

## Iran's Economic Considerations after the War and its Role in Renewing of Iran-Saudi Diplomatic Relations

### CONSIDÉRATIONS ÉCONOMIQUES DE L'IRAN APRÈS LA GUERRE ET SON RÔLE DANS LE RENOUVELLEMENT DES RELATIONS DIPLOMATIQUES ENTRE L'IRAN ET L'ARABIE SAOUDITE

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**Abstract:** Iran-Saudi relationship has constantly been frictional after Islamic revolution of Iran. In general, Saudi heavy support of Iraqi government during Iran-Iraq war and Iran's holding political demonstration so-called the Liberation from Infidels gave rise to frugidity of mutual relations of the two countries. Meanwhile, one of the means that Saudi Arabia, as ally of Iraq, applied to put Iran under pressure was oil and reduction of its price in order to decrease Iran's foreign exchange revenues in which it could not supply its essential armaments. The problems, finally, led to cutting off Iran-Saudi bilateral relations in 1988. However, after termination of the war and in the early years of 1990s, Iran's relations with Persian Gulf countries in particular Saudi Arabia improved gradually.

The present article hypothesizes that Iran's internal economic necessities such as reconstruction of the war-torn areas, improvement of economic situation and also public demands for better life in 1980s, mainly resulted from Iran-Iraq eight-year war, in one hand and its dependency on oil revenues to change the terrible situation on the other hand caused Iran to re-conciliate its relations with Saudi Arabia due to its influence on oil price and quota within OPEC. The study concludes that Iran's reliance on petrodollars and its endeavor to increase oil revenues as well as regaining its previous

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leadership in OPEC led to renewing of diplomatic relations with Saudi Arabia in 1991 and also their cooperation within the organization afterward.

**Key words:** Iran; Saudi Arabia; Iran-Iraq war; Economic considerations; petrodollars

**Resumé:** Les relations entre l'Iran et l'Arabie Saoudite étaient constamment frictionnelles après la révolution islamique de l'Iran. En général, le soutien de l'Arabie pour le gouvernement irakien pendant la guerre Iran-Irak et la maintenance de l'Iran d'une démonstration politique dite La libération des infidèles ont donné lieu à la frigidité des relations mutuelles des deux pays. En même temps, l'un des moyens que l'Arabie saoudite, en tant que l'allié de l'Irak, a appliqué à l'Iran afin de le mettre sous pression était le pétrole et la réduction de son prix pouvait diminuer les revenus des échanges internationaux de l'Iran avec lesquels il ne pourrait pas fournir ses armements essentiels. Les problèmes, finalement, ont conduit à couper les relations bilatérales entre l'Iran et l'Arabie Saoudite en 1988. Toutefois, après la fin de la guerre et en début des années 1990, les relations de l'Iran avec les pays du Golfe Persique, en particulier l'Arabie saoudite se sont progressivement améliorées.

Le présent article fait l'hypothèse que les nécessités économiques internes de l'Iran, telles que la reconstruction des zones ravagées par la guerre, l'amélioration de la situation économique et l'exigence publique pour une vie meilleure dans les années 1980, ont résulté principalement d'une part de la guerre de huit ans entre l'Iran et l'Iraq, et d'autre part de sa dépendance des revenus pétroliers pour changer la situation terrible. Cela a provoqué l'Iran de réconcilier ses relations avec l'Arabie saoudite en raison de son influence sur le prix et les quotas de pétrole au sein de l'OPEP. L'étude conclut que la dépendance de l'Iran de pétrodollars et ses efforts pour augmenter les revenus pétroliers ainsi que de retrouver son ancien rôle directeur dans l'OPEP ont conduit à renouveler ses relations diplomatiques avec l'Arabie saoudite en 1991 et leur coopération au sein de l'Organisation.

**Mots-clés:** Iran; Arabie saoudite ; Guerre Iran-Irak; considérations économiques; pétrodollars

## **1. IRAN'S ECONOMIC SITUATION RESULTED FROM IRAN-IRAQ WAR IN 1980S**

Iran-Iraq eight-year war (1980-88) caused many damages for Iran's economy. The war impacted on different sections of economic and spoiled life of Iranian people by its heavy devastations and expenditures. According to Sadowski (1993) Iran spent \$644 billion, almost ten times the value of the 1978 gross national product (GNP) during the war regardless of matters such as inflation, war casualties and etc. The author added that these problems "pushed Iran's real gross domestic product down from \$ 6,052 per capita in 1977 to \$ 2,944 in 1988." (p.62) Moreover, as the writer indicates, Iran also owed \$6 billion in foreign debts during the war. Likewise, many buildings and industries were ruined completely or damaged seriously in that period. For instance, around 87 cities and 2676 villages damaged severely during the war and also, as Keddie & Richard (2006) argue, Khorramshahr port, Abadan refinery, and the Kharg loading facilities were destroyed during the war. According to the writers, further, "... many wartime shortages continued and problems like inflation, unemployment, deficit spending, overwhelming dependence on oil, and declining agricultural self-sufficiency were worse than ever" (p.264). Based on Statistics Center of Iran (SCI), there were 8.29 million home units available in 1986 while there were 9.67 million families. It showed that 1.38 million families did not have domicile. It was at the time when the rate of population growth had increased from 2.7 in 1976 to 3.9 in 1986 (Momeni, 1998). It was natural that, therefore, increase of population would

sophisticate existing dwelling problem. In the last years of the war also lots of home units destroyed or damaged by expanding of the war to residential area which inherently worsened the situation.

Health and treatment sections had also faced with main difficulties in last years of 1980s. Population growth caused the decrease in number of physicians from an average of one per 2600 people in 1981 to one per 2900 in 1986 and number of hospital beds experienced a decrease of 1.56 per one thousand populations in 1981 to 1.46 in 1986 (Momeni, 1998). Unemployment and lack of full job, moreover, was one of the problems of the country after victory of Islamic revolution as well as during the Iran-Iraq war. Studying of the rate of unemployment indicates that between 1979 and 1985 it increased from one million in 1976 to 2.7 million in 1985 based on formal census of Iran. It means that 20 percent of active population of the country did not have job. This rate in 1988 and 1989 was 2.16 and 2.2 million in a year and in 1990 reached to 2.18 million (Momeni, 1998) which coincided with presence of women in society. Although, due to social and cultural limitations in early of 1980s, presence of women in economical activities was in low level however after acceptance of the resolution in late of 1980s, presence of woman increased in different economic sections which intensified unemployment trend. Rising of women's requirement for job consequently gave rise to a more crisis in job market in following years.

With regard to critical economic situation of Iran, some scholars believe that ending of the war seemed rational decision that could save the country in that juncture. For example, Amirahmadi (1990) see the resolution 598 on 18 July 1988 as an opportunity that Iran should have accepted it duo to many "good reasons." The reasons were: "(1) the economy was in its worst shape ever; (2) the oil revenue had dropped from a projected \$15 billion in 1988 to an actual \$5.8 billion forcing the government to adopt an austerity Plan for New Economic Conditions; (3) international isolation had left Iran with only a few friends; (4) support for war was waning at home and at abroad; and (5) thanks to the superpower diplomacy, the war had been locked up in a virtual stalemate for almost three years- offensive forces did not seem to be working for the either side" (p.54). All of the hardships were at the time when United States (US) had approached to its Arab friends including Iraq and also to some extent had entered to Iran-Iraq war in favor of Iraqi forces. In effect, as Parsi (2007) argues, war changed "the question of cost-benefit". That is why, Iran attempted to act as rational actor.

In general, the direct and indirect damages of the war were estimated around \$1000 billion (Yaqubi, 2009). Approximately \$500 billion was related to Iran's economy which 50 percent of it was related to oil industry (Razzaghi, 1988). The effect of the war still remained after end of the war in oil section. For instance, oil price decreased after the Iran-Iraq war and reached to half price of the mid of 1970s while the population of the country had been double (Salehi-Isfahani, 1995). The reason was that "Saudi Arabia continued to undermine the Islamic Republic after the Iran-Iraq cease-fire. As was widely reported in the New York Times, the kingdom along with Kuwait, the United Arab Emirates, Qatar, and Iraq stepped up its oil production almost immediately after the cease-fire on 20 August 1988. By early October, Saudi production reached 5.7 million b/d (barrels per day), well above its OPEC quota of 4.3 million b/d. The Saudi claimed that they were protecting their market share from Iran's possible incursion, a pretext that soon became untenable" (Gillespie & Henry, 1995, p. 207).

In general, based on Iran's Central Bank report and estimates concerning economic situation after the war it can be observed that GNP decreased to 12.4 in comparison to early year of revolution, budgeted shortage was 50 percent, and inflation rate increased to 28.9 (Yaqubi, 2009). Hashemi Rafsanjani (then president) describes the problems after the war as follows: 51 budget shortages, 12 billion foreign debts, only 7 billion annual oil incomes, 16 percent unemployment (Khalili, 2005). It was at the time when natural catastrophes such as earthquake and flood had intensified the situation. For instance, regarding to the Manjil-Rodbar earthquake, on June 21, 1990 Hashemi declared: "approximately 110,000 residential units destroyed" (Hoshang Amirahmadi, 1990, p. 48). This, in return, intensified settlement situation. All these evidences revealed critical situation during the war and afterward. At the same time, Iranian people were looking for a better life as well as welfare. These circumstances put grave pressure on Hashemi Administration to follow foreign policy on the basis of economic requirements after the war.

## **2. IRAN'S FOREIGN POLICY BASED ON POST WAR ECONOMIC CONSIDERATIONS**

All the hardships regarding unemployment, foreign debt, health and education, budget shortage, war-torn area and so forth after termination of the war caused president Hashemi Rafsanjani administration change his priority in foreign policy based on economic consideration. Meanwhile, Iranians' looking for welfare pressured then administration to attempt to eliminate the existing problems after the termination of the war. In this regard, Al-Suwaidi (1996) stressed that important agenda of the government was reconstruction of the war-ravaged areas and a general improvement of the quality of life of the population. Indeed, "... the devastating economy and the high cost of the eight years war with Iraq as well as the increasing public demands for better life had led Rafsanjani to think seriously about the future of the state's economy" (Alnahas, 2007, p. 152) in order to stabilize the situation and, as Malek (1991) states, save the country.

In this case, Menashri (2001, p. 107) explains that "The popular demand for social and economical welfare was noticeable especially after the Iran-Iraq war." The writer continues that president Hashemi regarded economic reconstruction as one of major goals of the government. In other words, economic situation in 1980s caused Hashemi administration to change his priority in foreign policy based on economic re-construction. This is why, Ali Akbar Velayati, (then foreign minister), noted in 1991, "economic consideration overshadows political priorities" (Takeyh, 2007, p. 41). In other words, "... after ceasefire, Iran formally appointed economic re-construction policy on the top of its future plans" (Navazani, 2004, p. 218) or as Gillespie & Henry (1992) state postwar reconstruction became a priority. However, this approach in foreign policy was "tactically not strategically" to remove restriction and limitation of rebuilding of the country. Yaqubi (2009) argues that this matter directed revolutionary realists toward pragmatism in order to regulate foreign policy goals based on the reconstruction demands. Therefore, when the war ended, the first priority of Hashemi Rafsanjani administration became rebuilding of the country. Hashemi said: "We entered forth level of the revolution; that is organizing of country. ... We want to present a model of Islamic county to the world and that we are looking is economical, scientific, technical independence" (Ettelaat Newspaper, 1992b). Moreover, Mohammad Vaezi, deputy minister, in meeting with his Spanish counterpart said: our principle policy is reconstruction of the country (Ettelaat Newspaper, 1992a). Even Iranian leader, Ayatollah Khomeini, had same viewpoint regarding primacy of economic issues. He, in his historical and significant message in fortieth day of Khomeini's death, declared that major goal of the revolution at the present time is building of example country in which to provide material welfare and social justice besides maintaining of revolutionary ideals and desire, which indicated evolution in priorities of foreign policy based on supplying economic demands (Yaqubi, 2009).

Indeed, when Hashemi Rafsanjani took over the power in 1989, as Kamrava (2005) terms it "Second Republic" intended to change social and economic situations and re-build the devastated country. Based on the new economic policy Rafsanjani draw some plans which were known as first and second "five-year development plans" which mainly were in the framework on reconstruction of war-torn areas along with movement from state-run economy to privatization. Keddie and Richard (2006) claimed that Rafsanjani vowed to reconstruct the country and replace state-run economy, which was supported by the Islamic Left during 1980s, by "market-based" economy as well as "less confrontation" foreign policy.

Jahangir Amuzegar (1997) ,further, argues that the new leadership , intended to give up "radical Islamic economy" as an obstacle of advancement. He terms the new economic reform as "Rafsanjani's Perestroika" which aimed "to transform a vastly regulated, badly distorted, and mismanaged economy into an investment-driven, market-oriented and more efficient system. As part of this economic liberation policy, concerted efforts have been made towards the marketization and privatization of the economy" (p.317). As it is evident, privatization placed in the core of economic reforms.

In this regard, Mohammadi (2003) explains that " ...privatization of large industries and mines, the revival of Tehran Stock Exchange, the abolition of the multiple exchange rate mechanism and its replacement with a single market rate, the founding of a number of free trade zone and the encouragement

of direct foreign investment” became Iran’s economic goals. Furthermore, [Rafsanjani] encouraged skilled Iranian residing abroad to return. These Iranian who, Daneshkhu (1994) name them as “Iranian exiles” included around 1 million that most of them were Iran’s former industrialist elites and managers. Indeed, as the author states, in the “decade of reconstruction”, what Rafsanjani termed the second decade of the revolution, they were invited to come in order to run the factories. Indeed, Hashemi intended to apply all facilities in order to promote economic situation as the most critical problem in the country. However, the plan, which Amirahmadi (1990) named it “new version of Musavi’s [then prime minister] plan” was more open and extensive. The plan which was sent to Majlis in August 1989 emphasized more on privatization of national industries and “economic growth”, by increasing industrial production, and also, as Rahnama and Behdad (1996) state, elimination of subsidies.

Amirahmadi (1990) states that “ Hashemi’s plan focuses on basic industries and large-scale units (as were defined in the Musavi Plan) and pays special attention to oil , gas, petrochemicals, cement, mines, plastics, and paper products. The plan also proposes to build some 208,000 houses more than the figure proposed by its predecessor. Other high-priorities areas are the military, transportation, communications, and agriculture” (p. 254). Indeed, “Striving to maintain ideals but also to meet the need of the people, Hashemi supported the expansion of the private sector and encouraged expatriate professional and foreign firms to return to Iran” (Menashri, 2001, p. 107).

However, Hashemi new approach in the field of economy had some opponents inside of Iran. The opposition groups said that we should emphasize on military reconstruction in order to maintain the revolution (Salloukh & Brynen, 2004, Parsi, 2004). Moslem (2002) argues that although the opponents were from right faction however they were supportive of “traditional bazaar” in economy. As a result, Hashemi replaced them in Ministry of Economic by the “technocrats” who were mostly educated from United States. In response to domestic opposition, Mohammad Hossien Adli, Iran’s Central Bank governor said that “fortunately we don’t have any serious military threat. The threat we do have is economic. If you don’t have enough food, even if you have most sophisticated tank, how are you going to use it?” (Salloukh & Brynen, 2004, p. 63).

In general, main focus of the new administration was on some significant issues: re-construction of the country after the eight-year war which had remained many devastated houses and industrial sites ..., and also reforming of overextended state-run economy by giving more places to private sections as well as improving of Iranian’s life. That is why, the age has been known as so-called “reconstruction periods” [dorane saزندegi] and Hashemi was named “commander of reconstruction” [sardare saزندegi] as well. Therefore, in order to achieve the goals, Iran attempted to improve its relations with other states especially with the oil-rich southern neighbors due to its reliance on oil revenue.

### **3. ROLE OF OIL IN IRAN’S ECONOMIC RE-CONSTRUCTION AND RELATIONSHIP WITH GCC**

“Oil revenues accounted for 95 percent of all Iranian income” (Kostiner, 2008). That is why; oil revenue and Organization of Petroleum Exporting Countries (OPEC) have vital role in economic development and reconstruction of Iran. Economic reconstruction of the country which was conducted based on first and second development plans mainly were relied on oil income (Marschall, 2003; Abir, 2003; Ramazani, 2004; Yaqubi, 2009; Gillespie & Henry, 1995). In other words, reconstruction as well as economic reforms needed to be supported by budget which conventionally was supplied by oil revenues. As Menashri (2001) states, “Iran’s main source of external revenue was, and still is, oil. .... [It] provided the necessary capital for over-ambitious reconstruction programs initiated by the government and put into motion in the early 1990s” (p.108).

Gillespie & Henry (1995), moreover, explain that Rafsanjani’s first development plan was based on 8 percent annual growth and needed budget was supplied by foreign exchange, \$147 billion, non-oil export, \$17 billion, and oil revenues, \$103 billion. With regard to second five-year development plan (1994-98) which became bolder they termed oil as “axis of the country’s future development.” In this case, Ramazani

(2004) argues that in second plan of development (1994-8), even the share of oil and gas as center of future development increased more. So, since oil revenues were regarded as “backbone” of Iran’s economy, according to Alnahas (2007), Iranian foreign policy has been strongly on the basis of oil price and ,as Kaim (2008) asserts, cooperation with Persian Gulf Countries (GCC), in particular Saudi Arabia remained the first priority in the new Iranian foreign policy.

In this case, many scholars such as Yaqubi (2009) argue that during constructiveness period, Hashemi Rafsanjani’s administration, Iran’s foreign policy with Persian Gulf states had strategic importance. In this age Iran’s foreign policy pursued two major goals towards the Gulf countries: first, achievement of harmonic oil policy with main oil producer countries, in the framework of OPEC somewhat it could influence on enhancing of oil price, and second, security arrangement in Persian Gulf based on eighth article of 598 resolutions. In other words, in order to achieve its goals such as reconstruction of country, privatization of nationalized industry, expenditures of the five-year plans alongside Iran’s tendency for increasing oil production capacity, 4.5 million by 1993, Iran attempted to re-conciliate its relations with Gulf States as main producers of oil.

For the reasons, central principle of “Neither East Nor West” was replaced by “either North or South” in Iran’s foreign policy (Ramazani, 2001). By North, it means Caucasia and central Asia and by south means Persian Gulf Countries. Therefore, Rafsanjani declared Iran’s readiness for improvement of relations with the Gulf countries. In this respect, Marschall (2003, p. 15) quoted Abbas Maleki, Deputy Foreign Minister, that “The Constitution provided the foreign policy priorities. That is to have good relations first, with Iran’s neighbors; second, with Islamic countries; third, with the non-aligned developing countries; and fourth, with those countries which can fulfill the economic and social needs of the Islamic Republic.” The Gulf States were the only countries which placed in all four categories, and Iran therefore wanted good relations especially with its Arab neighbors, including co-operation in the economic and security fields. That is why, Iran announced its readiness for improvement of relations with Gulf States in international conference on Persian Gulf in Tehran in 1988 (Gillespie & Henry, 1995). In addition, after war Iran started to begin trade relations with Gulf neighbors. In this regard, Marschall (2003) explains that “Between 1988 and 1991, Iran restored air and sea links with the six states which helped the exchange of goods and visitors. Trade increased to a large extent during and after the Gulf Crisis. Economic delegations travelled back and forth, and Iran signed bilateral agreements in the fields of trade; transport and communication; cultural, scientific and educational co-operation; and oil and gas. Tehran further held talks about agriculture, fisheries and labor matters. Iran was also actively represented at Gulf trade fairs” (P.172).

Regarding to Iran’s new approach toward Arabian neighbors, Al-Suwaidi (1996), furthermore, states that Hashemi Rafsanjani pursued three objectives: firstly he intended to keep Iraq under control, secondly to improve Iran’s ties with the Gulf States, and thirdly he wanted to increase Iran’s influence on oil policy for lower production as well as higher price. The objectives, indeed, were resulted from internal economic crisis which the administration had faced with them. In other words, it can be observed that Iran’s foreign policy changed towards Persian Gulf states based on “economic and strategic considerations” and Iranian president attempted to open Iran’s diplomatic relations with neighboring countries by slogan of “development first, rearmament second”, as a first reform in foreign policy of Iran. That is why, according to Parsi (2007),Iran attempted to solve its outstanding problems with Gulf countries in order to improve its economic ties. Aghazadeh, Minister of Petroleum, in September 1991 said if the Islamic Republic intends to preserve its regional superiority, it must improve its economy by increasing its oil production (Gillespie & Henry, 1995). That is why; he declared that Iran’s new oil policy indicates “new realism” in world market. The new policy was based on making friendship instead of ideological crusade (Ramazani, 2004).

Therefore, main purposes of Hashemi Rafsanjani’s “good neighbor” policy which was based on accommodation with Persian Gulf states in particular Saudi Arabia, were regaining of Iran’s leadership in OPEC like 1960s which could enable Iran to increase its oil revenues in order to reconstruct devastated economy and the second goal was security of the Persian Gulf due to its importance for Iran’s commercial activities which has been conducting mostly through the Gulf. In addition, Iran could relax itself from diplomatic isolation which was created by Gulf States.

#### **4. IRAN'S RAPPROCHEMENT WITH SAUDI ARABIA AND RE-ESTABLISHMENT OF DIPLOMATIC RELATIONS**

Iran attempted to accommodate with Saudi Arabia as undisputable leadership in OPEC because reconstruction of the country alongside economic reforms or privatization needed to be supported by the budget which conventionally was supplied by oil revenues. In other words, since most part of the budget for development of the country was based on oil dollars, Iran's cooperation with Saudi Arabia looked necessary due to Saudi strong potential in OPEC and its great influence on oil price. In support of the statement, Salloukh & Brynen (2004, p. 74) explain that "... relations with Saudi Arabia was important [mostly] in terms of oil revenue, which would fuel the country's reconstruction." In this regard, Yaqubi (2009), furthermore, argues that among oil producer countries, Saudi Arabia had almost exclusive role in controlling of oil price because it has had 25.99 percent of world oil resources and also its production capacity was more than 9 million per day. Meanwhile, due to Iran's economic and political isolations, Saudi Arabia became the most influential actor amongst Muslim, in particular Arab countries, due to its donation which was stemmed from oil wealth (Abir, 1993). It, in return, could effect on Iran's relationship with the other littoral states. That is why; Hashemi Rafsanjani said that confrontation should be replaced by cooperation. On the basis of that, Iran warmed up its relations with Saudi Arabia (Yaqubi, 2009). In general, it can be mentioned that reconstruction of the country after the war and people requirements for better life were main pressures of Hashemi administration for rapprochement with Saudi Arabia.

In this case, as Salloukh and Brynen, (2004) as well as Yaqubi (2009) explain that re-establishment of mutual relations of Iran and Saudi Arabia in March 1991 was the most important Iranian oil policy due to Iran and Saudi Arabia competition in OPEC. In order to gain the goal, Iran even ignored internal oppositions against improvement of relations with Saudi Arabia and advanced mutual ties with Riyadh duo to its influence on oil price as well as quota.

Yaqubi (2009) quoted Hashemi as saying that we will cooperate with Saudi Arabia in fields of oil and regional security and it is in favor of all regional countries. The writer continues that by improvement of mutual relationship between Iran and Saudi Arabia, Iran could prevent Saudi low price of oil which was supported by United States, and also Iran by revising its' image, as main threat in the Gulf region, could cooperate with other oil producers which consequently led to reduction of Saudi Arabia exclusive power in OPEC.

Iran, indeed, intended to moderate its aggressive policy regarding determination of oil price, and also it was going to increase its production to 4.5 million barrels each day in the future (Ramazani, 2001). This policy caused Iran to make serious decision in order to consolidate its relations with Saudi Arabia and other members of GCC inside and outside of OPEC in order to stabilize the oil market. In this case, Al-Suwaidi (1996) states that Iran aimed to increase its influence on oil policy for lower production as well as higher price. With regard to this reality that Saudi Arabia became the most powerful member of OPEC due to its high production capacity as well as Iran's engagement in the war, Iran also, as Marschall, (2003) explains, attempted to restore its prior position as leadership in OPEC. It also strived to depoliticize OPEC in order to influence on oil quota and price in order to develop economic as well as social circumstances of Iran after Iran-Iraq war. However Gillespie & Henry (1995) believe that Iran continued to cooperate with the Saudi Arabia within OPEC and was agreeable to prices and quotas, set by the organization, with purpose of achieving two main goals; first, to improve its economic situation and second to restore the previous position in the regional security arrangements.

Meanwhile, regional developments like Iraqi invasion of Kuwait, which mistuned the oil exporting, and also ending of the Second Gulf war which led to presence of United States in the region, had great influence on relations between Iran and Saudi Arabia. Indeed, these events melted the freezing relations between the two countries for different reasons. According to Rahnema & Behdad (1996) Persian Gulf War or Persian second Gulf War was as " blessing" for Hashemi Rafsanjani administration. In view-point of the authors, the war helped Iran concerning "new economic order". As Iran needed oil revenues, the War gave rise to increasing of oil production from 2.2 million in 1986 to 3.2 million barrels per day in 1990. Moreover, the

price raised from \$13 in 1986 to around \$20 per barrel in 1990. At the time being, the relationship between Iran and littoral states in particular Saudi Arabia was becoming better by virtue of Iranian neutrality and positive stance during the war.

Likewise, after ending of Second Gulf War , in one hand, Saudi Arabia surfaced as “the undisputed leader of OPEC” and also United States took control of regional security as well as ‘security of two-third of the world’s oil supplies’. Indeed, combination of Saudi’s financial and US military force enabled the two countries to manage the world energy order (Robert, 2005). In this case Iran needed to cooperate with Saudi Arabia as cordial friend of United States and determinant member of OPEC. On the other hand, Saudi Arabia intended to keep Iraq under control and decrease Iran’s support of Shiites in Saudi Arabia. Following mutual interests, after re-establishment of diplomatic relations in 1991, after cutting off relations in 1988, Velayati visited Saudi Arabia. During the meeting with Fahd, the two sides emphasized on economic cooperation as well as Iran-Saudi Arabia’s key role in Persian Gulf. They even elevated their relations to ambassadorial level in June 1991 which was unprecedented after the Iranian revolution. That is why; as Gillespie & Henry(1995) argue, “ the relative success of OPEC meeting since 1991 –especially the cordial and cooperative relations between the two largest producers, Iran and Saudi Arabia- should have come as no surprise” (p. 222).

Although some issues such as The Damascus Declaration, “six plus two agreement” in 1991 , which was based on establishment of standing force in Persian Gulf including six littoral countries plus Syria and Egypt without presence of Iran ,caused clashes between the two countries in OPEC (Salloukh & Brynen, 2004) however their relationship improved when Saudi Arabia reduced its production in order to back stability of price. Further , in February 1993, during Hashemi and Saudi minister of education meeting the two sides showed their tendency for extended relations and co-ordinating of their policies in OPEC (Marschall, 2003). Later, also, with regard to economic devastation of the country, Rafsanjani telephoned “King Fahd [of Saudi Arabia] and Shiekh Al-Sabah [the ruler of Kuwait] in September 1993 in order to arrive at a common policy on OPEC oil output and the raising of oil prices” (Ehteshami, 1995, p. 118). Therefore, it can be observed that Iran strived to improve its relation with Saudi Arabia due to its dependency on oil revenues to solve internal problems. In this case, regional developments such as Iraqi invasion of Kuwait and the Second Gulf War had significant impact on Iran-Saudi relations and persuaded the both sides to decrease tension and in turn co-operate concerning regional issues.

## **5. CONCLUSION**

It was evident that Iran was suffering from terrible economic situation in 1980s especially due to Iran-Iraq eight-year war. This condition put Hashemi Rafsanjani administration under pressures to change the status in that period. That is why; reconstruction of the country became top priority of the administration and formed Iran’s foreign policy in that period. Since Iran has depended on petrodollars for the reconstruction as well as economic development, it attempted to re-conciliate its relations with Saudi Arabia as dominant member of OPEC which was result of its high production capacity and Iran and Iraq engagement, two main oil producers, in the regional problems.

By this rapprochement, Iran also intended to restore its prior position in OPEC as leader, and depoliticize OPEC in order to influence on oil quota and price to develop economic as well as social situation of Iranian people after Iran-Iraq war. That is why; it seems that although the two countries did not have diplomatic relations from 1988, aimed at achieving economic goals, Iran tried to cooperate and improve its relations with Saudi Arabia which finally led to re-establishment of Iran-Saudi relations in 1991. In this case, regional developments pushed the two sides for establishing better relations and by the improvement of political relations and confidence-building; they reached the point that to cooperate seriously in order to gain mutual interests in the Persian Gulf region.

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