

Developments in 1984 brought this positive economic trend in Iran to a halt. Because of the overabundance and the price slump on the international oil market, and also the crippling of oil exports by the Iraqi rocket attacks on tankers in the Gulf, Iran's oil earnings fluctuated and were far down.

Given the hard times, the Government considered itself compelled to postpone new projects, already in the planning stages, and to curb imports so that since the end of 1984 almost exclusively priority goods have been imported categories such as, for example, food; medicals and medical supplies; strategic materials. All other trading projects have had to be based on compensation agreements mainly, imports to be charged against the delivery of Iranian oil.

#### 5. Iranian Industry: Its Stage of Development, Its Degree of

##### Dependence on Imports

Direct and indirect influences of the war plus the continually heavy dependence on imports are strongly affecting the Iranian industrial sector's current results and its plans.

After the severe setbacks in 1980-1982, with industrial production declining dramatically, the course of the general economic recovery in 1983 also brought an upturn in the sectors of (light) industry, heavy industry and mining. This good showing was made even though the industrial centers of Khusistan Province have been hard-hit by the war in part, destroyed. For example, the Abadan petroleum refinery, whose capacity used to amount to a daily 600,000 barrels, was leveled by bombing soon after the war broke out. The consequence at the time was a serious shortage of fuel for heating and for power. Despite an immediately introduced rationing system and a major resort to imports, there were serious interferences with energy production and industrial output.

The establishment of big-scale industrial projects in the war region had to be stopped or interrupted. Thus the petrochemical complex of Bandar Khomeini (earlier Bandar Shahpour) has been bombed several times since 1980 and the Japanese experts employed on this Iranian-Japanese joint venture had to be withdrawn for reasons of security.

At the height of the Iraqi attacks, Iranian industrial production decreased from 1980 to 1982 to less than 40 percent of the production attained before the revolution. The umbrella organization of some 400 nationalized manufacturing firms, the National Iranian Industries Organization (NIIO), reported that up to 1983 its member companies had had losses equal to 3,500 million US. dollars.

The structure of Iranian industry has been rendered defective from the first because of an extraordinarily high degree of dependence on imports, which makes the country's industrial branches highly vulnerable to disruptions. The domestic basic industries are only very weakly developed. Their capacities are far from enough to supply the processing firms with the requisite raw materials and semi-finished goods.

Nearly without exception, accordingly, industrial firms were hit by the import stops imposed after the revolution. In this situation, the crippling shortage of raw materials combined with a lack of replacement parts had fatal results for some firms. Consequently, times were bad even for other firms than those of the purely assembling sector, whose producers of passenger and utility vehicles are almost entirely dependent on imports.

With the taking over of hundreds of once-private companies, ranging from large to small, by state and Islamic organizations like NIIO and the Foundation for the Poor, Bonyad-e Mostazafan, the pattern of ownership of industry was transformed. Many of the nationalized enterprises were already highly in debt at the time of their takeover, not sufficiently

supplied with capital of their own, and for a long time had been operating in the red. Now the losses increased and the problems multiplied, because in addition to the financial and import-connected difficulties came the supplemental burden of political and ideological controversy.

The new, administratively and technologically usually unqualified and strongly ideological management proved to be incapable of running the nationalized firms. In general, the problem of mismanagement in industry and in the economy as a whole finally became so pressing that the clergy, together with the Prime Minister, had, in the autumn of 1984, to introduce a liberalization program, which goes down to the company level. Corrupt and inefficient persons on the state payroll are to be removed and replaced by technically or administratively competent and trained technocrats and pragmaticians.

Often, even, the former owners of industrial firms — men who for years had been decried as taghouti (devilish) — were called on to buy

back their former companies. Doing so, they were to take over all old debts, as well as indebtedness and other obligations incurred since the nationalization. The regime hopes that its calling on pragmaticians and technocrats will stimulate the industrial and agricultural sectors.

## Economic Situation Favors Iraq

By contrast with the slight improvement of its position that Iran has been able to achieve over Iraq in the military and political spheres, the two combatants' economic situations have further shifted to the advantage of Iraq.

Two circumstances indicate that Iraq is going to be able to considerably increase its oil exports again, after they were sharply reduced by Iran's blockade of Shatt-el-Arab. One factor is the going into service of the new oil pipeline to Yanbu on the Red Sea after the line's recent opening. The other is the possibility of Iraq's being able to share the use of a pipeline

line running through the south of Turkey. (An additional line is planned there.)

Moreover, the continuing financial support of Iraq by the Gulf countries and good economic relations with Western industrialized countries with whom Iraq has been able to conclude favorable credit agreements also help to stabilize the country's economic situation, and to keep the war-caused deprivations of the Iraqis within endurable limits.

Economically, the circumstances are bleaker for Iran. The Iranian leadership has come under increasing domestic political pressure because the economic situation is getting worse. A number of circumstances fan the flames of the public's discontent: supply bottlenecks in all essential areas; interruptions of electrical power, which together with the shortage of domestic technicians and replacement parts for obsolescent facilities - are causing fallouts of industrial production; high unemployment; a worsening housing situation in the large cities.

How does the Iranian leadership undertake to quell the discontent and to maintain public enthusiasm for the war? The regime implores: 'With a war on, we must tighten our belts'. At the same time, the regime also has announced extensive administrative reforms to cut the overgrown bureaucracy down to size, and to reduce state spending in the government-service area.

A revealing insight into the domestic quarrels in Iran is provided by Khomeini's surprising announcement that the militia of the Guards of the Revolution are to be integrated within the regular army. Another indication of internal dissent in Iran is a campaign launched by the Government against other revolutionary organizations' committees, Islamic societies, councils.

Behind these domestic conflicts, so observers in Tehran believe, is the Government's determination acting under the pressure of practically unbearable burdens that the war has imposed on the economy to show the fundamentalist 'hard-liners' where the limits are. Up to now these fundamentalists have been resisting key reforms of Khomeini's economic policy in particular, a broader opening to world markets.

Another reason for the recession in Iran stemmed from the fact that the new rulers lacked a co-ordinated program to provide the country with economic direction. The nation was governed with the Koran under one arm and a machine gun under the other.

After most of the factories had shut down because inventories and spare parts had been used up - and also because meanwhile Iran was at war - the necessity of a strict, co-ordinated economic leadership became even clearer. The perception gained ground that in addition to economic co-ordination, it was necessary to devise specific economic strategies.

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## 2. Economic Policy on the Basis of the Constitution

The main characteristics of the Iranian economic pattern can be derived from the Constitution of the Islamic Republic. Economic policy is set down in the principles numbered 43 to 47. Thus Principle 44 concerns the determination and delineation of sectors that reflect the new economic order. These are

- 1 the public sector
- 2 the co-operative sector
- 3 the private sector.

### The Public Sector

To the public sector, the Iranian regime assigns the large and/or key industries, mining enterprises, energy production, water supply, all essential resources, transport and communication, and the bank and insurance branches. Foreign trade also is counted as the public sector. After years of uncertainty in regard to the extent of nationalization of industries, there has now been at least a basic delineation as to the division of tasks between the private and the public sector in international trade. This distinction is made in a new version of the law on foreign trade which took effect in the autumn of 1984. The law prescribes procedures in foreign commerce. All private and state trading activities - the one exception is the National Iranian Oil Company (NIOC) - must be approved or even carried on by agencies known as the Procurement and Distribution Centers (PDC). In turn, the Procurement and Distribution Centers are under the Ministry of Trade, and have the status of Government authorities. At the end of 1984 there were 13 of these trade agencies, they having been established one by one since mid-1980.

And a political resolution of the war? As matters stand, the conflict could be settled in that way only if Iran goes along, indicating that it is ready to talk. This will, however, not happen before the antiwar party gains the upper hand in Iran whether after the death of Khomeini or because warweariness and total exhaustion no longer leave an alternative to negotiations. Whether and when this eventually will come about, no one is able to foresee.

This prediction can be made: The war may well continue as long as Khomeini lives. It is hardly likely that he could renounce his goal of overthrowing Iraq's Saddam Hussein. But it is also not to be expected that in actuality Khomeini possesses the military might or can get it to reach his goal.

The battle of attrition into which the war has meanwhile deteriorated promises, in view of Khomeini's obduracy, to continue for considerable time still provided that Iran's present leader does not suddenly die. The longer the war continues, the more desolate are the prospects for stability in the combatant nations when peace is finally restored, because the political, social and economic structures are being increasingly undermined by this struggle of mutual exhaustion.

Such an Iraqi breakdown is not entirely to be ruled out but it is also not very likely.

On the other hand, there are dangers for Iran in drawing out the war. Prolonging it risks creating constantly more bottlenecks in the economy. Economic clouds would gather on the horizon especially if the Iraqis were to manage further to hinder Iran's oil exports, or to cut them off entirely.

The people of Iran for a long time now have been enduring food shortages, inflation, black-market prices, unemployment. If the petroleum revenues and the currency reserves should fall off still more, and if the Government might feel forced to make still more cuts in civilian spending, while maintaining the military expenditure, the unavoidable consequence would be that living conditions for the bulk of the population would get worse and general dissatisfaction would soar.

So the debate in Iran about the war and its prolongation is going to continue, and possibly grow more intense. At present, however, it will hardly be possible for the opponents of the war to achieve more than they have already won namely, the calling off of major offensives for the time being.

As long as Khomeini lives, the antiwar forces probably cannot succeed, against his will, in achieving peace negotiations with the Iraqi ruler Saddam Hussein. If Khomeini should die a possibility which is no longer being figured on for the near future in Iran presumably the picture would very quickly change.

## 'I. The Situation at a Glance

Iran's domestic situation at present can be considered to have been largely consolidated. The ruling Mullahs have succeeded in eliminating any serious opposition, and in establishing new structures of domination and power. By now these structures have become so firmly based that radical changes are not to be looked for in the foreseeable future. Nor will any such changes occur through domestic struggles for power which are to be anticipated as soon as Khomeini, now a key integrating figure, makes his exit from the political stage. This outlook no change - could itself change if the war were to last a long time still, further burdening and impoverishing Iran's social and economic structure.

Behind the differences that are emerging within the Iranian leadership are diverging standpoints of the clerical rulers. On one side as of now, the predominating side are disciples of Khomeini's revolution who also desire its export. In the other camp is a group of clergy who put priority on bringing the revolution to fruit in Iran itself.

The difference between the two main tendencies - one, emphasizing the pan-Islamic aspirations of Khomeini's revolution, the other, preferring to concentrate on the revolution as a domestic matter - have been escalating to a clash over the Iranian-Iraqi war and the point in continuing it. The ,war party, Khomeini at its head, calls for the continuation of the war to final victory, along with the exporting of the Islamic Revolution. By contrast, the ,antiwar party, including President Khamenei, Prime Minister Mousavi and possibly also Parliamentary President Rafsanjani, the pragmatic craftsman of political power, are for a prompt ending of the war - naturally, face-savvily - so as to advance domestic, economic and social development, and in this way to be able to advance the Islamic Revolution at home in Iran. As of now it looks as if - presumably because of a Khomeini decision - for the time being no new major military offensives are to take place - obviously because Iran lacks the means to launch them. Nevertheless, the regime continues to promise a -final-, decisive, large-scale attack, even if at an unstated future time. And until then? Meanwhile the tactic appears to be to try to wear down the Iraqis. To this end sizeable concentrations of regular troops and -Pasdaran- (Revolutionary Guards) are kept in readiness at the border.

The Iranian economy suffers keenly from the results of the war. This is so even though the contingent of the antiwar camp, reinforced by the realities of the situation, to a considerable extent has been able to influence the policy situation. These opponents of the war were supported by an elite of technocrats, most of them trained in Western industrialized countries, and thus managed to overcome the economic stagnation caused by the confusion of the revolution, and since then to keep the economy more or less functioning.

The opponents of the war are also behind a major change in Iran's foreign relations: a return to the traditional Western partners even the United States, although largely, it is true, via indirect channels and to a five-year development plan that in important areas reverts to the development planning of the era of the Shah.

In addition, this antiwar group may be the motive force behind the recently observable efforts of the Iranian Government at least to loosen up its self-chosen international isolation, and to improve its relations with a number of countries of the Western world, among them the Federal Republic of Germany.

After a transitional phase of recovery since 1984 the Iranian economy has again undergone major setbacks. Behind this situation are the war's rising cost, which swallows up more than 30 percent of the national budget; the interference with the normal course of trade by the Iraqi air attacks; and, not least, the situation on the international oil market, which is characterized by oversupply, a price slump, and resultant sharpened competition among the exporters of petroleum on the international market.

Iran's declining oil revenue and the hindering or choking off of its imports has led to a drastic decrease in domestic industrial production and, in broad areas of the economy, to supply bottlenecks. Since it has not been possible in recent years to reduce the Iranian economy's high import-dependency, the already precarious situation will get worse to the degree to which Iraq manages an effective blockade of the Iranian supply lines.

On the Iraqi side, too, the population is having to do without an increasing number of goods and services because of the war. But these deprivations in Iraq do not have the intensity of the shortage-occasioned problems and other hardships to which the Iranians are being subjected. Nor will the problems in Iraq reach the point where they could be equated with the difficulties in Iran. The main reason is that the oil states on the Gulf are granting Iraq financial support.

For the Iraqis, the blood sacrifice that they have been making and must continue to make weighs far more heavily than the material losses. In the



problem for Iran as the war began. Accordingly, Iran improvised all sorts of emergency solutions: a partial shift to weapons from the East Bloc; purchases of supplementary arms and replacement parts all over the world; cannibalizing of tanks and airplanes using parts from one piece of equipment to repair another in order to keep at least some of the equipment functioning. Weapons deliveries from Israel also seem to have taken place, probably with semi-official U.S. approval. The Israelis have often hinted that this happened and the Iranian authorities have always denied it. But considering the hostile rhetoric of the Tehran regime against Tel Aviv, nothing else was to have been expected from Iran except its official denials of deals with Israel. North and South Korea are also important weapons-suppliers to Iran. In the case of South Korea, again there may have been silent approval or toleration by the Americans.

#### Negative Image of the Americans

Trade relations with the United States, in spite of everything, were never entirely interrupted, although America is now no longer Iran's no. 1 trading partner. That place has been taken over by the Federal Republic of Germany.

Many Iranians are of the view that the war with Iraq is benefitting the Americans and the industrialized world generally. They note that the war enables the industrialized countries to export weapons and other industrial products against petroleum; and that the conflict broke out just as the Iranians were holding American diplomats captive.

On the other hand, it can be pointed out that the Khomeini regime has eliminated the Iranian Communists; and that it has brought about a certain perhaps only temporary stabilization of the situation in Iran. The Khomeini Government has also expressed itself against the Soviet invasion of Afghanistan, and has helped the resistance fighters, or at least certain groups of them.

Many Iranians - they are, in particular, the regime's opponents - conclude from the undeniable mutuality of various Iranian-U.S. interests that perhaps after all the Americans are secretly supporting Khomeini. Others, though, point to elements of Iraqi-U.S. common interest to support their suspicion, or even conviction, that the United States instigated the war against Iran and that today, still, America is seeing to it that the war goes on; This group represents followers and propagandists of the Iranian regime.

the two nations that as of now are exposed to the fighting and to guide them towards the reconstruction of their war-ravaged economic structures.

#### Unredeemable Promises of Victory

How long the war will drag on depends mainly on the Iranians. They continue to insist on war aims that it is highly improbable they can ever reach. As long as Khomeini lives, it is hard to conceive that Iran could back down from these aims. It is more probable that it will continue to pursue the stated goals by doing what it has already started doing: operating the war machine in low gear, while promising the people for a more or less unspecified future, but soon a last big offensive and the final Victory.

The psychological state of the Iranians that is, those classes who have committed themselves to the clerical rulers for better or worse, and who serve the regime now as an instrument of political power and as arms-carriers is such that the rulers can drag out and keep up the game with hopes and promises a long time still. This they can do even if their promises are not lived up to. The Iranian leadership shows great talent in the psychological manipulation of its public especially of the simple folk of the lower classes, whose religious fervor provides an important potential.

Factors that could bring an end to the situation in Iran are not yet foreseeable. Domestically, the clergy seem to be complete masters of the situation, and also to be keeping the army under control. Abroad, it is true, there is an opposition in exile, which is, however, powerless, split, and distant as it is, without influence on developments at home.

So long as Khomeini lives it is likely that Iran will persist on the chosen course, until the country is forced to its knees by straitened material circumstances which could, however, still take considerable time. If Khomeini dies, the picture changes, and then there are at least two possibilities. One is that the Iranian leadership will come around to concluding peace. The other is that the various ideological groupings among which the Imam by virtue of his unchallenged authority up to now has always been able to successfully mediate will finally split up and go their separate ways.

## Epilogue

The year 1985 brought no change in the stalemate in the Gulf war, even though there was a temporary resurgence of fighting between the two combatants. At the beginning of March 1985 the military situation dramatically escalated: The Iraqi air force began to bomb civilian targets in the Iranian hinterland, including the capital, Tehran. The Iranians responded with rocket attacks on Baghdad and Basra. At the same time Iran mounted a big new offensive in the swamplands of South Iraq, through which the Iranians it is true, temporarily reached the important road connecting Basra and Baghdad. But then this offensive like all previous ones was beaten back by the Iraqis, with heavy losses for both sides.

War on the Cities VS. Strategy of Fist Blows

Iraq's war on the cities which Iran could do little to counter

reached its zenith in June 1985 with daily aerial bombing attacks on Tehran. These raids on the capital had the populace in a panic and so escalated the general discontent that the Government decided it had better organize demonstrations by followers of the regime. These manifestations were to show that the people were continuing to back the Government, and that they were for the continuation of the war to victory. At the same time an effort was made to calm people with the announcement that from now on Iran would refrain from ambitious offensives, and instead would follow a strategy of fist blows, locally limited commando actions that would weary and wear down the enemy.

In August 1985 Iraq began to concentrate its air attacks on bombing the oil-loading island of Kharg. Although the Iraqi propaganda fantastically exaggerated claims of success, in fact the bombings were not without effect on Iran's oil exports. In particular after the attack of September 19, 1985, the loading of petroleum seems for a time to have stopped completely.

Meanwhile Iran has been trying not only to repair the damaged facilities in Kharg, but also to build additional provisional loading capacity, at locations beyond the range of the Iraqi bombers.

past experiences are a guide, skepticism is called for in regard to such announcements of success, the more so since only some of the attacks have been confirmed by reliable neutral observers. On the other hand, it is well to consider that Iran does not announce hits which have been scored on Iranian ships, or report damage to militarily important installations; Tehran treats war losses as a state secret.

#### Iran's Counter-attacks

During the Iraqi operations in 1984, the Iranians regularly launched counter-attacks. These were directed against ships doing business with the Arabian harbors in the southern part of the Gulf especially with Ras Tannoura, the most important Saudi oil-loading harbor. (Iraqi shipping has been at a standstill since the war began, because of the blockade of Shatt-el-Arab.) Of the Iranian strikes on ships that do business with the formally neutral Arab harbors, Iran doubtlessly hopes that in this way it might motivate the Saudis and their Arab allies to get Iraq to stop its operations against Kharg and Bandar Khomeini. But the tactic seems to have been only partly successful. Sooner or later Iran always resumes its attacks.

Since January 1985 Iran has ceased its fighter-plane counter-attacks on ships heading for the Arabian harbors in the South of the Gulf. Why? The most probable reason for the altered Iranian strategy may be that since the beginning of 1985 Iran has been seeking to improvise a new oil-loading port in the South of the Gulf.

Thus Iran has chartered two giant tankers and has anchored them near the island of Sirri. (It is not far from Abu Mussa, a disputed island off the coast of the United Arab Emirates.) A shuttle service of smaller tankers under the Iranian flag is to bring the petroleum from Kharg, at the northern end of the Gulf, to Sirri. There the oil is to be stored in the two big tankers, whence it will be transferred to the international tankers of Iran's petroleum customers. With Iran beginning this operation in the southern part of the Gulf, it seemed advisable for it to refrain from attacking international maritime traffic in the same waters.

#### Will the Naval Conflict Decide the War?

The naval contest seems to offer greater chances than the land war to decide the combat if it is assumed that the Iranians will hardly manage to power a major breakthrough over the Iraqi border.

## The Shiites as an Element of Stability for the Regime

Iraq's Shiites are continuing to obey the Government. This docility may be a result of the early and energetic repressions that were employed, before the start of the war and in its first year, against those Shiite clergy who showed a tendency to do homage to the Islamic Republic of Iran; or to call for a larger role in the Iraqi system of government for the Shiite majority.

The al-Hakim clan to a large extent has been wiped out. At the same time, the regime expelled Iraqis of ethnic Persian descent and persons who sympathized with Iran. The numbers are controversial: Iran says the expellees from Iraq came to a total of 200,000. Iraq gives the figure 20,000.

Then as the war broke out, the Shiites of Iraq went along with the state-assigned role of loyal patriots. Just as, the other way around, the Iranian Arabs in Khusistan did: As the Iraqi attack began, they were evacuated from their Villages and from their urban old quarters. When they were brought into a camp with other Iranians, they had hardly any choice except to play the role of good Iranians.

In Iran there is an exile organization of Iraqi Shiites. They are led by a descendent of the Hakim family. This group purports to be fighting in Iraq against the regime. It may be that occasional bomb attacks in Baghdad are to be laid to this exile organization. The Shiite Party Da'wa (The Call), which has existed for considerable time, is part of the movement.

The exile Shiites in Iran have tried to recruit followers from among the numerous Iraqi prisoners of war in the Iranian camps. Their doing this had led to conflicts between delegates of the International Red Cross Committee and the Iranian authorities. In general, however, it can be observed that the revolution which Khomeini and his disciples had been hoping for among the Arab Shiites in Iraq has not taken place.

## The Kurdish Resistance

The Iraqi Kurds, by contrast, are seeking to use the war to win more independence from the Baghdad Government. The sons of Mustafa Barzani, Mas'ud and Idriss, are waging open rebellion in the country's North. They are being supported by the Iranians. Their position is weakened, however, by the existence of two conflicting movements: The Iranian Kurds under Abdurrahman Qassemlou are rebelling against Iran and are being fought bitterly by the revolutionary guards. Meanwhile, the Iraqi Kurds under Mahmud Talabani (this group is located in

### III. New Economic Orientations? â\200\224 Iranâ\200\231s Economic Policy And its International Economic Relations

#### 1. Economic Stagnation as a Result of the Revolution

The sixth construction plan of the Shahâ\200\231s regime, which was to take effect simultaneously with the adoption of the 1978/79 budget on March 21, 1978, was not implemented. The first strikes were in the oil industry and in the bank sector. They proliferated a climate of political and economic uncertainty.

The petroleum revenues â\200\224 on which the economic plans were based â\200\224 in 1977 were already 11 percent under the expectation. During 1978 they continued to decrease considerably. At the beginning of June 1978, it is true, oil production was still amounting to 5.6 million barrels a day. But then came the crippling first strikes in the petroleum sector. In November of the same year, when the Military Government under General Azhari took over, oil production had already sunk to 1.2 million barrels a day. This decline meant severe losses: The first Prime Minister of the Islamic Republic of Iran, Mehdi Bazargan, later estimated them at 7,500 million US. dollars.

The political revolution brought with it deepâ\200\224going changes in the pattern of industrial ownership. Numerous faetoryâ\200\224owners gave up their business â\200\224 many of the entrepreneurs left Iran -â\200\224- which were taken over by revolutionary Islamic â\200\234worker councilsâ\200\235. Usually the senior employees were gotten rid of and there were even instances in which the labor force undertook to entirely dis-mantle manufacturing plants.

Touched off by the official propaganda, a wave of euphoric overconfidence in the extent of national economic self-sufficiency and technical capacities broke over the country in the first months after the revolution. Revolutionary Iran believed it needed neither the foreigners nor their know-how to keep industry going.

The drastic import restrictions introduced by the Government worsened the situation. Many of the raw materials required to maintain production, many semi-finished products and assemblies were no longer to be had.

not-too-distant future the Iraqis, with the help of Saudi Arabia, will also be able again to export larger amounts of petroleum via pipelines through Jordan and Saudi Arabia. As long as the war and its perils continue, a political collapse of the regime in Iraq is not to be expected, even although part of the Kurdish population in the north is rebelling. And relations with the two Superpowers? The United States has gradually re-approached Iraq while America, in view of Khomeini's attitude, has to continue to distance itself from Iran. The Soviet Union, too, has become aloof from Iran, since the regime there banned the Communist Tudeh Party and has been persecuting its members. Since 1982 the Soviet Union has resumed its deliveries of weapons to Iraq, and last year even granted loans to the Iraqis. In an effort to prevent an American return to Tehran a return which in the event that the Khomeini regime collapses the U.S.S.R. must fear the Soviet Union is, however, seeking not to burn all its bridges to Iran. Thus the U.S.S.R. apparently is continuing to let North Korea supply Iran with arms.

Now as they were before, the Gulf states are concerned with staying out of the war, even as they grant financial support to Iraq. To these countries it is of major importance that the Persian Gulf not become the theater of a confrontation of the Superpowers. The Gulf states believe they can best achieve this end by maintaining formal neutrality. In that way, they hope to be able to limit the risks that would be connected with a possible incursion by the U.S. to protect the other Persian Gulf countries from Iran.

A defeat for Iraq would as the lords of the Gulf see it be a threat to their existence. Accordingly, they see themselves obliged to support Iraq sufficiently so that such a turn of events, if at all possible, does not come about. At the same time, the Gulf states are seeking, through repeated mediation efforts, to achieve an ending of the war. Up to now, however, these efforts have failed because of Khomeini's inflexibility. From these considerations it follows that, despite increasing mutual exhaustion, an end of the war between Iran and Iraq is not on the horizon. The continuance of the war runs the inherent danger of escalation, which in turn would almost inevitably bring the Superpowers to the Persian Gulf. Therefore the situation represents a lastingly destabilizing factor in the Gulf region. This is so even though the direct threat to the states on the Gulf and the endangering of the world's energy supply seem less acute today than had been assumed when the war broke out. This somewhat consoling interpretation could have to be changed were one of the two combatants to score a decisive victory. However, under the given circumstances, neither Iran nor Iraq is up to that.

The law categorizes all manufactures and other goods in two groups: commodities made in the public and in the private sector. Thus petroleum, minerals and all other natural resources are classified as public sector goods. The products of human labor and the commodities of the manufacturing branches are considered as goods from the private sector of Iran's economy.

### The Sector of Co-operatives

The concept of and the establishing of co-operatives is not new to Iran. Co-operatives (Sherkatha-ye Taavoni) had already been founded during the period of the Shah's Government. After the revolution, these co-operatives were taken over into the new economic system. The established co-operatives, together with a constantly growing total of Islamic co-operatives for producing, purchasing and distributing, constitute this sector. The co-operatives that have been set up on Islamic principles are seeing to the needs of the rural population, and of the badly off and worst off urban poor: the Mostazafan who continue to be a pillar of support for the regime.

### The Private Sector

According to the Constitution, the role of the private sector is to supplement the public and the co-operative sectors. As areas that are open to the private sector for investment and entrepreneurship, the Constitution designates farming and cattle-breeding, industry (light), trade, and certain service sectors.

Iran's unclear policy on nationalization of enterprises and the lack of legal guidelines for private engagement in domestic and foreign trade and in industry are taking their toll. The vagueness has led to grave uncertainty, particularly among the Bazaris and the small shopkeepers and the middle-class businessmen to the extent to which this group has remained in Iran. The passage of the foreign-trade legislation of the autumn of 1984 has returned to the private sector some of its lost terrain, and has made private entrepreneurs feel more secure.

In an address that attracted a great deal of attention, Imam Khomeini, wooing the support of the Bazaris, announced this economic policy change at the beginning of 1984. His statement seems actually to have



The current situation involves a mix of military and diplomatic initiatives. In the theater of war Iran seems to be managing with its strategy of limited commando actions to somewhat compensate for Iraq's superiority in weapons technology, and on various sectors of the front to be inching ahead. In the foreign-relations sphere, the latest diplomatic offensive, with which Iran has been trying to break out of its international political isolation, has been not without effect.

In the summer of 1985, the travel by Iranian Parliamentary President Rafsanjani to China and Japan made headlines. Between Iran and the Gulf states, including Saudi Arabia, a lively visiting diplomacy got underway at a high political level. With Iran's neighbors Turkey and Pakistan - although they are important allies of the United States in the region - the intensification of economic relations has also brought improved political relations. Similarly, in Iran's relationship with the West European countries rapprochement at the political level is progressing. Even France, despite its engagement in Iraq, and in spite of the presence of numerous Iranian exile opposition groups in Paris, has signaled its interest in getting into a dialogue with the Iranian leadership again.

Comeback of the USSR. in the Gulf?

As we have seen above, the two Superpowers - even though proceeding from differing interests - are seeking to prevent the victory of either Iran or Iraq. But this is not the whole story: Lately, there have been shifts of emphasis in the US. and Soviet policies towards the Gulf war. The Soviets recently have been encountering a certain degree of response from Iran in the U.S.S.R.'s tireless efforts to normalize its relations with that country, which have been seriously disturbed since Tehran's crushing of the Communist Tudeh Party. The assumption of diplomatic relations between the Soviet Union and Oman and between it and the United Arab Emirates has alarmed Americans. They see these Soviet measures against the background of other of Moscow's recent actions in the Middle East: the rapprochement between the Egyptians and the Soviets; the informal Israeli-Soviet conversations; the latest Soviet diplomatic contacts with Saudi Arabia. All this, as American observers see it, amounts to a further disturbing indication of a Soviet comeback in a region from which the USSR. has been largely excluded for a decade. So a rising chorus of American voices is calling on the Reagan Administration to rethink its official policy on Iran.

## 6. Iran's International Economic Relations; The Case of Tehran and Bonn

With the new version of the law on nationalization of foreign trade, adopted in the early summer of 1984, more illumination was cast on the course that the Iranian economic-policy officials have in mind. The first version of new foreign-trade law was, after the Parliament had already ratified it, annulled by the supreme legislative body, the Council of Guards of the Constitution (shora-ye negahban). The Council, after a thorough examination of the law for conformity with Islamic principles, rejected the measure as un-Islamic, and ordered its reformulation. The reason the Guards of the Constitution turned down the nationalization law may have been its almost complete elimination of the private sector and, therefore, of the Bazaris from foreign-trade activities. The revised law, which has been in force since the late autumn of 1984, in this regard represents a basic correction of the first nationalization law.

### The Economy's Dependence on Cooperation With the West

In its preamble the law on foreign trade offers some important clues about the diversification of Iran's trade and economic relations. Here is the gist of what the preamble says:

The Ministry of Trade has, in cooperation with the other responsible ministries, the task of determining guidelines for Iran's foreign trade, and seeing to their implementation. To that end, the Ministry of Trade issues annual regulations on importation and exportation with the following purposes:

0 It must be made certain that the economic independence of Iran is safeguarded, and that the economy is not dominated by free-thinkers and atheists.

C There is to be particular intensification of trade relations with the Islamic states and with the oppressed countries (that is, of the Third World).

The development of the Islamic Republic of Iran's international economic relations is to be viewed in the light of this declaration of intent. The economy, because of its structure, in many sectors is dependent on cooperation with the Western industrialized countries. This co-operation, in most cases of years-long duration, is to be maintained, and is now expressly characterized as desirable.

More attention is to be paid from now on to exporting traditional Iranian goods that are crafted or prepared principally by rural people from dried fruits and other agricultural products to Persian carpets. The plan requires the rural co-operatives that are active in the import and export trade, as well as the Ministry of Trade, to devise programs to promote other-than-oil exports; helped towards this end by all producers of traditional products.

#### 4. The Over-all Economic Situation.

Currently the determining factors in Iran's economic situation are  
C the war with Iraq,  
O the international oil market.

The war is swallowing a good 30 percent of the entire Iranian revenues and budgetary funds. Because of the country's inadequate economic structure, Iran remains strongly dependent on income from petroleum. The oil revenues account for 98 percent of all income from exports, and almost 19 percent of the gross national product comes from oil. Along with this dependence on oil earnings, the most aggravating structural weaknesses in the Iranian economy is the insufficient supply to industry of raw materials and semi-processed goods. Another serious problem is the distribution bottlenecks inherent in an inadequate infrastructure and/or regional structural insufficiencies. Another weakness is the great dependence on imported food. Not least, there is the lack of sufficiently qualified working power.

#### Behind the Worsening Economic Circumstances

Favored by stable oil prices and relatively undisturbed exports of petroleum at the level assigned to Iran by the Organization of Petroleum-Exporting Countries (OPEC), in 1983 the country embarked on a course of economic recovery. Despite the enormously high costs of the war, the economic burden of millions of refugees, the shortage of executives and technicians in administration and in business, despite highly insufficient co-ordination within the system, and in spite of many other inadequacies, Iran's economic barometer rose. To be sure, the upturn could not approach the level of the pre-revolutionary years. Still, thanks to the central bank's strict monetary policy, the financial situation was stabilized, and the foreign indebtedness could be almost completely wiped out. The currency reserves were even sufficient to finance three to four months of the increased demand for imports.

Derbendekhan, farther in the south of the Iraqi Kurdish area) have resorted to negotiations with Baghdad.

The Kurdish leader Talabani came from Damascus. There, up to 1982, he had belonged to an anti-Iraq Opposition front of which the Iraqi Communist Party is also an element. With the permission of Baghdad, Talabani went to Kurdistan. Because he is a sworn foe of the Barzani family, the Government apparently hoped to be able to play him against them.

But the negotiations between Talabani and the Government have never arrived at a conclusion. So the Talabani-led Kurds and the Baghdad regime as of now are in a kind of truce. Obviously the reason Iraq tolerates this situation is that it neither can nor wants to commit troops for a major war with the Kurds. As matters stand, the Government is only compelled to fend off the Barzani brothers in the North. Presumably Talabani will try to take advantage of the truce to broaden his influence in South Kurdistan.

Besides the mentioned groups, there is also the Baghdad-installed Kurdish autonomous Government of Erbil. It co-operates with the Iraqi Government, and supplies recruits for the Iraqi army.

Stability at least During the War

Only a very few observers believe that the Iraqi regime will collapse while the war is on. The consensus is that at least it will not break down as long as the Gulf states provide financial backing for its continuance.

The whole Iraqi community is completely harnessed to the war. The energies and the patriotism of the people of Iraq are directed against the Iranian invaders. Within Iraq there are probably not many Shiites who would care to see the Khomeini circle triumph. The old bones of contention between the two neighboring countries all remain. The prospect of an Islamic regime in Iraq something most Iraqis do not want acts as a spur to the war effort. Besides, everyone knows that any undertaking against the ruling power would be perilous and could be brutally punished.

If the war were to end, it would be quite another matter. Then the question 'Who is responsible for all this?' would certainly be asked, particularly in the army and by the Baath Party. The regime might well then find itself in a critical phase from which it could escape at all if at all only through a new (foreign) policy initiative.

## The Persistence of Iraq

Aside from unexpected surprises -- something such as the assassination of Saddam Hussein, which however would not be at all easy to accomplish -- Iraq will probably also persist along its present course, with the additional possibility that it may manage to increase its oil exports again. Still, even if Baghdad can do that, it is foreseeable that the war will keep imposing further burdens on the regime and the nation. In Iraq, too, in the long run the war will inevitably weaken the international coherence of the state, and will steadily loosen the bonds that hold the community together.

Since no one can predict how long the war of attrition is going to continue, a prognosis as to the status of the two combatants when the end finally comes is hardly possible.

For Iraq, the prospects of bringing about an end of the war are somewhat more favorable than for Iran. This is because with the Iraqis almost total supremacy in the air, and accordingly the capability they have to attack military important targets in Iran at any time, they command a military edge which confronts the Iranians with a major problem.

But even if the Iraqis manage a successful stoppage of Iran's oil exports, as long as Khomeini lives there would probably be an Iranian collapse only if the country were literally driven by hunger to conclude peace. And here an additional factor is to be considered: that not all sectors of the population would suffer from hunger simultaneously; the last victims would be the clergy, along with the Guards of the Revolution and other bearers of arms.

It is not completely to be ruled out that in case of a blockade of Iran's oil exports the Iranians might resort to some act of desperation -- for example, the bombing of Arab petroleum installations. But such an operation would also no longer change the course of the war sufficiently to tilt the scales once more.

In the event, accordingly, of a successful Iraqi blockade of Iran, and also if Khomeini continues to live, the outlook is for a complete or very extensive impoverishment of the Iranian society and its economy -- in other words, the entire national structure. The consequences for the postwar period are clear.

## Iraq's Dependable Financial Support from Outside

Even if the war should last a long time still, Iraq has good prospects of keeping its financial house sufficiently in order so that the nation can survive. This is, of course, thanks to the assistance of the Gulf countries; without them Iraq would have been bankrupt long ago.

For some time there have been projects for oil pipelines through Saudi Arabia, with their terminal in Yanbu on the Red Sea, the extension of the existing line through Turkey, and perhaps also through Jordan to the Gulf of Aqaba. These projects are to enable Iraq to export larger quantities of petroleum once more.

The construction of these lines is being pre-financed by the oil lands on the Gulf. Actually, those countries have no alternative: The defeat of Baghdad would be extremely dangerous for the Gulf states themselves. Again: Only by restoring Iraq's export capacities can the countries that are putting up the money for the pipelines have prospects of not losing the funds they have already handed out (at least an estimated 30,000 million dollars) and also of not losing the further advances that they are going to have to make.

## Iraq's Drive to hinder Iran's Oil Exports

Iraq is not only endeavoring to ensure its own export capacity for the years ahead. Simultaneously it is trying to restrict Iran's oil-delivering capacity. After a long preparatory phase in 1983, from February 1984 onward Iraq began its offensive. In this Operation, planes that Iraq had received from France and Etendards armed with Exocet rockets are playing a key role. The aircraft attacked tankers of all nations that do business at the Iranian loading island of Kharg, and ships that approach the Iranian harbor of Bandar Khomeini the only port besides the war-damaged city of Khorramshar that is connected by railway with Tehran.

During all of 1984 these aerial bombardments were treated more as deterrence than as a serious effort to block the shipping. But a change has been evident since the beginning of 1985: The frequency of the air attacks has been markedly stepped up.

For the first time, Iraqi military communiqués also began to report successful night attacks, with a high total of claimed hits on target. If

## V. Looking Ahead: The End of the War and Then?

The war between Iran and Iraq clearly has entered a phase of mutual attrition. Nevertheless, a decision based on one or the other being more exhausted than the other is not yet in sight.

Iraq may well hold out as long as the Gulf states supply money to keep its head above water. And that the countries on the Gulf have, in their own interest, to keep on doing.

As for Iran, it can hardly call off the war as long as Khomeini is living; after that this might be easier to do. There is no sign of an economic and/ or social breakdown in Iran; yet the prospect of a collapse could enter the realm of the possible if the Iraqis were to manage really to cut off Iran's oil exports.

Yet, given the domestic situation in Iran, any collapse probably would be preceded by a long and persisting phase of exhaustion and attrition.

Such a wearing-down process can be anticipated because it would be hard for the leading clergy to give up their repeatedly proclaimed goal: the overthrow of Iraq's Saddam Hussein and the Baath Party. So it can be foreseen that even if Iran's financial and supply problems get worse, the Clerical authorities would try as long as possible and naturally, at the

cost of the populace to cling to their goals. The clerical rulers, even when the end is in sight, may well hope for a miracle.

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### Consequences of the War of Attrition

For both Sides, this can be predicted: The longer the war of attrition lasts, and the more the struggle wearies, impoverishes and undermines the two regimes and the two societies, the more likely it will be that after the end of the fighting it will be impossible in either country to keep things stable; instead of stability, then, both states will face domestic unrest.

The fact that there is stability on both sides now surely is at least partly due to the war. While the struggle goes on, both regimes can demand sacrifices from the people, and both can enforce strict discipline. Once the war is over, when neither of the population feels threatened by the enemy any longer, it could become much harder for the two regimes to exact the obedience that is rendered to them today. The longer the war of attrition continues, the harder it will be at the end to hold together

Both sides tend to see their suppositions as facts. The Iranian perceptions are significant in so far as they determine the image of America that is entertained both by followers of the regime and by its opponents: Both sides see the United States as, respectively, the friend of their foe.

#### Â» Baghdad Turns Towards Washington

Since the beginning of the war Iraq has steadily developed its foreign policy in the direction of the West. That can be primarily a result of the increasing need to lean on the Gulf states's financial aid. Another factor that may have steered Iraq towards the West is the country's hostility to Syria which, in a team operation with Iran, in 1982 shut off the Iraqi oil line to the Mediterranean, and is still keeping it closed today. Again, there is the disappointment, to be discussed just below, that Baghdad experienced at the start of the war vis-à-vis the Soviet Union. Still another element in Iraq's changing to a westerly course may have been the support that two opponents of Syria, Egypt and King Hussein of Jordan, were giving Iraq. Probably also influential in Iraq's foreign-policy change was the need it had to get armament and credits in Western Europe especially in France and Italy, more recently in Great Britain and the Federal Republic of Germany.

The United States has always been an important trading partner of Iraq, even though diplomatic relations between Baghdad and Washington had been broken off since 1967. The relations were restored at the end of 1984 as part of the general reorientation of Iraqi foreign policy.

#### The Soviet Refusal to send Weapons

In the matter of weapons procurement, Iraq had to live through a critical period as at the beginning of the war the Soviet Union refused to send weapons and replacement parts; this in spite of the friendship treaty that had been in effect since 1972; and even though the entire Iraqi army had been equipped by the U.S.S.R.

It was Egypt that in the moment of Iraq's greatest emergency stepped in and provided the country with Soviet weapons - arms that Egypt could spare, since its armed forces had just switched from Soviet to American equipment. The Egypt-to-Iraq deliveries were certainly made with the approval, if not in fact the encouragement, of Washington.



From time to time moves are made as if to begin a new offensive. Whether things will really come to a major new military push is uncertain. The Iraqis are doing what they can to anticipate such an attack: Since 1985 they have no longer been conducting a rigidly defensive war. Instead they have been trying through rather limited land operations, and, more particularly, aerial attacks, to disrupt Iranian troop concentrations; and when possible to smash them before they can launch an attack across the border.

A major element of Iraq's strategy is the effort to interfere with Iran's oil exporting. The Iraqis realize that cutting off their enemy's exports of petroleum would deprive Iran of a vital source of income - and possibly

could bring the country's collapse.

Nor is this Iraqi strategic aim far from the mark: Actually, the contemporary regime in Iran is based on a client relationship between clergy and the mass of people. The masses serve the regime as an instrument for maintaining its power, and as weapons-bearers. In turn the people are rewarded with financial and other material benefits - the availability of which, in the end, depends on Iran's continuing income from oil. Without these funds the existing political system of the country could break down.

Despite Iraq's attempt to do so, it is by no means certain that the Baghdad Government will ever succeed in interfering so effectively with Iranian oil exports that Iran actually runs out of funds.

To be sure, the Iraqi air force, equipped with French Exocet rockets, for some time has been carrying out sporadic air raids on navigation in the Gulf and on Iranian oil installations - with varying intensity and considerable interruptions. Yet Iraq has not been very successful with these operations, it has been unable to achieve an effective blockade of Iranian harbors.

Why have Iraq's aerial attacks not been more successful up to now? There are three conceivable reasons: diplomatic regard for the interests of the Arab states on the Gulf, which supply Iraq with funds - or not enough Exocet rockets supplied by France - or finally, just that the Iraqi airmen are not very skilled.

Can the Iranian's land-based military operations crack the tight Iraqi cordon, and threaten that country with a decisive defeat? This remains unlikely.

The Iraqis, thanks to Soviet deliveries of weapons, have considerable superiority in armament - an edge that assures them of almost unchallenged mastery of the air over the theater of war.

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RESEARCH INSTITUTE

Iran and the Gulf War

A Never-eâ\200\230nding Story â\200\224 .

or Peace by a Double Knockout?

Republic of Germany. During this stage of the conference, the participants in the discussion considered the question: To what extent can one ascertain a re-orientation of Iran's economic policy towards a return to the traditional trading partners in the West? And how would this change of course affect relations between Iran and, for instance, the Federal Republic of Germany?

The third stage of the Middle East discussion concerned itself in depth with the war between Iran and Iraq. What would be its aftermath for the two combatants? Its effect on the region? Its consequences for the international supply of energy? Not least, during this third stage the symposium pondered the role of the Superpowers in the conflict.

As was hardly otherwise to be anticipated, the Iranian-Iraqi war - its results, especially for the directly involved two combatant countries - and the outlook for the future dominated all the discussions. For this there was a good reason: It became evident quite soon that it is not possible to consider Iran's domestic and economic situation, or Iraq's, either

without relating the discussion to the war. For the war has left indelible marks on the economic systems and the societies of both countries.

It is apparent that even after the conflict has ended both Iran and Iraq will inevitably suffer for a long time.

This brochure summarizes the highlights of the round table. In addition, the booklet considers the latest developments, those that have taken place since the 1984 conference, up to the time of going to print. In the preparation of the brochure, Dr. Arnold Hottinger, Nicosia, and Antje Moradians, Hamburg, have been major collaborators. To them, our thanks. No less gratitude from the sponsors of the symposium is owing to the other speakers whose outstanding contributions appear in this brochure. And we express equal appreciation to all the other participants in the forum: Their commitment to the themes and their expert contributions enlivened the discussions, and contributed importantly to the success of this effort towards increased international understanding.

Horst Biischer  
Research Institute  
Friedrich Ebert Foundation

occurred as the Iranians, at the start of the conflict, twice bombed oil installations of Kuwait. The operation surely was meant as a warning, although Tehran said it had happened inadvertently. Another such event was the discovery of a conspiracy of local Shiites in Bahrain â\200\224 a plot that was supported from Iranian soil and aimed at a take-over by Islamic fundamentalists. Again, during 1984 the Iranians fired on ships that were doing business with Arabian oil harbors. Then on June 5, 1984, during the course of this barrage against shipping an aerial battle ensued between Saudi and Iranian fighter planes, with at least one Iranian plane shot down. And at the end of 1983, Kuwait experienced a series of bomb attacks that were laid to Shiite activists of Iranian revolutionary inspiration. Finally, the repeated efforts of Iranian pilgrims to use the annual Moslem pilgrimage to Mecca as an occasion to make propagandâ\200\224 da for the Islamic revolution can be counted among the harassing situations to which the Gulf states have been exposed since the beginning of Khomeiniâ\200\231s reign.

Of all the aboveâ\200\224chronicled events, the potentially most dangerous operation may have been the attempted overthrow in Bahrain. It also had the most significant consequences: The aborted operation did much to persuade the six Gulf countries that they needed to stick more closely together for the sake of their security.

#### Counter-measure: the Gulf Co-operation Council

In general, the association of the six oil-producing countries of the region in a Gulf Coâ\200\224operation Council is regarded as a consequence of external threat to which these states saw themselves exposed since the Iranian revolution and since the outbreak of the Iran-Iraq war. Also the circumstance that Iraq was occupied with the war, and for this reason could be kept out of the Gulf Council without much trouble â\200\224 without a war on, Baghdad would not have stood for this â\200\224 may have facilitated the establishment and development of this confederation.

#### The Gulf Statesâ\200\231 Position: â\200\234Pro-Iraq Neutralityâ\200\235

The fact that the dangers of the war several times seemed to pose threats which did not materialize probably made it easier for the Gulf countries to maintain their original position, and, despite the fact that the situation more than once became alarming, not to let themselves be drawn into the war.

#### IV. No End of the Gulf War in Sight    Consequences for

the Opponents    for the Region    for the International System

##### 1. Iraq's Domestic and International Situation

What are the rulers in Baghdad saying among themselves about the war between their country and Iran, or about other policy matters? Whatever discussions are taking place, no whisper of what is said reaches the ears of the Iraqi public. This circumstance typifies the pattern of government and of power in Iraq.

Here the Iraqi situation is quite different from the Iranian. The leaders in Iran feel the need to let their followers and sympathizers know (for instance, by way of the Friday sermon) what they are discussing and what they have decided. Iraq needs to do nothing of this sort. The Baghdad Government rules by dint of the populace's fear of the secret police, with their army of omnipresent informers and with the help of a powerful personality cult that surrounds and glorifies the leader, Saddam Hussein.

Neither the Baath Party nor any other political groups seem at present to have real political influence in Iraq. The President has gathered all the strings of power in his own hands.

##### The Sacrifices Of the People of Iraq

The Iraqis are continuing to make high sacrifices in war deaths and other casualties. The total of deaths from the war is estimated at 150,000 to 200,000 persons. The number of wounded is triple that. For a country of just over 12 million people, these losses represent an enormous blood-letting.

The shortage of male workers is evident everywhere in Iraq. Constantly younger age groups are being called to arms. Foreign labor from Egypt and the Far East is replacing much of the missing domestic manpower. Iraq's people are also suffering food shortages, and they have to put up with black-market prices. The inflation is fast melting away the little man's savings.

The key to the US. Government's behavior towards the two combatants may be in the consideration that for the Americans and indeed for the whole Western world an overwhelming victory of either one of the two countries would be undesirable.

In the event of the collapse of Iraq, fears must arise for the stability of the entire Gulf region and the Near East.

As for a breakdown of the Khomeini regime, it could bring about dangerous confusion in Iran, with political consequences that could range all the way to a confrontation of the two Superpowers on Iranian soil. To avoid such a turn of events, the Americans have permitted the granting of, or have encouraged friends of the US. to grant, assistance to whichever side in the Iran-Iraq war has seemed at the time to be the underdog. At the start of the war, the weaker combatant seemed to be the Iranians. Later Washington's priority concern in the war was to prevent the collapse of the Iraqi defense front, and/ or of the regime in Baghdad.

### 3.2 The Soviet Union

At the beginning of hostilities, the Soviet Union ranged itself rather unequivocally on Iran's side, even though the U.S.S.R. and Iraq were linked by the friendship treaty of 1972. The formal justification of the Soviet pro-Iran stance was that Iran had been attacked.

Politically regarded, behind the Soviet position of the time was an effort to prevent the Americans from going back to Tehran's something that the U.S.S.R. feared would happen in the event that Khomeini's revolution were to fail. As a political [are to the Soviets, it may be that the possibility was dangled before their eyes of gradually transforming the Islamic revolution into a proletarian revolution.

Certainly the tactics of the Iranian Communists in that phase corresponded exactly to this purpose. The Tudeh Party was diligent about supporting and praising Khomeini and his revolution even when the Khomeini revolution acted skeptical, unfriendly and even repressive towards the Communists. In the first stage of the war, from 1980 to 1982, the Soviet Union sought to support Iran by granting free passage through Soviet territory; and also by helping out with armament to the extent that Iran could use Soviet-made equipment. This relatively good relationship between Iran and the Soviet Union was, however, always limited by the distrust that Khomeini displayed

saw that Iraq, unlike the Gulf countries, is not primarily interested in importing luxury goods, but instead and primarily is concerned with building up an agriculturally and industrially based infrastructure â\200\224â\200\224 one that could bring out the potentialities of the country with its 12 million inhabitants and its rich agricultural potential. Among the oil counâ\200\224 tries, the states that are mostly a desert seemed to the French to have much less potential for deveIOpment.

Seeking to foster this developmental relationship with Iraq, France had started on significant projects of a long-range nature there before the war began. Paris decided to stay with the projects until their successful completion â\200\224 although the war of course has brought new risks.

With the dwindlingof Iraqâ\200\231s currency reserves, the French soon became involved in loans, some of them granted by the governmentin Paris so French firms engaged in the development projects could be paid. Italy pursued a similar course.

Today Iraqâ\200\231s debts to France are so high that Paris feels compelled to hope â\200\224 and when possible, to act to make the hope come true â\200\224 that Iraq will win the war; or at least will not lose it. It seems obvious that only given one of these two outcomes will Paris be able to count on getting back the money it has lent. This situation has led France to conâ\200\224 stantly more pro-Iraq measures, and also to send Baghdad armedâ\200\230assistâ\200\224 ance. The most spectacular example of this military aid is Franceâ\200\231s delivery of Etendard seaplanes and Exocet (air-to-ground) rockets.

About these sophisticated weapons: At first French governing circles hoped that simply Baghdadâ\200\231s possession of the weapons, considered as they were to be highly effective, would induce Tehran to give up the war and conclude peace. When this did not work out, the French apparently decided on a tactic of using the new weapons â\200\224 cautiously, and more in the sense of a warning â\200\224â\200\224 so as to convince Iran it would have to give in .

Only after a year of this restricted use of the seaplanes and rockets, the beginning of 1985 saw indications that the rockets and aircraft now would be committed to battle more systematically and forcefully.

But can the use of the Etendards and Exocets decide the war? That is an open question. Meanwhile the Iranians have learned to take counter-measures; they are trying to cope with the situation, so as to protect their vitally necessary exports of petroleum.

## As of Now, Unsuccessful Mediation Attempts

Beyond doubt, the Gulf states are interested in an early ending of the war. They would even be prepared to buy peace with a considerable amount of money. Thus they already have discussed plans for setting up a joint fund to finance the thousands of millions that would be needed to repair the war damage in Iran and Iraq.

Baghdad, which, like the Gulf countries, would like to end the war, up to now has regularly approved their mediation efforts. But Tehran up to the present time has rejected mediation; Iran under Khomeini stands by its demand that Saddam Hussein retire and that the Baath Party also give up the reins of power.

The Gulf states have repeatedly tried to bring Syria into their mediation activity. This because Syria is an ally of Iran; and because Syria simultaneously is receiving support funds from Saudi Arabia and Kuwait, to continue its battle against Israel. Iran has always made clear, however, that it rejects Syria as a mediator, too.

In Tehran's view, mediation, whoever conducts it, only makes sense if the mediators proceed from the question: Who started the war? And the regime wants the mediators then to discuss with Tehran how the aggressor can be punished.

But it looks very much as if the Gulf states will not give up their mediation efforts, instead repeatedly trying again when they believe the situation can have changed to their advantage.

## 3. The War and the Superpowers

### 3.1 The United States of America

The U.S. up to now has not succeeded in normalizing its relations with the Iran of Khomeini. Various factors have been hindering the establishment of at least normal, to say nothing of good, diplomatic relations between the United States and Iran. These factors include America's support of the Shah's regime; the taking of hostages in the American Embassy in November 1979; the Iranian regime's continuing revolutionary rhetoric, which pictures America as the 'big Satan'; the suspicion that Islamic and revolutionary inspiration, if not even organization, could have been behind the attacks in Lebanon on the U.S. Embassy and on American soldiers, attacks that in 1983 caused more than 300 deaths.

Since the time of the Shah, Iran has been equipped with American weapons. So how to procure replacement parts and new arms became a



The revolutionary developments in Iran since the overthrow of the regime of the Shah and the outbreak of the Iranian-Iraqi war have already, several times since 1979, been the subject of a number of academic and specialist conferences sponsored by the Friedrich Ebert Foundation (FES). These took place as part of the research and advisory programs for the analysis of international crisis situations that have been conducted for many years by the Department of Development Research of the FES's Research Institute. The continuing crisis in the Near and Middle East, the now more than five-years-long war between Iran and Iraq, and the fifth anniversary of the Islamic Revolution in Iran seemed occasion enough for the Foundation, after a more than two-year interval, to return to the topic.

Accordingly, on the invitation of the Research Institute of the Friedrich-Ebert-Stiftung, on November 27 and 28, 1984, a group of prominent experts on the Gulf situation including scholars, political people, economic specialists, and journalists met in Bonn for a symposium on the theme "Islamic Republic of Iran: Five Years of the Islamic Revolution" and "Four Years of the War on the Gulf." The purpose of the round table was to take up where the analyses of the previous years had left off. We sought to have the latest developments in Iran and the Persian Gulf region presented and discussed on a high expert level. Doing this, we selected the focal point of the analysis so that, while, to be sure, the aspect on which our guests especially concentrated was the war, still the discussion took place from the perspective of Iran, and that country's domestic and economic situation. Why our focus on Iran? Because the changes and developments there have been and will be determinant for the course and the duration of the war especially in regard to the nature of its eventual conclusion.

The agenda of the symposium involved three general themes. The first part of the discussion focused on Iran's domestic situation. Here the question arose: Is, and if so, to what extent, the Shiitic fundamentalist ideology of the Islamic Revolution still capable of radiating outward to the Arab area, and there particularly in the Sunnite-dominated countries of the Arabian Peninsula to address itself to and mobilize the social-revolutionary potential?

The second aspect on which the forum concentrated was Iran's economic situation. Particular attention was dedicated to the effects the Gulf war has been having on economic development and on development planning. Within this conjunction the symposium gave detailed consideration to Iran's foreign economic relations, especially with the Federal

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Editors: Winfried Veit (corresponding),

Günther Esters

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the Maktabian as enthusiastic followers of Khomeini - as advocates of the revolution for export, and accordingly of the continuation of the war against Iraq. The Maktabians are absolute champions of the principle of rule by the scholars of God (Wilayat-i Faqih). They seek the elimination of all secular political activity. They are dedicated foes of the United States of America and of Communism. In short, the Maktabians are hard-core advocates of the theses and the revolution of Khomeini.

The Hujatians have, by contrast with the Maktabians, more of a skeptical relationship with the more extreme theses of the revolution. Since for them Khomeini can be no Imam in an eschatological sense, they consequently do not believe in the possibility of exporting the Iranian revolution to the entire Islamic world, or even beyond it. The Hujatians are much more interested in reinforcing the rule of the religious leaders in Iran; and in legitimizing and consolidating that rule through secular achievements, not least economic and social measures.

The Iranian Communists see the Hujatieh as their bitterest foe; this is not, however, their attitude towards the Maktabieh, whose revolutionary theses place them nearer the Communists. The Hujatians are charged by their opponents with wanting to restore co-operation with the United States. This is probably connected with the fact of the Hujatian's closeness to the bazaars; with their advocacy of a revival of the Iranian economy; and with their granting a greater leeway to free enterprise in the economic sphere than their opponents are doing.

Since the Hujatians have their doubts about Iran's military operations, they support the country's diplomatic activity. Thus they view with approval those of the Foreign Ministry's proposals that would advance the use of diplomatic means to foster Iran's interests and the revolution. Again, the Hujatians are pleased when the Foreign Office seeks to emphasize the disadvantages of military and subversive operations (terrorism).

#### The Third Faction of Religious Devotees: Followers of Rafsanjani

Besides the two main religious movements, apparently there is a third grouping: the Society of the Scholars of God Conducting the Holy War (Jame'at-e Ulama-ye Mujahedin). They are apparently a kind of power base for Parliamentary President Rafsanjani. And it is likely that they have taken part in Rafsanjani's gradual transition from an unconditional advocacy of the exporting of the revolution to an effort to strike a political balance between the rival groups of the Hujatieh and the Maktabieh.

## The War and the Economy

During the course of developments in Iran, the Hujatians have concerned themselves constantly more with the Government ministries that have to do with economic matters, the Maktabians, on the other hand, are closer to the ministries that pursue war-connected activities. The Hujatians and their followers are numerically in the minority. They are, however, an indispensable minority, because somehow or other they keep the economy going including the production of petroleum. Their opponents are more powerful, because they tend to identify themselves with the theses of Khomeini; and also because they have the power to direct the mailed fist of the revolution, to control it, and to employ it via revolutionary guards, committees, army commissars. Still and all, the scant success in the war since 1982 the year of the Iranian victory in Khusistan has been accompanied by a certain loss of prestige by the Maktabieh, and for its thesis of a revolution for export.

## The Continuing Debate on the War

Today the war is so completely at the center of all political activity in Iran that the discussions and arguments mainly turn on the conflict. In recent years the war has always been given as the explanation that the promised goals of the revolution cannot be realized at the present time: land reform and the revival of agriculture; the Checking of the flight from the soil; social housing, industrialization on an indigenous, Iranian, basis; the reduction of the country's dependence on imports - to cite only some of the aspirations. Originally, the war was accepted as an excuse especially when the enemy was on Iranian soil. Now the armed struggle with Iraq is increasingly regarded as an obstacle that keeps the revolution from proceeding along its promised course. Because the war, while exacting many sacrifices, is not proving very successful, the voices of those who call for its end keep growing louder. Among those who take a dim View of the war are many career soldiers of the regular army. They apparently feel that the armament at hand is not going to power a breakthrough on the Iraqi front. Nevertheless, the antiwar voices some of them Hujatians, but many more besides must express themselves only very cautiously; for Khomeini persistently clings to his goal of overthrowing and punishing Iraq's Saddam Hussein.

## Military and Theological Arguments

A lively discussion took place following the major Iranian offensive of the spring of 1984 through the swamps of Southern Iraq. This operation

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How large the share of the German economy will be in Iran's over all imports, and in the construction and further development of Iran's industry and infrastructure will depend, not least, on whether there is a show of goodwill and understanding for the Iranian situation. In view of the shortage of experts, Iran is interested in co-operative projects to train such specialists; and Iran also seeks technology transfer.

German-Iranian co-operation in the training of skilled labor and of postgraduates could become an important and long-range contribution to the stabilization and the continuity of the economic relationship. The fact that in this sphere much can be done is shown by the efforts being undertaken by German development aid agencies. These organizations are already at work to arrange training programs especially tailored to Iranian needs. German firms, too, have started the first activity in this direction. Such actions, the Iranians assure one, the German economy can count as being on the credit side of the bilateral trade balance.

#### Revival of an Old Regional Accord in New Form?

Since 1983, a closer approach by Iran to the Islamic countries has been observable especially a move towards the neighboring nations of Turkey and Pakistan. The old Regional Cooperation for Development (RCD) pact that linked these states during the time of the Shah is being revived under the new name Economic Co-operation Organization (ECO). However, Iranian co-operation with these brother countries still raises serious problems and not only of a political nature.

Iranian buyers make high demands of their suppliers of high-quality industrial products. Currently neither Turkey nor Pakistan can meet these standards with their own products.

With Syria, too, although it is a country that is politically closely allied with Iran, there are major problems in the field of economic cooperation.

#### Intensification of Trade Relations with East and West

Iran is also intensifying its trade relations with a number of non-Islamic countries of the Third World, particularly Brazil. Since 1982, the South American country has bought large quantities of Iranian oil, and has an almost balanced trade relationship with Iran.

## Speakers

Adamec, Ludwig W.; Professor

Director, Near Eastern Center, University of Arizona, Tucson

Ende, Werner; Professor

Orientalisches Seminar (Seminar of Oriental Studies),  
University of Freiburg

Fragner, Bert; Professor

Orientalisches Seminar (Seminar of Oriental Studies),  
University of Freiburg

Heardâ\200\224Bey, Frauke; Dr.

Centre for Documentation and Research, Abu Dhabi

Hoeppner, Rolf-Roger

Middle East Economic Digest (Germany), Diisseldorfâ\200\224Hamburg

Hottinger, Arnold; Dr.

Neue Zîr\201rcher Zeitung, Nicosia, Cyprus

Hîr\201hseler, Peter

Deutsche Gesellschaft fur AuswÃ©irtige Politik (German Society  
for Foreign Affairs), Bonn

Maul], Hanns W.; Dr.

Geschwister-Scholl-Institut, University of Munich

Moradians, Antje

Deutsch-Iranische Handelskammer (Iranoâ\200\224German Chamber  
of Commerce), Hamburg

â\200\230

Reissner, Johannes; Dr.

Stiftung Wissenschaft und Politik (Foundation for Science  
and Politics), Ebenhausen

Tilgner, Ulrich

Free Lance J ournalists, Hamburg

The five-year plan also goes into strategies for reaching these goals. The means set down include import restrictions; the introduction of an Islamic banking system; an improved co-ordination of all the agencies, state and Islamic institutions involved in construction and development; and the sponsoring of programs to promote exports. Within the period of the plan (to March 1988), measures are to be taken to restrict the consumption of certain goods. The main target of the limitation is luxury items, which are mostly consumed by urbanites who the regime feels are unfortunately "spoiled by Western ways". The idea is to alter the living habits of these "spoiled" ones by means of restrictions "for example, import bans.

The readiness of the private sector to invest is to be stimulated by the introduction of Islamic banking procedures, with the "profit-and-loss-sharing" system. Increasingly, industrial projects are to include private investment.

#### Priority on Rural Development

Agriculture is Iran's no. 1 economic sector. Industrialization and infrastructural projects are to be undertaken from the standpoint of their help in fostering and developing the farming sector. This aim presupposes closer cooperation of the individual economic sectors with the agricultural sector.

High priority is also placed on the development and expansion of key industries, because of their important role as suppliers of raw materials and semi-finished products for the domestic production branches, which have been disproportionately import-dependent. All manufacturing enterprises are obliged under the plan to make certain that existing production facilities are being used to capacity, and that sufficient numbers of executives and technicians are being trained.

It will be no simple matter to check the flight from the soil; to resettle hundreds of thousands of ex-villagers who have made new homes for themselves in the cities; and to re-integrate some three million refugees who left their communities because of the war. These problems may well confront the planners with tasks that cannot be mastered within the first five-year plan.

Still and all, the plan makes an approach to coping with such difficulties. One of the projects is to work out resettlement arrangements for refugees from the land, while having regard for the state of development of the infrastructure and the supply facilities in the areas of proposed resettlement. Again: In order to improve living conditions in rural areas, the authorities seek to have jobs created in craft enterprises and small industrial firms; in addition, "producing units" are to be organized.



The above conclusion dovetails with numerous official statements of prominent Government officials and spokesmen for the economy. Moreover, evidence that the authorities are serious about this expressed attitude is found in the fact that a number of new orders have been awarded to Western firms.

#### Partner NO. 1: The Federal Republic of Germany

In 1983 the Federal Republic of Germany moved into first place as trading partner of the Islamic Republic of Iran, closely followed by Japan, which imports the largest share of its petroleum from Iran. So Japan, as a major customer for Iran's leading export item, oil, is less exposed than West Germany to Iranian criticism that the trading partner is not buying enough of Iran's export goods. Behind the Iranian sensitivity on the subject of commerce is the fact that the German-Iranian trade record shows - 1983 and 1984 are notable examples of a considerable imbalance to the disadvantage of the Islamic Republic. In 1983 German exports to Iran came to a volume of 7,700 million marks, compared with not more than 1,600 million marks in imports from Iran. Among the suppliers of petroleum to the Federal Republic of Germany, Iran has fallen into ninth place. The course of Iranian exports to West Germany since the Islamic revolution has been sharply downward; in 1978, German purchases of goods from Iran still came to a value of DM 4,200 million. This figure compares with Iranian imports of German goods that year to a value of 6,800 million marks. The high Iranian deficit in the bilateral trade balance, which comes to around DM 6,000 million, has created tensions that it is in the interests of the German export economy to resolve. The Tehran Government is demanding that the German economy increase its imports of petroleum and also of traditional non-oil commodities, along with ores, minerals, and certain Iranian domestic products. The trouble is that sales of the country's traditional products bring no improvement worth mentioning in Iran's export balance. But the regime, for reasons of domestic politics, sets a high priority on these non-oil exports.

The decline in Iranian exports to the Federal Republic of Germany is not solely a consequence of the Islamic revolution and the concomitant alterations in foreign-trade policy - even although it is true that many of the traditional business connections were broken off with the revolution. The decrease in exports probably applies especially to non-oil Iranian products, whose exporters, because of the obligation to retransfer foreign exchange and other state measures of interference, can hardly offer their goods competitively any longer.

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Iran and the Gulf War

A Neverâ\200\224ending Story â\200\224

or Peace by a Double Knockout?

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## Mutual Distrust Continues

The current relationship between the Soviet Union and Iraq is always officially described as very good. And actually, the massive deliveries of armament from the U.S.S.R., the loans, and numerous visits to Moscow by leading Iraqi statesmen suggest that relations are indeed good. Still, there is a certain distrust remaining on both sides. For Iraq's part, this distrust is based on the experience that the Soviet Union made common cause with Iraq's enemy when doing this seemed to serve Soviet interests. Iraqi doubts are intensified by the fact that the most important ally of Moscow in the Arab region is and remains Syria while Damascus is a mortal enemy of Baghdad. On the Soviet side, doubtless there is concern over Iraq's increasing trend towards the right: Within the contemporary Arab world, today Iraq is closest to the countries that are potential opponents of the Soviet Union - Egypt, Jordan, and the Arafat group of the Palestinians.

## Keeping the Americans Out of Tehran

The priority of Soviet policy in Iran and in the Gulf region is doubtless an effort to prevent the Americans from returning to Tehran. This concern is reflected in all Soviet statements on the situation. In the pursuit of this purpose, it might make sense for Soviet diplomacy to get occasional support to the Khomeini regime by way of third powers especially via North Korea. As Moscow sees it, the problem is to prevent the clerical regime in Iran from collapsing, or from being compelled by political developments to lean more and more on the United States and on the rest of the Western world and somehow go along with them. Both a sudden breakdown of the Iranian regime and a gradual political change of course court the danger, as the Soviets see it, that the Americans indeed could regain influence in Tehran.

Naturally the Soviet concern about keeping the United States out of Iran does not foreclose the possibility of the USSR seeking at some later time, to win more influence in Iran itself.

## 4. France's Role in the Gulf Conflict

Even before the outbreak of the war, Paris had been trying for an especially close relationship with Baghdad. This effort stemmed from a French estimation that Iraq is an oil-producing country with somewhat other economic interests than the oil states on the Gulf. That is, France

turned out to be a costly failure even though it also brought a partial success: the conquest of the Majnun oilfields. The argument was about whether such an offensive ought to be mounted again. At the time, Khomeini called on the military to state its position. Responding in a courageous memorandum, the Chief of the General Staff of the land army clearly stated that Iran lacked sufficient heavy armament to crack the Iraqi lines of defense. Simultaneously there was a theological discussion of the same theme, the pros and cons of waging a costly offensive. The religious disputants were concerned only with an ecclesiastical question: Are heavy casualties and severe losses in a war of attack, with its goal to help Islam towards a Victory outside Iran, justified as long as the Imam al-Mahdi has not appeared? (According to Shiitic belief, this twelfth Imam is living in secret; in the final time he will emerge from concealment.) Some of the leading ayatollahs, men who are active around Khomeini, particularly Ayatollah Golpayagani in Qum, expressed the view that only a defensive war is permissible as long as the Mahdi has not yet returned to the earth. From the Foreign Ministry, too, critical voices have been heard. They have argued for the use of, besides military, also diplomatic measures. Foreign Minister Ali Akbar Velayati himself is considered to be sympathetic with the Hujatiah, the religious group that is skeptical about a war for exporting Islam. In the end, the great debate about the war seems to have been concluded by Khomeini in the sense that the main purpose of the war the overthrow and the punishment of Saddam Hussein must not be abandoned. But there was a compromise: It was decided that high-style offensives would cease for the time being. Prospects were held out of a final offensive in the unknown future. We can assume that this was in fact the resolution of the domestic discussion about the war, in that Rafsanjani and Khamenei explained these goals to the populace in their Friday sermons.

#### Is a Major Offensive Still Possible?

That there could actually be a successful final offensive appears, for now and the predictable future, improbable. Iraq's superiority in armament, especially in the air, is too pronounced to allow an Iranian victory. Moreover, given the current international situation, it would be hard for Iran to close the armament gap. For the United States in no event and the Soviet Union, hardly is about to be induced to provide the heavy weapons such as rockets and airplanes that could enable Iran to approach a balance with Iraq. An Iranian military victory seems conceivable at most, if Iraq were to undergo a collapse on the home front.

## II. The Islamic Republic of Iran in the Sixth Year of â\200\231

### the War on the Gulf

In Iran, the clergy reigns. Men of religion eliminated the rival political groups who also participated in the revolution, and have brought them under control. A strict censorship has been clamped on public opinion.

For reasons of external optics, the clergy in Iran seek to appear as a united front. But in reality there are quite heated discussions among the religious men â\200\231s various groupings and leanings. These groups are not easily surveyable; are unstable; and accordingly are hard to evaluate. This is in part because the circles have no formal existence. Rather they amount to informal groups in which there are differences of a doctrinal, ideological and political nature. There are also regional rivalries. Finally, there are personality-based hierarchical structures (the pupilâ\200\224teacher relationship). For all these reasons, one cannot accurately speak of Iran as having a united clerical front.

As he has done in the past, Khomeini continues to play the role of arbiterâ\200\224 among the various rival groups and opinions. In that way, it is almost always possible for him to decide the issue himself. He only yields in a situation in which he encounters a largely unanimous common front of the clergy.

### Hujatieh and Maktabieh

In todayâ\200\231s Iran there continues to be a distinction, one that has applied for some time, between the â\200\234Hujatiansâ\200\235 and the â\200\234Maktabiansâ\200\235 among the countryâ\200\231s clergy.

The term Hujatians comprises those who are for the accelerated establishment of an Islamic form of state and society. Originally, under the Shah, the Hujatieh was a group of highly orthodox religious men who had taken up a struggle against the influence of the Bahaâ\200\231i and the Communists. The Hujatians are so orthodox that they wage cautious resistance against Khomeiniâ\200\231s claim to be the â\200\234Imamâ\200\235 of Iran. The opposing religious faction is known as the Maktabieh â\200\224 apparently after an internal bulletin issued by the Islamic Republican Party, an item that carried the heading â\200\234Insan-i Maktabiâ\200\235. One can characterize

Formally, the Gulf states are neutral. But the reality is clear: They tend to be on Iraq's side first of all because an Iranian victory would, as they see it, be very dangerous for them. So they support Iraq financially. Moreover, they have decided to deliver petroleum to Iraq's customers in the name of Baghdad. The Gulf states produce the oil themselves, but payment is made to Iraq, which then credits the producer.

Will the Conflict be Internationalized?

An important reason for the countries of the Gulf Co-operation Council to stay formally neutral has been their appraisal of what could have happened if the war had spread to the Arab side of the Gulf. This could have internationalized the conflict meaning, in practice, a growing

' influence in the theater of battle by the United States and the Soviet Union; if not even the two Superpowers' involvement in the war. The Gulf states frankly declared that they want to avoid having their region become an area of Superpower confrontation. The restraint they have shown, in their own avoidance of entering the Iran-Iraq war, amounts; as the Gulf states see it, to an important contribution to the prevention of a military escalation.

Another important contribution was made by the Saudis, in their successful resistance to former US. Secretary of State Alexander Haig's urging them to permit the establishment of American military bases on their territory and in return, to let themselves be protected by the Americans.

The Saudis said no to the US. proposal primarily because they saw that American bases on their soil especially in view of the close relationship between Americans and Israelis would have been a heavy burden on the regime from the standpoint of domestic policy. So they said they would rather be defended from beyond the horizon in that way at least as long as the Soviet Union, for its part, remained on Iran's northern border; that is, beyond the Gulf horizon.

All this did not keep Riyadh and the other Gulf Emirates from continuing to operate closely with the Americans although with France and Great Britain, too on a commercial basis: through purchases of weapons and the conclusion of contracts on maintenance and training, so as to modernize their defense preparedness.

The purchase of AWACS reconnaissance planes, which are being flown by American pilots and whose equipment was further supplemented in 1984, is the most visible example of this commercial military co-operation.

towards the Tudeh Party, on the one hand, and the atheistic Soviet Union on the other. In addition, the bilateral relationship has been burdened by the Afghanistan conflict.

#### Persecution of the Tudeh Party

A new phase began in the summer 1982, as Iran launched a vigorous campaign against the Tudeh Party. The regime arrested the leading Communist officials. It forced them to make confessions before television cameras. They had to say their party was guilty of treason to Iran, and that it was collaborating with the Soviet Union. The pro-Communist officers of a Secret party military organization were exposed and executed. After their confessions, the party leaders were sentenced to death, but they were not executed. The sparing of their lives perhaps also the confessions they made may have been arranged in a secret agreement with the Soviet Union.

The Khomeini regime first moved to crush the Tudeh Party after the other domestic foes - bourgeois democratic circles, Mujahideen in the Islamic left wing, and so on - seemed to be sufficiently weakened to make room for a strike at the Communists. Because they had consistently made pro-regime statements, to destroy their power base seemed less urgent than to cope with the groups that were avowed rivals of the regime.

Nevertheless, the ruling clergy were not to be deterred from bloodthirsty moves against the Communists as soon as the domestic political situation freed their hands. Despite the war, they seem not to have given much concern to the anticipated reaction of the Soviet Union. Why this striking self-assurance? It is perhaps connected with the prevailing euphoria over the Victory that had been won against Iraq in Khusistan.

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#### Moscow's Shift Towards Iraq

The fact that from now on the Iranians were waging an offensive across the border, while Iraq kept declaring it was prepared to make peace, enabled Soviet diplomacy even formally to justify a change of course from Iran in favor of Iraq, and to return to open support of Baghdad. The U.S.S.R. resumed its arms deliveries to Iraq and they increased rapidly. Soon Iraq was receiving highly sophisticated, latest-model weapons. As to payment for the arms from the Soviet Union, at first it was made with the help of subsidies to Iraq from Saudi Arabia ; later, in part through Soviet loans. The current superiority of the Iraqi air force, the rocket artillery and other heavy armament is due largely to the Soviet deliveries. (However, as reported above, the French have also been supplying an important share of Iraq's arms.)



Yet it rarely happens that outsiders get to hear laments. This absence of complaining surely in part stems from patriotism. Ceaselessly, the mass media are propagating an atmosphere of heroic combat-readiness. Yet the public's endurance in silence may well be mainly attributable to a general fear of denunciation. The residents of Baghdad are convinced that the secret police are observing them day and night, and are learning about every word that a person dares to utter. Only in the family circle are there bitter complaints about the war. There the question is asked: Who, actually, is guilty of all this? Probably this question is answered by most people despite the deceptive tactics of the state's propaganda

. by the statement: Saddam Hussein started the war.

Officially, the day the war started is given in Iraq as September 14, 1980 because on that day there was a first artillery duel with Iran. In this fashion the authorities try to keep the public from recalling the date September 22 when Saddam Hussein sent the Iraqi divisions across the border on an invasion of the Iranian province of Khusistan.

Better Living Conditions than in Iran

The losses in human lives are a relatively harder blow to the Iraqis than to the Iranians. Iraq has numerically the smaller population, so that in practically every family there is a war death to mourn. Besides, the Iraqis do not have the same religiously and revolutionarily motivated readiness for sacrifice that even today is to be found in broad circles of the Iranian population. On the other hand, the material conditions of living seem to be less severe in Iraq than in Iran.

The stream of money that constantly flows from the countries of the Gulf to Iraq enables its people to have a better supply of commodities. As late as into the first months of 1984, the Iraqi Government was even endeavoring to complete some of the development projects begun before the war especially those that were clearly visible: such as, for example, a new bridge over the Tigris near Baghdad. The work on such projects went on to show that the pre-war rapid progress in economic development was continuing as fast as ever. However, the dozens of stock-still construction cranes on the Baghdad skyline tell another story.

It seems entirely possible, even not improbable, that in time the Iraqis could succeed in inflicting major reductions in, or even in totally crippling, the Iranian oil exports from Kharg -â\200\224 where 90 percent of Iranâ\200\231s oil was loaded before the war.

Effective interference with Iranâ\200\231s oil shipments could decide the war. For then Iran would run out of the money it needs to hold together its currently ruling coalition of clergy and arms-bearers recruited from the simple folk who make up the bulk of the military forces, as well as the money to finance the war. For the time being, though, the Iraqis are still far from achieving this strike at Iranâ\200\231s oil. Their air force seems not to be wellâ\200\224trained enough to use the Exocet rockets effectively. How rapidly the French will send new shipments of Exocets is not known. Possibly the intervals between the waves of attack in recent years came each time when Iraq had shot its supply of rockets. The French readiness to deliver more Exocets â\200\224 for which France has to grant Iraq ever-larger-creâ\200\224 dits â\200\224â\200\224 could in this case be an important element in the pattern of confrontation.

## 2. The War and the Countries of the Gulf Region

At least four times the Iranâ\200\224Iraq war has shaken the oil states on the Gulf to their foundations:

0 in September 1980, as the war broke out, when it looked as if Iran would seize Khusistan â\200\224â\200\224 a Victory that would have changed all the patterns of power in the region;

0 in the spring 1982, as the Iraqi troops were driven out of Khusistan, with 50,000 Iraqis falling into the hands of the Iranians as prisoners of war;

0 in the summer of the same year, as the Iranians decided to continue their attacks over the border, and named Karbala as their goal;

C finally, in the spring of 1984, as Iran succeeded in staging a surprise offensive through the swamps of Southern Iraq; for some hours it looked as if the attackers had severed the road connecting Basra and Baghdad.

In all four cases the fears that were voiced in the Gulf states were not realized. There was no military breakdown on either side.

The Gulf Statesâ\200\231 continuing worries

In several cases, the countries of the Gulf have also been, not just threatened, but actually directly affected by the war. One such situation

## Liberalization as a Spur to the Ability to Compete

The announced liberalization in foreign trade, the return of whole sectors of trade and industry to private hands, and the intensified protection of the Bazaris by the clerical rulers are intended to make Iranian goods competitive once more. As far as the Federal Republic of Germany is concerned, it may be hoped that this restored Iranian competitiveness in exports will open up the possibility of buying more from Iran again, so as, in turn, to be able to continue exporting to that country.

Since Iraq has escalated its attacks on Iran's oil facilities and transports, Iranian oil exports have oscillated widely. At the beginning of 1984, some 2.5 million barrels of petroleum a day were still being exported; in the summer of 1985 for a time the export figure was not more than a million barrels daily. Towards the end of 1985, the situation improved again; and the revenues from which both the costly war and 95 percent of all non-military imports have to be financed rose once more. How much will Iran be able to buy from abroad? That will continue to depend on the amount of the income from oil. For the fiscal year 1363 (March 21, 1984 to March 20, 1985) over-all imports worth 20,000 million US. dollars were planned. But in spite of the very cautious currency policy of the Islamic Republic of Iran's central bank which only releases amounts of currency to finance imports that correspond with the current income from oil exports the estimated currency reserves of 8,000 million to 10,000 million US. dollars presumably were sharply reduced in the first quarter of 1985 without it having been possible to finance the volume of imports that had been planned.

## What Iran Expects From the West German Economy

Although West German purchases of oil in Iran rose slightly in 1984, nevertheless they are far from up to Iranian expectations. Tehran officials take every occasion to emphasize how important it is that Germany should import more oil from their country. They warn that if this does not happen, considerable cutbacks in Iranian purchases from Germany are ahead.

Whether the German petroleum economy will soon be contracting directly for larger quantities of Iranian oil once more surely will depend on the circumstances of the international petroleum market, and on the security situation in the Gulf.

marked a kind of turning point: The new approach to foreign trade has spurred importing and exporting, as well as private investment in industry.

### 3. Strategies of the Islamic Republic of Iran's First Five-Year Plan

This construction and development plan is regarded as the first phase of an overall concept to be implemented for two decades until the year

2002/3. During this period, the country is to be developed via an economic order grounded on Islamic principles.

This first five-year plan of the Islamic Republic takes cognizance of the provision in the Constitution that commits Iran to develop the economy within the frame of Islamic principles grounded in scientifically correct planning.

In a highly abstract form an economic policy is formulated and quantified whose focal points, along with the priority concern, agriculture, are energy production, improving the infrastructure, and fostering industry.

The establishment of a new, Islamic society aiming at fair distribution of income is held up as the supreme principle. This society is to be built on increases in agricultural and industrial production and gains to be made by fostering and developing regional economies. Eventually Iran is to be to a considerable degree nationally self-sufficient, and independent of imports and particularly of food and industrial commodities.

#### Highlights of the Five-Year Plan

The five-year plan assigns priority to

- 0 improving the educational system,
- 0 attaining economic independence by expanding domestic industrial production, so as to gradually abolish dependence on imports and achieve a state of self-sufficiency in food,

- 0 increasing other-than-oil exports,
- 0 providing social security for the entire population,
- 0 ensuring that all Iranians have basic food, clothing and housing,
- 0 devising programs and undertaking practical measures for eliminat-

ing unemployment and the shortage of skilled labor,

- 0 granting the demands of the Mostazafan - in particular, by creat-

ing new work possibilities in underdeveloped parts of the country,

- 0 checking the flight from the soil.

## War to the Point of Total Exhaustion?

An alteration of the Iranian leadership's stubborn attitude in the Gulf war still is not in sight, despite Rafsanjani's saying during his Japanese trip that Iran could be more open to international efforts at mediating between it and Iraq if an international tribunal were to be set up before which the war and its causes would have to be gone into. Tehran is apparently determined to continue the war for an unspecified period, in the hope that sooner or later the struggle will bring the overthrow of the regime of Iraq's leader Saddam Hussein. But the longer the war lasts, the greater will be the danger of its ending with the total economic and social breakdown of one or both combatants with unforeseeable consequences for stability in the region.

Yet it is also conceivable that the balance of weakness in which the two opponents, like badly beaten-up boxers, are in a clinch neither any longer up to delivering a knockout blow will continue to exist, and that in this equilibrium of impotence the Gulf war will peter out: no formal ending and no clear victor.

Of the COMECON (Council for Mutual Economic Aid) states, Rumania, Hungary and the German Democratic Republic are leading trade partners of Iran. As for trade with the Soviet Union, compared with 1979 this commerce doubled in 1983.

Among the West European countries, Italy, which, after Japan, is the largest customer for Iranian oil, occupies an important position. So does Austria, which came forward in 1984 with a compensation trade activity to a value of fully 650 million US. dollars.

Iranian economic relations with France are troubled by the anti-Khomeini opposition, which has made France its citadel, and also by France's delivery of highly sophisticated fighter planes and rockets to Iraq.

Yet Iran's relations with the United States have not as yet been normalized, even though there are direct economic relations between the two countries: in the form of goods deliveries.

From time to time there are tensions between Iran and Great Britain, although in the case of the U.K., too, since 1983 a notable rise in exports to Iran has been observable.