

By Dr. Hooshang Amirahmadi

In the Islamic Republic of Iran's point of view, there are three types of nations: friends, foes and the undecided. Needless to say, this world view has marginalized Iran in the Western world.



In the realm of economics, however, friendly relations with the rest of the world are necessary for access to foreign markets, technology and investments.

In this regard, Western countries and Iran's neighbors in the region are of paramount importance. In the past, members of the Organization of Economic Cooperation and Development, particularly Germany, Japan, France, Britain and Italy, were Iran's major trading partners.

This arrangement also prevails at present because of these nations' dependence on oil-producing countries and Iran's dependence on OECD markets for both its imports and exports. But Iran also needs friendly relations with its neighbors if it wants to export its industrial goods.

Recent developments in post-Soviet Central Asia have opened many economic opportunities, while Persian Gulf states remain Iran's significant trading partners in the region, and shall remain so in the foreseeable future. The Islamic Republic is seeking to improve its diplomatic and commercial ties with countries in the region.

Economic cooperation treaties have been signed with Central Asian states and diplomatic ties with Jordan, Kuwait, Saudi Arabia, Iraq, and the United Arab Emirates have been resumed or strengthened. Efforts are being made to improve relations with Morocco, Egypt and Tunisia.

Iran's relations with the UAE recently have been ruffled by ownership claims over the three islands of Abu Musa, the Lesser and the Greater Tonb in the Persian Gulf. Other Arab states have supported the UAE's claim, including Egypt, Saudi Arabia and Iraq.

Iran's plans for economic reconstruction also face challenges from the West. Iran needs to re-establish relations with Western nations, gain access to technological know-how, foreign investment and advanced techniques of production in order to sustain stable economic growth.

Although relations with most Western nations have improved since the early days of the revolution, they remain marked by mutual distrust and instability. Iran needs to reformulate its relations with key Western countries, the United States in particular.

On the other hand, the Clinton Administration's dual containment policy, seeking to weaken Iran by crippling its economy, is

counter-productive. The pressure that led to the cancellation of Conoco's deal with the National Iranian Oil Company is a case in point.

The proponents of this policy assume that a weaker Iran will be less adventurous and incapable of aggression against its neighbors and is thus better for regional stability.

Yet, historical record does not support this view. In times of economic malaise, Iran's foreign policy has been more aggressive. Besides, ambitious neighbors have been tempted to act on their aggressive

motives against a weaker Iran.

For example, if Iraq had not perceived Iran weak and disorganized in 1980, it would have been less likely to invade Iran; and in the absence of the Iran-Iraq war, Iraq would not have descended into economic ruin that caused Saddam Hussein to invade Kuwait in 1990.

Conversely, an economically vibrant Iran has often contributed to the security of the Persian Gulf. Twentieth century Iran has not initiated any regionally significant hostility against its neighbors; and when the country's central government and its economy have been strong, Iran's neighbors have acted more responsibly as well.

To ensure Persian Gulf security, therefore, it is critical that Iran's economy is placed on the road to sustainable development. Conversely, unless the Persian Gulf is a stable region, the Iranian economy may not experience substantial growth for any significant length of time.

Iran depends on this vital waterway for the export of its oil, the source of more than 90 percent of its foreign earnings. The Iranian province of Khuzestan, the site of most of the country's oil production, abuts the Persian Gulf and remains vulnerable to instability and skirmishes in the region.

The Persian Gulf is also the main transport route of Iran's trade with the world and neighboring states; trade with the UAE is already valued at \$1 billion a year and growing. Iran has a stake in the security of the waterway. If its Arab neighbors also seek regional stability, they should foster economic well-being in Iran.

To eliminate destabilizing factors, domestic reforms and international cooperation, particularly from Iran's Arab neighbors, must come together to build the Iranian economy. The dual containment policy must be replaced by a policy of reconciliation.

The arms race in the Persian Gulf is exacting a heavy toll on all the regional economies. Incorporating Iran in the GCC's security arrangements can go a long way in curbing the spiraling arms race.

Finally, to encourage stability in the Persian Gulf, regional and international trade with and investment in Iran must increase; the liberal economic policies of President Hashemi Rafsanjani should be viewed as a window of opportunity.

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