

ISAS Special Report

No. 27 – 31 July 2015

Institute of South Asian Studies
National University of Singapore

29 Heng Mui Keng Terrace

#08-06 (Block B)

Singapore 119620

Tel: (65) 6516 4239 Fax: (65) 6776 7505

www.isas.nus.edu.sg

<http://southasiandiaspora.org>



The Iran Nuclear Agreement: Implications for South Asia and the World

While the fine print of the latest multilateral agreement on the Iranian nuclear question has been projected by US President Barack Obama in quite modest terms of stopping Tehran in its tracks of making the atom bomb, the author envisions a possible regional scenario of economic benefits for Iran as well as Pakistan, Afghanistan and India.

Shahid Javed Burki¹

In reporting on the agreement between Iran and six leading powers on 14 July 2015, *The New York Times* found a parallel between what the United States President Barack Obama had achieved in 2015 and what President Richard Nixon was able to do 40 years earlier. For both, their actions represented giant leaps of faith. Nixon's travel to Beijing and his meeting with Chairman Mao Zedong brought China out of the closed wall it had

¹ Mr Shahid Javed Burki is Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at sjburki@gmail.com. The author, not the ISAS, is responsible for the facts cited and opinions expressed in this paper. During a professional career spanning over half a century, Mr Burki has held a number of senior positions in Pakistan and at the World Bank. He was the Director of China Operations at the World Bank from 1987 to 1994, and the Vice President of Latin America and the Caribbean Region at the World Bank from 1994 to 1999. On leave of absence from the Bank, he was Pakistan's Finance Minister, 1996-1997.

erected around itself. Mao died a few years after the Nixon visit and was later succeeded by the reformist Deng Xiaoping, who succeeded in initiating economic growth at an unprecedented pace in human history. In about four decades, the Chinese economy has increased 35-fold. By late-2014, according to International Monetary Fund, China had overtaken the United States and become the world's largest economy. President Nixon could not have imagined that his one action would bring about such a revolution in the structure of the global economy.

If the initiative taken by President Obama is Nixonian in scope and impact, what would be its result? The first thing that will undoubtedly happen is that it would end Iran's forced isolation. In that respect there is a parallel between "*Nixon in China*" and "*Obama with Iran*". The initial phase of isolation of Iran was self-imposed. The Muslim clerics who founded the Islamic Republic of Iran in 1979 believed that, to protect their revolution, they had to keep their country and society away from the rest of the world. This isolation was reinforced when the Western powers imposed stiff sanctions on Iran to force it to abandon its perceived plans to acquire nuclear weapons. The sanctions worked.

The Deal

The heavy toll they took on the Iranian economy and the sufferings the citizenry has had to bear persuaded the Islamic regime to sign this agreement with the United States and its negotiating partners. Tehran has accepted conditions which will make it impossible for it to develop nuclear bombs for the next ten years – the period during which time it will not be able to purify uranium to the weapons-grade level. Nor will it be able to use plutonium for making nuclear bombs. The agreement has ensured that what is called the "break-out" period – the time taken to make a bomb once the decision is made to go that route – is at least one-year long. That will be the case if Iran decides to walk out of the agreement.

What is the content of the deal? The number of centrifuges Iran has installed and has been operating round the clock to refine uranium will now be reduced by two-thirds to 5,060; the uranium stockpile will be almost totally eliminated; enrichment levels are to be capped at 3.7 percent, very far from bomb-grade; the potential route to weapons-grade

plutonium at Arak will be disabled; international inspection will be doubled, and in President Obama's words, will be extended "where necessary," "when necessary". In return for all this, Iran gets a phased elimination of most sanctions, the large inflow of its capital that has been frozen in foreign bank accounts, and the end to its pariah status.

The Reaction

In the months to come, especially after the deal has worked its way through the US Congress, there will be debate – some informed, some emotional – about the longer-term consequences of the historic argument with Iran. As expected Israel – in particular Benjamin Netanyahu, the country's Prime Minister – came out hitting hard even before the ink was dry after the parties had signed the long document. It had taken the group P5+1, meaning the five permanent members of the United Nations Security Council (Britain, China, France, Russia and United States) and Germany, 20 months to negotiate the deal. Netanyahu called it a "stunning historical mistake". A minister in the Netanyahu cabinet went further and called the day of the deal "one of the darkest days in world history". Prince Bandar bin Sultan, who until 2005 was the Saudi Arabia's Ambassador in Washington, said the deal would wreak havoc in the Middle East, and he accused President Obama of knowingly making a bad agreement. Even the Republican candidates for the US presidency invoked memories of British leader Chamberlain in Munich and the Second World War; Jeb Bush called this Iran deal an appeasement.

That Israel was worried about the impact of the Iran deal was conceded by President Obama at a news conference at the White House on 16 July 16, two days after the Vienna agreement was reached. "You have [in Iran] a large country with a significant military, that has proclaimed that Israel shouldn't exist, that has denied the Holocaust, that has financed Hezbollah", he acknowledged. "There are very good reasons why Israelis are nervous about Iran's position in the world generally". But the president insisted that "those threats are compounded if Iran gets nuclear bombs". He chastised the Israeli leadership for ignoring the facts of the deal and for failing to offer alternatives. He should also have mentioned – something I do at the end of this piece – that the deal will unleash a new dynamic that will alter the Middle Eastern and Asian landscape.

In fact, alternatives were offered, some of them implicit in the statements made by the critics. Israel, under Netanyahu, had all along favoured the military option. At one point it threatened that it could go alone even if the Americans were not prepared to lend it support. Then there were those who argued that harsh sanctions had brought Iran to the negotiating table; making the sanctions harsher would have elicited more favourable responses. These critics – several of them in the Sunni part of the Arab world – agreed with the Obama administration that a well-thought-out regime of inspections was the only way to prevent Iran from going nuclear. In their view, the inspection protocol now agreed upon is not rigorous enough. In that context, Obama's civil exchange with King Salman of Saudi Arabia provides some insights into what the United States and Saudi Arabia have in mind about the deal.

The statement issued by the White House after Obama's conversation with the Saudi monarch on 16 July said that the president shared "details of the Joint Comprehensive Plan of Action (JCPOA) regarding Iran's nuclear program agreed with the P5+1, the European Union and Iran...The president affirmed that it will verifiably prevent Iran from obtaining a nuclear weapon by cutting off all the potential pathways to a bomb while ensuring the peaceful nature of Iran's nuclear [programme] going forward. The president underscored that the United States is committed as ever to working with our Gulf partners to counter Iran's destabilizing activities in the region and promote stability as well a resolution of the region's crises. Consistent with the productive discussion the president conducted with the Gulf cooperation Council (GCC) members at Camp David in May, he reiterated the U.S. support in building the capabilities of our regional partners". The Camp David meeting with the GCC members was called by Obama, anticipating an Iran deal, but some of the more important heads of state, including the Saudi king, had chosen not to attend. Those who were absent did not want to be talked into accepting the gamble that the American president seemed bent on making.

The Saudi embassy in Washington issued its own statement after the Obama-Salman conversation. "The Kingdom has always been in favor of an agreement between P5+1

group and Iran that would prevent Iran from acquiring a nuclear weapon. The agreement must include a specific, strict and sustainable inspection regime of all Iranian sites, including military sites, as well as mechanism to swiftly re-impose effective sanctions in the event that Iran violates the agreement...[S]ince Iran is a neighboring country, the Kingdom is looking forward to build the best of relations in all fields on the principle of good neighborliness and non-interference in the affairs of others”.

From the scores of commentaries that appeared soon after the 14 July agreement was signed, two provide good indication of the diversity of opinion about President Obama’s initiative. According to Daniel Twinning who served in the US Secretary of State’s policy planning staff under President George W Bush and was foreign policy advisor to Senator John McCain, “Obama and his team believe that a nuclear deal with Iran will allow the U.S. to focus its diplomatic and strategic energies on Asia, a region that will do more to determine the history of this century than the morass in the Middle East. But if the deal liberates Iran to cause more regional mayhem, the U.S. will have less time and energy, not more, to manage its intensifying strategic competition with China in Asia. Japan, India, and other regional states will take note, and will make their own arrangements – just as America’s allies in the Middle East are now doing. The results may produce exactly the proliferation, proxy wars and great power conflicts that the Iran deal is designed to prevent”.²

But Roger Cohen, a columnist of *The New York Times*, expressed an entirely different point of view. “If implemented, the agreement constitutes the most remarkable American diplomatic achievement since the Dayton Accords put an end to the Bosnian war two decades ago. It increases the distance between Iran and a bomb as it reduces the distance between Iran and the world. It makes the Middle East less dangerous by forestalling proliferation. In a cacophonous age of short termism, it offers a lesson of stubborn leadership in pursuit of a long-term goal”.³

² Daniel Twinning, “Iran deal could undercut US pivot to Asia,” *Nikkei Asian Review*, July 16, 2015.

³ Roger Cohen, “The door to Iran opens,” *The New York Times*, July 16, 2015.

Iran and Shiite World

The full impact of the deal with Iran cannot be understood unless we bring into the discussion the place and role of the Shiite community in Asia and the Middle East. Estimates vary, but it would be safe to say that the world has 225 million people who follow the Shiite faith of Islam. This is about 14 percent of the global Muslim population. What makes this group different from mainstream Islam is its geographic concentration. Iran is the hub of the sect; it has almost 37 percent of world's Shiite people. Including its neighbours, Pakistan, Iraq, Turkey, Afghanistan and Azerbaijan – the share of the Shiite population in Iran and its immediate neighbourhood is almost 70 percent of the total. Also, the remaining large Shiite communities are not very distant from Iran. In other words, the Sunni-Shiite conflict is in essence a Middle East and West Asia problem. (See the Table below.)

The policies adopted by the Iranian regime led by the clerics who have administered Iran since the 1979 revolution have exacerbated the Shiite-Sunni divide, but Tehran is not entirely responsible for the confrontation between the two largest sects of Islam. Saudi Arabia has also been deeply involved. This conflict has been around from the days of the founding of Islam as a religion. However, its present form can be traced back to the emergence of the Wahabi Islam in Saudi Arabia. It has promoted an extremely conservative version of the religion; indeed treating the Shiite sect as heretics. After the riches that arrived in the Kingdom following the several-fold increase in the price of oil, the Saudis began to use their wealth to promote Wahabism in other parts of the Muslim world. They targeted in particular the countries around Iran. The war against the Soviet Union's occupation of Afghanistan in 1979, and the strategy crafted by the United States to push Moscow out, provided Saudi Arabia with an opportunity to flex its religious muscle. It used the Afghan conflict as a way of extending its influence in the world around Iran. Pakistan was ripe for the success of such an effort. It was then governed by President Ziaul Haq, a military ruler and a devout Sunni Muslim. He had already begun to Islamise Pakistan, and the war against the Soviet occupation of Afghanistan offered him an opportunity to further his cause. Pakistan helped create half a dozen groups of mujahideen (Islamic fighters) who, after a decade-long hard work, succeeded in pushing

the Soviet Union out of Afghanistan. They also established extremist Islam as the preferred faith in several parts of Afghanistan and Pakistan. Especially affected were the tribal belts on both sides of the border. In both Afghanistan and Pakistan, the Shiite communities came under attack by the forces of Sunni extremism.

The mix of politics and economics is almost always the reason behind most deep conflicts. At this time, in the western part of Muslim world – the parts that include the Arab world and West-, Central- and South-Asia – two sets of youth are alienated from the systems in which they live. One group is troubled by the authoritarian regimes in many areas in this part of the Muslim world. They were behind the Arab Spring of 2011 that toppled four long-enduring regimes – in Tunisia, Libya, Egypt and Yemen. They also launched the revolt against the repressive and authoritarian regime of Bashar al-Assad in Syria. It was the entry of Iran into the conflict that brought the Sunni-Shiite conflict into play, but that did not mark the beginning of the entry of religion into the politics of conflict or induce the Sunni youth to revolt. This second process of radicalisation of the Arab youth started with the recent American invasion of Iraq, when the “viceroy” Washington put in place in Baghdad took a number of actions that eventually led to the emergence of the Islamic State (IS) as a potent political force. The Sunni-dominated Baath Party was banned, and the Sunni-dominated military was disbanded. The final nail in the Sunni political coffin was driven by the American-encouraged rise of a committed Shiite political leader, Prime Minister Nuri al Maliki. He used the power of the state to curb the Sunnis in his country. The stage was thus set for the arrival of the Islamic Caliphate in Iraq and Syria which openly and effectively recruited the young alienated by Iraq’s Shiite regime.

Table: World's ten largest Shiite communities

Country	Total Muslim Population, million	Shiite Population, million	Shiites as % of total population (approx.)	Shiite as % of total world Shiite population (approx.)
Iran	85	83	97.6	36.7
Pakistan	190	30	15.8	13.3
India	184	25	13.6	11.1
Iraq	36	25	69.4	11.1
Turkey	83	12	13.3	5.3
Yemen	25	12	48.0	5.3
Afghanistan	23	7	30.0	3.1
Azerbaijan	10	5	50.0	2.2
Syria	18	5	27.8	2.2
Saudi Arabia	32	4	12.5	1.8
Total Large countries	225	208		93.3
World Shiite				
Total World Shiite		225		100.0

Source: Author's updating of the 2009 data provided by Pew Research Center

The Outcome

Most analysts agree that it will take 10 to 15 years before the impact of the 14 July deal with Iran becomes fully apparent. The sceptics paint a dark picture. They are of the view that once the period of vigilant and intrusive inspection is over, Iran will go quickly nuclear, acquire several weapons and the systems to deliver them, and begin brandishing the new weaponry to have its way in the region. It would thus become a dominant player in the region, but its rise will be challenged by the Sunni governments. Not only that. Israel, perhaps supported by the Sunni monarchies, could opt for a military approach to

contain Iran. Militarisation of the area, already underway, will pick up pace. The July agreement could, therefore, lose the ‘bite’ to influence Tehran. A bit more tightening of the sanctions-screw could have yielded more rewards – the objective should have been to eliminate altogether any probability of Iran going nuclear, not just postponing it. So runs this argument.

It is interesting that, in the long interview President Obama gave to the journalist Thomas L. Friedman to explain why he had used so much of his political capital to sign the deal with Iran, he focused entirely on the impact it would have on curtailing Tehran’s nuclear ambitions. He brushed aside the belief that the deal would have consequences beyond the nuclear field. He limited the scope of the impact, in order to focus on the criticism that he had not negotiated an airtight agreement. “Don’t judge me on whether this deal transforms Iran, ends Iran’s aggressive behavior toward some of its Arab neighbors or leads to detente between and Shiites and Sunnis. Judge me on one thing: Does this deal prevent Iran from breaking out with a nuclear weapon for the next 10 years and is a better outcome for America, Israel, and our Arab allies than any other alternative on the table?”

4

Iran is a complex country located right in the middle of a highly complex world. It is the world’s largest Shiite nation surrounded by a number of Sunni states, some of them openly hostile to it. It has reacted to the sanctions imposed on it by the West and the United Nations by supporting a number of militias, including the Hezbollah in Lebanon and the Mehdi Army in Iraq. It is also a strong supporter of the beleaguered regime of Bashar al-Assad in Syria. While the Sunni monarchies of the Gulf, in particular Saudi Arabia, were openly suspicious of Iran’s intentions in the region, they found themselves on the same side as Tehran in dealing with the rise of the extremist Islamic Caliphate, also known as the Islamic State of Iraq and Syria (ISIS).

⁴ Thomas L. Friedman, “Obama makes his case on Iran Nuclear deal”, *The New York Times*, July 14, 2015.

On its eastern and southern borders are Afghanistan and Pakistan; the former highly unstable, the latter on the verge of becoming one. Both have large Shiite populations. Pakistan, after Iran, is the second largest Shiite nation. Afghanistan has sizeable Shiite minorities, living in the areas bordering Iran and Central Asia. In both these countries, the Shiite sect had co-existed with the majority Sunni community before the Saudis found a way of supporting Sunni extremism in both cases.

Islamabad came under considerable pressure from these states to join their campaign against the rebels in Yemen. Pakistan's response was clever and well thought-through. The matter was put before the National Assembly that turned down the request. This drew an angry response from the leaders of the Gulf States; one of them – a minister from the United Arab Emirates – threatened to take unspecified action against Pakistan. His statement drew an angry response from the authorities in Pakistan.

How will the Arab monarchies react to the agreement? They may decide to aid the forces of Sunni extremism in some of the countries in which they have influence. Pakistan is one such country. There are numerous madrassahs in Pakistan that receive funds from the Arab states. Several of these are involved in sponsoring extremist activities in Pakistan. That this was happening was recognised by the Pakistani authorities when they drafted the National Action Plan to counter terrorism. However, because of stiff opposition from some of those in the Islamic community who were benefitting from the flow of money from the Arab world, the government was slow to act; it did not take the promised action.

But the positive impact of the deal on Pakistan will far outweigh some of the negative consequences. With the deal in place, Pakistan should be able to move forward with the construction of Iran-Pakistan gas pipeline. Iran has in place a pipeline up to its border with Pakistan. However, Islamabad was reluctant to move on its side of the border because of the fear of American retaliation. Now that Tehran has been promised the easing of sanctions, that fear is gone. In fact, it is possible that India may also join the project. It too is desperate to receive a regular and reliable flow of gas.

With Iran gradually re-joining the international economic system, Pakistan can once again begin to think of creating a regional association that would include the non-Arab Muslim states such as Afghanistan, Turkey and the Central Asian nations. The Chinese will be receptive to the idea; they have already committed large sums of money to Pakistan to construct the China-Pakistan Economic Corridor. A system of roads linking this region to the CPEC should become not only possible but economically attractive. In short, the Iran deal may prove to be a game-changer for the Middle East and Central Asia and South Asia, too.

I visualise an outcome of the deal that is more far-reaching than the one suggested by President Obama in his Friedman interview. Let us speculate what could result from the deal 15 years hence, by the year 2030. That will be the time by when the restrictions imposed by the deal on Iran would have run their course, and the country will be required to abide only by the framework which it had agreed to when it signed the Nuclear Non-Proliferation Treaty (NPT). By that time, Iran would have fully established itself as a responsible and political regional power. The economy would have revived; it would not only have overcome the slack resulting from years of sanctions, but also begun to make full use of its enormous energy resources and human resource potential. Growing at an average of 10 percent a year – up from the depressed growth rate of only 3.0 per cent at this time – its economy would have quadrupled in size, reaching total output of US\$ 1.75 trillion at today's prices. It would have added another 22 million to its population, reaching over 100 million. Per capita income would have reached US\$ 17,500. By 2015, the rate of unemployment had reached the worrying level of 20 percent, affecting especially women (20.3 per cent unemployed) and youth (24 per cent unemployed). Economic growth and restructuring of the economy will bring down the unemployment rate to 5 percent. It was the high rate of unemployment that no doubt persuaded the regime to agree to the terms of 2015 deal with P5+1.

Although Iran has the second largest reserves of natural gas and the fourth largest oil reserves, it would have diversified its exports away from energy products to manufacturing and modern services. Nonetheless, it will become the central hub of intra-

continental gas and oil pipelines, linking not only its own energy fields but also with those of Central Asia, China, India, Pakistan and Bangladesh. The Iran-Pakistan-India pipeline, now confined to the cold-storage, would have been revived and linked with the China-Pakistan Economic Corridor. Four non-Arab Muslim states – Iran, Turkey, Pakistan and Afghanistan – will probably establish a sub-regional economic and trading arrangement.

In all likelihood, the power of the Iranian clerics would have declined, with the youth becoming politically and economically more assertive. Religion will no longer be the basis of foreign relations; in fact, Tehran and Ankara would probably work together to overcome the Islamic extremists in the Levant. Iran by then could become a close partner with the United States; Tehran and Washington could work to lead the present-day restive Middle East, Central Asia, Afghanistan and Pakistan towards relative stability.

In 2030, historians will look back and credit Barack Obama for being bold and politically astute to have used negotiations rather than persistent warfare to stabilise an area that had not known peace or sustained economic development for more than a century. Over the first six years of his presidency he had given a number of public statements which, taken together, could be interpreted as spelling out the Obama doctrine. Having succeeded a president who was quick to throw his country's forces in harm's way to solve difficult problems, Obama had a strong preference for negotiations. He and his administration negotiated hard to bring Tehran to the negotiating table and then work out a deal to delay by at least a decade the acquisition of nuclear weapons by Iran. With Iran inducted back into the global system, there may be little reason for it to go nuclear. The deal, in other words, will have many consequences, most of them overwhelmingly positive. The reason President Obama was not willing to make the prediction that his deal with Iran could lead to a host of positive outcomes was calculated to win support for a game-changing agreement with a power that that, for decades, had come to be treated with a great deal of suspicion. He is perhaps of the view that history should be the final judge of his bold move; to make such a claim himself would serve little purpose.

.