vice versa. According to official numbers, Iranian investors have sunk somewhere between \$250bn and \$500bn into the Gulf economies; the true figure may be more than twice as much. More than 450,000 Iranians live and work in Dubai (more than double the number of native Dubaians), and tens of thousands of others are scattered throughout the region, serving as a pool of talented, relatively low-cost engineers and technical staff otherwise

in short supply. Iranian gas may emerge as the only near-term solution to massive energy shortfalls in the northern emirates, as spiralling demand far outstrips domestic production capacity.

All of this activity is translating into increasingly open sympathy on the part of many Gulf Arabs for Iran and increasing scepticism about US efforts to isolate the country. In 2006, the Qataris broke ranks and voted against a United Nations Security Council resolution punishing Iran for its pursuit of uranium enrichment. Less than two months after Vice-President Dick Cheney's visit to Muscat, Omani diplomats were in Tehran discussing bilateral trade and security measures, including reciprocal investment in infrastructure projects. The governments of Saudi Arabia and Bahrain have deeper cause for concern, related most directly to Iran's latent influence over indigenous Shia populations. As one Saudi businessman put it, as long as Iran keeps to its side of the waters on this score, even his country is amenable to peaceable relations.

Talk from the US presidential campaign trail about [bombing and "obliteration"](#) worries many in the Gulf states more than the notion of a nuclear-armed Iran. Iran is already a powerful state and a nuclear Iran might be managed, they reason. The prospect of living with a wounded, more radicalised, or heavily crippled Iran is far more daunting. Rather than looking nervously north, many see the US as the greater threat to Gulf stability and are reacting by trying to draw Iran closer into a "Greater Gulf" community.

If the US is to safeguard its own regional interests, it must find a constructive way to acknowledge what is obvious to most in the region: Iran is and will remain the key player in the Gulf for a long time to come. By exerting undue (and unreasonable) pressure on Iran's neighbours to shun the Islamic Republic, we push these governments towards choosing at the margin between two longstanding relationships: that with the US and that with one of their most important and powerful regional trading partners. All of which is not to say that the US should not make things difficult for Iran. For the most part, existing US and UN sanctions and the threat of new ones are helping shape discourse within the Islamic Republic regarding what kind of relationship it wants to have with what remains the sole world superpower.