

U.S. and Iranian Strategic Competition

The Impact of Afghanistan, Pakistan, India, and Central Asia

By Robert M. Shelala II, Nori Kasting,
and Anthony H. Cordesman

Request for comments:

This report is a draft that will be turned into an electronic book. Comments and suggested changes would be greatly appreciated. Please send any comments to Anthony H. Cordesman, Arleigh A. Burke Chair in Strategy, at acordesman@gmail.com.

ANTHONY H. CORDESMAN
Arleigh A. Burke Chair in Strategy
acordesman@gmail.com

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Executive Summary

Security and stability in Central and South Asia are driven by regional tensions and quarrels, and the internal instability of regional states. Weak governance and corruption are major problems in every state in the region, along with state barriers to economic growth and development and – in most cases – under investment in education, health, and infrastructure. Very young populations face major unemployment and underemployment problems and income distribution is badly unbalanced, and on sharply favors the ruling power elite. Ethnic, tribal, and sectarian tensions compound these problems, and in many cases, so do internal and external threats from Islamic extremists and the growing tensions between Sunni and Shi'ite.

The tensions between the US and Iran have been peripheral to these forces and are likely to remain so – particularly since the US is largely leaving Afghanistan and has steadily declined strategic interest in Pakistan and Central Asia as well. The one exception that might sharply increase US and Iranian competition would be a contingency where a major confrontation or conflict between the US and Iran that began in the Gulf – or outside Central and South Asia – led Iran to be far more aggressive in attacking or challenge US interest in the region. Even then, the end result is likely to be limited Iranian acts to attack US interests in the region and more US emphasis on trying to cut Iran's economic ties in the area. The exception – which seems to have low probability – is one where the US gained access to basing rights in Afghanistan in could use to attack Iran.

The main area where the tensions between the US and Iran have had some significance in recent years is Afghanistan. For the past decade, US efforts in Central and South Asia have centered on stabilizing Afghanistan after US-led forces toppled its Taliban government. Competition with Iran has played a role in US decision-making, but has not been a key driving force. Iran has sometimes provided limited arms transfer and support to anti-ISAF elements, but has focused largely on securing its borders, seeking to limit US influence in the Afghan government, support the Hazara Shi'ite minority, and expending its political and economic influence in Northwest Afghanistan.

Part of the reason for the limited competition between the US and Iran is that both countries share some similar interests in Afghanistan – notably promoting Afghan stability and opposing the Taliban and other Sunni extremist movements. While Afghanistan does not factor as significantly in Iranian policy-making as the Gulf and Levant, instability in the region has serious implications on Iranian security through drug-trafficking and the Iranian-backed Hazara, which make up about 9% of the Afghan population. While Iran feels threatened by the US troop presence in Afghanistan and the prospect of long-term US basing in that country, the 2014 withdrawal may ease this component of US-Iran tensions.

This, however, is not a guarantee for the future. Iran has created strong financial ties to some Afghan politicians. Iran has close ties to many Afghan Shia Hazaras, has created significant aid efforts in the field, and elements of its al Quds force operate in the north and even in the east. While Iran is fundamentally opposed to the Taliban's values, it does maintain some links with the group to maintain leverage over the US and the Afghan central government. These ties could become stronger in proportion to the growing confrontation between Iran and the US.

Pakistan is also of significance to US-Iranian competition in Central Asia due to its close yet tense relations with both Tehran and Washington. The US has sought close relations with Islamabad in order to ensure regional stability, prevent the proliferation of nuclear weapons, and curb Islamic terrorism, while Iran has engaged Pakistan to further develop economic and energy ties.

However, Islamabad's policies and perceived links to terrorist organizations have created problems for both the US and Iran. The US sees Pakistan as supporting elements in the Afghan Taliban and other Afghan insurgent movements, and giving them a de facto sanctuary, to pursue its own interests in Afghanistan and limiting any threat it can pose in the Afghan-Pakistan border area. Iran has expressed its belief that Pakistan backs the Jundullah terrorist organization – which carries out attacks in Iran – and that Islamabad has backed Sunni extremists in Afghanistan.

Iran may gain the advantage in spite of these problems. Polls indicate that Pakistanis are deeply hostile to the US, and Pakistan sees the US as leaving Afghanistan and as a far less important aid donor once it has withdrawn most of its combat forces from Afghanistan at the end of 2014. Iran plans to build a pipeline to export natural gas to Pakistan that would be important in fueling Pakistan's economic development. Pakistan also provided significant state and third-party support to the Iranian nuclear program in its early years, and some experts feel it might do so again if US relations with Islamabad continue to deteriorate.

India competes with Pakistan for influence in Afghanistan and is funding new roads from Iranian ports in the Gulf of Oman. As the second-largest country in the world, India shares Pakistan's growing need for the import of oil and gas. Iran was the second-largest seller of oil to India as of spring 2012, and Iran was in turn sourcing around 40% of its imports of gasoline from India. Indian intentions of joining the planned natural gas pipeline from Iran to Pakistan remain ambiguous, but the development of the pipeline faces a range of challenges that will most likely prevent it from ever being brought on-line.

Central Asia is a far more important theater for competition between Russia and China than Iran and the US. The region has been historically dominated by Russia and still retains many vestiges of Soviet influence. China, however, has been making economic inroads into the region for years and now wields clout that arguably rivals that of Russia. The influence of Russia and China, in addition to the closed political systems of the Central Asian states and their overall lack of integration into the global economy, create an environment with limited space for further outside influence. It is within this relatively confined space that US-Iranian competition operates in Central Asia.

The US is principally concerned with maintaining transit routes to and from Afghanistan through Central Asia via the Northern Distribution Network (NDN). After the withdrawal of most allied forces from Afghanistan at the end of 2014, however, the US will no longer have a major strategic interest in the region. It would like to see petroleum export routes bypass Iran. A pipeline connecting Turkmenistan, Afghanistan, Pakistan, and India (TAPI) has been proposed and is supported by the US, but like the Iran-Pakistan (IP) pipeline, faces numerous challenges to being brought on-line.

While direct trade between the Central Asian states and Iran tends to be small, three of these states remain dependent on transshipment through Iran for export access to ocean ports. Iran can use this dependency to its advantage in promoting anti-US policies in Central Asia in the event

that US-Iran tensions rise, but as the US logistical dependence on Central Asia wanes, so too will Iran's ability to threaten the US in the region.

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Introduction

Security and stability in Central and South Asia are driven by regional tensions and quarrels, and the internal instability of regional states. Weak governance and corruption are major problems in every state in the region, along with state barriers to economic growth and development and – in most cases – under investment in education, health, and infrastructure. Very young populations face major unemployment and underemployment problems and income distribution is badly unbalanced, and on sharply favors the ruling power elite. Ethnic, tribal, and sectarian tensions compound these problems, and in many cases, so do internal and external threats from Islamic extremists and the growing tensions between Sunni and Shi'ite.

The tensions between the US and Iran have been peripheral to these forces and are likely to remain so – particularly since the US is largely leaving Afghanistan and has steadily declined strategic interest in Pakistan and Central Asia as well. The one exception that might sharply increase US and Iranian competition would be a contingency where a major confrontation or conflict between the US and Iran that began in the Gulf – or outside Central and South Asia – led Iran to be far more aggressive in attacking or challenge US interest in the region. Even then, the end result is likely to be limited Iranian acts to attack US interests in the region and more US emphasis on trying to cut Iran's economic ties in the area. The exception – which seems to have low probability – is one where the US gained access to basing rights in Afghanistan in could use to attack Iran.

For the past decade, US efforts in Central and South Asia have centered on stabilizing Afghanistan after US-led forces toppled its Taliban government. Competition with Iran has played a role in US decision-making, but has not been a key driving force. Iran has sometimes provided limited arms transfer and support to anti-ISAF elements, but has focused largely on securing its borders, seeking to limit US influence in the Afghan government, support the Hazara Shi'ite minority, and expending its political and economic influence in Northwest Afghanistan.

Since 2011, the US and its ISAF allies have been actively at war in an effort to stabilize Afghanistan. The US has also sought to persuade Pakistan to end all support for the Taliban, and drive Afghan insurgent factions out of Pakistan. More broadly, it has sought to help Pakistan achieve development and stability, improve its relations with the Afghan government, and reach an agreement with Afghanistan over the Afghan-Pakistani border.

At a much broader level, the US has continued to try to help India and Pakistan improve their relations while it has sought to make India a strategic ally and counterweight to China. It has negotiated with the Central Asian states to provide lines of supply for the war in Afghanistan while encouraging them to make democratic and economic reforms.

While the US has talked about investment and trade, and the creation of a “New Silk Road” to help develop the region, its economic role remains limited and is likely to remain so. Russia and China are the dominant regional power, and their role will grow as the US phases down its military role in Afghanistan and Central Asia.

Competition with Iran has played a role in US decision-making, but has not been a key driving force. Iran has sometimes provided limited arms transfer and support to anti-ISAF elements, but has focused largely on securing its borders, seeking to limit US influence in the Afghan government, support the Hazara Shi'ite minority, and expending its political and economic influence in Northwest Afghanistan.

Part of the reason for the limited competition between the US and Iran is that both countries share some similar interests in Afghanistan – notably promoting Afghan stability and opposing the Taliban and other Sunni extremist movements. While Afghanistan does not factor as significantly in Iranian policy-making as the Gulf and Levant, instability in the region has serious implications on Iranian security through drug-trafficking and the Iranian-backed Hazara, which make up about 9% of the Afghan population. While Iran feels threatened by the US troop presence in Afghanistan and the prospect of long-term US basing in that country, the 2014 withdrawal may ease this component of US-Iran tensions.

This, however, is not a guarantee for the future. Iran has created strong financial ties to some Afghan politicians. Iran has close ties to many Afghan Shia Hazaras, has created significant aid efforts in the field, and elements of its al Quds force operate in the north and even in the east. While Iran is fundamentally opposed to the Taliban's values, it does maintain some links with the group to maintain leverage over the US and the Afghan central government. These ties could become stronger in proportion to the growing confrontation between Iran and the US.

As the US presence recedes from the region after 2014, Iran may step in to fill part of the ensuing power vacuum. It is more likely, however, that Russia and China will enhance their presence in Central Asia, while Afghanistan and Pakistan will continue to struggle with debilitating domestic problems.

At the same time, Iran's ability to compete with the US is likely to remain limited in Central Asia. Russian and Chinese influence is pervasive and deeply-rooted. In Pakistan, Iran's ability to compete with the US is hampered by Pakistan's dysfunctional politics and Pakistani distrust of Iranian intentions. It is only in Afghanistan that Iran possesses a true capability to compete with the US in a meaningful way; however, as Transition proceeds, Iranian incentives for undermining US efforts in Afghanistan will fade as Iran once again confronts its historic challenges of dealing with Afghan instability, narcotics trafficking, and lax border security.

Afghanistan:

- Iran has strong historic and geographic links with its eastern neighbor, as well as close cultural ties to the Afghan Hazara, who are mostly Shia. Iran was hostile to the Taliban government and initially viewed its fall as a positive development. However, Iran remains deeply suspicious of the NATO mission in Afghanistan and of long-term US intentions in the region. Iranian actions in Afghanistan are intended both to counter US influence as well as to promote the development of an Iran-friendly regime in Kabul. Although Iran's efforts in Afghanistan have often focused on undermining the US, the fact is that both Iran and the US have a shared interest in establishing a stable and secure Afghanistan that is capable of effectively policing its own borders.

Pakistan:

- While Iran and Pakistan have maintained positive relations for most of Pakistan's history, there are underlying faults in the relationship that are prone to fracture. Perceived Pakistani support for militancy in Iran's Sistan and Baluchistan province, as well as support for Sunni extremism in Afghanistan, pose threats to Iranian security. However, relations with the US could have an effect on the degree to which these two states cooperate in the future.

Central Asia

- Central Asia is a far more important theater for competition between Russia and China than between Iran and the US. The influence of Russia and China, in addition to the closed political systems of the Central Asian states and their overall lack of integration into the global economy, create an environment with limited space for further outside influence. It is within this relatively confined space that US-Iranian competition operates in Central Asia.

Afghanistan

Afghanistan faces massive challenges that go far beyond the problems caused by US and Iranian competition. Governance remains weak and corrupt, and it is unclear who will become the new leader of Afghanistan in 2014, when a Presidential election is scheduled to take place. The Taliban and other insurgent groups have de facto sanctuaries in Pakistan and continue to pose a major threat. US and allied ISAF forces will largely leave by the end of 2014, – the same year an election must take place -- and have already ceased to actively go on the offensive against the insurgents. Afghan national security forces are being rushed into force levels of some 352,000 and into taking responsibility for security. More than a decade of aid has had limited impact on the economy, and much of the economy is dependent on the flow of aid and military expenditures which are already being significantly reduced.

The World Bank notes that,¹

The medium-term outlook is tainted by uncertainty. Political and security uncertainties are expected to limit private-sector growth in the coming years.... In mid-2010, the North Atlantic Treaty Organization (NATO) and the Afghan government agreed that full responsibility for security would be handed over to the Afghan National Security Forces by the end of 2014. The withdrawal of most international military troops as planned is expected to have a profound and lasting impact on the country's economic and development fabric.

The drawdown is likely to be accompanied by a decline in international development assistance on which Afghanistan relied heavily since emerging out of conflict in 2001. While Afghanistan's international partners have pledged continued support through 2016 there is a growing sense of uncertainty about Afghanistan's stability and security in the months and years ahead.

In spite of major gains in economic and social welfare since the fall of the Taliban regime in 2001, large parts of the population are still dependent on UN food aid, and population pressure, internal displaced persons, ethnic and sectarian tensions, and youth unemployment and underemployment remain major problems. The CIA notes that,²

Despite gains toward building a stable central government, a resurgent Taliban and continuing provincial instability - particularly in the south and the east - remain serious challenges for the Afghan Government... Afghanistan's economy is recovering from decades of conflict. The economy has improved significantly since the fall of the Taliban regime in 2001 largely because of the infusion of international assistance, the recovery of the agricultural sector, and service sector growth.

Despite the progress of the past few years, Afghanistan is extremely poor, landlocked, and highly dependent on foreign aid. Much of the population continues to suffer from shortages of housing, clean water, electricity, medical care, and jobs. Criminality, insecurity, weak governance, lack of infrastructure, and the Afghan Government's difficulty in extending rule of law to all parts of the country pose challenges to future economic growth. Afghanistan's living standards are among the lowest in the world.

The international community remains committed to Afghanistan's development, pledging over \$67 billion at nine donors' conferences between 2003-10. In July 2012, the donors at the Tokyo conference pledged an additional \$16 billion in civilian aid through 2015. Despite this help, the Government of Afghanistan will need to overcome a number of challenges, including low revenue collection, anemic job creation, high levels of corruption, weak government capacity, and poor public infrastructure.

The US and Iran both have interests in Afghanistan that overlap in spite of their broader strategic competition. Since the US-led invasion toppled the Taliban in 2001, the US has been trying to stabilize Afghanistan and promote economic development. Prior to 2001, Iran also opposed the Taliban – helping to fund, arm, and train the anti-Taliban Northern Alliance in the mid-1990s. After the fall of the Taliban, US and Iranian interests in this area were briefly aligned, despite rising tensions elsewhere. Afghanistan's many problems – including persistent insurgency,

internally-displaced persons, and trafficking in weapons and narcotics – can and do spill over into neighboring Iran.

The US has been committed to establishing a stable and secure Afghanistan that will not be a safe-haven for terrorists. US involvement in Afghanistan was a direct result of the September 2001 attacks by Al Qaeda, which had been using Afghan territory for training camps in preparation for the attacks. The Al Qaeda-friendly Taliban government fell soon after the US-led invasion, and currently Afghan President Hamid Karzai holds together a coalition government in Kabul with US support. As of September 2011, about 70,000 US troops were stationed in Afghanistan to fight the Taliban and other insurgents, along with substantial numbers of US civilians and troops from various coalition allies along with their civilian counterparts.

The US says it will remain engaged in Afghanistan after 2014, supporting efforts to improve security, governance, and economic development. However, the future US troop presence seems likely to be lower than 14,000 personnel and could be far lower, and future aid and military spending will be far more limited than in the past. Iran strongly opposes any post-2014 US military presence or basing rights in Afghanistan that it fears the US might use to attack it from the East.

The NATO Summit in Chicago in May 2012, and the Tokyo Conference on Afghanistan the following July, led to declarations of much in the way of lofty goals but little in the way of concrete plans for Afghanistan's Transition. The US has so far failed to produce meaningful data regarding the type and amount of aid that will be available to Kabul after 2014, and the Afghan government has not released any plan that details how it will deal with a drastic reduction in funds.

Furthermore, it is unclear how well a future Afghan government can cope with US/ISAF withdrawal and spending cuts. In spite of US and ISAF claims, the military situation does not show the Taliban and other insurgents have been defeated, there has only been limited progress in economic development, and it is unclear a new leader will emerge in 2014 that can bring unity to the country or win broad support for the government in Kabul. US goals in Afghanistan post-2014 will likely be reevaluated on an as-needed basis, and will be defined largely by forces external to the country.

Iran's Current Relations with Afghanistan

Afghanistan has become more strategically significant to Iran since the US-led invasion, although Iranian strategic interests remain limited compared to those in Gulf region and the Levant. Afghanistan is important to Iran largely as a means of securing its eastern flank and preventing cross-border trafficking in weapons, persons, and narcotics. Additionally, Afghanistan is important to Iran in that Afghan territory provides a venue for low-cost sabotage of US interests. Still, fighting in Afghanistan poses a serious threat to Iran's national security, and Iran has an interest in seeing a stable, Tehran-friendly government emerge in Kabul.

Iran also faces major threats from drug smuggling across the Iranian-Afghan border, as well as problems from Afghan refugees and illegal workers. However, the 581-mile border Iran shares with Afghanistan may still present fewer problems than the Baluchi-inhabited border Iran shares with Pakistan. The Iranian-Afghan border is surrounded mostly by unpopulated desert. Iran's relations with Afghanistan are complex, sometimes highly localized, and often driven by external forces. Eastern Iran is less populated and less developed than the rest of the country, although its residents still enjoy a higher standard of living than their neighbors across the Afghan border.

Iran's Political Role in Afghanistan

Iran has reacted by establishing a significant presence in Kabul, and with the Hazara in various parts of Afghanistan. Experts disagree over the level of payment it has made to Afghan officials, leaders, power brokers and legislators – and its covert role during Iranian elections – but not that Iran has been active to some degree in trying gain political influence and to oppose a US strategic agreement with Afghanistan.

Iranian relations with Afghanistan have also taken the form of assistance through the Imam Khomeini Relief Committee (IKRC). The IKRC – with links to the Iranian government – has over 30,000 employees in Afghanistan, and the group reportedly “promotes Iran’s ideological and political goals and incites anti-American sentiments in Afghanistan.”³

Iran’s Quds Force is active throughout Afghanistan, not only in the west but also in the east. Depending on one’s perspective, their main purpose may be to counter Pakistani influence in Afghanistan as much as to undermine the US. The Quds Force maintains close ties with Shia Hazara militias, which have received weapons from Iran since the days of the Soviet occupation. The Hazara political groups made major gains in the 2010 parliamentary elections, possibly with the help of Iranian funding. If Afghanistan destabilizes significantly following 2014, Iran will likely provide increased and more open support to the Hazara, who could possibly form a semi-autonomous enclave in central Afghanistan.

Iran, the Taliban, and Insurgents

Iran’s relations with the Haqqani Network and other armed anti-American groups in Afghanistan are extremely limited. This is due in large part to the highly conservative Sunni ideology of the Haqqani Network and other Salafist militants, as well as their geographic concentration in regions of southeastern Afghanistan, far from the Iranian border. Additional evidence can be found in documents taken from the raid on Osama Bin Laden’s compound in Pakistan, which indicate that Tehran’s interaction with the remnants of Al Qa’ida was limited and hostile.⁴

Iran’s current relations with the Taliban are a source of some contention. Iran was hostile to the Taliban government in the 1990s, due in large part to the Taliban’s persecution of Afghan Hazara. The Taliban’s history of massacres of Hazara – as well as other atrocities committed against the Hazara during the Taliban’s rise to power – cemented the Taliban-Iran divide. The Taliban’s execution of Iranian diplomats at Mazar-e-Sharif prompted Tehran to mobilize troops along the Afghan border, although an invasion was averted with the help of UN mediators.

Still, despite this historic animosity, there has been speculation that Tehran sometimes aids Taliban-affiliated insurgents with training, arms, and financing as a way of putting pressure on the US and Afghan governments. Reports that insurgents in western Afghanistan have access to sophisticated arms such as SA-14 anti-aircraft missiles and EFP anti-vehicle mines point to possible Iranian involvement in the region.⁵ It is possible that the Iranian Revolutionary Guard Corps (IRGC) assists various factions that oppose the Karzai government, although there is no concrete evidence of such assistance. Any analysis of possible Iran-Taliban links should highlight the fact that if such links exist, they are primarily a function of Iran’s desire to hamper US efforts in Afghanistan, and have little to do with shared interests between Iran and the Taliban. Any conceivable Iranian collaboration with the Taliban – *if* it even exists – should therefore be viewed as a symptom, rather than a driver, of broader US-Iranian competition.

Iran, the Hazara, and Afghan Ethnic Groups

Iran's proximity to Afghanistan has created an opportunity for Tehran to develop relationships with various ethnic and religious minorities over the border. In particular, Iran maintains close ties to Afghanistan's Hazara, the ethnic group that makes up about 9% of the Afghan population and accounts for most of Afghanistan's Shia.⁶ There are strong religious, economic, and cultural links between Iran and the Hazara. During the Soviet invasion in the 1980s, Iran provided weapons and support to Hazara militia groups,⁷ and Iran continued to support anti-Taliban forces as the Taliban came to power in the 1990's.

In the Hazara-Pashtun divide – which continues to be the most intractable ethnic conflict in Afghanistan – Iran has supported the Hazara, some of which have strong ties to Iran. This Hazara support, however, does have limits. The Hazara Shia have not shown any broad support for the Iranian concept of a Supreme Leader. Some of the 3-4 million Hazara refugees in Iran have complained about Iranian discrimination.⁸ There are sharp differences between the main tribal factions, and Iran sometimes backed Tajik regional leaders against the Hazara in the 1990s. Iran has, however, sent aid teams to try to win Hazara influence, and al Quds advisors into Hazara areas, as well as other areas in Afghanistan.

In addition to the Hazara, Iran has supported Afghanistan's ethnic Tajiks, which make up some 27% of the population.⁹ The Afghan Tajiks were among those who most fiercely opposed the Taliban and benefited most from the US-led invasion. Along with the Pashtuns and other ethnic minorities, the Tajiks continue to jockey for power in post-Taliban Afghanistan. In this power struggle, Iran does not necessarily oppose a Pashtun-dominated central government in Kabul. Rather, Iran seeks a government that has pro-Iranian policies and can keep instability away from the Iranian border.

Iran's Role in Western Afghanistan

Iran has substantial trade and investment links in western Afghanistan, particularly in the region's most populous city, Herat. Iran's links to Herat date back to the Persian Empire and are reinforced by the city's relatively high concentration of Shia, which the UN puts at 25-30%.¹⁰ Tehran's most notable investment in the area is in railway construction: Iran began construction on its portion of the Herat-Khaf railroad in July 2006. Iran has also offered financing for new road infrastructure, power grids, schools, and mosques.¹¹

Moreover, the Iranians have hinted that they may at some point link the city of Herat to Iran via natural gas pipeline.¹² Despite these efforts, the Iranian presence in western Afghanistan is not always welcomed by Afghans. A protest in Herat in January 2011 against an Iranian fuel blockade, as well as statements from regional government officials, reflect a certain level of anti-Iranian sentiment in the region.¹³ The blockade led to a 60% jump in the cost of diesel in Herat. Increases were reported to be 35% in Kabul.¹⁴

Iran's influence is reported to have penetrated the religious, cultural, and economic facets of society in Herat. The Islamic Republic is believed to be spreading "fundamentalist" Shia values in the region through its influence over regional literature that promotes radicalization. At least one Shia mosque in Herat is reported to have encouraged violence against coalition forces, while also promoting fundamentalist cultural norms. The market in Herat is also said to be flush with Iranian goods.¹⁵

Iranian-Afghan Trade

More broadly, bilateral trade between Iran and Afghanistan is difficult to measure, as neither the Iranian nor the Afghan governments (nor, for that matter, the US government) can agree on a number in their public reports. A 2010 estimate from the European Commission put the figure at nearly \$11 million, while a 2010 statement from President Karzai claimed bilateral trade totaled more than \$1.5 billion.¹⁶ Iran ranks itself as Afghanistan's fifth-largest trade partner, although this is not supported by CIA data.¹⁷

Regardless of the actual figure, it is clear that bilateral Iran-Afghanistan trade flows are sharply in Iran's favor. Trade flows from Iran to Afghanistan dwarf those from Afghanistan to Iran, giving Tehran substantial economic leverage over Kabul. Notably, Afghanistan meets nearly half of its demand for fuel with Iranian imports.¹⁸ This one-way dependence has occasionally led Iran to halt fuel exports to Afghanistan, probably in an attempt to retaliate against the US for its role in tightening international sanctions.

Water Issues

Access to water has become an issue between Iran and Afghanistan that could become a flash-point. The completion of the Kamal Khan Dam on the Helmand River has been a source of concern for Iran as the dam may severely limit the flow of water to Sistan and Baluchistan Province in Iran. Conversely, while Iran has provided water via pipe to Nimroz – a deal which was struck on a pro-bono basis at a time when the province was plagued by drought – many in Afghanistan believe the supply of water through the pipe is too low.¹⁹

Narcotics and Border Security

Border security is a major concern for Iran in its relations with Afghanistan. The UN estimates Afghanistan's share of worldwide illicit opium production at 90%,²⁰ and there are indications that opium production has increased since the US-led invasion. Almost all Europe-bound Afghan opium passes through Iranian borders, which has led not only to violence between drug traffickers and Iranian border guards, but also an extremely high prevalence of heroin addiction within Iran.

This region-wide problem has encouraged trilateral collaboration between Iran, Afghanistan, and Pakistan with regard to counter-narcotics operations and intelligence sharing.²¹ Much of Afghanistan's opium production occurs in its rural southwest provinces of Farah and Nimroz, both of which border Iran. The UN estimates that poppy cultivation in Farah rose by 20% in 2011,²² a sign that trafficking along the border is likely to continue despite heavy border controls enacted by Iran. At present, drug trafficking is a serious point of friction in Iranian-Afghan relations, and the Afghan central government shows little promise of becoming capable of reigning in opium production in the near future.

In addition to drug trafficking, Afghan migration to Iran is another important transnational issue shaping Iran-Afghan relations. The flow of Afghans to Iran has been driven by work opportunities in Iran and outbreaks of conflict. Iran saw the migration of Afghan laborers into what was then Persia during the 19th century, as well as in the 1970s as oil wealth drew in Afghan labor. During the Soviet invasion, migration continued as in excess of three million Afghans crossed the border through 1990.²³ Today, there are believed to be roughly 2.4 million Afghans living in Iran, with several thousand illegal border crossings annually as Afghans continue to seek employment opportunities in Iran.²⁴

Afghan Migration

Migration from Nimroz province in Afghanistan is said to be facilitated by Baluchis residing in Afghanistan, Pakistan, and Iran. Direct trafficking from Nimroz to Iran is restricted by an Iranian wall along the border. As a result, trafficking is now routed from Afghanistan into Pakistan, and then to Iran. Also deterring direct migration is the fact that Iranian border security has violently cracked down on migrants. An October 2012 *New York Times* article referenced allegations that Afghan migrants were being shot by Iran's border police when attempting to cross from Nimroz.²⁵

In May 2013, it was claimed that 10 or more Afghans were shot by Iranian officials attempting to illegally migrate – which prompted the Afghan Foreign Minister to call upon the Iranian Ambassador.²⁶

Problems stemming from migration are not new to the Iran-Afghanistan relationship. In May 2007, it was reported that 36,000 had been forced from Iran back to Afghanistan – over half of which were from Zabol near the Iran-Afghanistan border.²⁷ In March 2008, the situation grew more tense as the Iranian government warned it would force all illegal Afghan refugees – which at the time were believed to number in excess of one million – from the country.²⁸

In the same month, a number of Afghan migrants were hung in Iran under the belief they were involved in drug trafficking. Iran claimed it killed six Afghans, while Afghans believe around 50 may have been executed. These hangings and the questionable nature of the criminal proceedings has prompted criticism from the Afghanistan Independent Human Rights Commission as well as the Afghan public, which materialized in protests at the Iranian Embassy in Kabul.²⁹ Three more hangings of Afghans involved in the drug trade were reported in June 2012, again raising questions about whether accused Afghans have access to a fair trial.³⁰

The migration issue has been used by Iran as a means to coerce Kabul to pursue policies that are consistent with Iranian interests. For example, in an effort to derail a US-Afghan security agreement in the spring of 2012, Iran claimed it would force Afghan laborers and refugees out of the country if the Afghan government supported the agreement.³¹

Iran's ability to use refugees as an instrument of soft-power against Afghanistan has not diminished. According to the UN High Commissioner for Refugees (UNHCR), there were a total of 818,990 Afghan refugees and asylum-seekers in Iran in January 2013 – up from 797,170 just a month prior,³² though below 840,920 reported in 2011.³³ However, Iran's ability to achieve strategic objectives through such coercion is questionable. Despite its warning that it would force out Afghan migrants over a security agreement with the US, Afghan officials – including the speaker of the upper house of Parliament – criticized Iran for its blatant attempt at coercion,³⁴ and the agreement was eventually supported by President Karzai and ratified by the Afghan Parliament.³⁵

Perhaps on issues of narrower scope, Iran may be able to successfully coerce Kabul by pushing the refugees and migrants out of Iran and back into Afghanistan. However, when it comes to matters of national security, it does not appear that such warnings could produce the kind of capitulation from the Afghan government that Tehran seeks.

Iran's Evolving Interests in Post-Transition Afghanistan

"I do not think this [Afghan] government can succeed unless Iran is at the table... Although there is some animosity toward the Iranians, it is far less than any animosity shown toward Pakistan and perhaps America." -Advisor to Afghanistan's President Karzai, quoted in a PBS Frontline report in August 2010.³⁶

Iran's relations with the Afghan central government have been improving in recent years – although sometimes because Iran is willing to make payments to senior Afghan officials and leaders. Tehran and Kabul enjoy a generally cordial partnership. As neighbors, Iran and Afghanistan share a national interest in expanding diplomatic and economic ties, and especially in improving border security and counter-narcotics operations. President Karzai's influence is bolstered by Iranian support, and Iran sees a strong Afghan central government as in its best national interests.

President Karzai and the Afghan parliament rely on support from various foreign influences – especially Pakistan, the US, and Iran because of the fragmented and localized power base of the Afghan central government. Although the US has been Afghanistan's greatest financial backer by several orders of magnitude, it is also geographically the furthest from Afghan territory. Iran, on the other hand, represents an interest that will never be far from Kabul. Tehran's efforts to influence Afghan politics have at times been subtle, but will likely continue indefinitely and may well expand significantly in a post-US Afghanistan.

One example of Iran's ongoing attempts to influence Afghan politics is in the form of less-than-transparent aid to President Karzai and other Afghan officials. It was revealed in 2010 that Iran makes cash payments to Karzai's office, as well as the offices of several members of parliament and provincial officials. When asked about these payments at a press conference, President Karzai openly admitted that Iran provides anywhere from 500,000 to 700,000 Euros to his office "once or twice a year," and that Afghanistan "will continue to ask for cash from Iran."³⁷ President Karzai described these payments as official aid, and stated that Afghanistan had received similar payments from the US in the past – a claim that was later confirmed by a US State Department spokesman.³⁸

It should be noted that as the story of the informal payments to President Karzai unfolded, it became evident that there was a disconnect within the Iranian government regarding the payments, and that certain elements of the Iranian government had been unaware of the aid. The Iranian embassy in Kabul initially denied the allegations, while members of the Iranian parliament criticized the lack of transparency in President Ahmadinejad's administration and demanded he be brought before a hearing.³⁹ Such a reaction not only points to internal divisions in Tehran, it indicates that other Iranian policies regarding Afghanistan – such as providing assistance to anti-government factions – could easily be the result of covert or rogue elements of the Iranian government.

Controversy over informal aid notwithstanding, Iran is almost certain to continue its assistance to Afghanistan through 2014 and beyond. In general, Iran's broad interests in Afghanistan are in line with the interests of the US and the international community; that is, Iran would prefer a stable, secure, non-extremist state on its eastern border.

However, Iran remains suspicious about the long-term US intentions in Afghanistan, and Iran has often prioritized sabotaging US efforts over encouraging Afghan stability. Confronting the US has occasionally led Iran to back various militias or insurgent groups, although overall, Tehran views supporting the current Afghan government as being in its best interests. It should

be remembered, however, that events outside Afghanistan are the primary driver of Iranian policy with regard to ISAF and its efforts. Competition between Iran and US troops in Afghanistan is almost certain to increase if there is a major incident such as a confrontation in the Gulf or a strike on Iranian nuclear facilities.

Tehran is also concerned about what shape the US security relationship with Afghanistan will take post-2014. The presence of US forces at Shindand Air Base, not far from the Iranian border, and the prospect of US bases and troop deployments in Afghanistan after 2014 is troubling to Iran's leadership. As recently as May 2013, the Iranian Foreign Minister expressed concern with a future US military presence, suggesting that the US not maintain bases in Afghanistan going forward.⁴⁰

The US military presence at Shindand Air Base comprises of the US 820th Special Forces Group and 838th Air Expeditionary Group, in addition to the alleged operation of CIA drones used for Iranian over-flights.⁴¹ In December 2011, once such drone flight was reportedly commandeered by Iran.⁴² This base is less than 80 miles from the Iranian border,⁴³ and for obvious reasons can be perceived as a national security risk for Iran given the alleged over-flights and the field's large air lift capabilities.⁴⁴

It is also important to note that various experts feel that there are often direct ties between the Afghan officials and aid teams in Afghanistan and the al Quds Force, and feel that Iran could use the Quds Force to trigger attacks on US troops.⁴⁵ Both Hazaras and other Afghans have also supported the broader Quds movement in support of the Palestinians, and held rallies in support of Al Quds Day in August 2012.⁴⁶

Barring this kind of major external confrontation between Iran and the US and its allies, Iran's policy in Afghanistan will depend on how the Afghan security situation evolves after Transition. If the Afghan central government succeeds in preserving a functional level of control over the country, Iran will likely continue to provide support to Kabul. However, if conflict increases after ISAF withdraws or the central government loses control over a significant portion of the country, Iran may decide to openly support anti-government factions or other powerbrokers.

Implications for US Policy

Iran is only a peripheral factor in shaping future US policy towards Afghanistan. It is unclear that a corrupt and aid-dependent government in Kabul will be able to control all of Afghanistan's territory after ISAF withdraws, and that a stable, negotiated settlement with the Taliban or the Haqqani Network is not a near-term possibility. Power structures in Afghanistan may well become decentralized after 2014, probably falling along ethnic and geographic lines. In this future environment, US policymakers will have to prioritize US national interests in Afghanistan and be realistic about what is achievable. Particularly in the context of the death of Osama bin Laden, rising fiscal constraints, and a domestic electorate increasingly apathetic to the NATO mission, the US will likely be forced to more narrowly define its strategic interests in Afghanistan.

Iran will also be reevaluating its interests in Afghanistan post-2014. After US-led forces withdraw, Iran's actions in Afghanistan are likely to be heavily shaped by whether its confrontations with the US in the Gulf and other areas create a new crisis in US-Iranian relations. If they do, Iran may try far harder to challenge any remaining US presence in Afghanistan.

If not, Iran seems most likely to take pragmatic steps to promote an Iran-friendly government in Kabul, and promote an Iran-friendly regional coalition in western Afghanistan. Future Iranian strategic interests in Afghanistan are then likely to remain centered on promoting security and stability, and combatting trafficking over their shared border. Iran also, however, may try to increase Iranian influence as Western aid workers leave and ISAF's Regional Command West (Herat, Farah, Badghis and Ghor provinces) either ceases to exist in 2014, or becomes so small that Afghan's in central and northwestern Afghanistan increasing turn to neighboring powers like Iran. Ghor province has a large Hazara population and Herat has a significant Hazara minority.

While the current international environment makes reaching the level of US-Iranian cooperation seen at the 2001 Bonn Conference unlikely, it may be possible for the US to allow Kabul to develop closer links with Tehran. The influence of Iran – if it helped promote stability or combat terrorism – might not run counter to long-term US interests in Afghanistan.

Covert operations by Iranian entities like the Quds Force will, however, continue. If Iran comes into conflict with the US – perhaps through direct confrontation – they may both increase and target remaining US diplomats, aid workers, and forces – although their future impact on the Afghan political and security situation is difficult to predict.

It must be emphasized that the level of US-Iranian competition in post-Transition Afghanistan will be determined by external – not internal – circumstances. As discussed above, a crisis in the Gulf or an escalation of tensions regarding Iran's nuclear program would have a major impact on US-Iranian competition around the world, and Afghanistan could easily become one of the venues. In such a case, Iran might more openly back anti-American forces in Afghanistan or even attempt a more direct confrontation. However, in the event of an external crisis, Afghanistan will provide a backdrop – not a driving force – to escalating US-Iranian tensions.

Much also depends, however, on the real world course of US plans for transition. As of May 2013, the US had not announced clear plans for either the strategic posture it intended to maintain through the end of 2014, or the posture it intended to maintain in Afghanistan after Transition. It seemed likely that the US would continue to support Afghanistan well beyond 2014, but it was far from clear whether it would provide all of the forces and funds Afghanistan needed.

In part this mix of delays and ambiguity reflected the reality that the US commitment to Afghanistan cannot be open-ended. It must be “conditions based.” It must depend on the outcome of a highly unstable political situation, the outcome of a 2014 election if it occurs, the outcome of possible peace talks with the Taliban, and the future degree of Afghan political unity in support of the government. It must depend on how well the Afghan national security forces can deal with the insurgents, and on how robust the Afghan economy is dealing with cuts in military spending and aid.

The future US strategic role in Afghanistan should be seen as optional. The US should be prepared to support Afghanistan if it takes the right decisions, and if it clearly seeks US help and use it effectively. It should be prepared to leave or cut its commitment to the minimum if Afghan leaders fail to govern effectively and create the condition where the US can be effective. At the same time, this means giving Afghanistan's leader enough US support so that they can succeed if they take the right decisions, and working with ISAF allies and donors to ensure they have that support through at least 2018.

Pakistan

Pakistan faces many problems that are far more serious than US-Iranian competition, its involvement in Afghan conflict, and the tensions and local Islamist threat in the FATA and Baluchistan. These include the threat from India and decades of failure in making lasting improvements in India-Pakistani relations; deep internal sectarian ethnic tensions that sometime lead to terrorism and violence, problems with outside Sunni Islamist extremists, and the spillover of the Taliban and the Afghan civil war into Pakistan's FATA tribal areas and Baluchi regions.

Economic development has been limited in recent years, and has left most of the country's 177 million people impoverished and created more problems for a young population where youth faces critical problems in terms of unemployment, and under employment. Hyperurbanization, floods, growing tensions with internal Sunni religious extremists and Sunni versus Shi'ite clashes, have added to these problems.

They have been further compounded by deep government corruption, a family and regionally oriented part system, and a military with a long history of seizing political power that has not proved successful in counterinsurgency operations. The government has failed to modernize health, education, and infrastructure. The agricultural sector still has strong feudal elements, and the government does more to inhibit economic development in other sectors than to encourage it.

The election in the spring of 2013 has kept Pakistan's democracy alive, and elected leaders that say they support economic development, but also political factions that ram for office without opposing the Afghan or Pakistani Taliban and who were critical of the US role and use of drone strikes in the fight on terrorism. It is all too clear however, that Pakistan faces internal challenges, and regional pressures that will continue to present serious stability and security problems and that are likely to ensure that US and Iranian competition will only have a limited affect.

The scale of these pressures is apparent in a wide range of official reporting, and in World Bank and CIA summaries of Pakistan's current level of stability. These summaries also provide an important counterbalance to a narrow focus on US and Iranian competition both for Pakistan and for the countries in Central Asia.

The World Bank summarizes the current situation in Pakistan as follows:⁴⁷

Pakistan faces significant economic, governance and security challenges to achieve durable development outcomes. The persistence of conflict in the border areas and security challenges throughout the country is a reality that affects all aspects of life in Pakistan and impedes development. A range of governance and business environment indicators suggest that deep improvements in governance are needed to unleash Pakistan's growth potential.

...Pakistan has faced significant political, economic and constitutional challenges over the past five years. These include continuing pressures of coalition politics, militancy crises, sectarian tensions and consequent violence in many parts of Pakistan, recurring natural disasters like the 2010 and 2011 floods, implementation challenges of devolution of increasing responsibilities to the provinces, and a difficult economic situation. In the recent months, political tensions and uncertainty had increased ahead of general elections, which are scheduled to be held on May 11, 2013. Nevertheless, the democratic process has proved resilient over the past five years.

... Pakistan's economy continued to underperform. There was no improvement in the security situation; political tensions have grown in anticipation of elections; there was no abatement in energy crisis, which continued to dampen the growth prospects and impacting the fiscal situation (the fiscal deficit increased to the 8.5% of GDP in FY12 – the highest level in two decades; the monetary financing of the deficit kept

inflation in double digits; tax collection improved but was mainly due to delay in release of \$1.9 billion of Coalition Support Fund (CSF) by the US administration; external vulnerabilities increased with the current account deficit rising to 2% of GDP; exports declining by 3%, while imports increasing by 12%. Capital inflows continued to be weak while debt-servicing liabilities, including those to IMF, continued to mount; net foreign exchange reserves of State Bank of Pakistan declined by \$6 billion; and the rupee depreciated by almost 12% during this period. Faced with such a gloomy scenario, economic growth at 3.7% in FY12 showed the economy's remarkable resilience. This was partly a result of a strong increase in private consumption related to robust increase in workers' remittances (18%).

Progress in human development remains slow and at the current rate of progress, it will be difficult for Pakistan to meet the MDG targets on health and education by 2015. Net Enrolment Rates in education kept increasing, but still lag behind other South Asia countries. Infant and under five mortality rates showed a similar story. Gender disparities persisted in education, health and all economic sectors. Pakistan has one of the lowest female labor force participation rates in the region. Nutrition also remained a significant challenge, as 44% of children under five are stunted. Overall, the resource allocation as a percentage of the GDP remained low, ranking Pakistan among the lowest spenders on education and health in the region (at about 2% of GDP).

Poverty gains of over the past decade have been impressive but difficult to sustain. Pakistan saw a decline in poverty trends, with the poverty rate falling from 34.5% in 2001/02 to an estimated 17.2% in 2007/08. Over the past few years there have been signs that poverty levels may have further decreased, despite the downturn in the economy, floods and inflation. These gains might have been supported primarily through remittances, faster than expected recovery of the agricultural output and exports following the floods, a broader-based economic growth, and strengthening of, and greater funding for, social safety nets programs. While Pakistan's overall level of inequality remains steady and relatively low compared to other developing countries, some of the volatile border regions and some rural areas within the other provinces have a higher than average level of poverty.

The CIA provides the following summary of the economic and demographic challenges Pakistan now faces.⁴⁸

Decades of internal political disputes and low levels of foreign investment have led to slow growth and underdevelopment in Pakistan. Agriculture accounts for more than one-fifth of output and two-fifths of employment. Textiles account for most of Pakistan's export earnings, and Pakistan's failure to expand a viable export base for other manufactures has left the country vulnerable to shifts in world demand.

Official unemployment is under 6%, but this fails to capture the true picture, because much of the economy is informal and underemployment remains high. Over the past few years, low growth and high inflation, led by a spurt in food prices, have increased the amount of poverty - the UN Human Development Report estimated poverty in 2011 at almost 50% of the population. Inflation has worsened the situation, climbing from 7.7% in 2007 to almost 12% for 2011, before declining to 10% in 2012.

As a result of political and economic instability, the Pakistani rupee has depreciated more than 40% since 2007. The government agreed to an International Monetary Fund Standby Arrangement in November 2008 in response to a balance of payments crisis. Although the economy has stabilized since the crisis, it has failed to recover. Foreign investment has not returned, due to investor concerns related to governance, energy, security, and a slow-down in the global economy.

Remittances from overseas workers, averaging about \$1 billion a month since March 2011, remain a bright spot for Pakistan. However, after a small current account surplus in fiscal year 2011 (July 2010/June 2011), Pakistan's current account turned to deficit in fiscal year 2012, spurred by higher prices for imported oil and lower prices for exported cotton. Pakistan remains stuck in a low-income, low-growth trap, with growth averaging about 3% per year from 2008 to 2012.

Pakistan must address long standing issues related to government revenues and energy production in order to spur the amount of economic growth that will be necessary to employ its growing and rapidly urbanizing population, more than half of which is under 22. Other long term challenges include expanding investment in education and healthcare, adapting to the effects of climate change and natural disasters, and reducing dependence on foreign donors.

The US has sought to improve its relations with Pakistan in an effort to create a partnership that will help ensure regional stability, limit the proliferation of nuclear weapons curb Islamic terrorism, and deny the Taliban and other Afghan insurgent movements sanctuary and support. It has provided Islamabad with military assets including intelligence, surveillance, and reconnaissance (ISR) aircraft, transport aircraft, F-16 fighter aircraft, attack and multi-role helicopters, Stinger surface-to-air missiles (SAMs), a frigate, and a destroyer.⁴⁹ Military and economic aid appropriations from Washington exceeded \$24 billion from FY2002-FY2012.⁵⁰

Iran on the other hand has engaged Pakistan in limited efforts to further develop economic and energy ties. In the case of both relationships, Islamabad's perceived links to terrorist organizations has brought tension to relations and animosity toward the Pakistani central government.

Future relations between the US, Iran and Pakistan will be heavily influenced by Islamabad's support – whether perceived or real – of terrorist organizations and extremist elements, and its policies in Afghanistan and in dealing with the Afghan Taliban and other Afghan insurgents – particularly Al Qa'ida, the Taliban, and the Haqqani Network. Iran sees Sunni Islamist extremist groups as a threat, but also as a tool that Iranian covert operations can sometimes used against the US. Iran is concerned, however, with what it feels is Pakistani support, whether tacit or overt, for the Baluch Jundullah militia.

Both Iran and the US share an interest in ensuring Pakistan does not facilitate the return of a Sunni Islamist regime in Afghanistan under the Taliban, but Iranian is only a peripheral player in Pakistani politics, and the US is broadly unpopular with many of Pakistan's leaders and politicians, media, and people.

As is discussed in the following section on India, Iranian energy exports may be more of an issue in the future. Iran and Pakistan already trade electricity, with Iran providing electricity exports to Baluchistan province in Pakistan.⁵¹ While Pakistan is reported to be seeking another 1,100 MW in Iranian electricity,⁵² Iran was only providing Iran with 70MW as of February 2012⁵³ – a mere fraction of the 1,000 MW Iran agreed to provide in 2008.⁵⁴

Reporting from May 2013 suggests that Iran was looking to export some \$3 million monthly of electricity to Pakistan's Baluchistan province. In an effort to circumvent financial sanctions against Iran, it is reported that Pakistan will be exporting wheat – which is exempt from sanctions – to Iran in exchange for the electricity. Pakistan is expected to export 100,000 tons of wheat to Iran in May 2013 in exchange for \$53 million worth of electricity that Iran exported up until early 2013. A total of one million tons of wheat is expected to be transferred to cover the \$53 million.⁵⁵

The Impact of Growing US-Pakistani Tension

Ties between Washington and Islamabad date back to the establishment of Pakistan as a state in 1947, but have changed drastically in nature over time and have been jeopardized by periodic episodes of high tension triggered by conflicting security policies. While military assistance ties between the US and Pakistan flourished during the Cold War, this relationship was uprooted in the 1990s due to Islamabad's pursuit of a nuclear weapon. The advent of the war on terrorism served as another catalyst in US-Pakistan relations as the US and Pakistan agreed to jointly fight the proliferation of terrorism – culminating in Pakistan attaining in 2004 the status of Major Non-NATO Ally.⁵⁶

The declared goal of US relations with Pakistan through the war on terror has been on “the creation of a more stable, democratic, and prosperous Pakistan actively combatting religious militancy.”⁵⁷ The reality, however, has been constant US and Pakistani tension over Pakistan’s efforts to maintain influence in Afghanistan, compete there for influence with India, and support elements in insurgent forces like the Taliban and Haqqani Network as a way of hedging against the future and gaining influence in the east and south.

The end result has been an uncertain US-Pakistani alliance with steadily growing tensions, and growing Pakistani popular hostility to the US over issues like US drone strikes in Pakistan and what many Pakistani’s see as US-inspired unrest and tensions in the FATA areas of Pakistan. A mixture of US pressure and US aid has limited these tensions. While there are expected to be year-over-year reductions in US support from FY 2012 to FY 2013, Washington is reported to have roughly \$24 billion in appropriated support for Pakistan in the past 11 years.⁵⁸

Both countries now need each other in spite of these tensions and their different strategic goals. Pakistan is a recipient of considerable US support, and the US is the destination for more Pakistani exports than any other country.⁵⁹ As for the US, Pakistan will remain a critical transit country for materiel traveling to and from Afghanistan through at least the end of 2014, and plays an important role in US efforts to contain both Islamic extremism and nuclear proliferation.

Just as Islamabad’s nuclear pursuits once served as a point of tension in the 1990s, the Pakistani government’s covert relationships with Afghan insurgents throughout the Afghan conflict have served as more current flash points in US-Pakistani relations. Several events in 2011 contributed to the overall tension between the two states:

- **January 27, 2011** – A contractor with the CIA mortally shoots two Pakistanis in Lahore in what was characterized as a response to an attempted robbery. He was held in Pakistan for nearly two months until the US vowed to pay \$2.3 million for the shootings.
- **May 2, 2011** – Osama bin Laden is killed in Abbottabad – a town with deep ties to the Pakistani security establishment – by US forces.
- **July 2011** – US puts hold on up to \$500 million in military assistance to Pakistan.
- **September 2011** – US Chairman of the Joint Chiefs of Staff, Admiral Michael Mullen, states that Pakistan is aiding anti-US insurgents in Afghanistan.
- **November 26, 2011** – US troops in the vicinity of the Afghan/Pakistan frontier are fired upon from Pakistani bases, resulting in a NATO airstrike on the bases that killed 24 Pakistani servicemen. NATO was denied access to supply roads through Pakistan as a result of the incident.⁶⁰

Pakistan has seen the US role in the Afghan War as destabilizing its northwestern and Baluchi border areas, creating growing problems with its own Islamists, helping India establish a strategic presence in Afghanistan, favoring Afghanistan in border tensions and disputes, and pressuring it and using force in Pakistan in ways that threaten Pakistan’s sovereignty.

US “drone” strikes and the US raid into Pakistan that killed Bin Laden have been key issues. Although many of the unmanned combat aerial vehicles (UCAVs) strikes in Pakistan hit targets selected by the Pakistani government or coordinated with it, Pakistan has always taken the position that it opposes any foreign military presence or used of force. Pakistani officials have capitalized on the unpopularity of such strikes and estimates of the civilian death toll from such attacks range from 145-535.⁶¹

Moreover, the Pakistani government has been reluctant to address the Haqqani Network's presence in North Waziristan agency, and Pakistani intelligence has maintained tie to the Afghan Taliban. The Haqqani Network has targeted US interests in Afghanistan repeatedly – such as through the June 2011 attack on the Intercontinental Hotel in Kabul, and the September 2011 attacks on a US base in Wardek and the US Embassy in Kabul.⁶² Taken together, these issues and trends have led to the erosion of US-Pakistani relations in recent years.

Iranian-Pakistani Relations

Despite the Sunni-Shia differences between Iran and Pakistan, the two states have maintained “correct” to “good” relations since the creation of the Pakistani state and through the 1979 Islamic Revolution in Iran. Tehran was the first capital to establish relations with the Pakistani state, and the relationship was strengthened in 1950 when the two countries entered a Treaty of Friendship.⁶³

Iran and Pakistan maintained positive ties in the decade following Iran's Islamic Revolution, particularly in the context of the Iran-Iraq War. Although the conflict pitted the Shia Islamic Republic against a Sunni state, Islamabad distanced itself from the confrontation – even as the Sunni leadership in Riyadh and Washington looked to garner Pakistani backing for Baghdad.⁶⁴ While Sunni solidarity between Islamabad and Baghdad was not forthcoming during the war, other issues in the post-revolution era added to tensions in the relationship. For one, Tehran was skeptical of Islamabad's close relationship with Washington. Perhaps more significantly, the 1979 revolution in Tehran served as a catalyst prompting considerable bloodshed between Pakistan's Sunni and Shia communities in the two decades following the revolution.⁶⁵

The 1990s were positive, but developments in Afghanistan gradually became a source of tension between the two states. The Pakistani-backed Taliban posed challenges to Tehran as the Afghan Hazara – a key Iranian interest in Afghanistan – became a target of Taliban violence. Pakistan's links to the Taliban and the implications this has on Iranian interests in Afghan stability continues to be a key issue in the Tehran-Islamabad relationship. However, while tensions mount between the US and Pakistan – particularly over divisive issues such as alleged Pakistani state support for Al Qa'ida and US drone strikes and counterterrorism activities in Pakistan – Islamabad has recently pursued closer links with Tehran as the relationship with Washington wanes.⁶⁶

Iran's relationship with Pakistan will continue to be influenced by the volatile nature of Islamabad's relationship with Washington, as well as by the degree of tensions between the US and Iran. Perceptions of Pakistani state support for Al Qa'ida or other Islamic militant groups could very well continue to add tension to the US-Pakistan relationship.

As the US carries out its withdrawal from Afghanistan and cuts its aid to Pakistan, Islamabad may be drawn closer to Tehran's orbit – a development that could be welcomed by Tehran as it struggles to cope with the international isolation triggered by its nuclear program and the weakening of its Syrian ally.

On the other hand, Islamabad's support for violent Islamist groups could prove detrimental to relations with Tehran. If the Taliban were to contribute to the destabilization of western Afghanistan – where Iran has made considerable efforts to promote development and security – Iran may grow to view Islamabad with increased hostility. By the same token, perceived links between the Pakistani government and the Jundullah militia in Iran could further erode bilateral ties if the group were to continue hostilities against the Iranian government.⁶⁷

The Baluch and Other Regional Issues

Links between Pakistan and extremist groups that threaten stability both inside and outside Iran have been a source of tension between Iran and Pakistan in the past, and may drive the two countries further apart in the future. In particular, Pakistan's alleged links to the Baluch Jundullah militia and relationship with the Taliban have been troublesome to Iran given the violent acts both groups have committed against Iranian forces in Iran's Sistan and Baluchistan province and against Iranian interests in Afghanistan, respectively. Continued Pakistani links to these organizations – whether real or perceived – can drive a wedge between Iran and Pakistan, as they have in the past.

Iranian security in the southeastern Sistan and Baluchistan province has been jeopardized over the past several years by the Jundullah militia – a group seeking “to ‘protect the national and religious rights of the Baluchis and Sunnis in Baluchistan province.’”⁶⁸ While Iran is a mostly Shia country, the up to two-million strong Baluch community in Sistan and Baluchistan is mostly Sunni; the province is plagued by what RAND describes as being “economically backward,” and the Iranian government has tended to act less than favorably toward the Baluch population.⁶⁹ Despite the regional focus, the militia does not have separatist ambitions. There is speculation that transfers of weapons and drugs have been a means of support for the group.⁷⁰

The Jundullah has actively planned and executed terrorist activity in the Sistan and Baluchistan province, particularly since 2009 when the group is believed to have been behind assaults against elite government security personnel. Iranian officials also believe that there is a Pakistan nexus to Jundullah – Pakistan itself having a Baluch population of over 6 million.⁷¹ Iran sealed its border crossing with Pakistan in the wake of one attack in 2009, and it was not until March 2010 that the Iranian government lifted restrictions on the border following Pakistani vows to better protect the vicinity.⁷² For its part, the Pakistani government has also claimed that it provided support for the arrest of the top Jundullah terrorist, Abdolmalek Rigi.⁷³ Reporting suggests that as of 2012, Jundullah was still active and working towards further attacks in Iran.⁷⁴

Sunni-Shia Issues

The religious composition of both Iran and Pakistan create a natural fault line between Sunni and Shia identities. While Iran is 89% Shia and 9% Sunni,⁷⁵ Pakistan is 75% Sunni and 20% Shia.⁷⁶ Pakistan's major Sunni-Shia fault line can be traced back to the rule of General Muhammad Zia ul-Haq, who facilitated the growth of violent, predominantly Sunni Islamist movements in 1979 – movements whose growth was fueled by the United States and Saudi Arabia at a time when the Soviet Union began its siege on Afghanistan. Iran's Islamic Revolution also helped fuel the development of the Shia Tehrik-e-Jafaria party and terrorist group, which is reported to have committed violence against Sunnis.⁷⁷

Several terrorist attacks within Pakistan since 2009 had targets that imply they had sectarian, anti-Shia motives. Shia pilgrims were attacked in fall 2001, while Shia gatherings were likewise attacked in January and December of 2009 as well as 2010 and 2011. It is believed that the Lashkar-e-Jhangvi organization has facilitated much of the attacks against Shia in Pakistan.⁷⁸ Another organization, Sipah-e-Sahaba, is believed to be responsible for over 3,600 deaths through sectarian attacks.⁷⁹

Another facet of Sunni-Shia tensions has played out in Bahrain – a kingdom with a Sunni monarch and what is believed to be a predominantly Shia populace subjected to unfair policies.

An uprising against the government of Bahrain that began in 2011 is perceived by the kingdom's leadership to be driven by Iranian support for Bahrain's Shia community.⁸⁰ Iran's relations with Bahrain are complex, as there is a perception in Iran that the island is rightfully part of Iran, although the Iranian government under the Shah facilitated Bahrain's gaining its sovereignty over 40 years ago.⁸¹

On the other hand, Bahrain's security forces have become a source of employment for many Pakistanis, including former members of the Pakistani armed forces. It is believed that there may be roughly 40,000 Pakistanis working in Bahrain's security organizations – a development viewed negatively in Tehran.⁸²

The decades-old Sunni-Shia rift in Pakistan, as well as the tense situation within Bahrain – which is anticipated to remain tense⁸³ – will undoubtedly impact relations between Islamabad and Tehran in the years ahead. While Iran's political and economic ties to Pakistan are crucial – particularly as Iran becomes more and more isolated as a result of its nuclear program – sectarianism remains a key theme that could drive these two states apart if violence between Sunnis and Shias becomes significant. Pakistan's proximity to Iran and Iran's role as the safeguard of Shia could prompt serious divisions between the two states if Pakistan's Shia continue to be targeted by groups like Sipah-e-Sahaba.

Nuclear Issues

While most Sunni states have expressed grave concern about Iran's nuclear program and the prospects of weaponization, Pakistan has been supportive of Iranian nuclear developments on multiple fronts. For one, the Pakistani government as well as the notorious A.Q. Khan proliferation network have provided technical support to nuclear development in Iran.

As early as 1987, Pakistani officials entered a partnership with Iran on the transfer of nuclear knowledge from Pakistan to Iran, while A.Q. Khan agreed to provide \$3 million in “centrifuge technology.”⁸⁴ This relationship on nuclear development – including alleged transfers of centrifuges and material for centrifuges from A.Q. Khan – continued through the 1990s, and in 2004, Khan admitted to supporting the Iranian nuclear program. A Congressional Research Service report stated that the Pakistani military must have been complicit in the A.Q. Khan transfers given presumed military safeguards against nuclear technology and personnel.⁸⁵

Implications for US Policy

The coming cuts in the US presence in Afghanistan and US aid to Pakistan may bring Iran and Pakistan closer together, presenting challenges to US policy. However, the degree to which Iran and Pakistan can develop a relationship that seriously affects US interests seems limited. Neither Iran nor Pakistan is a major trading partner with the other, while the US is Pakistan's largest export market. Additionally, since Pakistan has ocean access via the ports of Karachi and Gwadar, it need not depend on Iran for the transshipment of its exports the way several of the Central Asian states do.

While Tehran hopes to expand its energy exports by developing a natural gas pipeline linking Iran with Pakistan (see below for greater detail), these plans will remain highly speculative barring an easing of sanctions on Iran, enhancements in Pakistan's energy sector, and the stabilization of Baluchistan province in Pakistan. It does not appear that achievements of any of these areas are forthcoming. These realities define the limits of Iran-Pakistan relations, and thus limit the implications on US policy of improved relations between the two states.

The Pakistani government and the A.Q. Khan network were key players in providing Iran the information and technology needed to develop its nuclear program. While the Khan network has been the subject of inquiry since 2004, there is still ambiguity as to whether actors in the former network are still at work⁸⁶ – especially considering Khan is no longer under house-arrest and none of the other Pakistanis involved were ever criminally prosecuted. The Congressional Research Service has shed light on this risk, stating “[...] analysts warn that parts of the network may still be intact. While most analysts and U.S. officials believe Pakistan’s nuclear security is much improved in recent years, there is ongoing concern that Pakistan’s nuclear know-how or technologies remain prone to leakage.”⁸⁷

Given the Pakistani government’s reluctance to punish A.Q. Khan and his network, one cannot rule out a more lax Pakistani policy toward nuclear proliferation if Islamabad’s relations with Washington deteriorate further while ties with Tehran deepen.⁸⁸

The withdrawal from Afghanistan can further impact US-Pakistani relations in a number of ways. For one, it is unclear how the withdrawal will impact the frequency of US drone strikes within Afghanistan. At the very least, the presumable absence of US troops along the Afghanistan-Pakistan frontier will in itself reduce the likelihood that another border incident – such as the one seen in November 2011 – occurs again.

A reduction in tensions along the Afghan border and of drone strikes could help improve US-Pakistani relations. However, once the withdrawal is complete and there is no longer a need to use the NATO logistics route running through Pakistan, the US will no longer have a key incentive to ensure mutually beneficial relations with Islamabad.

It is unclear how these variables will impact US-Pakistani relations post-withdrawal as the details of the US commitment to Afghanistan after 2014 remain unclear. However, the fact remains that Pakistan will still be in a position to promote Islamic fundamentalism, nuclear proliferation, and constructive relations with Tehran.

India and Indian-Pakistani Energy Imports

It is one of the ironies of Central and south Asia that India – a non-Muslim state – plays a more important role in US competition with Iran than most of the largely Muslim states in the region. Iranian-India relations affect four aspects of US-Iranian competition:

- The competition over US and EU sanctions and Indian petroleum imports from Iran described in detail in the separate study in this series on sanctions: U.S. and Iranian Strategic Competition: The Sanctions game: Energy, Arms Control, and Regime Change, http://csis.org/files/publication/120124_Iran_Sanctions.pdf.
- Indian civil and military efforts to win influence in Afghanistan to limit Pakistan's influence and use Afghanistan as a counterbalance to Pakistan, ranging from economic aid to training Afghan security forces.
- Indian aid to Iran in creating a road from its port at Chahbahar on the Gulf of Oman through the eastern border area of Iran and up to Herat and on to Tajikistan. Again. As a way of putting strategic pressure on Pakistan.
- A joint-India-Pakistani need for energy imports where the US wants any =imports from the west to come from central Asia and Iran wants pipelines that come from Iran.

Indian Petroleum Imports from Iran and Trade

India has traditionally had close ties to Iran and has been unwilling to impose the stringent sanctions the US and EU have imposed since 2012. Iran has also been an important trading partner for India, and has worked with Iran to create new trading routes along Iran's Western border than allow India to try to counter Iranian influence in Afghanistan and give improved trading access to central Asia.

Historically, India has imported roughly 12 million barrels of Iranian crude oil every month that accounted for 10% of all Indian oil imports, making Iran their largest supplier after Saudi Arabia.⁸⁹ As Iran's image throughout the Arab world has foundered, however, and international pressure on the regime has increased, India has practiced a more assertive foreign policy with Tehran. Leaked diplomatic cables have revealed India's growing interest in the Iranian sanctions regime and increasing cooperation with the US and EU. Former foreign secretary Nirupama Rao had asked then US ambassador Tim Roemer in February 2010, "in the future the GOI be accorded the opportunity to take part in pre-sanction consultations."⁹⁰

India has cut its imports enough to garner two sanctions waivers by the US. In May 2012, junior oil Minister R.P.N. Singh said that India would reduce its purchase of Iranian oil by 11% following pressure from the US.⁹¹ However, India imported some 344,000 barrels per day from January-July 2012, down from roughly 352,000 barrels per day in the same period a year before.⁹² Like Japan, the Indian government has offered state-backed insurance to shipping companies transporting Iranian oil to India and has allowed.⁹³

But India has shown less enthusiasm for reducing its Iranian oil imports than other countries. In October, Indian Oil Minister S. Jaipal Reddy stated at the Indian Petrotech 2012 Conference that, "We are neither trying to reduce nor increase imports from Iran... For India, energy security is a truly central issue. India is likely to emerge as one of the top 3rd or 4th importers in the world, of all energy forms - oil, coal, gas and uranium."⁹⁴

Some experts believe, however, that the fact New Delhi stepped away from Tehran had more to do with managing important Indian relationships with the Arab world. P.R. Kumaraswamy, head of West Asian studies at New Delhi's Jawaharlal Nehru University, observed: "When it comes to Iran, India can ignore pressure from the U.S. and noises from Israel, but it cannot ignore

concerns from the Arab countries [...] In a very subtle way, India is sending a message that its closeness with Iran will not affect relations with other Middle Eastern countries.”⁹⁵ India’s ties to Iran have made the country hesitant to fully back US, EU, and UN sanctions. But India has been reducing its reliance on Iranian oil since 2008 and is becoming increasingly concerned over Iran’s nuclear program. However, this has not stopped India from continuing their economic relationship with Iran as well as finding financial avenues to facilitate trade.

India does, however, seem increasingly concerned about the danger of the Iranian nuclear program to Indian interests and has increasingly taken steps to implement further sanctions. In December 2010, the Reserve Bank of India made an unexpected decision to prohibit Indian companies from using the Asian Clearing Union (ACU) to pay Iran for oil imports. The ACU is a Tehran-based regional body that was established by the UN in the 1970s in order to more easily facilitate commerce among Asian nations. However, the ACU effectively allowed companies to facilitate payments to Iran that may have been illegal according to international sanctions.⁹⁶ A key US Treasury official heralded the move as “a significant action” to support US sanctions and further isolate Iran from international financial institutions.⁹⁷

Nevertheless, even after India declared it would no longer use the ACU to process payments to Iran, the two countries agreed on an Iranian bank, Europaisch-Iranische Handelsbank (EIH) to process the payments. When EU sanctions listed EIH, India and Iran agreed to use Turkey’s Halkbank as an alternative, which then withdrew from the agreement after sanctions under Section 1245 of the FY2012 NDAA were instituted. India used this to pressure Iran into accepting 45% of the oil payment in non-convertible rupees and the rest in Euros, again through Halkbank.⁹⁸ However, sources differ as to when Halkbank began facilitating Indian payments to Iran, some sources say December 2010, others say July 2011, and the CRS says January 2012 or possibly March 2012.⁹⁹

Regardless of the exact date of the Turkey-Iran-Halkbank deal, sanctions encompassed in the FY 2013 NDAA that entered into force on February 6, 2013, have cut off India’s ability to use Turkey’s Halkbank as a facilitator for Iranian oil purchases in Euros. Because of these sanctions, India is paying Iran only in Rupees and withholding the 55% of their payments that would have been in Euros until an alternate payment system can be established.¹⁰⁰ Due to the terms of the NDAA sanctions, Halkbank is prohibited from repatriating that money to Iran and only allows Iran to use Rupees to purchase non-sanctioned items like food or medicine from India.

Like South Korea and Japan, India has both offered state-backed insurance to Indian oil tankers transporting Iranian oil and has allowed Iran to ship oil on Iranian tankers covered by Iranian insurance. Sabyasachi Hajara, chairman of Shipping Corp. of India said that this decision was based off Indian needs, “As far as India is concerned, we are bothered about our sovereign requirements... We took a pragmatic view.”¹⁰¹ Shipping Corp. has also ended its joint shipping venture with the Islamic Republic of Iran Shipping Lines. Insurers such as United India Insurance Co. and General Insurance Corp. of India are offering lower cover for shipping due to sanctions blocking reinsurance.¹⁰²

Indian Aid and Strategic Relations with Afghanistan

India’s ties to both Iran and Afghanistan also affect US and Iranian competition. India signed strategic partnership agreement with India in October 2011 that provides for increased Indian training of Afghan security forces, and Afghan soldiers are undergoing training at Indian military schools. India is also helping Afghanistan the Afghan government train its police forces,

judiciary and diplomats. President Karzai's statement about the partnership is a telling indication of the fact that both India and Afghanistan intended to use it as leverage against Pakistan.¹⁰³

"This strategic partnership is not directed against any country. This strategic partnership is to support Afghanistan...Pakistan is our twin brother, India is a great friend. The agreement we signed with our friend will not affect our brother...However, our engagement with Islamabad has unfortunately not yet yielded the result that we want.

India and Afghanistan created a Strategic Partnership Council in May 2012, and India announced in May 2013 that it intended to strengthen these efforts along with providing more economic aid. President Karzai also requested that India expand its military aid to include weapons and possibly advisors during his May 2013 visit to India.¹⁰⁴

India states that it has already provided more than \$2 US billion in aid to funding Afghan infrastructure, highways, hospitals and rural electric projects. The full range of Indian investment and aid commitments is unclear, but some reports put the total at \$10.8 billion – making India the largest regional donor and investor. They indicate India's investment includes setting Iron ore mines, an SAIL steel plant, an 800-megawatt power plant, other hydroelectric plants and transmission lines, and road construction.¹⁰⁵

India has also made it clear in May 2011 that it intended to step up aid and work more closely with the Afghan government as the US withdraws from Afghanistan. In spite of often exaggerated Pakistani reports about the size of India's efforts, it is unclear that India has done much to encourage the longstanding tensions between Afghanistan and Pakistan that are the product of their disputes over their border and the Durand line and the much more current disputes over insurgent sanctuaries and movements across the border, and the location of border posts. India certainly, however, is prepared to exploit these tensions and do what it can to limit Pakistani influence over Afghanistan and increase the problems Pakistan faces in its western border area.¹⁰⁶

Indian Aid to Iran

Indian aid to Iran is another way India can put pressure on Pakistan from the West, as well as gain better trade access to Afghanistan and Central Asia through Iran. Pakistan has barred India from transit to Afghanistan, and Iran is India's only current route.¹⁰⁷

India and Iran have had an Indo-Iran Joint Commission for more than a decade. According to some reports, India is providing some \$100-\$100 million in aid to Iran to expand Chabahar port and develop the 215 kilometer road Route 606 north through Milak to the southwestern Afghan city of Zaranj and to Delaram.¹⁰⁸ Other reports indicate that the two countries eventually plan to have a matching rail link that extended to Zaranj, then Mashad, and on into central Asia.

Energy Exports to India and Pakistan

The fourth area of competition – energy exports to India and Pakistan -- is a critical theme for both India and Pakistan as their large populations – the world's second and sixth largest respectively¹⁰⁹ – continue to grow and develop. Even in the midst of US, EU, and international sanctions, both countries continue to pursue energy links with Iran, and both appear poised to continue doing so despite growing pressure.

Nevertheless, the prospects for new pipelines to either India or Pakistan seemed far more uncertain.¹¹⁰ While Pakistan does not currently import natural gas, it has engaged Iran on a potential pipeline – the Iran-Pakistan (IP) pipeline – that would link the two countries, and

provide between 8.7¹¹¹ and 26.87 BMC each year.¹¹² Under the best-case scenario, the pipeline could come on-line by 2014, and provide the equivalent of 63% of the natural gas Pakistan consumed in 2011.¹¹³

The likelihood of such ambitious plans being implemented seems low for several reasons. For one, even if such a pipeline were to be successfully financed, built, and brought on-line, its volume would more likely be 5-10 BMC each year, according to an energy industry expert.¹¹⁴ Progress on developing the IP pipeline is hindered by security and financial issues as well. Roughly 760 kilometers of the pipeline is expected to be located in Pakistan's Baluchistan province, which is unstable, separatist, and inhabited by the Taliban. This raises serious questions about the Pakistanis' ability to secure the part of the pipeline running through their country.¹¹⁵

The \$500 million-to-\$1.8 billion price tag for the Pakistani segment has left Islamabad searching for lenders. Some interest in lending has been expressed by Russia, China, and Iran. However, China's Industrial and Commercial Bank has shied away from lending to the project. Iran's commitment has reportedly ranged from \$250-500 million to assist Islamabad in developing the Pakistani portion of the pipe, though even this may be too limited to finance the entirety of what is required to develop the pipeline. Even amid stronger economic sanctions against Iran's energy sector, Russia was recently reported to be considering providing financial support for the pipeline – though there are no guarantees that Russian financing will be forthcoming.¹¹⁶

The IP pipeline was originally slated as the Iran-Pakistan-India (IPI) pipeline, which was intended to provide Iranian natural gas to the rapidly-growing Indian economy. India's participation in the planning for the pipeline ended in 2009, although a report from 2011 indicates that New Delhi may be open to rejoining Iran and Pakistan on working toward a natural gas initiative.¹¹⁷ There are no official statements to suggest the level of commitment that New Delhi has for breathing life into the IPI project, and there has been serious skepticism abroad about India becoming involved once again in IPI.¹¹⁸

While the US has worked to prevent Pakistan from developing energy links with Iran through the promotion of the Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI), there are also serious concerns about the feasibility of the TAPI pipeline – particularly relative to the IP pipeline. Moreover, due to Pakistan's demand for energy, it does not view TAPI and IP in zero-sum terms, and is pursuing development of the two pipelines.¹¹⁹ Nevertheless, the pursuit of the IP pipeline has brought the threat of sanctions from the US on Pakistan.¹²⁰ While developing a natural gas pipeline with Iran may appear lucrative to Islamabad, the likelihood of the pipeline being built – let alone brought on-line – in the short to medium-term are low.

India also maintains a robust trade in oil and oil products with Iran, with India serving as both a key importer and exporter of the commodity. Iran was believed to be the second-largest seller of oil to India as of spring 2012¹²¹ – providing India with some 12% of its crude oil.¹²² In response to US sanctions, India took steps in mid-2012 to reduce – though not suspend entirely – oil imports from Iran, with an 18.2% year-over-year drop in imports for June 2012.¹²³ Due to Iran's limited capacity to refine oil, it has also begun to source gasoline from overseas – with much of it coming from India. According to a 2009 estimate, Iran was sourcing around 40% of its imports of gasoline from India.¹²⁴

While India continues to trade oil and oil products with Iran, the US currently appears to be content with the measures that have been taken by New Delhi to address US interests in isolating

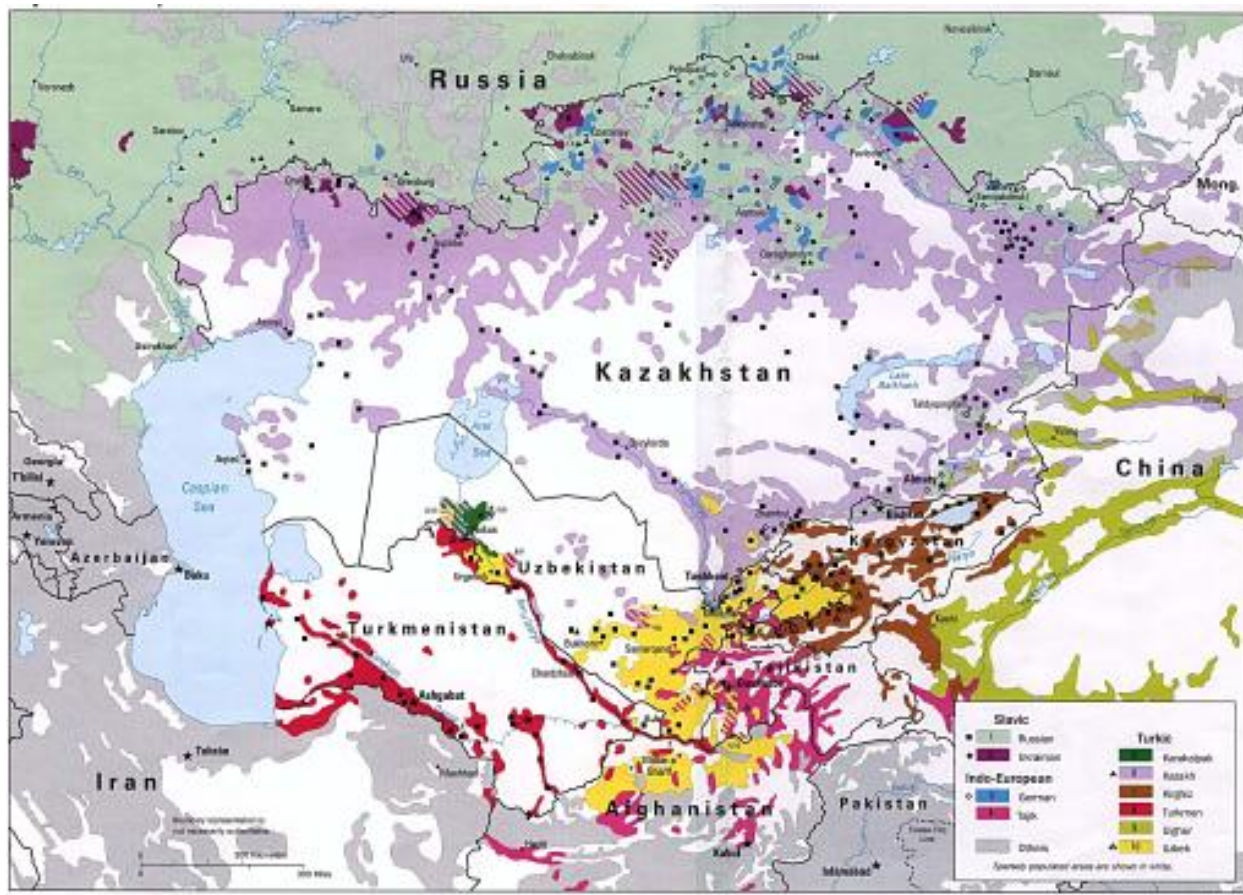
Iran. Secretary of State Hillary Clinton has expressed appreciation for India's reduction in oil imports from Iran. Moreover, India has changed the nature of how its trades for oil with Iran, requiring that 45% of oil imports from Iran to India to be paid for in rupees. While this still provides Iran with capital, it is a form of capital that is more benign to US interests in stopping vital capital flows to Iran, which could be used for nuclear development.¹²⁵

While the materialization of the IPI pipeline appears to be a very unlikely prospect in the near or medium-term, India maintains other energy links to Iran through its importing and exporting of oil. It is unlikely that India will abandon its oil trade links to Iran given the volume of oil traded and India's growing demands for energy resources. Furthermore, while Iran's relationships with other oil importers may have eroded as a result of sanctions, New Delhi has positioned itself as one of the handful of states that has managed to balance meeting US demands for sanctions with maintaining the trade relationship with Tehran. While recent insurance sanctions have suspended the top Indian refinery of Iranian crude's ability to import Iranian oil, a report surfaced in August 2012 that New Delhi would facilitate insurance for oil imported via Shipping Corp. of India.¹²⁶

Central Asia

Central Asia is a deeply fragmented region that is a far more important theater for Russia and China than for Iran and the US. **Figure 1** provides a rough – if dated – picture of both its current national and its underlying ethnic divisions, and shows its close proximity to Russia and Japan. The region has been historically dominated by Russia and still retains many vestiges of Soviet influence. China, however, has been making economic inroads into the region, and now wields clout that arguably rivals that of Russia. The influence of Russia and China, in addition to the closed political systems of the Central Asian states and their overall lack of integration into the global economy, create an environment with limited space for outside influence and US and Iranian competition.

Figure 1: Central Asia and Its Ethnic Divisions



Source: University of Texas, http://www.lib.utexas.edu/maps/middle_east_and_asia/casia_ethnic_93.jpg.

US Interests in Central Asia

Central Asia has been strategically important to the US mainly because its substantial hydrocarbon reserves make it a growing player in world energy exports and because it has been a major supply and logistical support route for the US and ISAF mission in Afghanistan, and has now become a major route for the US and ISAF military withdrawal.

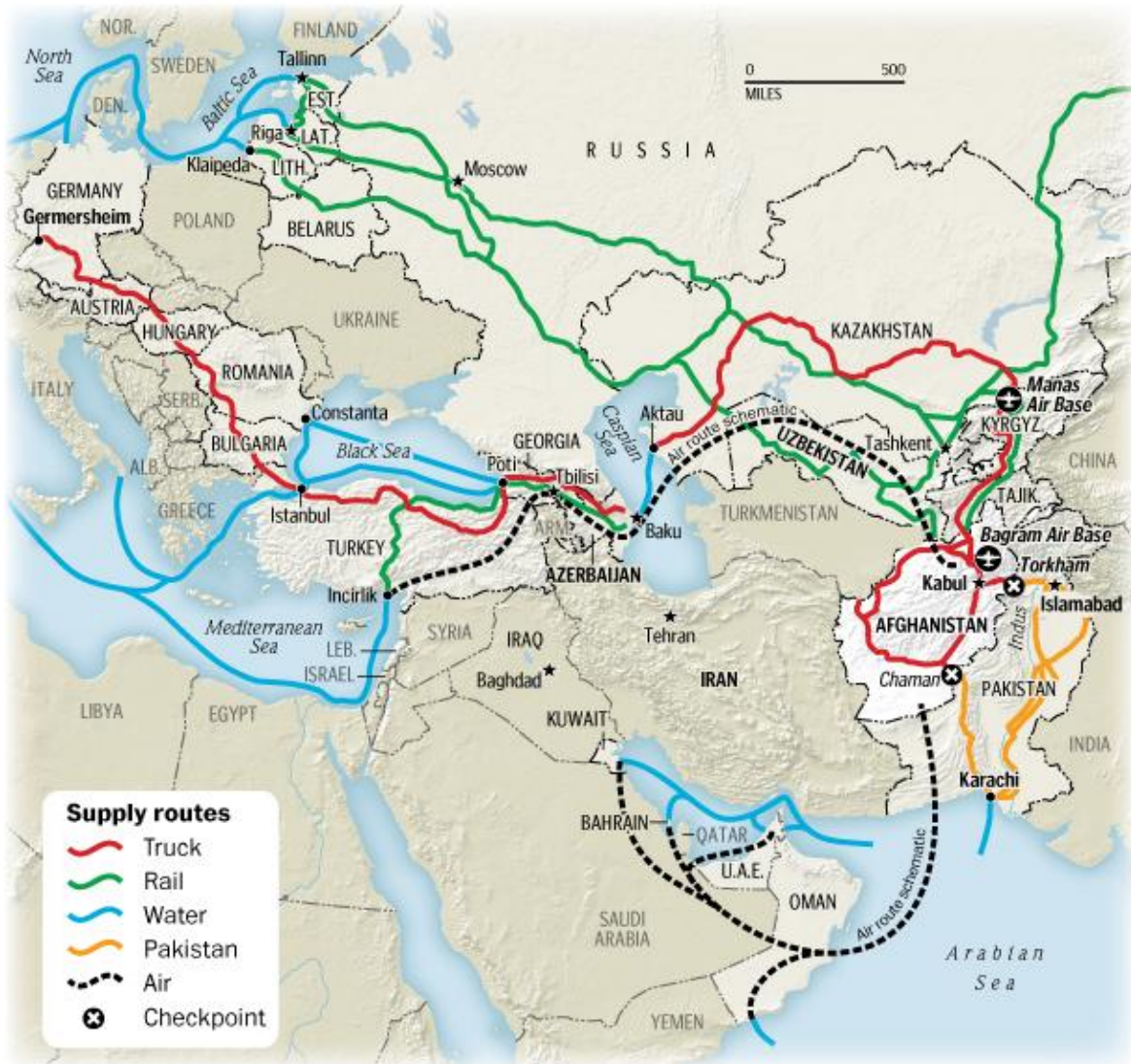
The US has had limited direct economic interests in the oil and natural gas industries – particularly in Kazakhstan – since the fall of the Soviet Union. In terms of foreign policy, the US is currently focused on maintaining its logistical hubs for the Northern Distribution Network (NDN), which provides an alternative to Pakistan for supplying US and allied forces in Afghanistan (see **Figure 2**). The NDN utilizes all countries in Central Asia, although Turkmenistan has restricted access to its territory to providing humanitarian aid and allowing humanitarian aircraft to refuel.¹²⁷

As indicated in **Figure 3**, US assistance to the Central Asian states has increased year-over-year from FY2011 to FY2012 (estimated) for all countries except Turkmenistan. Moreover, aid to Central Asia has increased slightly as a ratio of total aid to Eurasian states. This aid, however, has been closely tied to growing US/ISAF dependence on the Northern Corridor route to supply force in Afghanistan – a dependence that has been largely the result of problems between the US/ISAF and Pakistan. Once US and allied forces withdraw most forces from Afghanistan during 2013 and 2014, the US will have limited strategic interest in Central Asia, other than its small oil and gas interests, which are mainly in Kazakhstan.

Some experts have called upon the US to develop a “New Silk Road,” to help integrate Afghanistan into the regional economy after Transition. Then Secretary of State Clinton briefly endorsed the concept in 2010-2011, and the US and Asian Development Bank worked to develop plans to encourage such regional economic integration. It soon became apparent, however, that many such plans were concepts that required a degree of regional cooperation that did not exist, and were based on dubious analytic models and cost-effectiveness. They also could not help Afghanistan in time to aid during the 2002-2016 transition period between US/ISAF withdrawal and the point at which it would have to find some form of new economic equilibrium.

Iranian-US competition was a further US motive for promoting the New Silk Road. Its proposals did not include Iran. The US seemed to hope that Central Asia, Afghanistan, and Pakistan could all make major rapid increases in their economic ties with each other without additional links to Iran. In practice, Pakistan has shown no interest in the concept and the Central Asia states have only supported it to a limited degree that serves their immediate interests. It seems an unlikely prospect given the ongoing fighting in Afghanistan, lack of Pakistani interest, regional geography and the cost of overland trade compared to the cost of maritime trade. Potential competition between the US and Iran over this issue is purely speculative at this point, as the New Silk Road will remain more a concept than a reality for the foreseeable future.

Figure 2: The Northern Distribution Network, Central Asia, and the Pakistan Supply Route



Source: "The Long Roads Home," *Washington Post*, July 3, 2012. http://www.washingtonpost.com/world/national-security/the-long-roads-home/2012/07/03/gJQARDJALW_graphic.html. Original from National Geospatial Intelligence Agency.

Figure 3: US Assistance to the Central Asian States**Table I. U.S. Foreign Assistance to Central Asia,
FY1992 to FY2012**

(millions of current dollars)

Central Asian Country	FY1992 thru FY2010 Budgeted ^a	FY2011 Actual ^b	FY2012 Estimate ^b
Kazakhstan	2,050.4	17.57	18.79
Kyrgyzstan	1,221.71	41.36	47.05
Tajikistan	988.57	44.48	45.02
Turkmenistan	351.55	11.01	9.89
Uzbekistan	971.36	11.34	12.94
Regional	130.44	—	—
Total	5,714.03	125.76	133.69
As a percentage of aid to Eurasia	14%	23%	25%

Sources: State Department, Office of the Coordinator of U.S. Assistance to Europe and Eurasia, *Congressional Budget Justification for Foreign Operations, FY2013, Annex: Regional Programs*, March 2012.

- Includes funds from the Aid for Europe, Eurasia, and Central Asia (AEECA) account and Agency budgets. Excludes some classified coalition support funding.
- Includes funds from the Aid for Europe, Eurasia, and Central Asia account (AEECA; now these funds are part of Economic Support Funds) and other "Function 150" programs. Does not include Defense or Energy Department funds or funding for exchanges.

Adapted from: Jim Nichol, *Central Asia: Regional Developments and Implications for U.S. Interests*, Congressional Research Service, January 9, 2013. p. 64.

Iranian Interests in Central Asia

Iran has significant economic interests in southwestern Central Asia, although its overall presence is limited and its strategic interest lie largely in the Gulf region and Levant. Iranian geography controls Central Asian access to the Persian/Arab Gulf, and Iran has been an important transit route for regional goods such as Uzbek cotton.

There have been efforts to develop Iranian rail infrastructure that may ease transport from Turkmenistan to the Gulf,¹²⁸ which may serve to further Central Asian transshipment through Iran. Iran's cultural ties to Tajikistan and its shared border with Turkmenistan also give it some level of influence in the region. The economic dimension to this relationship is somewhat one-sided: Uzbekistan, Turkmenistan, and Tajikistan all rely heavily on Iran for transshipment to ports, while Iran is minimally reliant on any Central Asian economy. Iran could thus exert considerable leverage on these states, although so far it has had little incentive to disrupt their economies.

Official Iranian statements regarding Central Asia have long reflected a friendly foreign policy designed to try to expand Iranian influence and trade ties to the region. Iran has also sought to improve bilateral trade with each state, and to gain political influence, but only to a limited

extent Iran does not want to jeopardize its relationship with Russia – a far more important ally – by interfering in what Moscow views as its backyard.

Iran also hopes to exert influence through the Shanghai Cooperation Organization (SCO), in which Iran holds observer status. Iran applied to become a full member of the SCO in 2008, likely hoping to increase its leverage with China and Central Asia. However, the Iranian application was denied in 2010 due to new rules that prohibit the accession of any state under UN sanctions – a move widely seen to reflect a desire among member states not to antagonize the US. The example of the SCO in some ways serves as an indication of the state of broader US-Iranian competition in Central Asia: Iran indirectly loses to the US in what was a largely symbolic move anyway, since the SCO is primarily a mechanism to facilitate Chinese trade.

Turkmenistan

Turkmenistan is the one Central Asia country that shares a common border with Iran – 992 kilometers. It has a 744-kilometer border with Afghanistan as well. It has direct lines of communication to the cities in Iran's northwest. It is also the Central Asian country that will feel the most impact if the new road system India is helping Iran build northwards from its port of Bushehr has a major impact on trade. It is far from clear, however, that this gives Iran serious leverage over Turkmenistan, and that it will become an area where serious competition takes place,

Like the other Central Asia states, Turkmenistan's politics and policies are driven largely by internal dynamics. When Turkmenistan gained its independence from the Soviet Union in 1991, the head of the Turkmen Communist Party, Saparmurad Niyazov (the self-titled "Türkmenbaşy," or "leader of the Turkmens"), stayed on as president. An uncontested election kept him in power until a constitutional amendment proclaimed him President for Life in 1999.

After the sudden death of President Niyazov in December 2006, Gurbanguly Berdimukhamedov was elected as his replacement in February 2007. Though Berdimukhamedov promised political reforms and scaled back the more bizarre manifestations of Niyazov's totalitarian narcissism, the country's political structure remained largely unchanged. Rigged elections and rampant corruption ensure that Turkmenistan continues to remain a highly opaque and repressive country.¹²⁹

Turkmenistan has since become one of the world's least free societies, consistently ranking near the bottom of Freedom House indices on measures of human rights, press freedom, and democratization.¹³⁰ An authoritarian state where political opposition was outlawed, Turkmenistan was governed by a president with near absolute power.¹³¹

The CIA describes Turkmenistan's political and economic situation as follows:¹³²

Extensive hydrocarbon/natural gas reserves, which have yet to be fully exploited, have begun to transform the country. Turkmenistan is moving to expand its extraction and delivery projects. The Government of Turkmenistan is actively working to diversify its gas export routes beyond the still important Russian pipeline network. In 2010, new gas export pipelines that carry Turkmen gas to China and to northern Iran began operating; effectively ending the Russian monopoly on Turkmen gas exports. President for Life Saparmurat NYAZOV died in December 2006, and Turkmenistan held its first multi-candidate presidential election in February 2007. Gurbanguly BERDIMUHAMEDOW, a deputy cabinet chairman under NYAZOV, emerged as the country's new president; he was chosen as president again in February 2012, in an election that the OSCE said lacked the freedoms necessary to create a competitive environment.

Although agriculture accounts for roughly 8% of GDP, it continues to employ nearly half of the country's

workforce. Turkmenistan's authoritarian regime has taken a cautious approach to economic reform, hoping to use gas and cotton export revenues to sustain its inefficient and highly corrupt economy. Privatization goals remain limited. From 1998-2005, Turkmenistan suffered from the continued lack of adequate export routes for natural gas and from obligations on extensive short-term external debt.

At the same time, however, total exports rose by an average of roughly 15% per year from 2003-08, largely because of higher international oil and gas prices. Additional pipelines to China, that began operation in early 2010, and increased pipeline capacity to Iran, have expanded Turkmenistan's export routes for its gas.

Overall prospects in the near future are discouraging because of endemic corruption, a poor educational system, government misuse of oil and gas revenues, and Ashgabat's reluctance to adopt market-oriented reforms.

The majority of Turkmenistan's economic statistics are state secrets. The present government established a State Agency for Statistics, but GDP numbers and other publicized figures are subject to wide margins of error. In particular, the rate of GDP growth is uncertain. Since his election, President BERDIMUHAMEDOW unified the country's dual currency exchange rate, ordered the redenomination of the manat, reduced state subsidies for gasoline, and initiated development of a special tourism zone on the Caspian Sea. Although foreign investment is encouraged, and some improvements in macroeconomic policy have been made, numerous bureaucratic obstacles impede international business activity.

Turkmenistan's hydrocarbon resources are the key to its geopolitical status. The country is believed to house the planet's sixth largest supply of natural gas reserves, which, together with oil, constitute more than 80% of its exports.¹³³ Up until 2008, about 90% of Turkmenistan's hydrocarbon exports were destined for Russia.¹³⁴ In the past few years, however, Ashgabat has succeeded in diversifying its export markets and exerting growing independence from its former overlord.

New pipelines to Iran and China have significantly reduced Turkmenistan's dependence on Russian purchases, although Russia was still the country's most important buyer of natural gas in 2010.¹³⁵ In December 2009, Ashgabat announced its intention to manage the development of its massive Galkynysh gas field itself, as opposed to allowing foreign oil companies to oversee the project.¹³⁶ Still, outside financing will play a crucial role in development: China loaned Turkmenistan \$4.18 billion for the Galkynysh project the preceding June.¹³⁷

US and Turkmen Relations

Turkmenistan currently has strategic significance to the US largely as a means of access to Afghanistan. US aid to and trade with Turkmenistan is limited. US-Turkmen annual trade volumes typically amount to \$100-\$400 million in total.¹³⁸ Aid has also been relatively small: from 1992 until 2010, total US assistance to Turkmenistan was an estimated \$352 million.¹³⁹

Impact of the Afghan War

US military assistance to Ashgabat has increased since the US-led invasion of Afghanistan – and especially since 2008. The US International Military Education and Training (IMET) program provided Turkmenistan with \$288,000 in FY2011.¹⁴⁰ US allocations to Turkmenistan from the Foreign Military Financing (FMF) program totaled \$750,000 in FY2011,¹⁴¹ \$2 million in FY2010; and \$150,000 in FY2009.¹⁴²

After initially declining to support NATO's planned invasion of Afghanistan, Ashgabat backtracked and began permitting humanitarian aid to transit through its soil and airspace at the end of September 2001.¹⁴³ It is possible that Russia's influence played a role in convincing Turkmenistan to allow its territory to be used to these efforts.¹⁴⁴ Beginning on September 24,

2001, Turkmenistan permitted US aircraft to use the Ashgabat airport as a refueling base, and jet fuel was reportedly purchased in Turkmenistan for transport by rail to Afghanistan.¹⁴⁵

Turkmenistan's tradition of remaining politically neutral has led it to play a minimal role in the NDN. Nonetheless, the country became increasingly important to US strategy as Afghan supply routes shifted away from Pakistan. Reports surfaced that a northern Europe truck route could be constructed through Turkmenistan to further expand transportation lines; but this did not become an actual option and the proposal remains hypothetical at this point.¹⁴⁶ Furthermore, in spite of recent cooperation, some NATO flights have been denied access to Turkmen airspace, including a German AWACS aircraft in August 2009.¹⁴⁷

Transition will have a major impact on this aspect of US interests. Rents paid to Ashgabat for the use of its territory will drop precipitously after the ISAF presence is phased out of Afghanistan, and Turkmenistan as a whole will be significantly less strategically important to the US. At the same time, US efforts to support greater diversification of the region's hydrocarbon supplies and markets could have the opposite effect. In a June 2011 testimony to the House Foreign Affairs Committee, Special Envoy for Eurasian Energy Richard Morningstar claimed that developing Central Asia's energy sector would directly benefit the US by providing greater supplies, as well as strengthening European energy security.¹⁴⁸

Energy Issues

US-Iranian competition may also be affected by developments in the Turkmen energy sector. US policy in the region does seek to support the development of new export routes for hydrocarbons, which will allow Central Asian states to command more competitive prices for their resources, including from Iran.¹⁴⁹ Along these lines, the US has long supported the proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, which would transport Central Asian gas to markets in Pakistan and India. This routing is intended as much to aid Afghanistan and avoid routes through Iran as to benefit Turkmenistan.

Some progress on TAPI has been made. In May 2012, representatives from Turkmenistan, Pakistan, and India met in Ashgabat to sign a purchasing agreement on the project, which will be partially financed by the Asian Development Bank.¹⁵⁰ A US State Department spokesman expressed approval for the project, calling the deal a "very positive step," and referring to the TAPI pipeline as a "regional strategic priority."¹⁵¹

TAPI's success at this point, however, looks improbable. Among the many obstacles that must be overcome before it is constructed are the Turkmen government's refusal to allow a foreign oil company to develop its Galkynysh gas field (the proposed source of TAPI), and the likely inability of Turkmengaz to master the technically difficult extraction on its own.¹⁵² These challenges are further complicated by continuing instability in Afghanistan – all of which will likely prevent Western banks from lending to the project in the near future.

TAPI's numerous headaches are unlikely to be resolved until well after 2014, if they are resolved at all. Even if Ashgabat changes tack and decides to allow a foreign oil major to develop its Galkynysh field, and even if sufficient financing for the project could be found, the continuing insecurity in Afghanistan shows no signs of disappearing. Pipelines are notoriously favorite targets of attack by insurgents, and the likelihood that any pipeline that traverses Afghan territory could be secured long enough to produce meaningful economic change is very low, at least for the near future. Much of the focus on TAPI, therefore, seems designed mostly to serve the

political agendas of interested states. The US talk of a “New Silk Road” initiative and long-term US hopes for Afghanistan post-Transition are probably overshadowing TAPI’s current commercial viability.

Iranian and Turkmen Relations

Because of their shared border, Turkmenistan is more important to Iran than to the US. Turkmenistan’s strategic importance to Iran and the region lies largely in its volume of trade with Iran and its ability to exploit its hydrocarbon resources. Additionally, Iran is home to an estimated 1.3 million ethnic Turkmen.¹⁵³ The CIA estimates that Iran has a 2% Turkmen and Turkic tribal minority, and that 18% of Iran’s population – including many Azeris – speak Turkic.¹⁵⁴ Remarkably, the Sunni Turkmen population has not pursued ethnically based agitation or separatist struggles against the state – unlike the Kurds, Baloch, and Azeri elsewhere in Iran.

A Link to the Rest of Central Asia

From an Iranian perspective, Turkmenistan represents a key path to influence in Central Asia. Like Afghanistan, Turkmenistan is a physical link for Iran to Central Asia, and therefore has a potential to serve as a trade route. Although Turkmenistan was historically oriented towards Russia, it has recently begun a diplomatic and economic realignment, focusing particularly on Iran and China. Iran claims its annual trade with Turkmenistan amounts to some \$4.2 billion.¹⁵⁵

In spite of Turkmenistan’s presidential transition in 2007, the country remains opaque and autocratic. This makes Turkmenistan’s behavior difficult to predict at times; however, it is reasonably certain that Ashgabat’s foreign policy priorities will continue to center on obtaining the best prices and highest possible output for its extensive hydrocarbon reserves. This goal has been the primary driver of Turkmenistan’s relations with Iran.

The Gas Trade and Energy Politics

Tehran has been making strategic investments in the Turkmen gas sector for almost two decades. For example, Iran’s National Oil Company helped construct the Korpezhe-Kurt Kui pipeline in the 1990s in Turkmenistan to provide gas to rural parts of northern Iran.¹⁵⁶ The Iranians financed 90% of the project, and the Turkmen government signed a 25-year contract to repay Iran in gas supplies.¹⁵⁷ The project was completed in 1997, becoming the first gas pipeline from Central Asia to bypass Russian territory. Since becoming operational, the Korpezhe-Kurt Kui pipeline has provided Iran with some 212 bcf of natural gas per year.¹⁵⁸

In 2009, Turkmenistan upped its gas supplies to Iran to more than 700 bcf per year.¹⁵⁹ In 2010, the Dauletabad-Khangiran pipeline started carrying additional gas to Iran, and it is ultimately expected to carry a capacity of 424 bcf.¹⁶⁰ According to the *Oil and Gas Journal*, Iranian dependence on Turkmen energy will most likely rise over the period 2010-2015, due to delays in domestic production stemming from the effects of international sanctions.¹⁶¹

Foreign policy in Ashgabat has frequently been determined by energy politics. Ashgabat’s history of dependence on Russia for export routes for gas has allowed Moscow to buy Turkmen gas at prices well below market value. Recently, however, Turkmenistan’s diversification of its export pipelines and more assertive behavior from other Central Asian states has forced Moscow to recalibrate its stance. In March 2008, in an apparent effort to maintain domination of regional energy exports, Russia’s Gazprom announced it would pay European market prices for Central Asian gas. Turkmenistan’s relations with Iran have had similar problems. In 2007, Ashgabat’s

demands for higher gas prices – nearly double what they had been, according to Iranian media – went unmet by Tehran.¹⁶²

Late in 2007, Turkmenistan halted its gas shipments to Iran in an attempt to force an agreement on higher payments. The unexpected shortage was felt keenly in northern Iran, and in April 2008, the Iranians agreed to increased rates. While natural gas prices remain a potential source of friction between Iran and Turkmenistan, contract disputes between the two countries have so far been mild compared to similar disputes between Turkmenistan and Russia.

Water and Other Resources

Aside from the natural gas trade, Turkmenistan and Iran have reached a few agreements on managing their natural resources. The Friendship dam, for example, is located along their shared border on the Hari Rud River, and was constructed with funds from both countries.¹⁶³ Water from the dam is used for irrigating the common border region, and there has also been discussion between Tehran and Ashgabat for constructing hydropower generation at the site. So far, however, a dispute over the division of the electricity has prevented any additional progress on the project.¹⁶⁴

Aside from the occasional dispute over natural gas supplies or proposed hydroelectric projects, Iran and Turkmenistan generally maintain cordial bilateral relations. During a visit to Tehran in April 2012, both President Berdimukhamedov and President Ahmadinejad expressed their shared desire for positive bilateral relations.¹⁶⁵ The purpose of the visit was reportedly to promote the expansion of Iranian-Turkmen energy ties and the continued development of a cross-border railway.¹⁶⁶ They have recently signed a Memorandum of Understanding regarding their shared commitment to halting cross-border drug trade.¹⁶⁷ According to Iranian news sources, the agreement expresses a mutual intention for greater operational coordination and better exchange of classified information in order to combat drug trafficking.¹⁶⁸

Implications for US Policy

It seems unlikely that Turkmenistan will play a major role in US-Iranian competition. Turkmenistan shows little sign of making substantial progress either in democratization or economic liberalization in the short-term. Ashgabat is likely to remain not only a seat of highly consolidated governmental power, but also critically dependent on revenue from gas exports. Thus, Turkmenistan will continue to rely on Russia, Iran, and – increasingly – China to keep its economy functional, and will exhibit an independent foreign policy only to the extent that it can play one export market off another.

Turkmenistan does have some strategic significance to the US because of the proposed TAPI pipeline. Given the political importance that some US policymakers and experts attach to TAPI as part of the New Silk Road strategy and efforts to weaken Iran, the decisions made in Ashgabat could have significant regional implications. Nonetheless, Turkmenistan's – and, for that matter, TAPI's – significance should be seen in context: relevant regionally rather than globally.

Iran will continue collaborating with Turkmenistan on issues that are mutually important. Iran has little reason to create problems in Turkmenistan unless its growing confrontation with the US in the Gulf and over nuclear issues leads it to try to take reprisals against American officials and other Americans wherever it can. Iran also has little prospect of using Turkmenistan to ease sanctions on its energy exports at any time in the future.

Iran will continue to import Turkmen gas to meet its own domestic energy demands, particularly in border areas that are difficult to supply with Iranian gas. Even though on paper TAPI would shut Iran out of part of the region's gas market, Iran does not export much gas.

Iran does not view itself as competing with Turkmenistan on this issue, and at least in the near and medium-term, Iran is unlikely to oppose TAPI – unless of course TAPI somehow begins construction soon, becomes heavily identified as a US-backed project, or US-Iranian tensions escalate into active conflict. Overall, although Turkmenistan may in the future provide a stage for US-Iranian strategic competition, the country is unlikely to have a meaningful effect on the regional balance of power.

Uzbekistan

Uzbekistan is the most populous country in Central Asia. It is an authoritarian state with a strong drive to promote its national interests, and has ambitions to be a key player in Central Asia.¹⁶⁹ Uzbekistan is also of regional importance because it spans much of the width of Central Asia. It shares a border with Afghanistan that has been a past security issue for Tashkent and one that may reemerge in the event that Afghan Transition fails.

Uzbekistan was formed at the end of the Cold War as the Soviet Union disintegrated, creating the sovereign Central Asian states. Islam Karimov – who became president when the Uzbek state was created – has been the country's only president, and he has pursued policies toward Iran and the US that have evolved over time to meet Uzbek national interests.

The World Bank summarizes the situation in Uzbekistan as follows:¹⁷⁰

The country has to contend with a combination of risk factors going forward, including deteriorating security conditions due to the situation in Afghanistan, and increasing tensions between with neighbors over regional issues—especially the management and use of trans-boundary energy and water resources. Domestically, Uzbekistan has to work to minimize its economy's vulnerability to possible external shocks affecting commodity prices and the anticipated inflow of foreign direct investment (FDI) and external loans to finance the large public investment program.

The CIA describes Uzbekistan as follows:

During the Soviet era, intensive production of "white gold" (cotton) and grain led to overuse of agrochemicals and the depletion of water supplies, which have left the land degraded and the Aral Sea and certain rivers half dry. Independent since 1991, the country seeks to gradually lessen its dependence on the cotton monoculture by diversifying agricultural production while developing its mineral and petroleum reserves and increasing its manufacturing base. Current concerns include terrorism by Islamic militants, economic stagnation, and the curtailment of human rights and democratization.

... More than 60% of the population lives in densely populated rural communities. Export of hydrocarbons, primarily natural gas, provided 18.5% of foreign exchange earnings in 2011 and 35.1% in the first nine months of 2012. Other major export earners include gold and cotton.

Despite ongoing efforts to diversify crops, Uzbekistani agriculture remains largely centered around cotton production, although production has dropped by 35% since 1991. Uzbekistan is now the world's fifth largest cotton exporter and sixth largest producer;

Uzbekistan is aggressively addressing international criticism for the use of child labor in its cotton harvest. Following independence in September 1991, the government sought to prop up its Soviet-style command economy with subsidies and tight controls on production and prices.

While aware of the need to improve the investment climate, the government still sponsors measures that often increase, not decrease, its control over business decisions. A sharp increase in the inequality of income distribution has hurt the lower ranks of society since independence. In 2003, the government

accepted Article VIII obligations under the IMF, providing for full currency convertibility. However, strict currency controls and tightening of borders have lessened the effects of convertibility and have also led to some shortages that have further stifled economic activity.

The Central Bank often delays or restricts convertibility, especially for consumer goods. According to official statistics, Uzbekistan has posted GDP growth of over 8% per year for several years, driven primarily by state-led investments and a favorable export environment. Growth may slip in 2013 as a result of lower export prices due to the continuing European recession. In the past Uzbekistani authorities have accused US and other foreign companies operating in Uzbekistan of violating Uzbekistani tax laws and have frozen their assets, with several new expropriations in 2012.

At the same time, the Uzbekistani Government has actively courted several major US and international corporations, offering attractive financing and tax advantages, and has landed a significant US investment in the automotive industry, including the opening of a powertrain manufacturing facility in Tashkent in November, 2011. Uzbekistan has seen few effects from the global economic downturn, primarily due to its relative isolation from the global financial markets.

Tashkent's relations with both the US and Iran have been largely centered on a key issue in landlocked Central Asia: transportation. Without direct access to an ocean port, Uzbekistan moves most of its key exports through Iran's ports. On the other hand, the US presence in Afghanistan and the issues facing use of the NATO supply route running through Pakistan have led the US to move goods through Uzbekistan via the NDN.

Terrorism has been a recurring issue in Uzbekistan, and there are a number of violent Islamic movements that the government has faced. These organizations include the Islamic Jihad Union of Uzbekistan (IJU), the Islamic Movement of Uzbekistan (IMU), and Hizb-ut-Tahrir; Both the IJU and the IMU are considered to have participated in multiple acts of terrorism from the late 1990s to late 2000s.¹⁷¹

The IMU has also been linked to the movement of fighters between Uzbekistan and Kyrgyzstan from the late 1990s to the early 2000s.¹⁷² Another group – Hizb-ut-Tahrir – has advocated the peaceful establishment of Islamic governance,¹⁷³ although the group “refuses to be involved in local politics” and moreover “does not want to participate in national politics.”¹⁷⁴ Despite these claims, and the fact that the group has had no traction toward achieving its goals either in Uzbekistan or in any of the other Central Asian states, the organization is viewed as hostile and antagonized by most of the Central Asian governments.¹⁷⁵

Neither Hizb-ut-Tahrir nor any of the other Uzbek Islamist organizations have had much success in achieving their radical goals, and there is no evidence to suggest substantial links to Iran.

US and Uzbek Relations

US security assistance has been an important component of Washington's relations with Uzbekistan since the independence of the state from the Soviet Union, with an emphasis on promoting democratization. Security assistance accounted for just under 35% of Washington's assistance to Tashkent between FY1992 and FY2009.¹⁷⁶

The FY2013 US State Department budget request shows that requests for assistance to Uzbekistan are above actual levels from FY2011. The FY2013 request involves \$4 million for the USAID Global Health Program (compared to just under \$2.2 million actual in FY2011) and \$5.5 million for the Economic Support Fund (no aid reported in 2011 and 2012), as well as \$1.5 million for Foreign Military Financing, \$743,000 for International Narcotics Control and Law Enforcement (no aid reported in 2011 and 2012), and \$300,000 for International Military Education and Training.¹⁷⁷

In addition to receiving US foreign aid, Tashkent also maintains a trade relationship with the US, although that trade is minimal relative to Russia and China. By virtue of their proximity, states such as Iran and Afghanistan have a more robust trade relationship with Uzbekistan than the US.¹⁷⁸

Recent US-Uzbek relations have focused on US access to bases and the ability of the US to transit material through Uzbekistan in support of the ISAF campaign in Afghanistan. In addition to facilitating the airspace and ground transit rights for the US and its allies,¹⁷⁹ Tashkent has also allowed the US to use the Karshi-Khanabad Air Base. The base has been used for logistics in aiding the allied effort in Afghanistan. Humanitarian cargo bound for Afghanistan transits Uzbekistan by being flown into Karshi-Khanabad, and connecting to vehicles for surface transport into Afghanistan. Moreover, the air base's capabilities allow it to serve as an aircraft fueling point.¹⁸⁰

Use of the Karshi-Khanabad Air Base by the US was seriously affected by domestic Uzbek turmoil in 2005. Washington's relationship with Tashkent was severely fractured by the Uzbek government's response to protests in Andijan, which left an unknown number of people dead – although the number may be over 100. When the US pushed Tashkent for an investigation of the incident and voiced concern about the bloody government reaction to the protests, Tashkent indicated that it would suspend US use of the base. In addition to these measures, Tashkent emphasized its relations with China and Russia at the expense of relations with the US.¹⁸¹

While the Andijan incident and its aftermath complicated US-Uzbek relations, progress has been made towards closer ties in recent years. The two governments participated in Bilateral Consultations in 2009 and 2011, and explored ways to strengthen relations in science, security, combating drugs, and advancing liberal political ideals in Uzbekistan. US and allied transit rights have recovered from the Andijan political fallout as Tashkent has permitted the use of an air base in 2008 and joined the NDN in 2009.¹⁸²

While Tashkent's foreign policy is driven by advancement of Uzbekistan's own objectives rather than vacillating loyalties between Washington and Moscow, the closer links between Washington and Tashkent in recent years has taken place while there is also a fault in Uzbekistan's relations with Russia. In mid-2012, Tashkent decided to stop activity with the Collective Security Treaty Organization (CSTO).¹⁸³ Additionally, US policy toward Tashkent has been limited in that US efforts to promote democratization have instead yielded a country heavily criticized by Human Rights Watch and the US Department of State.¹⁸⁴

Iranian and Uzbek Relations

Tashkent's relations with Tehran are amicable, but have encountered some tense points since Uzbek independence because Iranian policies have not aligned with Tashkent's broader interests. In the period shortly after Uzbek independence, the prospect of Islamizing Central Asia worried Tashkent – a threat that materialized through Iran's role in Tajikistan's civil war.¹⁸⁵ Tensions between Tashkent and Tehran continued through the 1990s as all the Former Soviet states opposed US sanctions against Iran, with the exception of Uzbekistan in 1995. These tensions began to dissipate in the 2000s though as political and economic links grew between the two states.¹⁸⁶

Economic relations between Iran and Uzbekistan are oriented principally toward the use of Iran as a transit point for Uzbek exports that require ocean transportation. As a landlocked country, Uzbekistan has grown dependent on Iran's ports to facilitate the transportation of its cotton –

which is the country's second-ranked export commodity.¹⁸⁷ According to reporting from 2005, nearly 60% of Uzbek cotton exports traveled through Iran's Bandar Abbas port,¹⁸⁸ although other reporting suggests nearly 70% may have been going through the Iranian port.¹⁸⁹

Uzbek exporters transshipping through Iran benefit from less burdensome shipping times between Bandar Abbas and Tashkent compared to shipping from Karachi. Trains also have to travel less distance between Bandar Abbas and Tashkent than from ports on the Black Sea.¹⁹⁰ In June 2003, Uzbek, Iranian, and Afghan leaders vowed to facilitate improved logistics in the region by developing road infrastructure connecting Iran with Afghanistan and Uzbekistan, as well as developing a rail link from eastern Iran to Afghanistan.¹⁹¹ Moreover, it is reported that Uzbekistan agreed to have Iranian cargo transit through Uzbekistan for Central Asia.¹⁹²

While data on the nature and size of bilateral trade differ, the volume of trade between Iran and Uzbekistan is small. According to 2008 data, Iran was Tashkent's sixth most important trading market, with \$700 million in total trade between the two states.¹⁹³ Official Uzbek data from 2011 however reflects far less robust bilateral trade – \$174 million – 36% of Uzbek-China trade, just under 32% of Uzbek-Kazakh trade, and about 16% of Uzbek-Russia trade.¹⁹⁴

Perhaps as a result of Tashkent's growing ties with both Washington and Tehran, Uzbekistan's views on the Iranian nuclear issue is consistent with the rest of the Central Asia states – it is believed that a non-violent solution to the problem should be pursued.¹⁹⁵ It is not clear where Tashkent's loyalty will lie in the event of a confrontation between the US and Iran.

Implications for US Policy

US withdrawal from Afghanistan and the resulting cut in the US presence and interest in Central Asia could push Uzbekistan towards closer relations with Iran, but it is unclear that Uzbekistan could gain that much from better relations, that it would take the risk of any action that could make Afghanistan more hostile or that it would see any reason to risk added tension with the US.

The one area where Iran has potential leverage lies in Uzbekistan's dependence on Iran for trade. Tehran might try to exploit that dependency to pressure Tashkent to pursue policies that are less hospitable toward the US. For example, Tehran could base port access for Uzbek exports upon Tashkent obstructing US or allied use of the NDN, or prohibiting allied use of air bases or Uzbek airspace. As the US and its NATO allies proceed with withdrawal from Afghanistan though, it is unclear whether there will be a US-Uzbek security and logistics relationship for Tehran to undermine.

Tajikistan

Tajikistan is the poorest state in Central Asia and has serious problems with domestic unrest and border security. Like other Central Asian states, Tajikistan is plagued by pervasive corruption, ethnic tensions, and economic mismanagement. Like the others, the Tajiks grapple with instability and religious extremism. It is unclear, however, that Iran has any leverage or influence in Tajikistan, and it seems unlikely to become a focus of US and Iranian competition.

Tajikistan is still recovering from its five-year civil war in the 1990's. The Tajik civil war that erupted soon after the 1991 breakup of the Soviet Union, and democratic reformers and Tajik Islamists formed an uneasy alliance against the remnants of the Communist Party. President Emomali Rahmon came to power during the 1997 peace treaty that ended the war; he has since remained in office through elections that have been widely criticized by election monitoring

groups and human rights organizations. The US State Department notes that Tajikistan is characterized by a lack of transparency, a weak civil society, and a heavy concentration of political power in the hands of a small elite.¹⁹⁶

The CIA describes Tajikistan's political and economic situation as follows, and highlights the extent to which its behavior is driven by internal pressures that have little to do with US and Iranian competition:¹⁹⁷

Tajikistan became independent in 1991 following the breakup of the Soviet Union, and experienced a civil war between regional factions from 1992-97. Tajikistan endured several domestic security incidents in 2010-12, including a mass prison-break from a Dushanbe detention facility, the country's first suicide car bombing in Khujand, and armed conflict between government forces and local strongmen in the Rasht Valley and government forces and criminal groups in Gorno-Badakhshan Autonomous Oblast. The country remains the poorest in the former Soviet sphere. Attention by the international community since the beginning of the NATO intervention in Afghanistan has brought increased economic and security assistance, which could create jobs and strengthen stability in the long term. Tajikistan joined NATO's Partnership for Peace in 2002, and became a member of the World Trade Organization in March 2013.

Tajikistan has one of the lowest per capita GDPs among the 15 former Soviet republics. Because of a lack of employment opportunities in Tajikistan, more than one million Tajik citizens work abroad, almost all of them in Russia, supporting families in Tajikistan through remittances. Less than 7% of the land area is arable. Cotton is the most important crop, and its production is closely monitored, and in many cases controlled, by the government.

In the wake of the National Bank of Tajikistan's admission in December 2007 that it had improperly lent money to investors in the cotton sector, the IMF canceled its program in Tajikistan. A reform agenda is underway, according to which over half a billion dollars in farmer debt has been forgiven, and IMF assistance has been reinstated.

Mineral resources include silver, gold, uranium, and tungsten. Industry consists mainly of a large aluminum plant, hydropower facilities, and small obsolete factories mostly in light industry and food processing. The civil war (1992-97) severely damaged the already weak economic infrastructure and caused a sharp decline in industrial and agricultural production.

Tajikistan's economic situation remains fragile due to uneven implementation of structural reforms, corruption, weak governance, seasonal power shortages, and the external debt burden. Electricity output expanded with the completion of the Sangtuda-1 hydropower dam - finished in 2009 with Russian investment. The smaller Sangtuda-2, built with Iranian investment, began operating in 2012.

The government of Tajikistan is pinning major hopes on the massive Roghun dam which, if finished according to Tajik plans, will be the tallest dam in the world and significantly expand electricity output. The World Bank is funding two feasibility studies for the dam (technical-economic, and social-environmental), scheduled to be completed in mid-2013. In January 2010, the government began selling shares in the Roghun enterprise to its population, ultimately raising over \$180 million but Tajikistan will still need significant investment to complete the dam.

According to numerous reports, many Tajik individuals and businesses were forced to buy shares. The coerced share sales finally ended in mid-2010 under intense criticism from donors, particularly the IMF. Food and fuel prices in 2011 increased to the highest levels seen since 2002 due in part to an increase in rail transport tariffs through Uzbekistan. Tajikistan imports approximately 60% of its food and 90% of that comes by rail. Uzbekistan closed one of the rail lines into Tajikistan in late 2011, hampering the transit of goods to and from the southern part of the country.

A World Bank analysis of Tajikistan's economy is generally favorable, but notes there are risks,¹⁹⁸

Tajikistan's economy performed strongly in the decade following the end of the civil war in 1997. Strong economic growth, which averaged nearly 8 percent per annum during 2000-2008, was made possible by a favorable external environment, with world prices for country's main export items of cotton and aluminum

soaring. Rapid growth in Russia and other trading partners have boosted the demand for Tajik labor, which resulted in growth of remittances and a subsequent increase in domestic consumption. Internally, the Government's efforts in stabilizing the economy allowed for existing businesses and households to take advantage of emerging opportunities.

Similar to other economies in the region, the 2009 global economic crises adversely affected Tajikistan. The effect came through a sharp decrease in remittances and decline in exports of its main commodities. The combination of government's tighter fiscal policy, currency depreciation, and increased support from the development partners helped mitigate the adverse impacts of the crises. As a consequence the GDP has bounced back to 6.5 percent in 2010 from a low of 3.9 percent in 2009.

Nevertheless, continued vulnerabilities to external market shocks, susceptibility to natural disasters, underexploited economic diversification potential, limited arable land, and landlocked location make Tajikistan one of the poorest countries in the Europe and Central Asia region, with a GNI per capita of US\$800 in 2011. Responsible for 64 percent of total employment and 21 percent of GDP, the agricultural sector in Tajikistan offers a solid foundation for economic development. The Government displays a strong commitment to the ongoing Agricultural Reform, although the pace of implementation must be accelerated to secure the productivity gains that Tajikistan needs to improve the agricultural growth rate. Tajikistan is endowed with abundant water potential, explaining the dominance of hydropower generation in the energy sector. The Government's energy sector strategy is to ensure a reliable supply to consumers, reduce losses, deal with severe winter energy shortages, achieve sustainable exports of surplus summer electricity, and pursue critical financial reforms.

Tajikistan is also faced with a young and rapidly growing population. Recent estimates show that 40 percent of the population in Tajikistan is under the age of 17, making improved public services in social sectors (education, health, and social protection), as well as job creation, imperative components of Government's Poverty Reduction Strategy.

Tajikistan's biggest challenge in the coming years will be lifting its low rates of private investment. According to latest estimates, the private investment has stagnated at around 5 percent of GDP. The Government's strategy has made removing binding constraints to private sector development a key priority to foster economic growth, and several key achievements have been made to date. In addition, implementation of the Extractive Industries Transparency Initiative has also been high on the Government's agenda, to capitalize on Tajikistan's comparative advantage in mining. Yet, the development of the private sector and the appropriate legal framework for its growth remain a work in progress, and their successful realization is critical to help the Government achieve its ambitious growth targets.

Tajikistan's geography helps shape its economy. The Tajik countryside is dominated by mountains; less than 7% of the state's total area is arable land.¹⁹⁹ Its economy consists mainly of aluminum and cotton exports, which, along with remittances from Tajiks living abroad, make up more than 40% of Tajikistan's GDP.²⁰⁰ Despite some access to domestic sources of hydropower, the country's electricity supply is unreliable, and Tajik's face prolonged blackouts.²⁰¹ Nonetheless, Tajikistan's overall growth rate in 2011 was higher than expected, with increased performance particularly in the construction, agriculture, and service sectors.²⁰²

Tajikistan's relations with its neighbors – especially Uzbekistan – are occasionally marked by friction. The aluminum and cotton exports on which the Tajik economy relies must pass through Uzbekistan on their way to the Iranian port of Bandar Abbas, and Tajiks also depend on Uzbekistan to meet much of their gas and electric consumption.²⁰³ Tajik plans to construct a dam for hydroelectric power have worried Uzbek officials, who see a threat to irrigation sources for the Uzbek cotton industry.²⁰⁴ In the past, Uzbekistan has demonstrated its disapproval of the dam project by cutting power supplies to Tajikistan, as well as blocking its export routes.²⁰⁵

US and Tajik Relations

Bilateral US and Tajik relations are cordial but limited. The US has supported a return to peace and stability since the end of Tajikistan's civil war, and has provided nearly \$780 million in assistance to the country from FY 1992 to 2008.²⁰⁶ Bilateral trade is minimal; in 2010, Tajikistan exported only about 0.15% (\$1.5 million) of its total exports to the US, while receiving only about 0.03% (\$755,000) of total Tajik imports from the US.²⁰⁷

Tajikistan has generally cooperated with US-led efforts in Afghanistan. Dushanbe has its own interest in seeing the Taliban removed from power, and has assisted ISAF in allowing overflights and refueling on its territory. US and Tajik relations also include joint efforts to combat terrorism and drug trafficking in the region.

Since the invasion of Afghanistan, the presence of the Islamic Movement of Uzbekistan (IMU) – a Taliban-linked terrorist network – has been greatly reduced in Tajikistan. Trafficking of narcotics, however, remains a serious problem for Dushanbe and a potential threat to the country's overall stability. Tajik participation in the NDN serves its own national interests as well as aiding the US.

Afghan instability has long been a serious threat to all of its neighbors, and the fragile Tajik economic and political systems are put at risk by ongoing conflict across a poorly-policed 800-mile border. Additionally, Tajikistan has benefited from US assistance in return for its cooperation with ISAF; for example, the \$36 million bridge which connected Tajikistan with Afghanistan over the Amu Darya River and was funded by the US has led to a tripling of bilateral trade volume since its opening in 2007.²⁰⁸

In 2010, the US and Tajikistan began a bilateral consultation process designed to increase cooperation, which currently seems to be at a relatively high level. Still, US interest in – and aid available to – Tajikistan will almost certainly decline after US forces withdraw from Afghanistan. Although the US will remain ostensibly committed to its broad development goals for a more transparent Tajik government and economic growth, the fact of the matter is that Tajikistan will have little strategic significance to the US outside the context of US-led operations in Afghanistan.

Iranian and Tajik Relations

Iran has stronger cultural ties with Tajikistan than to the other Central Asian states – in large part due to a shared history and language. When Tajikistan declared its independence in 1991, Iran was among the first to formally recognize it, and Iran's embassy was among the first to open in Dushanbe. Iranian President Ahmadinejad described the Iranian-Tajik relationship in 2006 as “one soul in two bodies.”²⁰⁹

Iran has contributed significantly to Tajik infrastructure development, investing in railways, highways, and hydroelectric projects around the country. The Sangtuda 2 hydropower plant along the Vakhsh River – which opened in 2011 – was financed with some \$180 million in Iranian funds.²¹⁰ Iran also paid over half of the construction costs for Tajikistan's \$40 million Anzab tunnel.²¹¹ In addition to state aid, private Iranian companies are active in Tajikistan, contracting with the Tajik Ministry of Energy in 2011 to build a cement plant and a coal power plant for a total cost of \$500 million.²¹²

Iran's private investments and official aid to Tajikistan have become increasingly important as the Tajik-Uzbek relationship has deteriorated. Uzbek hostility to planned Tajik energy projects

(which the Uzbek government fears will restrict its access to water for cotton irrigation) has led Uzbekistan to cut off the rail transportation to Tajikistan of related construction materials from Iran.²¹³ Uzbek pressure has also steered Chinese and Russian companies away from Tajikistan, making Dushanbe more economically dependent on Iran.²¹⁴

The strength of the diplomatic ties between Tajikistan and Iran are evident in the tone of official statements and in bilateral meetings. A May 2010 statement from the Iranian Defense Minister stressed shared goals: “Iran follows long-term and strategic relations with Tajikistan...[and] believe[s] that powerful neighbors can pave the way for their progress and development if [they] stand by each other.”²¹⁵ In June of this year, President Rahmon met with Iran’s Vice President for Parliamentary Affairs to reaffirm the strength of the relationship.²¹⁶

Still, there are important sources of tension in the Iranian-Tajik relationship. One of the most cited is the sectarian component: Iran is, of course, predominantly Shia, while the majority of Tajiks are Sunni. According to the US State Department, Tajikistan’s Ismaili Shia account for only about 3-5% of the Tajik Muslim population.²¹⁷

Furthermore, Tajik officials worry about the spread of Islamic radicalism and have no interest in an Iranian-style revolutionary narrative. Efforts to contain Iranian influence were seen in Tajikistan’s decision – following the 2010 violence in the Rasht Valley – to close unregistered mosques and order the return of some 1,400 Tajik students studying throughout the Middle East.²¹⁸ As one analyst put it, “it has long been clear that Iranian money is welcome in Dushanbe and the Islamic Republic’s politics are not.”²¹⁹

These tensions led Iranian officials to cancel several visits to Dushanbe, including a meeting on industrial cooperation in February 2011 and an invitation to President Rahmon to celebrate Nowruz in Tehran.²²⁰ Despite cultural affinity between Iran and Tajikistan, Iranian economic ties are far stronger with Uzbekistan. Iranian-Uzbek trade is estimated to be almost four times greater than Iranian-Tajik trade,²²¹ which highlights the probability that the Iranian-Tajik relationship may not be as close as it is often portrayed by Iranian officials.

Implications for US Policy

Tajikistan’s main relevance to US foreign policy is its proximity to Afghanistan, and its ability to provide transport and logistical support to the US and ISAF. After US forces withdraw from Afghanistan, Tajikistan’s strategic significance to the US will be limited.

Declining levels of US aid and other forms of soft power may lead Dushanbe to turn to Iran for assistance, but Iran is not in a position to provide major foreign aid. Tajikistan’s major concerns in the future will include securing its borders against drug trafficking and the spread of instability from Afghanistan, as well as developing its hydroelectric power industry. Iranian money may help Dushanbe achieve these objectives, although, from an Iranian perspective, there are limited strategic gains to be made in a country as poor and isolated as Tajikistan.

Despite its current and future links with Iran, Tajikistan is not and will not likely become an important theater for US-Iranian strategic competition. Due to its lack of economic development and geographic isolation, Tajikistan has little strategic significance to either the US or Iran. More worrisome than Iranian influence in the country is the possibility that Tajikistan could destabilize and become a sanctuary to Afghan insurgents. However, if a serious threat from Afghan spillover developed in Tajikistan, it is likely that Russia would invoke CSTO provisions – as it did in Uzbekistan in the 1990s – and offer military assistance in securing Tajikistan.

In the years following Transition in Afghanistan, Tajikistan may become a possible source of regional instability, and will certainly face the same problems with weapons and narcotics trafficking that plague the region. However, these are predominantly regional problems, and will not have more than an indirect influence on broader US-Iranian competition. Tajikistan will remain peripheral to global US strategic interests.

Kazakhstan

Kazakhstan is by far the largest Central Asian state and the region's economic heavyweight. It also is the northern most Central Asia state and does not share a common border with Iran or Afghanistan. Kazakhstan is one of Central Asia's most stable states and maintains close links with Russia. Its authoritarian political system has been headed by former Kazakh Communist Party leader Nursultan Nazarbayev since independence in 1991. Recent political developments have pointed toward an ever-greater consolidation of power around the personality cult of President Nazarbayev; legislation passed in 2010 seems to have given him and his family lifetime immunity from prosecution.²²²

Kazakhstan has enacted nominal democratic reforms and has held periodic "elections," the most recent of which President Nazarbayev won with an officially reported 95.55% of the vote.²²³ In addition to electoral irregularities, Kazakhstan ranks poorly in measures of human rights, media freedoms, and rule of law.²²⁴

Its GDP was estimated at about \$178 billion in 2011 – well beyond Uzbekistan's \$45 billion and Turkmenistan's nearly \$26 billion.²²⁵ Kazakh wealth is in large part a feature of its booming oil industry, which accounts for more than one-third of its total GDP.²²⁶ According to the CIA, Kazakhstan produces around 1.6 million barrels of oil per day and exports nearly 1.4 million.²²⁷ With oil reserves estimated to be about 30 billion barrels, Kazakhstan could potentially become one of the world's top five oil producers by 2020.²²⁸

A CIA analysis again provides further background:²²⁹

Non-Muslim ethnic minorities departed Kazakhstan in large numbers from the mid-1990s through the mid-2000s and a national program has repatriated about a million ethnic Kazakhs thus far back to Kazakhstan. These trends have allowed Kazakhs to become the titular majority again. This dramatic demographic shift has also undermined the previous religious diversity and made the country more than 70 percent Muslim.

Kazakhstan's economy is larger than those of all the other Central Asian states largely due to the country's vast natural resources. Current issues include: developing a cohesive national identity; managing Islamic revivalism; expanding the development of the country's vast energy resources and exporting them to world markets; diversifying the economy outside the oil, gas, and mining sectors; enhancing Kazakhstan's economic competitiveness; developing a multiparty parliament and advancing political and social reform; and strengthening relations with neighboring states and other foreign powers.

Kazakhstan...possesses enormous fossil fuel reserves and plentiful supplies of other minerals and metals, such as uranium, copper, and zinc. It also has a large agricultural sector featuring livestock and grain. In 2002 Kazakhstan became the first country in the former Soviet Union to receive an investment-grade credit rating. Extractive industries have been and will continue to be the engine of Kazakhstan's growth, although the country is aggressively pursuing diversification strategies.

Landlocked, with restricted access to the high seas, Kazakhstan relies on its neighbors to export its products, especially oil and grain. Although its Caspian Sea ports, pipelines, and rail lines carrying oil have been upgraded, civil aviation and roadways continue to need attention. Telecoms are improving, but require considerable investment, as does the information technology base. Supply and distribution of electricity can be erratic because of regional dependencies, but the country is moving forward with plans to improve reliability of electricity and gas supply to its population.

At the end of 2007, global financial markets froze up and the loss of capital inflows to Kazakhstani banks caused a credit crunch. The subsequent and sharp fall of oil and commodity prices in 2008 aggravated the economic situation, and Kazakhstan plunged into recession.

While the global financial crisis took a significant toll on Kazakhstan's economy, it has rebounded well, helped by prudent government measures. GDP increased 7.5% year-on-year in 2011, and 5.0% in 2012. Rising commodity prices have helped the recovery. Despite solid macroeconomic indicators, the government realizes that its economy suffers from an overreliance on oil and extractive industries, the so-called "Dutch disease." In response, Kazakhstan has embarked on an ambitious diversification program, aimed at developing targeted sectors like transport, pharmaceuticals, telecommunications, petrochemicals and food processing. In 2010 Kazakhstan joined the Belarus-Kazakhstan-Russia Customs Union in an effort to boost foreign investment and improve trade relationships and is planning to accede to the World Trade Organization in 2013.

US and Kazakh Relations

The US has two main interests in Kazakhstan: protecting the investments of US oil companies, which have been present in Kazakhstan for more than two decades, and helping Kazakhstan to secure the nuclear arsenal that remained in the country after the breakup of the Soviet Union. The US currently states that it seeks "to help the country develop into a stable, secure, and democratic country that embraces free market competition and rule of law, and is a respected regional leader."²³⁰

From 1992 until 2010, the US provided Astana with an estimated \$1 billion for nuclear disarmament and the removal of Kazakhstan's chemical and biological weapons as part of Comprehensive Threat Reduction assistance and other programs.²³¹ The US budgeted aid to Kazakhstan was \$17.6 million in FY 2011 and is projected to reach \$18.8 million in FY 2012, with under \$15 million requested for FY 2013.²³² Although aid is nominally contingent on continued improvement on Kazakhstan's human rights record, Astana receives a waiver from Washington on the basis of national security interests.²³³

Additionally, the April 2010 US nuclear security summit produced a joint statement from Presidents Nazarbayev and Obama that reaffirmed the two countries' commitment to "intensify bilateral cooperation to promote nuclear safety and nonproliferation" among other things, and set the stage for the establishment of a US Consulate General in the former Kazakh capital, Almaty.²³⁴

Current US-Kazakh relations emphasize military-to-military cooperation. Programs such as the International Military Education and Training (IMET) program and the Foreign Military Financing (FMF) fund channel US aid to the Kazakh military. Additionally, NATO has trained Kazakh troops since 2002 through the "Steppe Eagle" program, which prepares Kazakhs to deploy with NATO in peacekeeping operations.²³⁵

The United States also serves as an important economic partner for Kazakhstan. Bilateral trade in 2010 was valued at roughly \$2.6 billion – an increase of over 400% since 2001.²³⁶ The US State Department reported that US Foreign Direct Investment (FDI) accounted for about 25% of the country's total FDI, and that American companies have invested about \$14.3 billion in Kazakhstan since 1993, mostly in the oil and gas sector.²³⁷

Kazakhstan has also been a willing partner to US-led operations in Afghanistan. In February 2009, Kazakhstan allowed the purchase and transport of non-military supplies destined for Afghanistan through its territory.²³⁸ The following year, Astana negotiated a deal with NATO to incorporate Kazakhstan in the NDN, which opened up Kazakh airspace to NATO aircraft.²³⁹ The

financial benefits of linking up to the NDN are an important incentive for Kazakh support for NATO policies; Astana is also reportedly hoping that its Caspian port city of Aktau can be transformed into another NDN logistical node.²⁴⁰

Iranian and Kazakh Relations

Iran and Kazakhstan have cordial bilateral relations, largely due to shared interests and few areas of potential competition. Although they are not linked by contiguous territory or strong economic ties, they have been connected by rail links through Turkmenistan since 2001. In 2007, all three countries signed an agreement to begin a new rail project with increased capacity.²⁴¹ Like other states in the region, Iran and Kazakhstan share national interests in combating terrorism and drug trafficking. Promoting regional and economic stability are areas of overlap for the foreign policies of both states.

Transportation Corridors, Energy, and Trade

Iran and Kazakhstan have common interests with regard to the region's transportation infrastructure. By the end of this year, the 900 kilometer Uzen-Gorgan railway is scheduled to be completed and will have a maximum freight capacity of 5.5 million tons.²⁴² In June 2012, the Kazakh Transport and Communications Minister met with Iran's Foreign Minister in Tehran and expressed a desire to boost bilateral trade to \$5 billion annually.²⁴³ Iran currently estimates its trade with Kazakhstan to be about \$1.2 billion per year.²⁴⁴

Further shared interests involve the energy trade. A fuel swap was negotiated between them in 1997,²⁴⁵ although rumors circulated in 2010 that Iran was reconsidering some of the deals due to a lack of profitability.²⁴⁶ It is not clear if Kazakh swaps were actually suspended, but reporting from 2011 indicates that Iran was in fact involved in fuel swaps with Kazakhstan,²⁴⁷ and that Astana was supplying Tehran with about 1.2 million tons of oil yearly – presumably in swaps.²⁴⁸ Kazakh oil bound for East Asian markets could also potentially transit through Iranian territory to the Persian Gulf, which would provide a safe and relatively inexpensive route.²⁴⁹ The value of a Kazakh-Turkmen-Iranian pipeline could thus be very great, and Astana is cognizant of Iran's potential to provide a lucrative export route for Kazakh hydrocarbons.²⁵⁰

Despite the potential for substantial profits from increased trade, Iranian sources report that Kazakh-Iranian bilateral trade has declined in recent years. Annual bilateral trade volume currently stands at about \$1.3 billion,²⁵¹ down from an estimated \$3 billion in 2008.²⁵² Although there is a certain amount of ambiguity in Kazakh-Iranian trade statistics, it is clear that trade with Iran accounts for no more than 5% of Kazakhstan's total international trade, which was valued at about \$97 billion in 2010.²⁵³ It should be noted that these figures do not include re-exports; however, the value of Kazakh exports that transit through Iran is minimal.

Nevertheless, Kazakhstan's continuing importance to Iran was reflected in President Ahmadinejad's recent visit to Astana in 2009 – his first trip to a Central Asian country.²⁵⁴ During the visit, Ahmadinejad highlighted shared Iranian-Kazakh interests in areas such as energy, transportation, and agriculture – and declared that “[a]lthough Iran's ties with Kazakhstan are not longstanding, they are rooted in culture and national interests.”²⁵⁵

Nuclear Issues

As a regional leader, Kazakhstan's stance on the Iranian nuclear program has been echoed by other Central Asian states. Having removed its own nuclear stockpile in the nineties with US help,²⁵⁶ Astana views the spread of nuclear weapons capability as a destabilizing influence in the

region. As Sebastien Peyrouse explains, “[l]ike all Central Asian states, Kazakhstan has always held clearly pro-Israeli positions and refused to be drawn into the anti-Israeli logic of the Iranian regime.”²⁵⁷ In an effort to stress Kazakhstan’s commitment to nuclear disarmament, in 2009 President Nazarbayev promised Israel’s President Shimon Peres that “no nuclear material will reach Iran from our territory.”²⁵⁸

Despite its commitment to nuclear nonproliferation, Kazakhstan does not seem overtly threatened by the Iranian nuclear program. Kazakh officials have reaffirmed Iran’s right to a peaceful nuclear energy program – and indeed, Kazakhstan has offered to supply a fuel bank to Tehran.²⁵⁹ Nazarbayev has also, on occasion, voiced criticism of the international community’s hypocrisy in tacitly accepting Israeli and Pakistani nuclear weapons while condemning the Iranian nuclear program.²⁶⁰ As the world’s top producer of uranium, Kazakhstan has an open interest in expanding its commercial market for civil nuclear fuel, and would no doubt be eager to sell uranium to Iran if international sanctions were dropped.²⁶¹

Kazakhstan and Iran’s interests also overlap in forums such as the SCO, in which Kazakhstan is a founding member. Although Astana has in the past expressed hesitation at the idea of upgrading Iran’s status at the SCO – claiming in 2005 that it was too early for Iran to become a full member²⁶² – the Kazakh government has more recently signaled its interest in a stronger role for the SCO. Along with other member states, Kazakhstan has reaffirmed the importance of preserving the national sovereignty of both members and observers of the SCO.

Implications for US Policy

Of the five Central Asian states, Kazakhstan lies the furthest from Iran’s strategic orbit. Iranian influence in Kazakhstan is likely to remain extremely limited in the near to mid-term. Astana’s historically close relationship with Washington – and its cooperation in US-led efforts to sanction Iran – indicate that Kazakh officials prioritize the relationship with the US over the relationship with Iran. Still, Kazakhstan and Iran are linked by geography and will inevitably share some regional interests.

Shared interests between Iran and Kazakhstan will likely center on preserving regional stability and containing the threat of terrorism. However, these interests are so broad and the isolation between the two countries is such that neither Iran nor Kazakhstan will need to rely on the other in a meaningful way. Iran will continue to look south and west, Kazakhstan will continue to look north, and both countries’ foreign policies will amplify the physical distance between them.

Thus, by virtue of its size, economic power, and traditionally close ties to Russia, Kazakhstan has been relatively insulated from US-Iranian competition. Barring the outbreak of a serious conflict, Kazakhstan will remain largely insulated from strategic maneuvering by Washington or Tehran. Astana will remain firmly under Russian influence for the foreseeable future, despite its growing trade ties with China. Even if tensions were to escalate in the Caspian Sea, Astana would defer to Moscow for geopolitical guidance. In short, out of all the Central Asian states, Kazakhstan will probably be the least affected by any form of US-Iranian strategic competition.

Kyrgyzstan

Kyrgyzstan is the second poorest of the Central Asian states and has not been an area where US and Iran tensions have had a significant impact. Like most other Central Asian states, it is driven internal pressures that have little to do with either the US or Iran. In the past ten years, the Kyrgyz have witnessed two of their governments fall to largely nonviolent popular protests,

leading to a fragile but relatively democratic government since the beginning of 2010. The CIA describes this situation and its economic effects as follows:²⁶³

Nationwide demonstrations in the spring of 2005 resulted in the ouster of President Askar AKAEV, who had run the country since 1990.

Subsequent presidential elections in July 2005 were won overwhelmingly by former prime minister Kurmanbek BAKIEV. Over the next few years, the new president manipulated the parliament to accrue new powers for himself. In July 2009, after months of harassment against his opponents and media critics, BAKIEV won re-election in a presidential campaign that the international community deemed flawed.

In April 2010, violent protests in Bishkek led to the collapse of the BAKIEV regime and his eventual fleeing to Minsk, Belarus. His successor, Roza OTUNBAEVA, served as transitional president until Almazbek ATAMBAEV was inaugurated in December 2011. Continuing concerns include: the trajectory of democratization, endemic corruption, poor interethnic relations, and terrorism.

... Kyrgyzstan was the first Commonwealth of Independent States (CIS) country to be accepted into the World Trade Organization. Much of the government's stock in enterprises has been sold. Drops in production had been severe after the breakup of the Soviet Union in December 1991, but by mid-1995, production began to recover and exports began to increase. In 2005, the BAKIEV government and international financial institutions initiated a comprehensive medium-term poverty reduction and economic growth strategy.

The government made steady strides in controlling its substantial fiscal deficit, nearly closing the gap between revenues and expenditures in 2006, before boosting expenditures more than 20% in 2007-08. GDP grew about 8% annually in 2007-08, partly due to higher gold prices internationally, but slowed to 2.9% in 2009.

The overthrow of President BAKIEV in April 2010 and subsequent ethnic clashes left hundreds dead and damaged infrastructure. Shrinking trade and agricultural production, as well as the political instability caused by the change in government, caused GDP to contract 0.5% in 2010. The fiscal deficit widened to 11% of GDP in 2010, reflecting significant increases in crisis-related spending, including both rehabilitation of damaged infrastructure and bank recapitalization.

The economy grew 5.7% in 2011, but slowed to around 1% in 2012, primarily due to an 83% decrease in production from Kumtor. As a result, the budget deficit increased at year's end. Progress in fighting corruption, improving transparency in licensing, business permits and taxations, restructuring domestic industry, and attracting foreign aid and investment are key to future growth.

Despite its changes in regime, Kyrgyz foreign policy has remained relatively stable, held together by the military, which has managed to mostly stay above the political fray. The military was also aided by the US and Russia, both of which pressured successive Kyrgyz governments to uphold a consistent foreign policy.

The World Bank assessment is mixed, but generally favorable,²⁶⁴

After independence in 1992, the Kyrgyz Republic's economy and public services were hit hard by the break-up of the Soviet economic zone and the end of subsidies from Moscow. Thanks to the adoption of market-based economic reforms in the 1990s, the economy has nearly recovered to its pre-independence level of output, but infrastructure and social services have suffered from low investment.

With per capita GNI of \$920 in 2011, the Kyrgyz Republic remains a low-income country. Moreover, the global economic crisis, the political unrest of April and June 2010 and food price increases in 2011 and 2012 have reversed earlier gains in poverty reduction. The absolute poverty rate increased from 33.7 percent in 2010 to 36.8 percent in 2011.

A series of reform-oriented governments since the political crises of 2010 have sought to restore economic and social stability, and to address shortcomings in public governance and the investment climate. Following strong growth in 2011, the Kyrgyz economy was hit by a significant decline in gold production due to geological movements at the Kumtor gold mine. Real GDP in the first half of 2012 contracted by 5.6 percent as gold production at Kumtor fell by 60 percent. Excluding Kumtor, real output grew moderately

at 3.9 percent with growth across all sectors.

Weak economic governance and a high level of perceived corruption remain key obstacles to development in the Kyrgyz Republic, and were considered causes of the political unrest of 2010. The government's Medium Term Development Program, adopted in 2011, stated improving governance and fighting corruption to be its top priority.

The agricultural sector, which accounts for about a quarter of the country's GDP and about one third of employment, expanded rapidly between 1996 and 2002. The Government successfully completed a land reform, created a rural bank and agribusiness/rural advisory services, and established water-user associations and pasture committees.

The energy sector is one of the largest in the Kyrgyz economy, accounting for around 3.9 percent of GDP and 16 percent of industrial production. The bulk of the country's current generating capacity is hydropower. The key challenges faced by the sector are high commercial losses and low tariffs, leading to inadequate funding for maintenance and investment, winter energy shortages, and governance issues. All these led to significant deterioration of energy assets and poor sector performance.

Mining constitutes about 26 percent of tax revenues, about 10 percent of GDP, and 50 percent of export earnings. The country has been reviewing mining legislation and mineral licensing procedures. To address governance issues in mining, the Kyrgyz Government started implementing the Extractive Industries Transparency Initiative in 2004.

The road network connects remote communities and links the Kyrgyz Republic to neighboring countries. Rehabilitating strategic road corridors is on the Government's priority list, given their importance in providing access to international markets and basic public services. However, basic preventative maintenance is seriously underfunded.

Improving education, healthcare and social protection is another top priority for the Kyrgyz Republic. The Government is currently implementing medium term reforms in these sectors.

As in other Central Asian states, Moscow has historically played a leading role in defining Kyrgyz foreign policy. However, Kyrgyzstan's recent democratization process has led Bishkek to defy Moscow in a number of areas. Recent years have also seen China's economic influence on its western neighbor increasing rapidly. By 2009, Kyrgyzstan was the number one destination for Chinese exports in Central Asia.²⁶⁵

Still, Kyrgyz security issues are still very much linked to Russia. Kyrgyzstan's President Atambayev visited Moscow in December 2011 and reaffirmed Kyrgyzstan's special relationship with Russia, describing Moscow as a close "strategic partner" of Bishkek.²⁶⁶

US and Kyrgyz Relations

Since 2001, Kyrgyzstan's strategic location on the Afghan border has become important to US foreign policy. US-Kyrgyz trade remains limited. In 2011, bilateral trade value was about \$107 million,²⁶⁷ which was somewhat greater than Iranian-Kyrgyz trade. Since 2010, trade with the US has accounted for only 1-2% of Kyrgyzstan's total trade,²⁶⁸ meaning the US is no more than a marginal trading partner for Bishkek.

Like other former Soviet Republics, Kyrgyzstan has received US aid since the fall of the Soviet Union. From the period from 1992 to 2010, total US assistance to Kyrgyzstan was about \$1.2 billion.²⁶⁹ The non-military aid request to Congress for Kyrgyzstan for FY2012 was \$46.6 million, designated for programs supporting better governance, security, education, and health.²⁷⁰ Overall, the US provides Kyrgyzstan with around \$150 million per year, about \$60 million of which goes toward costs associated with the Manas Transit Center.²⁷¹

The Manas Transit Center has been a key hub for US-led operations in Afghanistan. There are some 1,500 US troops at Manas, which serves as an airbase for ISAF forces in Afghanistan. The existence of this US base on Kyrgyz territory has been controversial for much of the Kyrgyz population, in addition to being opposed by Russia and China. Manas has also been affected by Kyrgyzstan's recent political upheavals. In February 2009, the Kyrgyz parliament voted to close the airbase at Manas. The decision was widely perceived to be the result of pressure from the Kremlin: on the same day that the closure was announced, Russia pledged a \$2 billion loan to Kyrgyzstan, as well as offering about \$180 million in debt forgiveness.

Following Bishkek's announcement that it would close Manas, the US spent several months negotiating with Kyrgyz officials. As a result, they announced in June 2009 that Manas would remain open, but that it would now be referred to as a "transit center" rather than a "base."²⁷² The agreement to keep Manas open involved increasing the rent by more than \$40 million per year – nearly three times the previous amount.²⁷³ Additionally, Washington agreed to pay for substantial repairs and upgrades to the base, at an estimated cost of \$66 million.²⁷⁴

The Manas base has been viewed with concern – or even hostility – by Russia. The difficulties the US has already had in keeping Manas open mean that after US forces withdraw from Afghanistan, Manas is likely to close. The current lease expires in June 2014, and Kyrgyz President Atambayev has already announced his plan to close the base when the lease runs out. President Atambayev cited fear that Kyrgyzstan's hosting the US might invite retaliatory strikes on its territory from hostile groups based in Iraq, Afghanistan, or Iran.²⁷⁵

Fears of aligning Kyrgyzstan too closely with the US are common among Bishkek officials: former Kyrgyz President Otunbayeva has worried publicly about a power vacuum in the region after US forces withdraw, and has suggested that Russia would be the best ally to assist with regional security after 2014.²⁷⁶

Iranian and Kyrgyz Relations

Iran and Kyrgyzstan are relatively isolated both geographically and diplomatically. Bilateral trade is limited mainly to clothing, nuts, paints, meat, and grain.²⁷⁷ Iran estimates the value of its bilateral trade with Kyrgyzstan to be about \$50 million per year,²⁷⁸ which represents less than 1% of Kyrgyzstan's estimated \$6 billion annual trade volume.²⁷⁹

Iranian-Kyrgyz relations are friendly, although they have limited impact on the vital national interests of either state. Neither Iran nor Kyrgyzstan factors heavily in the other's foreign policy calculus. The focus of a recent meeting between Kyrgyz and Iranian officials was on improving bilateral trade, which the Kyrgyz foreign minister announced might soon reach \$1 billion.²⁸⁰

Although there is little prospect of such an achievement in the near future, it is possible that Tehran may be able to improve the amount of Kyrgyz goods exported through Iranian ports. Additionally, officials stated that Iran and Kyrgyzstan would work to negotiate new trade agreements and establish joint enterprises.²⁸¹ Much of the Iran-Kyrgyzstan relationship is limited to this type of friendly but strategically irrelevant diplomacy.

Implications for US Policy

Until the US withdraws its forces from Afghanistan, Kyrgyzstan's main strategic significance will remain its ability to function as a key location for logistical support. US reliance on the NDN – and by extension, reliance on Kyrgyzstan – will fluctuate according to the strength of the US-Pakistan relationship, as the transport routes from Pakistan into Afghanistan are less

expensive than the NDN. However, even if transit routes through Pakistan remain open, the NDN will continue to operate through 2014 as a hedge against a further deterioration in US-Pakistan relations, particularly as greater levels of material are transported out of Afghanistan in 2014-2015.

The influence of Moscow in Kyrgyzstan's domestic politics could easily increase after 2014. Russia has already made efforts to counteract US involvement in Kyrgyzstan, which is currently the only country to host both a US and a Russian military base. The Russian base was established in 2003, two years after the US base at Manas.²⁸² The Russian base, in close proximity to Bishkek, is the former Soviet Kant airbase, officially maintained as part of Collective Security Treaty (CIS) defense and for counterterrorism.²⁸³ The Kant airbase is widely seen as an effort to counterbalance the US presence in Kyrgyzstan, which has made both Russia and China uneasy.

Overall, Kyrgyzstan's importance to the US in the future will depend on US choices about its strategic objectives. If the US sees Central Asia as strategically important, the US presence established at Manas will be worth preserving. If, however, Central Asia's importance to the US declines post-Transition, Kyrgyzstan's strategic value will decline with it. Iran is unlikely to be able to exert any meaningful influence in Kyrgyzstan in the foreseeable future. Any power vacuum that develops post-2014, however, will be contested by Russia, China, and increasingly independent leaders in Bishkek.

CONCLUSIONS

For the past decade, US efforts in Central and South Asia have centered on stabilizing Afghanistan after US-led forces toppled its Taliban government, followed by efforts to help bring regional stability, encourage democracy, and friendly governments, improve the flow of energy exports, and serve other US trade and investment interests. Competition with Iran has played a role in US decision-making, but has not been the driving force. As the US prepares to withdraw its forces and transfer responsibility for security and governance to the Afghan central government, the US will have to reevaluate its interests in the region, particularly with regard to Iran and Pakistan.

US-Iranian competition in Afghanistan, Central Asia, and Pakistan has so far functioned as a reflection, rather than a driver, of broader US-Iranian competition. As the US presence recedes from the region after 2014, Iran may step in to fill part of the ensuing power vacuum. More likely, however, is that Russia and China will enhance their presence in Central Asia, while Afghanistan and Pakistan will continue to struggle with debilitating domestic problems.

Iran's ability to compete with the US is limited in Central Asia, where Russian and Chinese influences are pervasive and deeply-rooted. In Pakistan, Iran's ability to compete with the US is hampered by Pakistan's dysfunctional politics and Pakistani distrust of Iranian intentions. It is only in Afghanistan that Iran possesses a true capability to compete with the US in a meaningful way; however, as Transition proceeds, Iranian incentives for undermining US efforts in Afghanistan will fade as Iran once again confronts its historic challenges of dealing with Afghan instability, narcotics trafficking, and lax border security.

This does not mean that Iranian and US competition could not become violent if the US and Iran were to go to war in other regions. The most likely result, however, is limited acts of terrorism that will not have a strategic impact on any regional state, and regional states will attempt to end of suppress. As for the broader issues of regional development and economic and politic integration, these will be driven by the uncertain prospect of a stable India-Pakistani peace, development following a stable Transition in Afghanistan, internal development in Central Asia, and the future course of Russian and Chinese influence. These changes are likely to be slow, and gather momentum at least half a decade in the future – a time period where the present structure of US-Iranian competition may have eased or been resolved by force in other regions.

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