

CSIS

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US Strategic Interests in the Middle East and the Process of Regional Change

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Introduction

- Discussions of US strategic interests in the Middle East tend to focus on generalizations about broad strategic interests, oil, trade, friendship and peace negotiations and then show concern over all the “usual suspects” like instability, arms sales, rogue states, proliferation, and terrorism. There are good reasons for this focus. Many such region-wide generalizations are valid, although each of us tends to interpret them differently, and no generalizations about a region with more than 20 very different countries can be fully correct.
- The “usual suspects” do dominate American concerns with the Middle East. The US *is* deeply involved in the Middle East in terms of peace negotiations, arms control negotiations, strategic commitments, military deployments, trade, investment, and energy. In fact, the US has taken a relatively consistent approach to its strategic interests in the Middle East for more than a quarter of century -- although it has often changed its tactics and emphasis.
- **This US involvement in the Middle East is both direct and indirect, and involves at least eight major areas of strategic concern.**
 - **The key focus of US strategic interests in peace and regional stability is the Arab-Israeli conflict.** at the same time, the US is concerned with finding ways to deal with Iran, Iraq, and Libya, and deal with less strategically important conflicts in the Western Sahara, Sudan, and the horn of Africa.
 - **The key focus of US interests in arms control negotiations is proliferation,** and the creeping acquisition of nuclear, chemical, and biological weapons that directly involves Egypt, Iran, Iraq, Israel, Libya, and Syria. At the same time, progress is badly needed in reducing conventional arms and many forms of peace keeping efforts.
 - **The key focus of US military strategy and the US military presence is the Gulf,** where the US plans and deploys for a major regional contingency and maintains a significant military presence. US strategy and force plans focus on the risk of another “major regional contingency” in the Gulf. The US has over 5,000 men and women deployed in Gulf countries plus another 11,000 at sea or on rotation -- although these US forces are hard to describe as a “high profile” presence in a region with nearly 3 million men under arms, and another 1.2 million men in paramilitary and security forces.
 - **At the same time, the US has important strategic interests in the Mediterranean, Levant, and North Africa.** The steadily diminishing US involvement in the Mediterranean still leaves some 4,000 US military personnel in the area. It has not brought any reduction in US strategic ties to Egypt and Israel, and has led to a growth in ties to Jordan. The US presence in Egypt is particularly critical because Egypt plays a leading role in the peace process and as a strategic ally of the US.
 - **The US must seek to preserve its trade and investment interests in the region,** and encourage investment in the US. It must attempt to create a stable world market in oil and

gas exports that ensures that moderately priced exports are available to the US. The US exports over \$130 billion worth of merchandise annually to the region, and has over \$8 billion worth of investments in local industries. US oil imports will increase from 7.3 million barrels a day in the early 1990s to 10.7 million barrels a day in 2000, and 12.3 million barrels in 2010. World oil consumption will increase from 67.4 million barrels a day in the early 1990s to 78.6 million barrels a day in 2000, and 88.8 million barrels in 2010. Oil is a global commodity that literally fuels the global economy and virtually all of the growth in supply through the year 2010 will come from the Middle East and the Gulf.

- **The US must deal with the problem of arms transfers.** Arms exports represent a steadily declining aspect of the US economy. They have dropped from over 5% of all US exports in the early 1980s to less than 2% today, and have dropped in real value from around \$15 billion in 1983 to \$10 billion in 1993. Nevertheless, the economic and strategic value of arms exports to the Middle East cannot be ignored.
- **The US must seek regional stability for broader reasons.** It is easy to talk about “vital” interests, but every new crisis in the region can change US priorities and force the US to take action to protect its citizens and friends. The US has a strategic interest in maintaining friendly regimes, ensuring the flow of global energy imports and exports, maintaining the stability of trade, minimizing the scale and growth of future regional conflicts, and minimizing the risk of a “clash of cultures” between haves and have not, and the West and Islamic extremists. The US must deal with the problem of terrorism, the growing sophistication of terrorists in the region, and the risk they may begin to employ weapons of mass destruction.
- **Further, the US has humanitarian and democratic concerns.** It is easy to dismiss these concerns as good intentions and rhetoric, but they are an underlying aspect of American politics and life -- no matter how awkward the execution may be in many cases.
- **The strategic interests are very real, and they ensure that the US will remain deeply involved in Middle Eastern affairs, continue to play a role in real peace negotiations and arms control efforts, and maintain strong military forces in the region. At the same time, it is necessary to keep these strategic interests in perspective, and to come to grips with some of the more difficult trends in the region.**
- Rounding up the “usual” suspects and discussing US strategic interests in terms of broad clichés is not enough. It is easy to talk politely about the mutual interests the US shares with Middle Eastern states, raise the usual “enemies list”, or rehash all of the same old arguments over the Arab-Israeli-Peace process. In fact, no discussion of US strategic interests in the region can avoid this. However, there are a number of other extremely troublesome issues that affect the region and which also need careful attention.
- **These issues are important even in discussing such a familiar issue as the Arab-Israeli peace process. Such a peace is important, but it is not a panacea and it may not even be the key priority for the nations most concerned.**

- The problems that Egypt, Israel, Jordan, Lebanon, the Palestinians, and Syria face go far beyond the recent Likud victory, Syria's failures to move forward during 1994 and 1995, the Golan, and the final settlement issues .
 - Peace does not mean security as long as extremists will inevitably attack each new step forward, and peace breeds terrorism. Peace negotiations at best can only deal with one of the underlying problems affecting Egypt, Israel, Jordan, Lebanon, the Palestinians, and Syria.
 - No one can ignore the fact that the Likud's demands for security are as important a part of the peace process as Arab demands for land and sovereignty, and that a lack of security did much to make the Israeli electorate turn away from peace. Peace negotiations will only lead to substantive progress towards arms control if they are recast to give arms control new emphasis. Peace negotiations also will do little in the short and medium term to affect the proliferation of weapons of mass destruction; in fact, they may make nations like Israel and Syria more reliant on such weapons to the extent the peace negotiations alter the conventional balance.
 - At the same time, there is little direct correlation between peace and prosperity. The peace negotiations have helped Israel, although almost all of the growth in the Israeli economy has come from trade with other regions. The peace negotiations did not prevent the real per capita income of Gaza and the West Bank from shrinking by 30% from the beginning of the Intifada, and it is increasingly clear that peace alone will only have a negligible impact on the structural economic problems of Egypt and Jordan.
 - This is not to say peace is not important to the prosperity of the former confrontation states, and peace is almost certainly a precondition to the prosperity of Jordan and the Palestinians. However, only massive economic reform and careful attention to efforts to reduce population growth can bring prosperity to Egypt, Israel, Jordan, Syria, and the West Bank and Gaza. The real issue is desperate need for population controls and internal national economic reform.
 - Yes, there have been some regional successes, and some direct economic benefits from the peace process -- particularly in areas like tourism. However, IMF and World Bank estimates indicate that peace does little to halt the flow of private capital out of the region into the US and other developed nations. Middle Eastern investors make brilliant use of opportunities in the region, but they emphasize rates of return and low risk just as much as other businessmen.
 - Further, it is important to remember that only five states out of 23 states in the region are directly involved in the peace process, and that the other 18 states can expect few economic benefits, if any, from a peace settlement. According to CIA and World Bank estimates, Egypt, Israel, Jordan, Syria, and the West Bank and Gaza account for less than 25% of the gross domestic product of the "greater" Middle East, and for only

about 25% of its exports. Even if one only refers to the other 13 Arab countries in the region and Iran, the vast majority of the people in the region will only get peripheral benefits, at best, from the Arab-Israeli peace process and it will do nothing to shape their overall economic and political future.

- From a selfish viewpoint, it is also important to note that the US draws no real economic benefits from trade with Egypt, Israel, Jordan, Syria, and the West Bank and Gaza. Aid and concessional capital outflows greatly exceed the value of US trade with the confrontation states. The US does not import significant amounts of energy from such states, and their net share of regionally financed US exports is shrinking in spite of Israel's economic growth.
- One must be equally careful about the economic merits of Western calls for democracy. Peace and democracy have great merit in their own right, but they have little causal relation to economic development. In fact, democracy may often inhibit development. Every single successful case of sustained development in East Asia since the end of World War II has been the result of a semi-authoritarian regime emphasizing managed growth through the private sector. Many such cases like South Korea and Taiwan have become steadily more democratic with time, but only after major development had occurred. Many successful states spent at least as much on military forces and arms as a percent of their GDP as Middle Eastern states.
- At the same time, the tired old rhetoric about the merits of Pan-Arabism and Arab socialism is equally vacuous in dealing with the region's problems. No Arab state has another Arab state as a principal trading partner, and more than 85% of the trade flows in the region are between regional states and states outside the region. Similarly, efforts to transform the failed concept of Pan-Arabism into calls for regional cooperation are no better. No nation that has emphasized regionalism or ideological considerations over comparative advantage has ever experienced sustained development. No nation that has emphasized the state sector and socialism has ever succeeded in stable development.
- Meaningful regional cooperation grows out of national development, and national development does not grow out of regional cooperation. It is national reform which restructures regional economies to make them more sophisticated and change the pattern of comparative advantage. Poor nations cannot jerk themselves up by their own bootstraps by exporting from poverty to poverty.
- **This brings me to an issue that is not one of the usual suspects, but which is probably far more critical to the future of the Middle East than either peace or military security arrangements: The failure of development.**
- There are now three decades of data from the World Bank, IMF, and national sources that warn about the steadily deteriorating global economic position of the Middle East.

- This deterioration has occurred in spite of the flood of oil wealth between 1974 and 1984. It accelerated during the period between the early 1980s and 1993, although it has recently eased and has reversed in a few cases where Middle Eastern states have begun serious structural reform.
- It has been the product broad failure to develop and become globally competitive, which has combined with extremely high population growth. As a result, the Middle East has fallen behind every region except Sub-Saharan Africa. The real GNP of the Middle East grew by less than 1% during 1983-1993, and real per capita income dropped by 26%. Similarly, the real GNP of North Africa grew by 9% during 1983-1993, and real per capita income dropped by 26%.
- In contrast, the real GNP of the developing world as a whole grew by 73%, and real per capita income rose by 37%. East Asia, the lead region, had a GDP that grew by 73% and real per capita income increased by 50%. In the developed world as whole, the GNP increased by 15% and real per capita income increase by 20%.
- Real manufacturing wages in the Middle East have remained relatively constant for nearly 30 years, while they have increased by roughly 150% in high growth regions like East Asia.
- Although there is some controversy over the details, the outflow of capital from the region continues. While Israel's private sector is attracting substantial amounts of outside capital, the bulk of Arab private investment continues to flow to the West. In spite of improving private capital markets in key nations like Egypt, the overall repatriation of capital continues to fall behind the expatriation of capital, and private businessmen in the region put the bulk of their profits into safer and more productive investments outside the Middle East.
- The primary economic enemy of every Middle Eastern state is not some foreign threat or domestic extremist: It is its own government. Israel's state sector is Israel's economic curse. The Islamic revolution in Iran has been a consistent economic disaster that has done that nation far more damage than war and US efforts at containment. Arab socialism has been the curse of the Arab world, and even in the Gulf states, vast over-expenditures on show piece projects, welfare payments that have helped create massive dependence on foreign labor, and the general mismanagement of the state sector have been consistent enemies of development. The economic history of the Middle East is the history of failed governments that have betrayed their people and their nation's economic interest.
- At the same time, population growth is a major threat to virtually every Middle Eastern state. The Middle East faces a massive demographic time bomb that will continue to explode within Middle Eastern states for the next two decades. The region's population is increasing at nearly twice the rate of the developing world as a

whole and at nearly four times the rate of population growth in the world's most developed nations.

- More than 40% of the region's population is under 15 years of age, and the number of young men and women entering its labor force increase by more than 3% a year. Most face years of direct or disguised unemployment, and something like one-third of all males under 30 already are unemployed or work at purposeless state-related jobs with no meaningful economic output.
- Put differently, this kind of population growth means that roughly 20% of the entire population of the Middle East must leave home in the next five years. It must do so in a region where unemployment exceeds 40%, where job opportunities are declining, where housing is scarce and/or unaffordable, where disguised unemployment deprives new job entrants of meaningful careers, and where new families face growing uncertainties and have limited reason for hope.
- The costs of failed economics, failed governments, and a population explosion are clear. It is easy to talk about Islamic extremism and terrorism in ideological terms, but the social, demographic, and economic causes of such reactions are all clear. Often interact with ethnic and sectarian problems, alienation, and problems with governments.
- **Third, this failure to develop is leading to a steady decline in the economic importance of the Middle East in trade with the US and the rest of the world.**
 - About 7.3% of the US GNP is directly dependent on exports and 9.5% in imports, and the real level of US dependence on the global economy is much higher.
 - However, US trade with the Middle East makes up only a limited portion of this trade, and the relative importance of US non-oil trade with the Middle Eastern the US has declined steady since 1960.
 - US trade in oil has declined steadily in relative importance since 1980, and the value of US arms sales has declined steadily since 1992 -- although US trade in oil and arms are still significant.
 - To put this in perspective, US energy imports amounted to 25% of the value of all US merchandise imports in 1974. They amounted to 34% in the peak year of 1980. They have since dropped to 9.6% of all US imports in spite of the fact that the volume of US oil imports is steadily increasing. Moderate oil prices are part of the story, but the main cause is that world trade is expanding far more quickly in manufactured goods and services than commodities, and success depends on global competitiveness.

- More broadly, the Middle East is steadily declining in terms of its importance to world trade, and is the only region in the world to show a steady decline in the value of its exports over the last decade.
 - For example, the value of Middle Eastern exports decreased by 25% in real terms during the decade from 1983-1993, and the value of North African exports decreased by 33%.
 - Middle Eastern exports shrank from 6.9% of the world total in 1983 to 3.3% in 1993 -- a loss of 50% of the Middle East's share of the global market in a decade.
 - In contrast, the exports of the developing world as a whole increased by 43%, European exports increased by 63%, East Asian exports increased by 101%, South Asian exports increased by 62%, and US exports increased by 59%.
- The Middle East does still imports over \$140 billion dollars worth of goods a year, and exports over \$130 billion worth, and North Africa imports another 26 billion and exports the same amount.

The decline in economic importance does not mean a decline in some aspects of the region's strategic importance, but it does mean important changes. The Middle East may not be competitive in other ways, but the region's oil and gas exports are increasingly critical to the world economy, and will change radically in terms of their market.

- The total value of the world economy rose from \$12 trillion in 1970 to \$23 trillion. Double again to \$45 trillion by 2015. Energy demand rose 2.3% annually between 1970 and 1993, while income rose at 2.8%
- The US Energy Information agency estimates that oil demand will increase from 69 to 99 MMBD by 2015, a 50% increase in world demand over the next 20 years -- and a total of 32 MMBD. Almost all of this increase in demand will come from the developing world -- which will increase at an annual rate of 3.0% vs. 0.9% for the developed world.
- It will also be driven largely by economic growth in Asia. There will be 124% increase in Asian energy demand between 1995 and 2015. In 1990, US energy consumption exceeded that of Asia by 33 Q/BTU. In 2015 - East Asian energy demand will exceed that of the US by 43 Q/BTU.
- Unless very dramatic economic reforms take place, these shifts in energy demand will have several major effects: Asia will become a major customer for oil from Middle East, with fastest growing customers being developing Asian states. The division in wealth between oil exporting and non-exporting states in ME will grow. The percentage of trade with non-Arab states will grow from already high 80%+ level. And, Gulf economies will continue to shift in structure relative to other Middle

Eastern economies with even more emphasis on high tech upstream and downstream operations.

- **At the same time**, this rise in oil production means only a moderate improvement in development for the oil exporting states. In spite of these demand increases, estimates of oil price rises lowered by increasing discoveries and recovery improvements. As a result, oil prices in constant \$US 1996 dollars are projected to drop from \$25 barrel in 2005 to \$24 barrel in 2010. Further, the increases in oil revenues will only outstrip population growth and debt in Kuwait and UAE. Most Gulf states will continue to see a decline in their real per capita income, and there will not be a second oil boom.
- There is, of course, no way to be certain of this future. These estimates involve major uncertainties. Such uncertainties include the inability to forecast demand in terms of Asian economic growth, and forecast supply in terms of willingness of ME states to support expansion. They involve major uncertainties regarding Russia and Chinese production capabilities.
- **Fifth, the military dimension in the Middle East is also changing radically with an increasing emphasis on proliferation and unconventional warfare/terrorism.**
- The IMF estimated in the summer of 1996 that:
 - Developing countries as a group (including transition economies) cut their military spending nearly in half as a share of GDP to 2.6 percent in 1995 from 4.9 percent in 1990. Notably, small, low-income countries reduced their military spending sharply over the last three years, to 3.2 percent of GDP in 1995 from 4.2 percent in 1993.
 - Developing countries of the Middle East and Europe, which historically have recorded the highest levels of military spending, reduced such expenditures by nearly 2 percentage points of GDP during 1990-95; spending fell to 7 percent of GDP by the end of the period.
- The US Arms Control and Disarmament Agency estimated in mid-1996 that:
 - Middle Eastern military expenditures have dropped from around 17% of GNP in the early 1980s, and 18.2 during the Gulf War, to 9.0% and may soon be under 8%. Total real military expenditures in \$1993 have dropped from \$93 billion in 1983, and \$92 billion in 1991, to \$40.0 billion.
 - North African military expenditures have dropped from around 8-9% of GNP in the early 1980s, to 4.0% . Total real military expenditures in \$1993 have dropped from \$9.2 billion in 1983, to \$4.6 billion.
 - Middle Eastern arms imports have dropped from \$ 28.2 billion in real dollars in 1983, to \$9.4 billion in 1993. This compares with peaks of \$26.3 billion in 1987, and \$17.7 billion

in 1990. They have dropped from 20.5% of all imports, and 25% in 1987 to less than 2.0%.

- North African arms imports have dropped from \$ 4.7 billion in 1983, to under \$100 million in 1993, and from 13.7% of all imports to less than 0.5%.
- One irony of these figures is that the Middle East has taken its “peace dividend” before there is a peace. It is extremely unlikely that a peace settlement will lead to any reduction in military expenditures and arms imports. In fact, military expenditures and arms transfers have become a token aspect of the region’s far more serious economic problems -- almost all of which now stem from government mismanagement of the civil sector.
- The Middle East is still a large arms importer. In 1995, at least \$5.2 billion worth of arms went to Saudi Arabia in 1994, \$1.5 billion to Egypt, and well over \$1 billion went to Israel. However, these arms transfers are far less destabilizing than in past. End of Cold War has already devastated Syrian and Libyan arms imports. Iraq lost much of equipment and embargoed since 1990. Iran lost half of ground force equipment in 1988, and imports has dropped from \$3 billion annually during Iran-Iraq War to \$1 billion or less.
- **The key military problem is now unconventional warfare and proliferation.**
 - Israel is a major nuclear power. Iran, Iraq, and Syria have extensive biological capabilities and are approaching the ability to manufacture and deliver weapons with the lethality of small nuclear weapons. Algeria, Egypt, and Israel have extensive biological weapons base.
 - Cannot ignore nuclear weapons, but cannot ignore direct link between nuclear and biological weapons in lethality, or the fact have no current options for an inspection regime.
 - Also need peace and conventional arms control to remove the causes of escalation. Revitalization of the Arms Control and Regional Stability (ACRS) talks is critical.
- **This list of issues and problems may sound discouraging, and it will be disastrous if no one acts. At the same time, the solutions are relatively obvious.**
 - Moderate population control and systematic economic reform can remove many of the most urgent problems in half a decade. The outline of a suitable reform program is clear:
 - Limit population growth.
 - Force radical reductions in the number of foreign workers in every country in the Gulf.
 - Reduce those aspects of state subsidies and welfare that distort the economy and discourage the native population from seeking jobs.

- Restructure the educational system to focus on job training and competitiveness, and eliminate high overhead activities without economic benefits.
 - Eliminate economic disincentives for employers in hiring native labor, and creating disincentives for hiring foreign labor.
 - Encourage privatization.
 - Create new incentives to invest in local industries and business and disincentives for the expatriation of capital.
 - Create market driven incentives for foreign investment in major oil and gas projects, refineries, and petrochemical operations.
 - Tax earnings and sales with progressive taxes that reduce or eliminate budget deficits, which encourage local investment, and which create strong disincentives for the expatriation of capital, including all foreign holdings of capital and property by members of elite and ruling families.
 - Shift goods to market prices. Remove distortions in economy and underpricing of water, oil, and gas.
-
- Nations like Egypt, Israel, Jordan Morocco, and Tunisia have already shown that economic reforms offer great promise.
 - Egypt has already done much to reduce its population growth, and even “Islamic” nations like Iran have shown that they are willing to attempt population control.
 - The Southern Gulf states can solve many of their problems by Draconian efforts to reduce their dependence on foreign labor.
 - Sanctions against Iran and Iraq, the end of the Cold War, peace negotiations, and market forces have already sharply reduced the intensity of the Middle Eastern arms race.
 - Peace and diplomacy can stabilize proliferation and even roll it back.
-
- The only thing that will ensure that things get worse is to deny the reality of the problems, and do nothing.

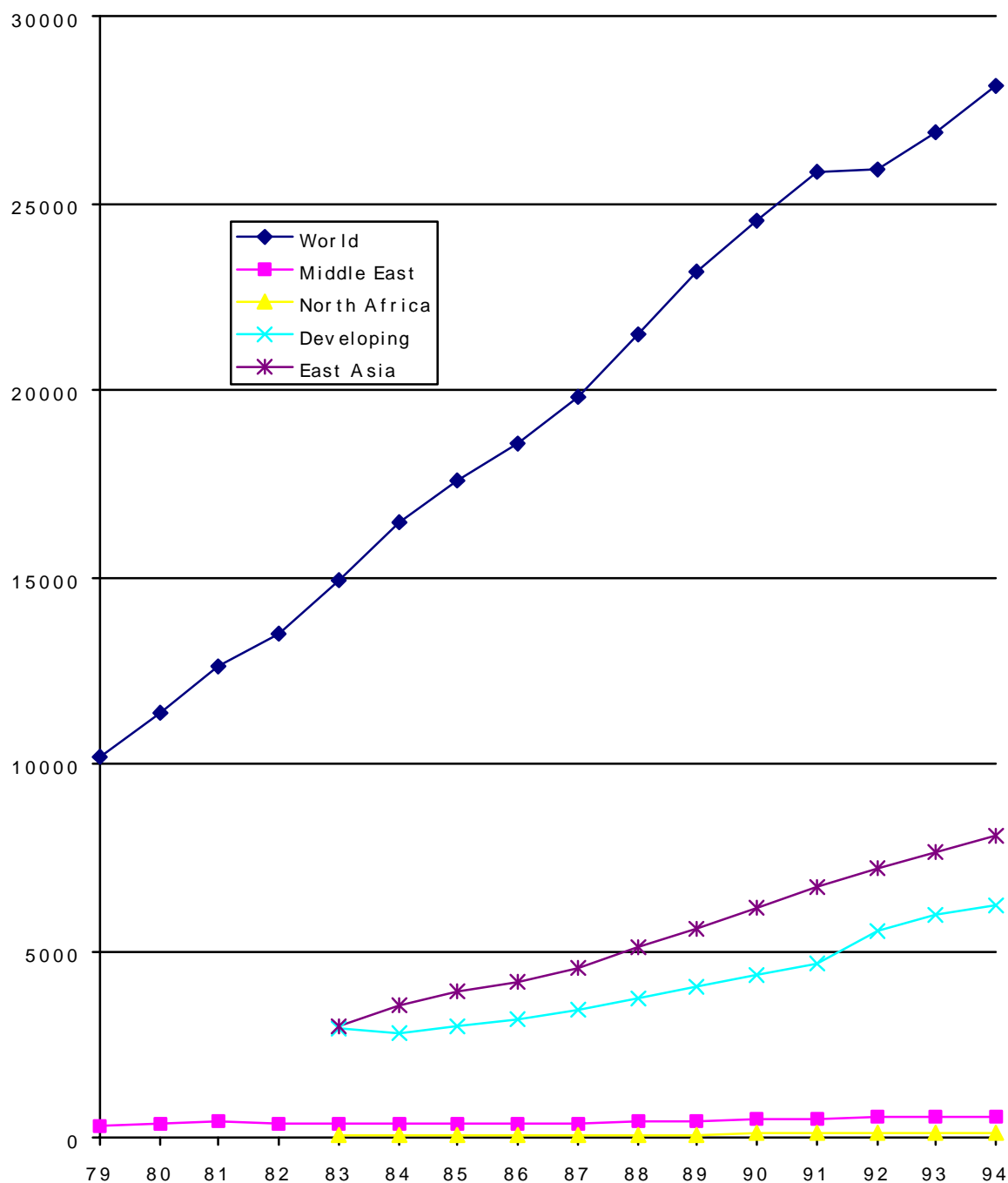
Strategic Interests

- Arms control - local/regional/global
- Bilateral security-bilateral relationships
- Collective security - regional alliances
- Containment of hostile states
- Counter-Terrorism
- Defend and encourage democracy and human rights
- Exclusion of hostile outside powers
- Humanitarian values
- Lines of communication
- Image of US
- Support military presence - secure access to ports and facilities
- Defense of bases, foreign facilities
- Oil
- Peace
- Preserve global reputation and power
- Proliferation
- Security of US and allied citizens
- Trade
- Treaties and agreements
- Ensure supply of critical minerals and materials
- Halt and repel aggression
- Contain and/or defeat hostile ideologies

Sources of Instability in the Middle East

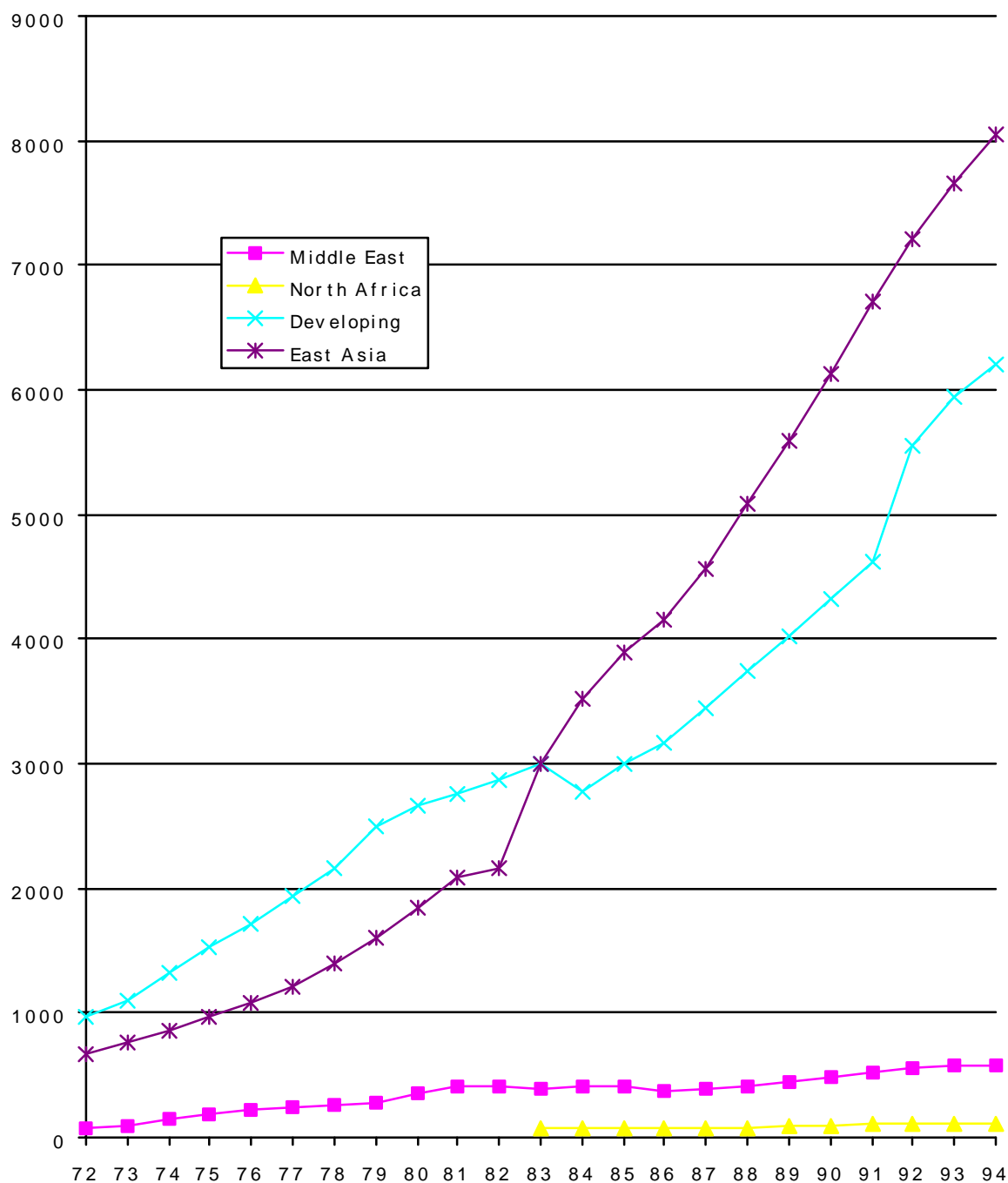
- Repressive authoritarian, one party, and or military controlled governments
- Lack of rule of law and corruption
- Human rights violations
- High population growth rate
- Religious divisions
 - Islamic extremism
 - Jewish extremism
 - Sunni vs. Shi'ite
 - Christian ethnocentrism
- Ethnic/racial divisions
 - Arab vs. Berber
 - Arab vs. Black
 - Arab vs. Jewish
- Tribalism/clans/family nepotism
- Displacement and alienation
- Regionalism
- Over-reliance on foreign labor
- Labor migration
- Breakdown of infrastructure/inadequate infrastructure
- Breakdown of educational system/inadequate educational infrastructure
- Over-urbanization/concentration in capital
- Excessive state sector/government control of economy
- Over-reliance on oil and gas sectors
- Over-reliance on non-productive service sectors
- Excessive government employment/ false jobs
- Structural and disguised unemployment
- Mismanagement of agricultural sector
- Desertification
- Water issues and problems
- Excessive military spending
- Excessive arms imports
- Proliferation
- Transfer of advanced conventional weapons and technologies
- Border disputes

**The Declining Importance of the Middle East:
GNP of the Middle East Relative to World Total: 1979-1994**
(Current Billions)



Adapted by Anthony H. Cordesman from ACDA, WMEAT, various editions. Middle East does not include North African states other than Egypt.

Poor Growth Relative to Other Developing Regions: The GNP of the Middle East Relative to the Developing World Total: 1972-1994
(\$Current Billions)



Adapted by Anthony H. Cordesman from ACDA, WMEAT, various editions. Middle East does not include North African states other than Egypt.

Middle Eastern Growth Will Improve, But Still Lag Badly in Global Terms: US Estimate of World Economic Growth in Percent

(Annual Percentage Change in Real GDP)

<u>Region</u>	<u>1970-1980</u>	<u>1980-1990</u>	<u>1990-2000</u>	<u>2000-2015</u>	<u>1993-2015</u>
OECD	3.2	2.8	2.2	2.5	2.5
North America	3.0	2.6	2.1	2.3	2.3
Europe	3.0	2.6	2.1	2.6	2.6
Pacific	4.3	4.0	2.6	2.7	2.8
Non-OECD	4.4	2.8	2.0	4.7	4.3
EE/FSU	3.2	2.1	-4.0	3.8	2.8
FSU	3.2	2.1	-4.4	3.7	2.6
EE	3.5	1.8	-1.1	4.2	3.9
Non-OECD Asia	6.3	6.9	6.4	6.0	6.0
China	5.8	8.9	9.2	7.6	7.7
Other Asia	6.4	6.3	5.3	5.2	5.2
Middle East	4.8	1.5	3.3	3.4	3.4
Africa	4.2	1.4	2.3	3.5	3.2
Central & South America	5.8	1.1	3.9	3.8	3.7
Total World	3.5	2.8	2.2	3.1	3.0

WEFA Group, World Economic Outlook and DOE/EIA, International Energy Forecast, 1996

Middle Eastern Growth Will Improve, But Still Lag Badly in Global Terms: World Bank Estimate of World Economic Growth in Percent

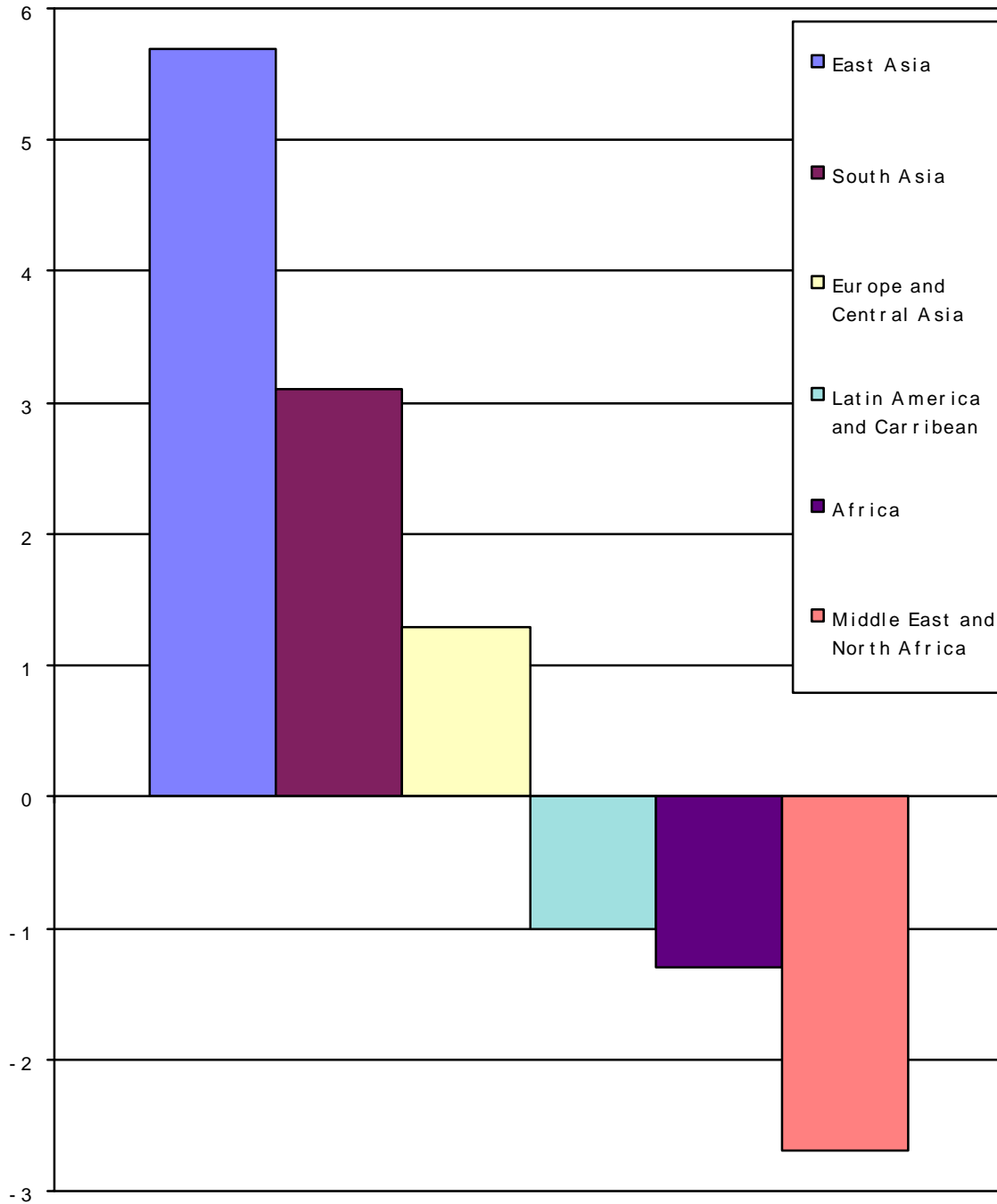
(Annual Percentage Change in Real GDP)

<u>Region</u>	<u>66-73</u>	<u>74-80</u>	<u>81-90</u>	<u>91-94</u>	<u>1995</u>	<u>Forecasts</u>	
						<u>96-97</u>	<u>96-2000</u>
World Total	5.1	3.4	3.1	1.5	2.8	3.1	3.5
High Income Countries	4.8	3.0	3.2	1.7	2.5	2.6	2.9
OECD Countries	4.7	2.9	3.1	1.6	2.4	2.6	2.8
Developing Countries	6.9	5.3	3.0	1.0	3.9	4.8	5.3
East Asia	7.9	7.1	7.9	9.4	9.2	8.2	7.9
South Asia	3.7	4.0	5.7	3.9	5.5	4.4	5.4
Sub-Saharan Africa	4.7	3.5	1.7	0.7	3.8	3.7	3.8
Latin America and Caribbean	6.4	4.8	1.7	3.6	0.9	2.6	3.8
Europe and Central Asia	6.9	6.1	2.1	-9.0	-0.7	3.0	4.3
Middle East and North Africa	8.6	4.9	0.8	2.4	2.5	3.2	2.9
Eastern Europe and Former Soviet Union	7.0	5.1	1.8	-9.4	-2.5	2.9	4.4
Developing Countries Excluding FSU & East Europe	6.2	5.0	3.4	5.0	4.9	5.1	5.4

Note: GDP is measure in market prices and expressed in 1987 prices and exchange rates. Growth rates over historical intervals are computed using least squares regression.

Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 6, based on OECD national accounts and World Bank estimates.

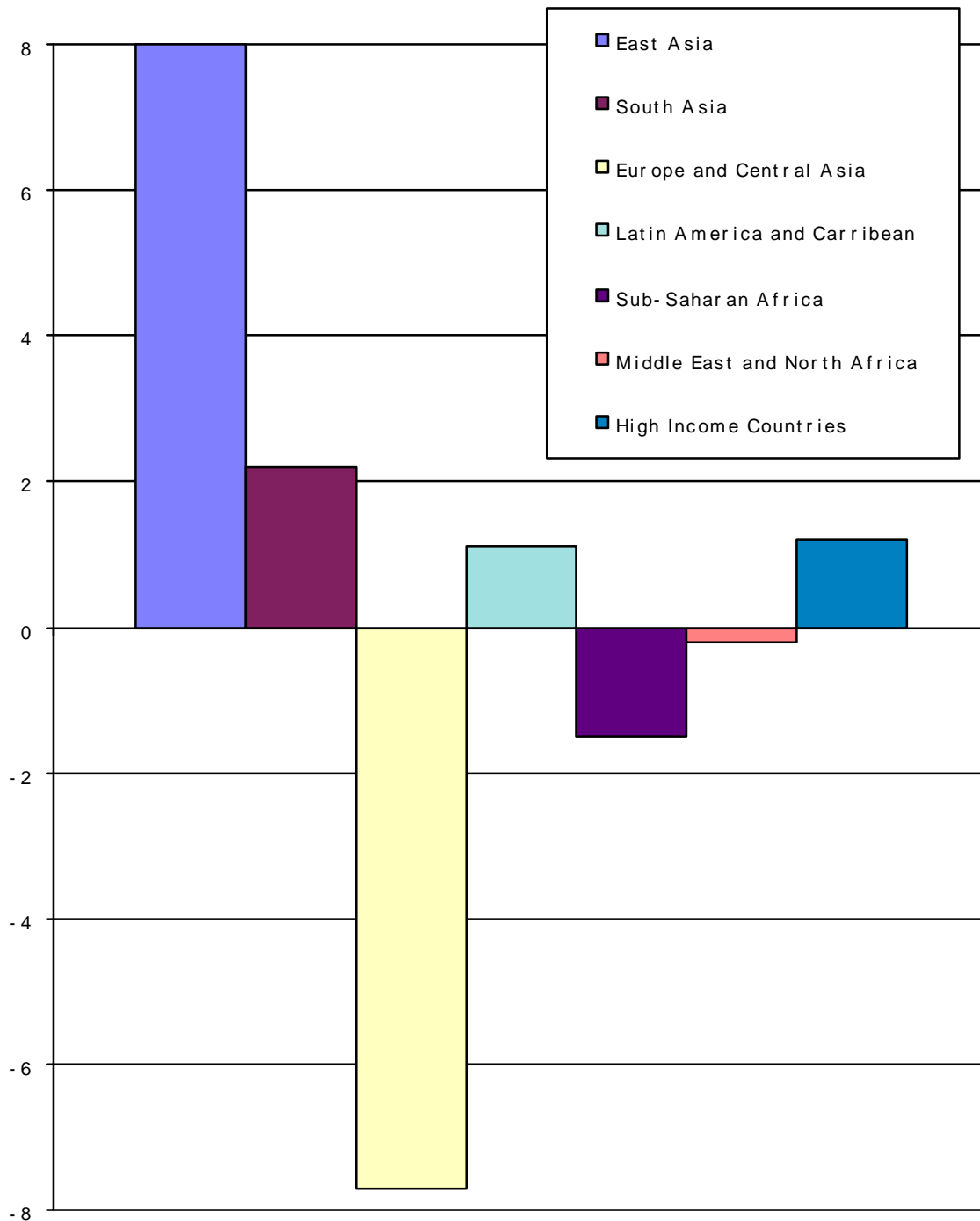
Negative Development During the 1980s:
Average Annual Change in Real Per Capita GDP: 1980-1991
(Change in Average Percent of Growth or Decline)



Source: Adapted by Anthony H. Cordesman from World Bank, Claiming the Future, p. 15

Development Still Lags During the Early and Mid 1990s: Average Annual Change in Real Per Capita GDP: 1991-1995

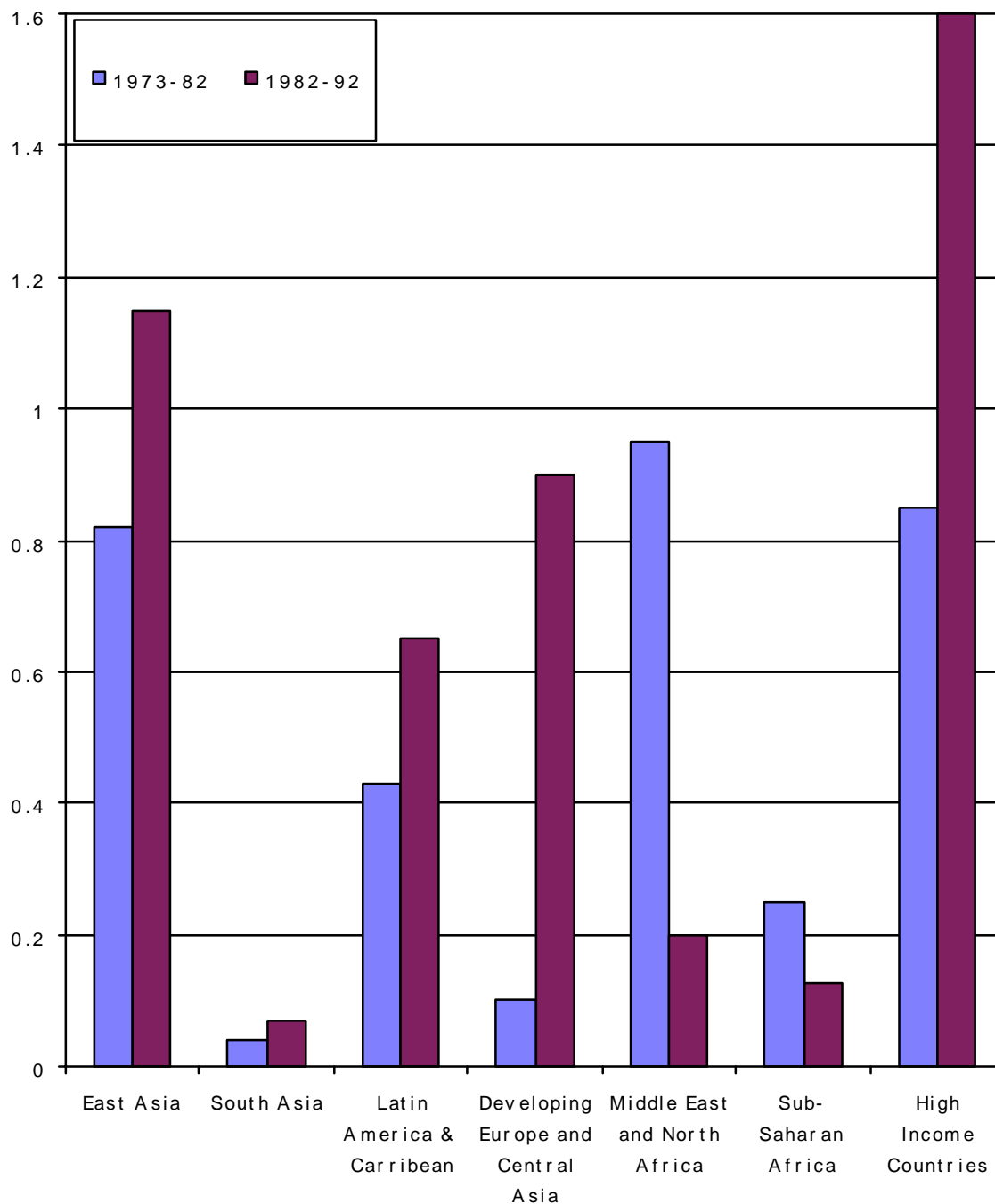
(Change in Average Percent of Growth or Decline)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 3

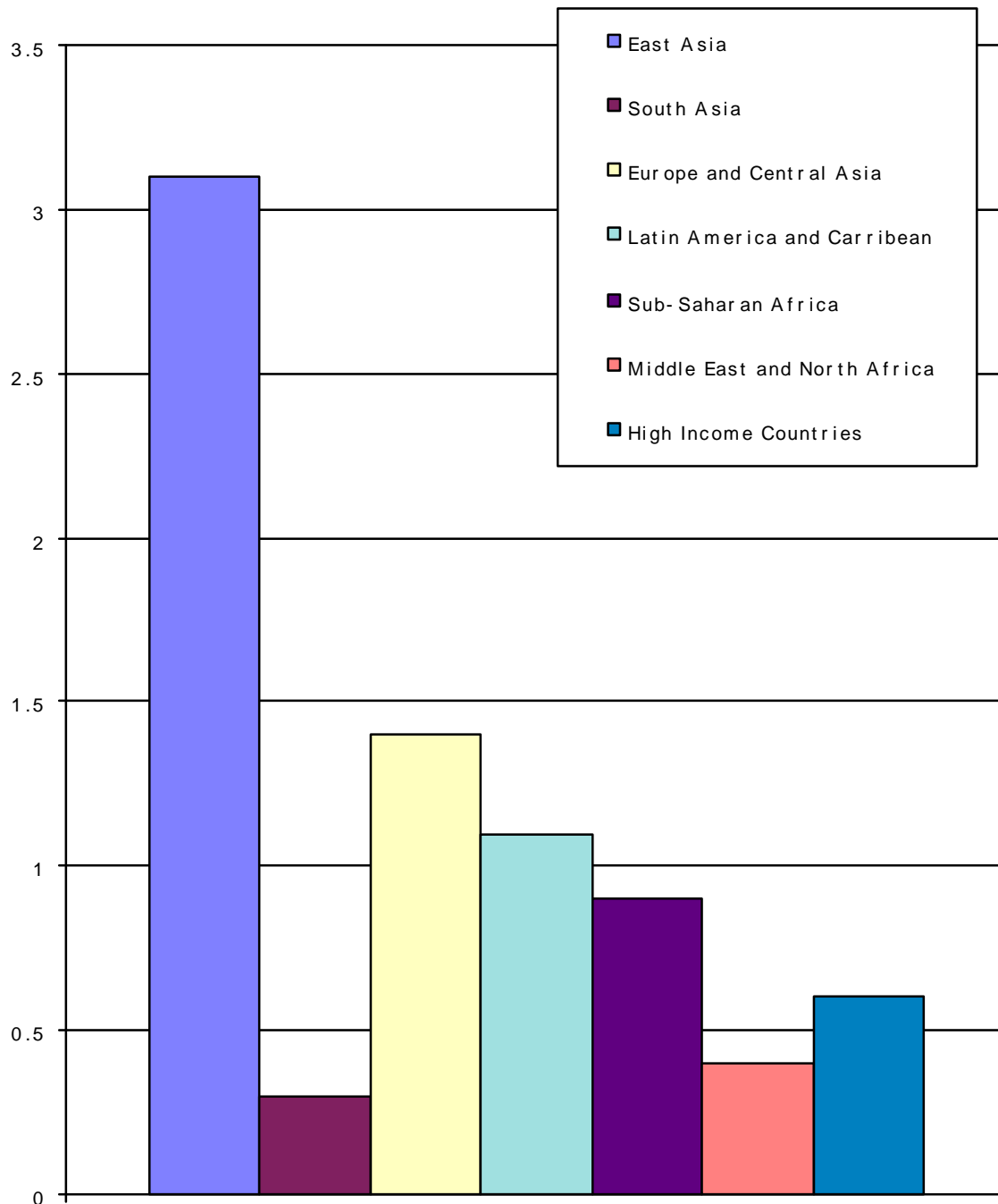
Middle East Foreign Direct Investment has Collapsed Relative to the Oil Boom Years

(Foreign Direct Investment Flows as a Percent of GDP)



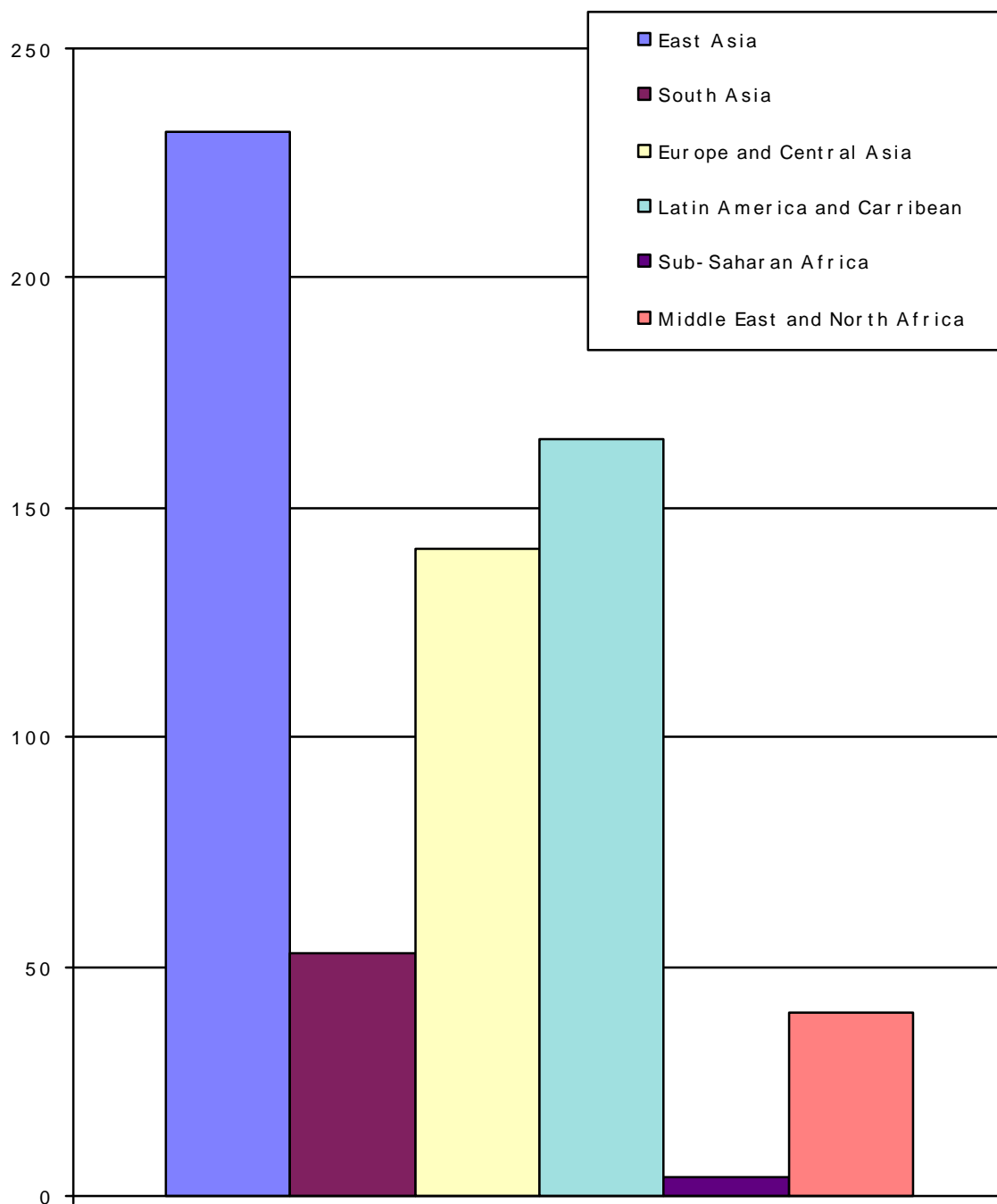
Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 22

Weak Foreign Investment Flows During the 1990s:
Foreign Direct Investment Inflows as a Share of GDP: 1993-1995
(Change in Average Percent of Growth or Decline)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 3

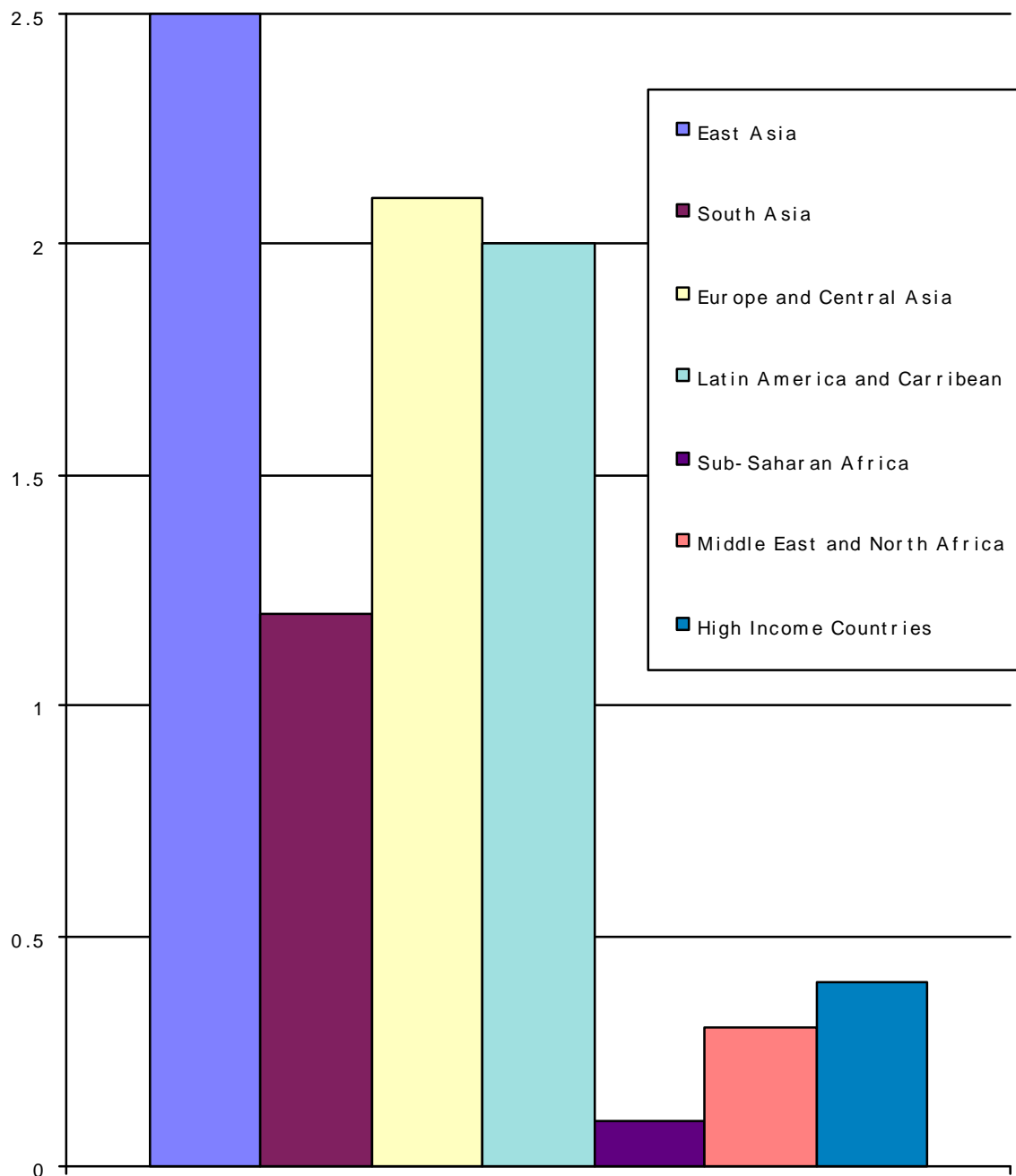
Accumulated Net Private Resource Inflows: 1985-1993
(US \$Billions))



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 16

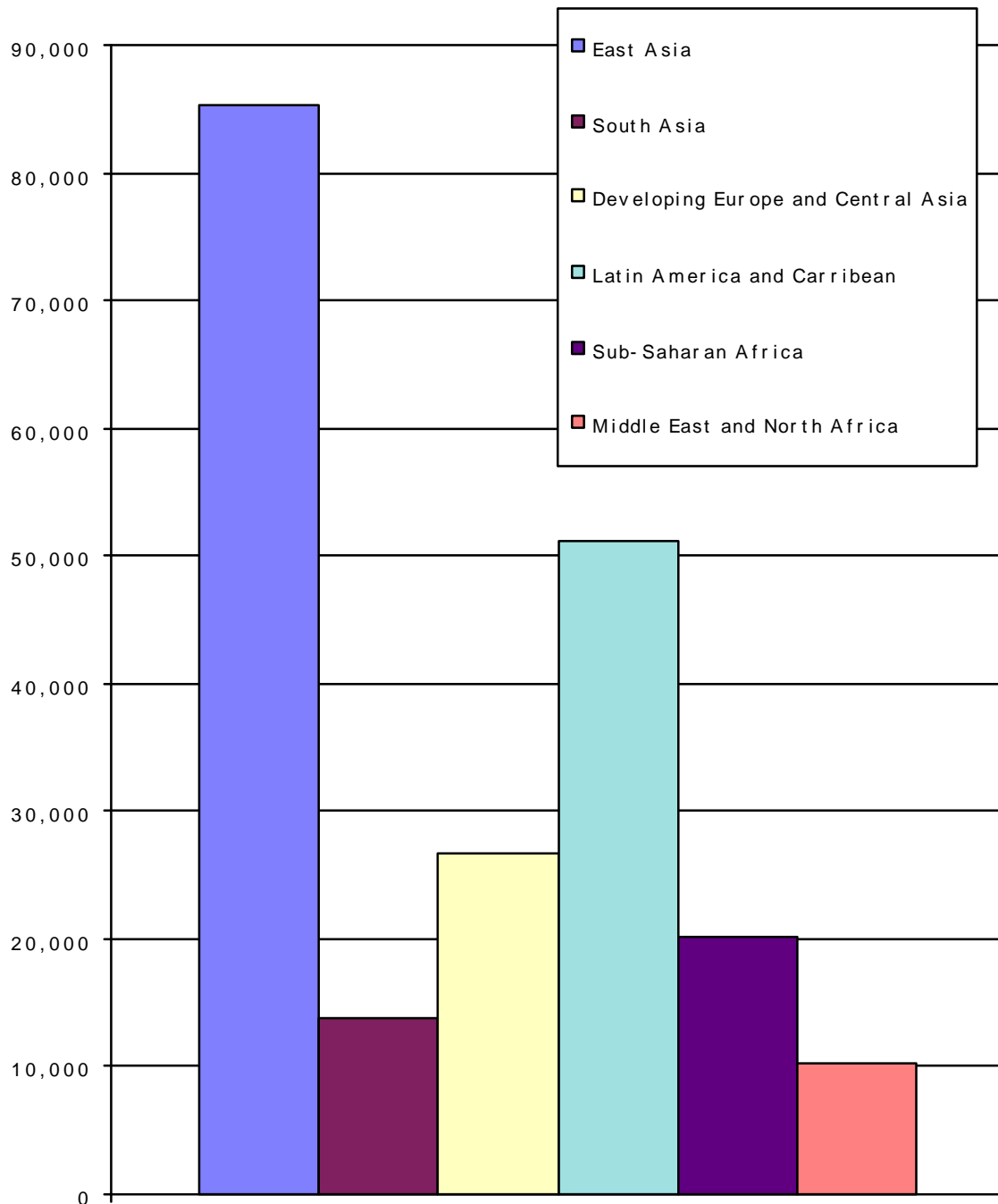
Private Capital Prefers Other Regions: Other Private Capital Flows as a Share of GDP: 1993-1995

(Change in Average Percent of Growth or Decline)



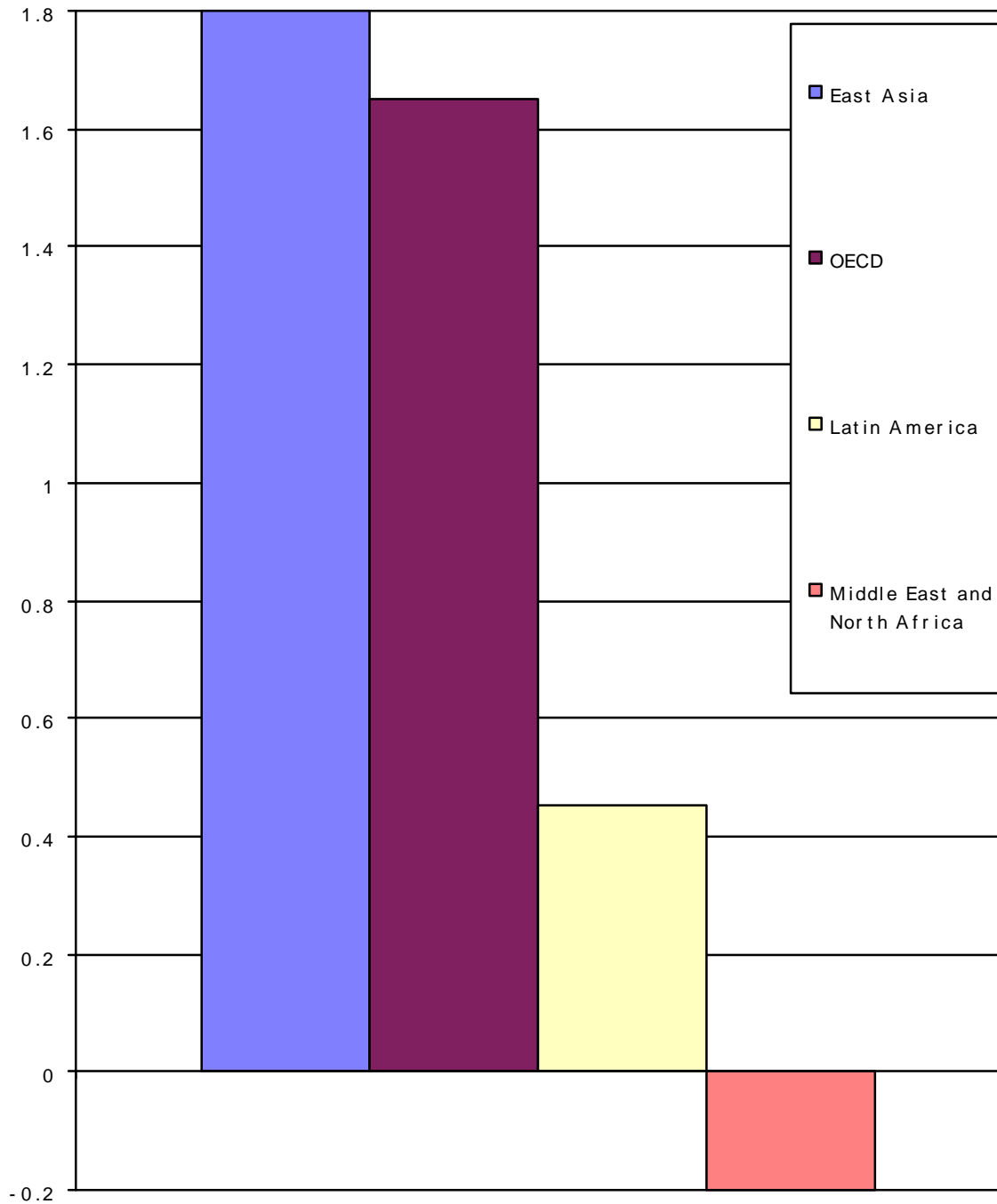
Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 3

**The Middle East Still Lags in Global Foreign Investment:
Total Long Term Private and Official Net Resource Flows in 1994**
(\$US Millions)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, pp. 84-85

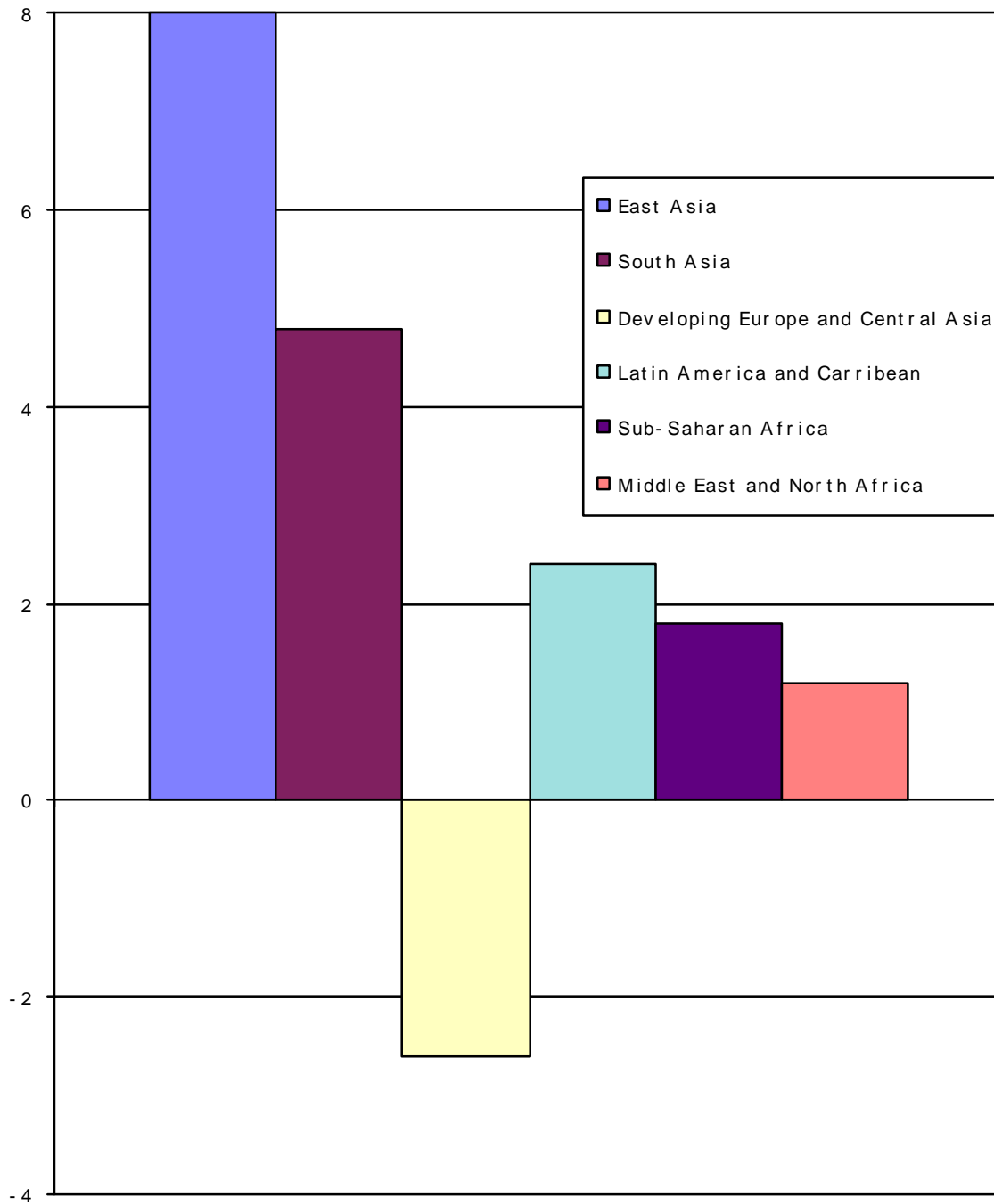
**Productivity Drops While Rising in Other Regions:
Average Annual Change in Total Factor Productivity: 1960-1990**



Source: Adapted by Anthony H. Cordesman from World Bank, *Claiming the Future*, p. 15

Middle East Lags in Regional Output Growth During 1985-1993

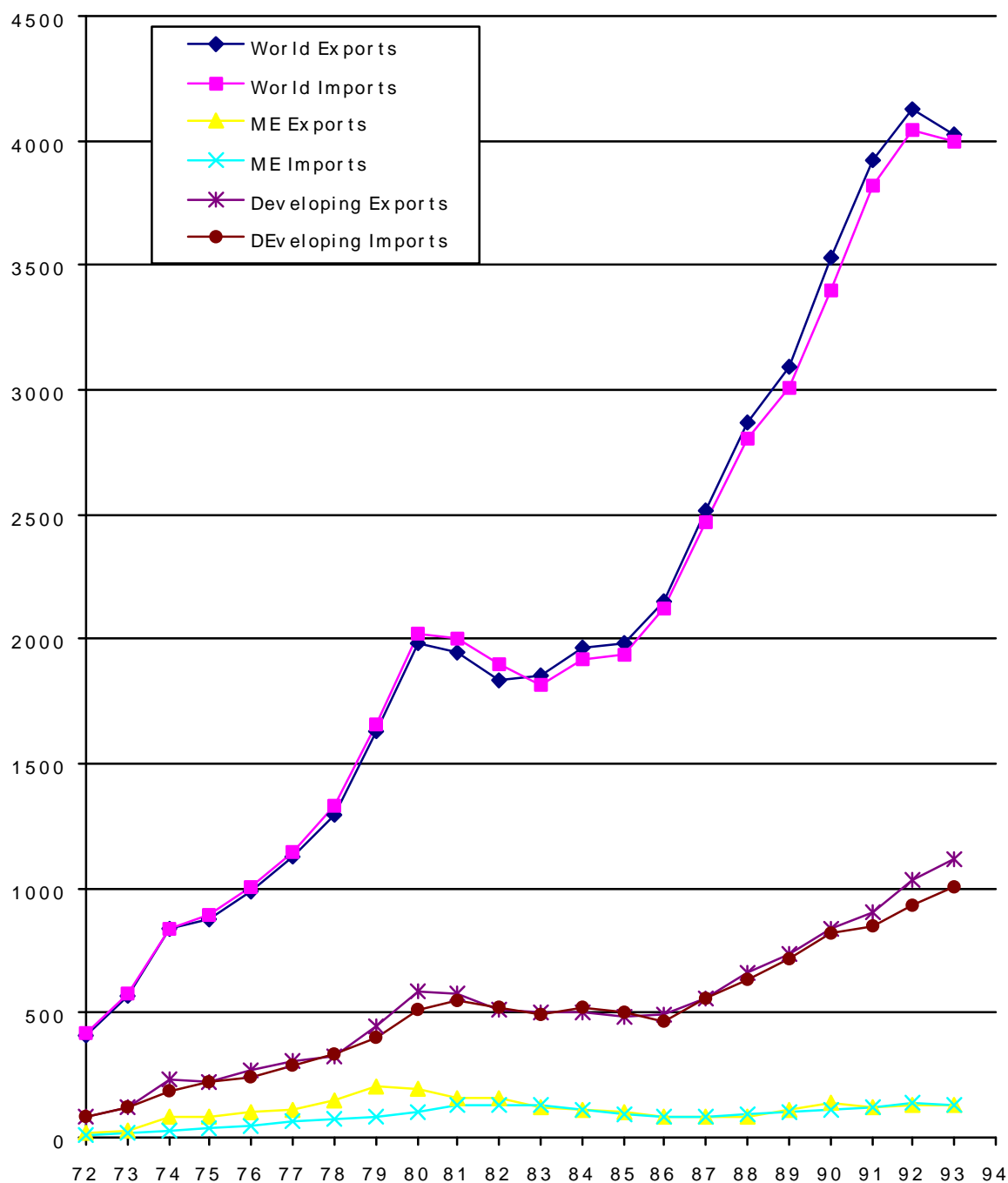
(Average Annual Increase in Percent)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 16

The Declining Importance of the Middle East: The Middle East Trade Relative to World Trade

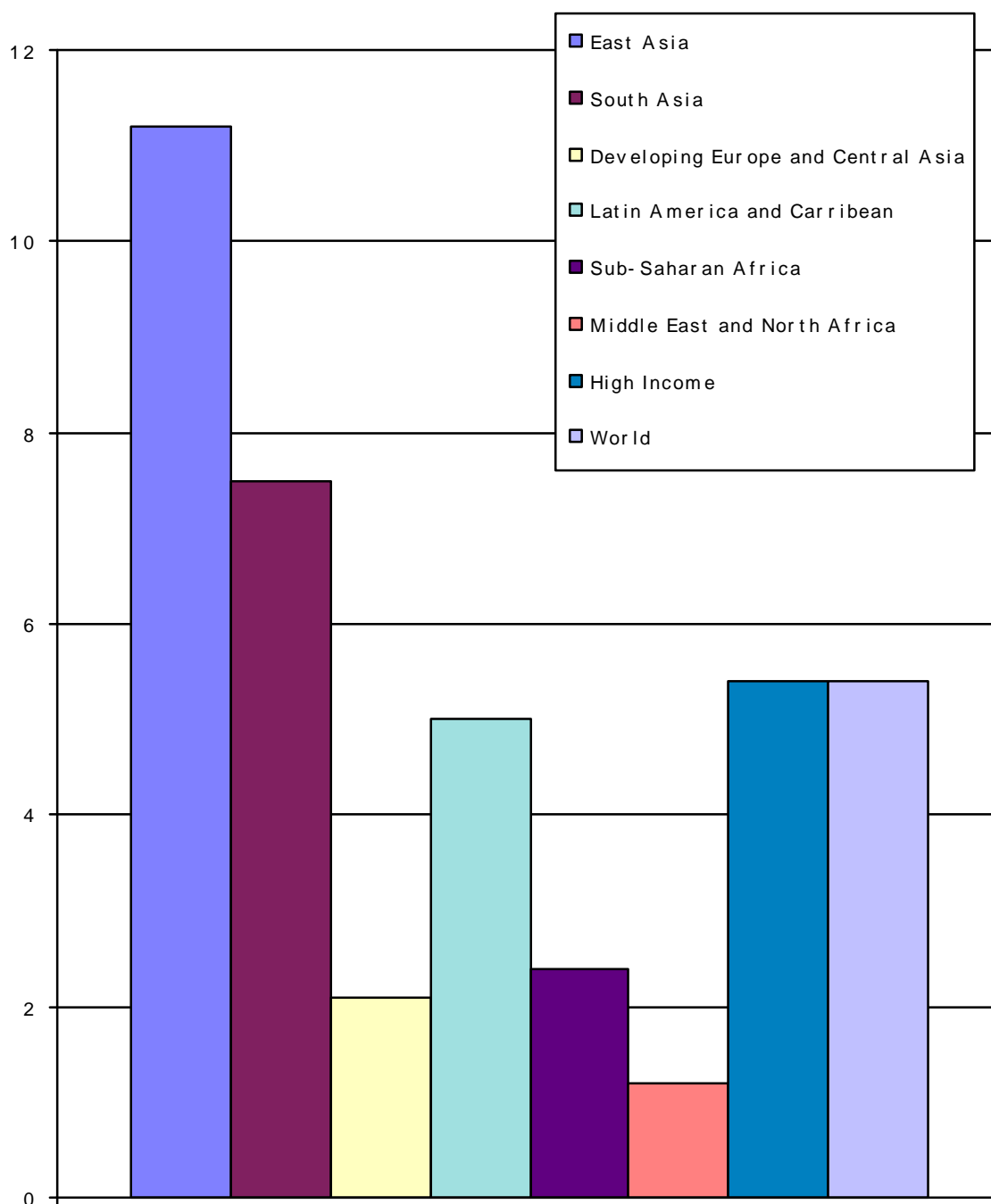
(\$Current Billions)



Adapted by Anthony H. Cordesman from ACDA, WMEAT, various editions. Middle East does not include North African states other than Egypt.

The Middle East Lags in Export Growth

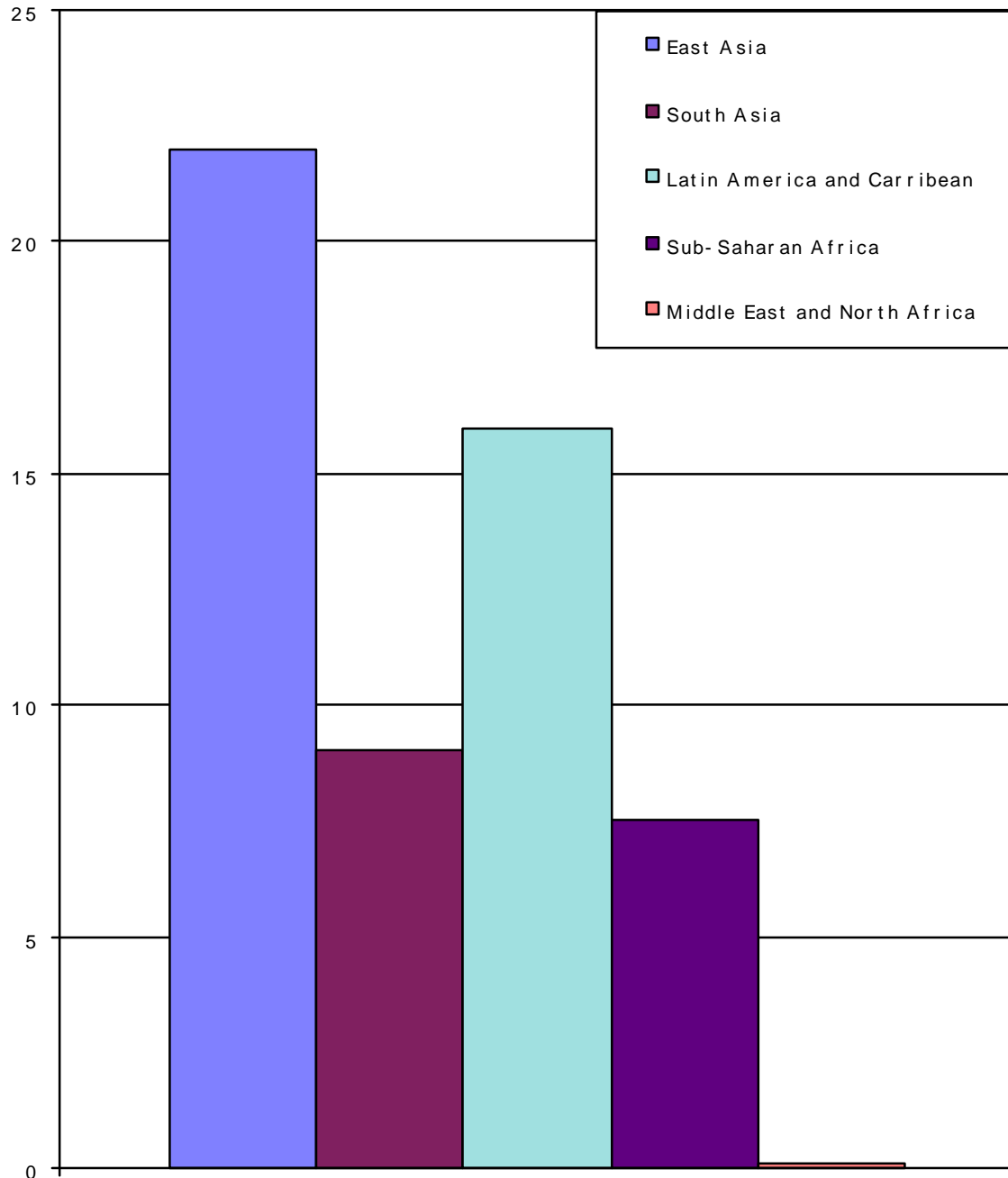
(Average Annual Growth of Merchandise Exports in Percent: 1981-1993)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, pp. 84-85

The Myth of Pan-Arab Economics: The Lack of Intraregional Trade Growth: 1985-1993

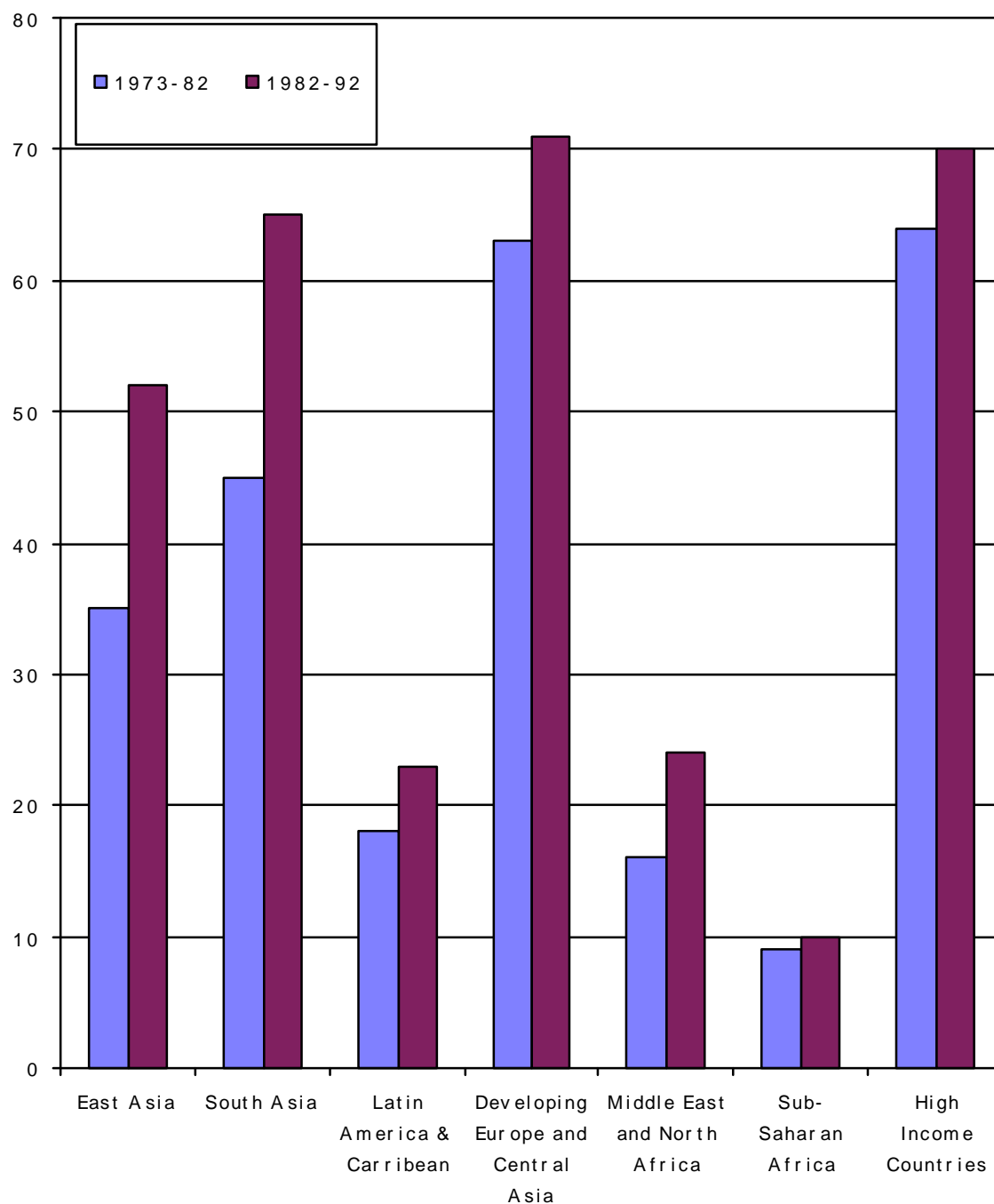
(Change in Average Percent of Growth or Decline)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 3

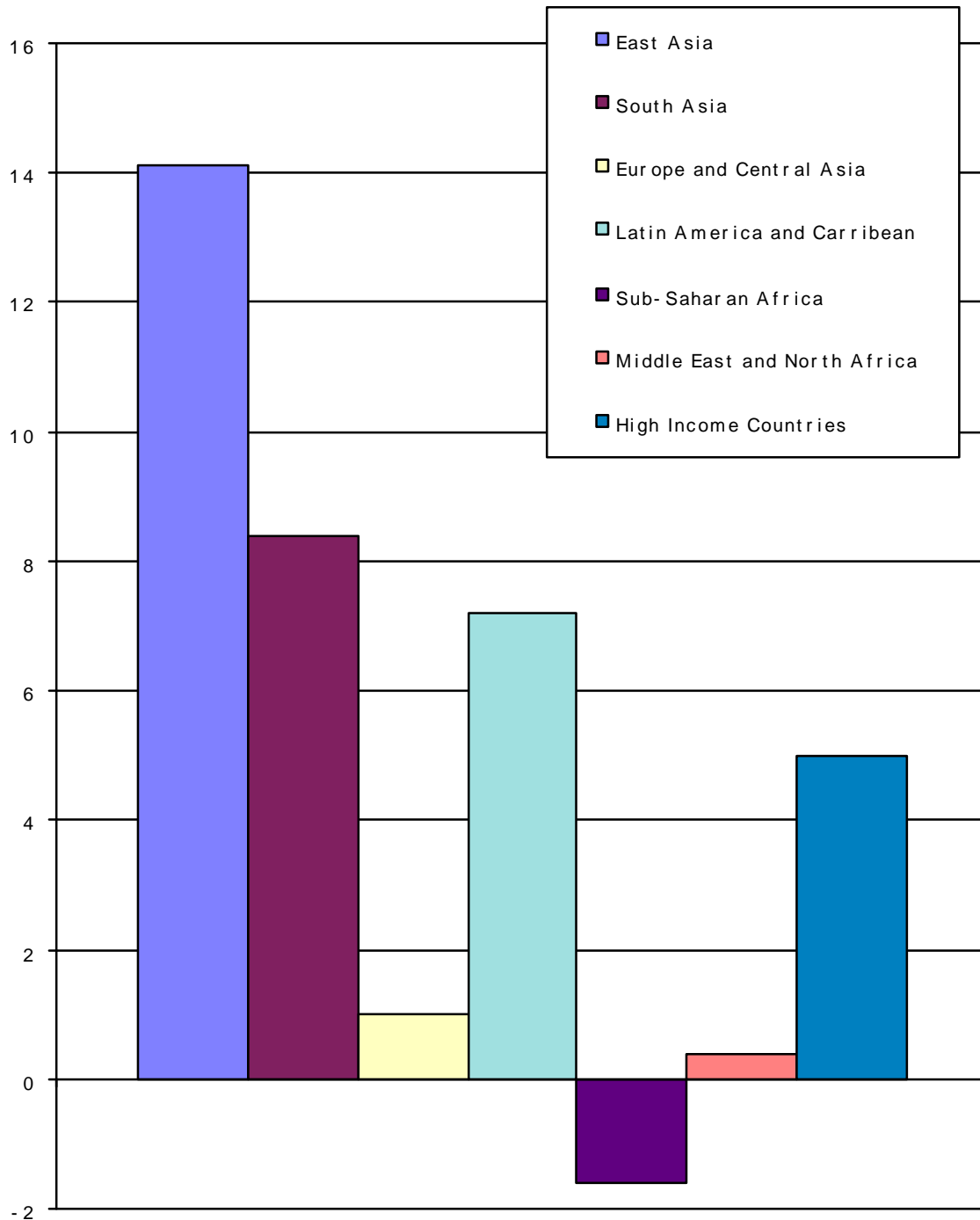
Middle East Exports Fail to Reflect Sufficient Growth in Manufactured Goods

(Percent of Average Share of Manufactures in Merchandise Exports)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 24

**Growth in Trade Does Almost Nothing to Benefit the Average Person:
Export Growth Per Capita: 1991-1995**
(Change in Average Percent of Growth or Decline)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 3

However, US Trade With the Middle East is Still of Major Importance

(Trade in 1995 in \$Current Millions)

<u>Country</u>	<u>Trade Balance</u>	<u>Exports to US</u>	<u>Imports from US</u>
Algeria	-900.1	774.0	1674.1
Libya	-	-	-
Mauritania	37.6	43.1	5.5
Morocco	278.1	517.4	239.3
Tunisia	144.6	215	70.4
Sub-Total	-439.8	1549.5	1989.3
Egypt	2378.7	2985.1	606.4
Israel	-87.6	5621.1	5708.7
Jordan	306.5	335.3	28.8
Lebanon	557.2	592.3	35.1
Syria	167.8	223.4	55.6
Sub-Total	3322.6	9757.2	6434.6
Iran	277.1	277.3	.2
Iraq	.2	.2	0.0
SubTotal	277.3	277.5	.2
Bahrain	120.8	254.9	134.2
Kuwait	101.8	1437.3	1335.5
Oman	-72.9	222.0	294.9
Qatar	135.0	225.0	90.9
Saudi Arabia	-2082.1	6154.9	8237.0
UAE	1553.2	2006.5	453.3
Sub-Total	-244.3	10300.6	10545.8
Chad	7.6	10.8	3.2
Djibouti	8.5	8.5	-
Eritrea	16.3	16.7	.4
Ethiopia	114.7	147.5	32.8
Somalia	7.9	8.1	.2
Sudan	20.7	43.4	22.7
Yemen	144.1	185.8	41.7
Sub-Total	319.8	420.8	101.0

Total Middle East

Source: Department of Commerce, July, 1996

And, The US Has a Major Investment Interest in the Middle East

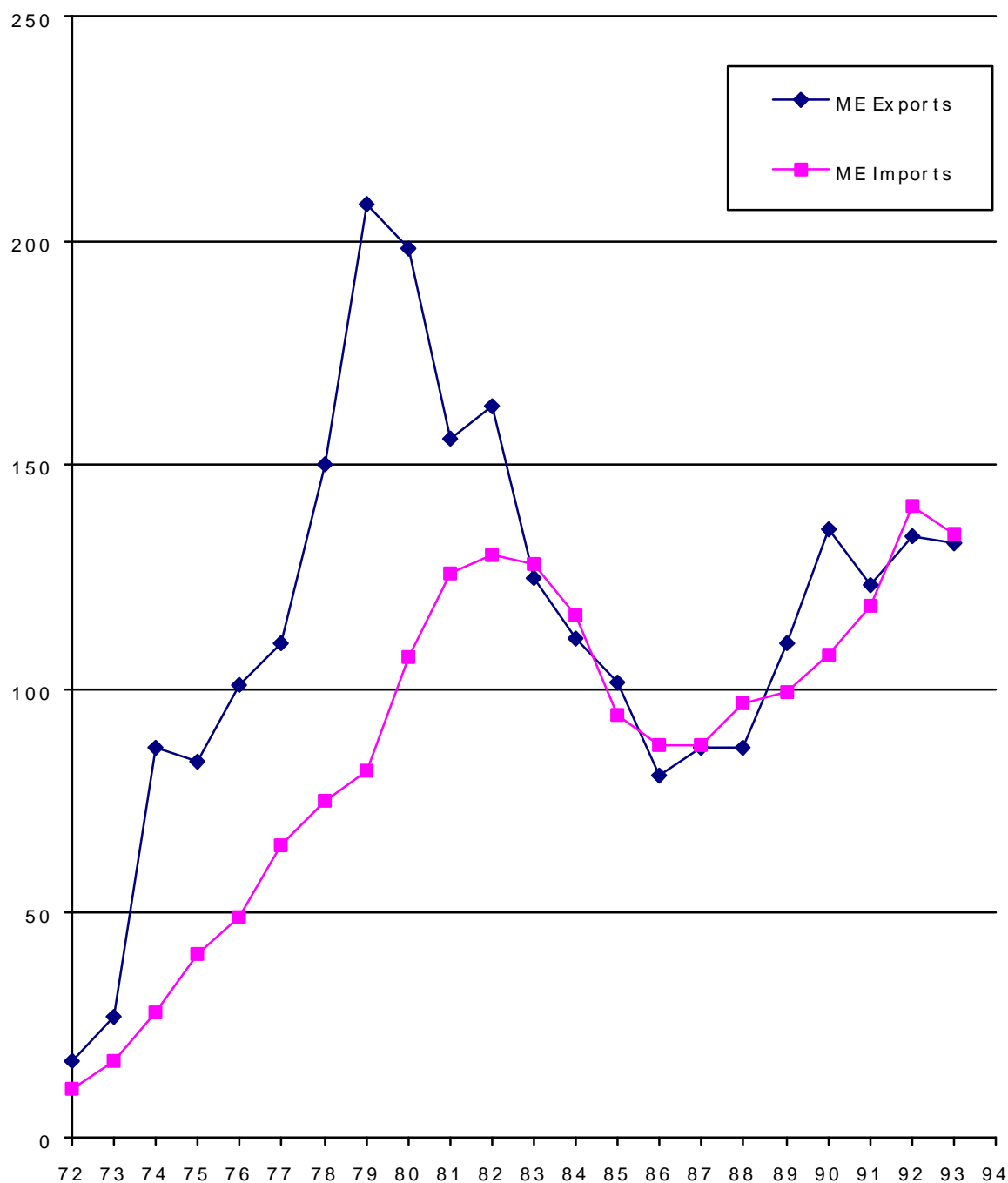
Country	US Direct Investment Abroad	Foreign Investment in US Business
Algeria	-	-
Libya	217	0
Mauritania	-	-
Morocco	-	-
Tunisia	-	-
Egypt	1409	10
Israel	1574	2168
Jordan	-	55
Lebanon	-6*	-49**
Syria	384	0
Iran	-	5
Iraq	-	0
Bahrain	39	12
Kuwait	110	1420
Oman	122	8
Qatar	461	6
Saudi Arabia	3371	1353
UAE	675	75
Chad	-	-
Djibouti	4	-
Eritrea	-	-
Ethiopia	-	-
Somalia	-	-
Sudan	-72*	-
Yemen	925	-

* Negative figure represents country's liabilities to corporate affiliates.

** Lebanon's debt is greater than its foreign liability.

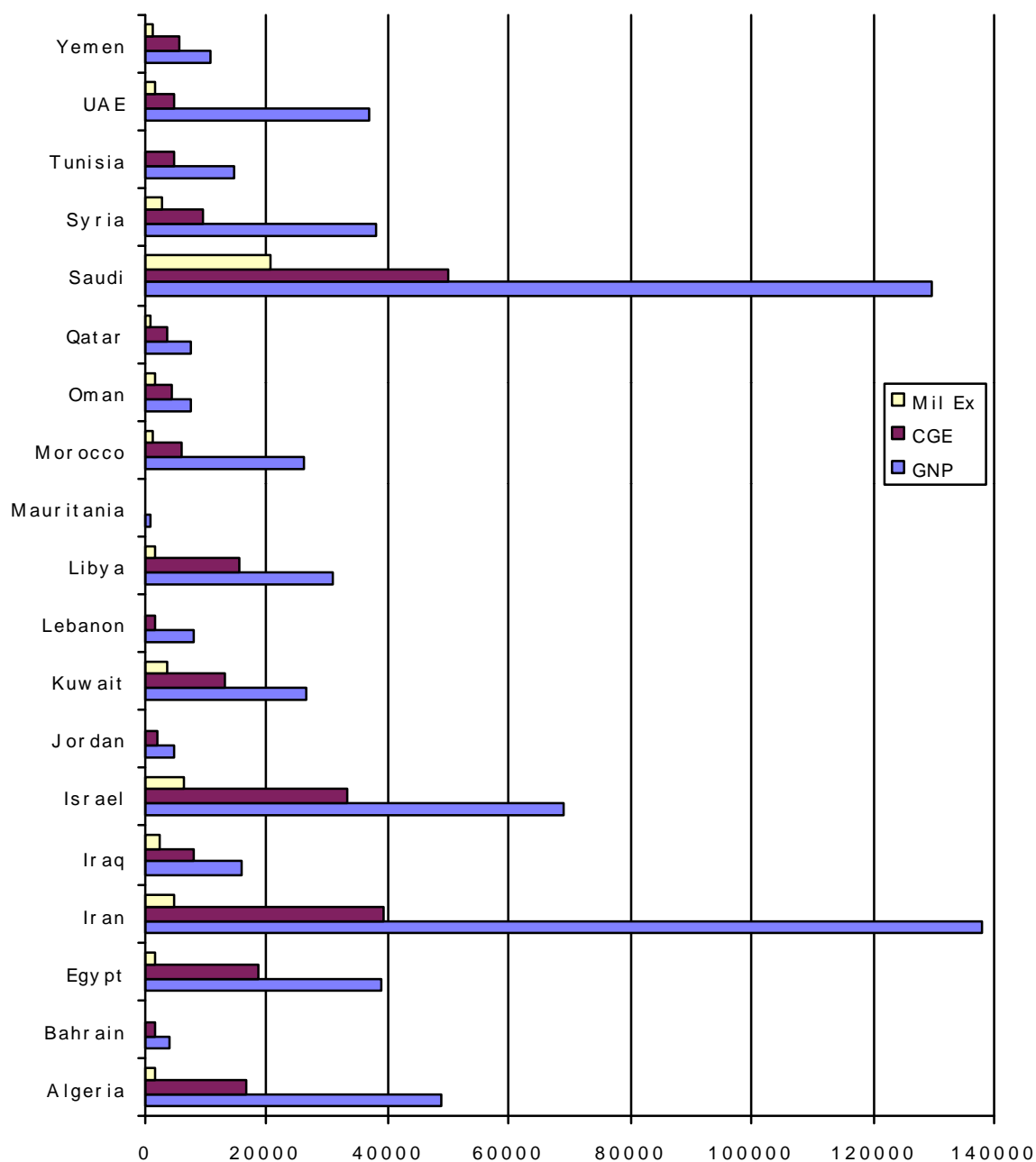
Source: Department of Commerce, Bureau of Economic Analysis, July 1996.

The Shock of Lower Oil Prices: Middle East Eastern Export vs. Imports (\$Current Billions)



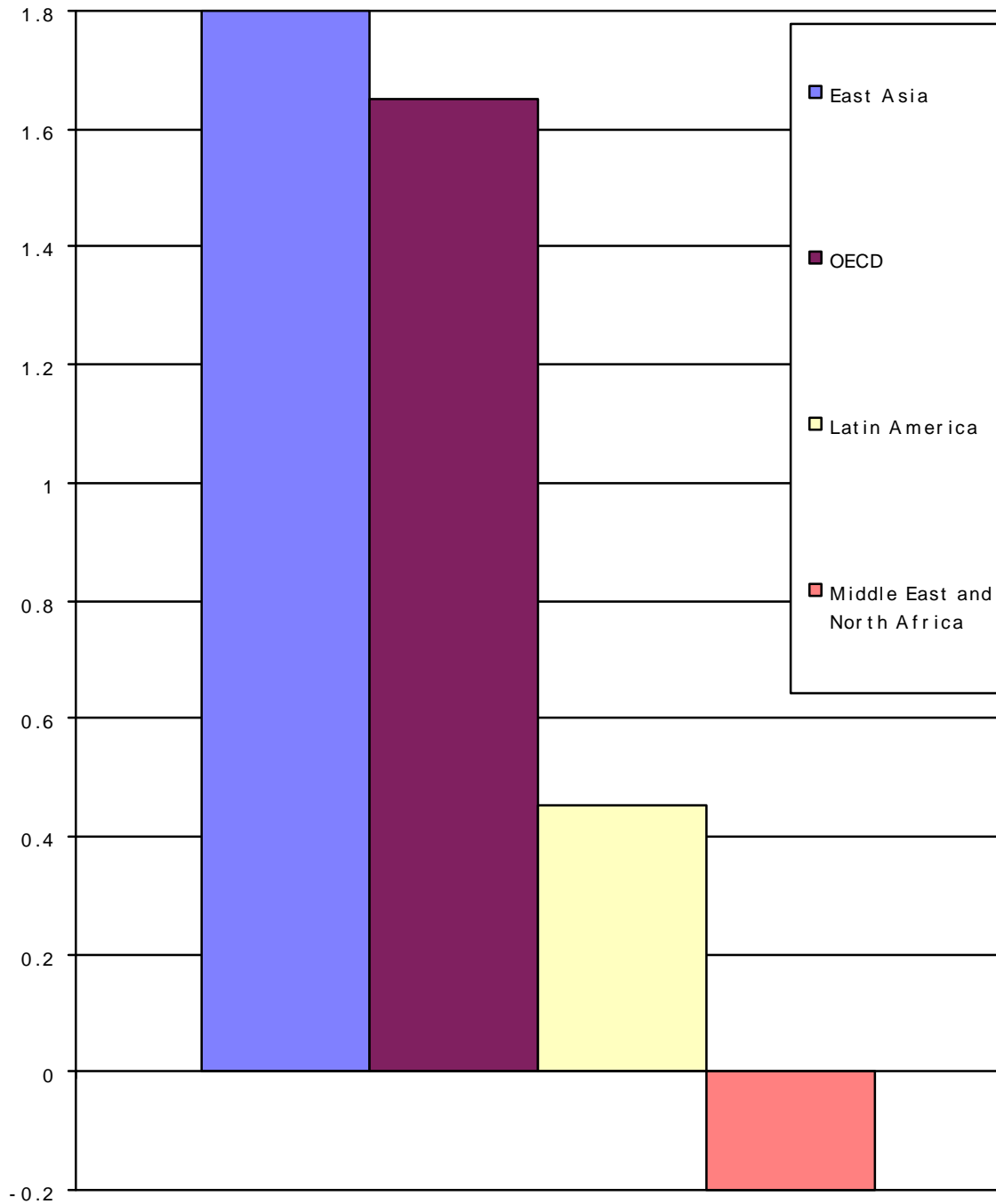
Adapted by Anthony H. Cordesman from ACDA, WMEAT, various editions. Middle East does not include North African states other than Egypt.

The Public Sector is a Key Problem: “Statism” and “Militarism” in the Middle East: Central Government and Military Expenditures Relative to GNP in 1993



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1990, Washington, GPO, 1990

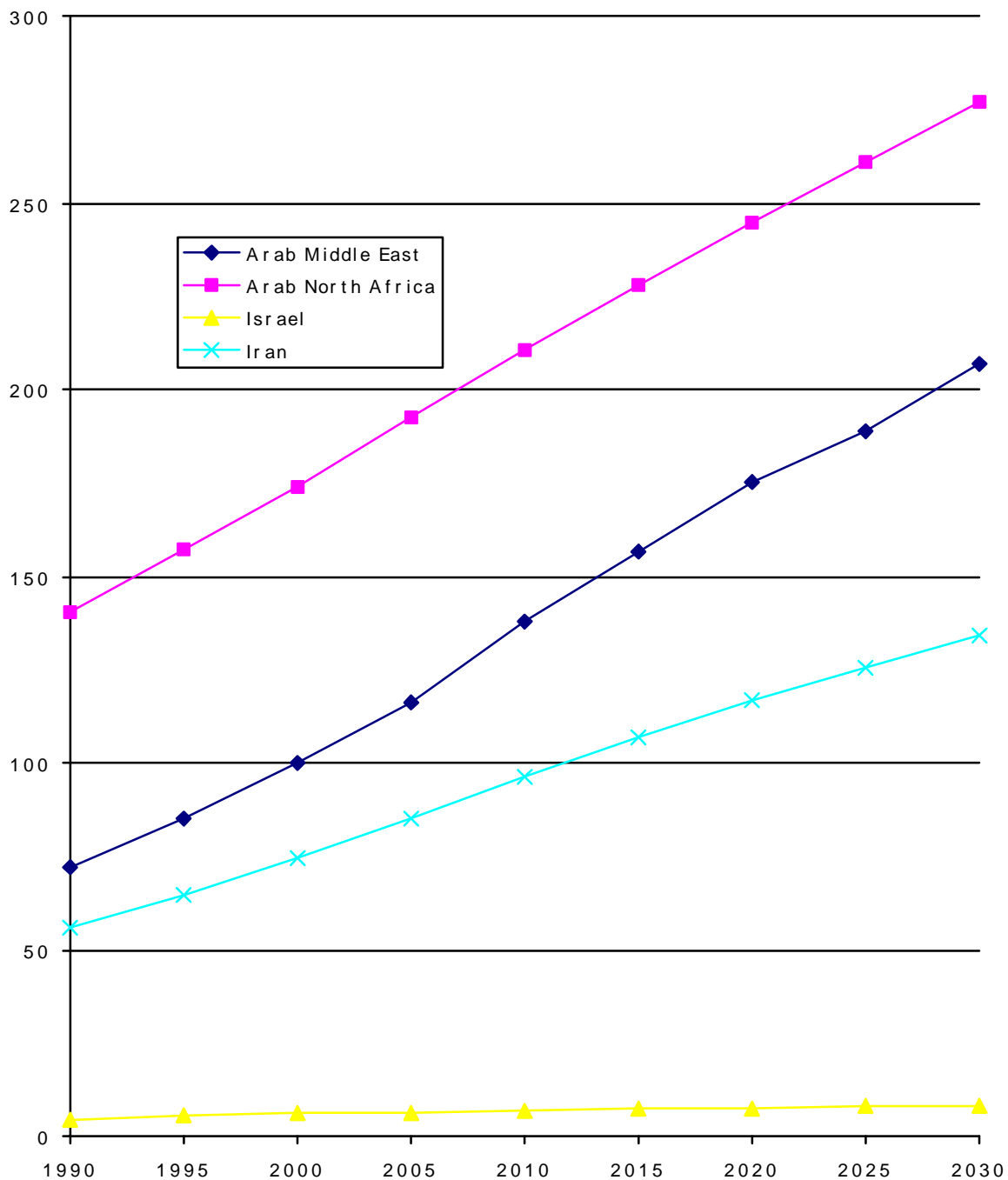
**The Failure to Compete Because of Over-Reliance on the Public Sector:
Average Annual Change in Total Factor Productivity: 1960-1990**



Source: Adapted by Anthony H. Cordesman from World Bank, Claiming the Future, p. 15

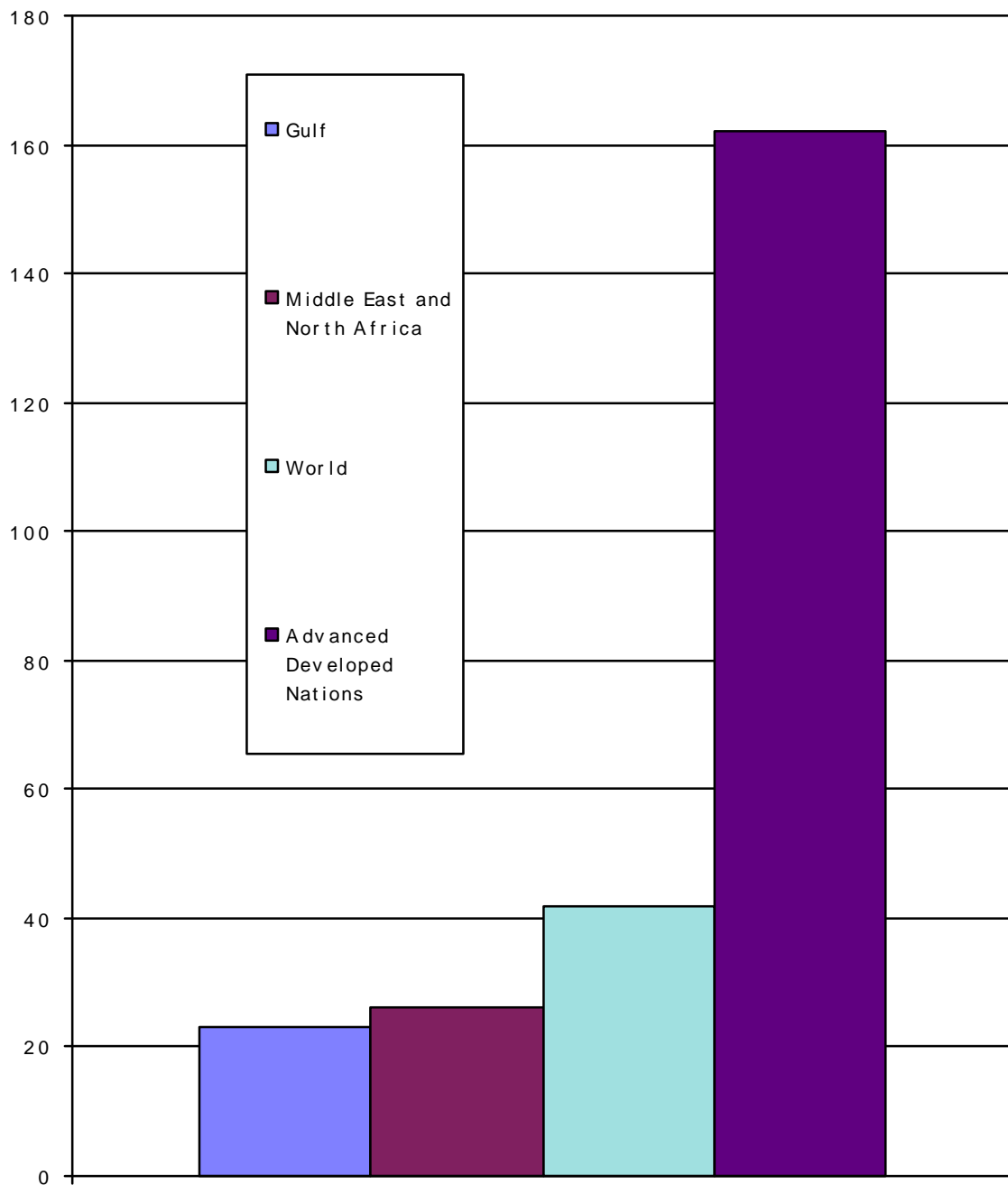
The Population Time Bomb: Demographics of the Middle East: 1990-2030

(\$Current Billions)



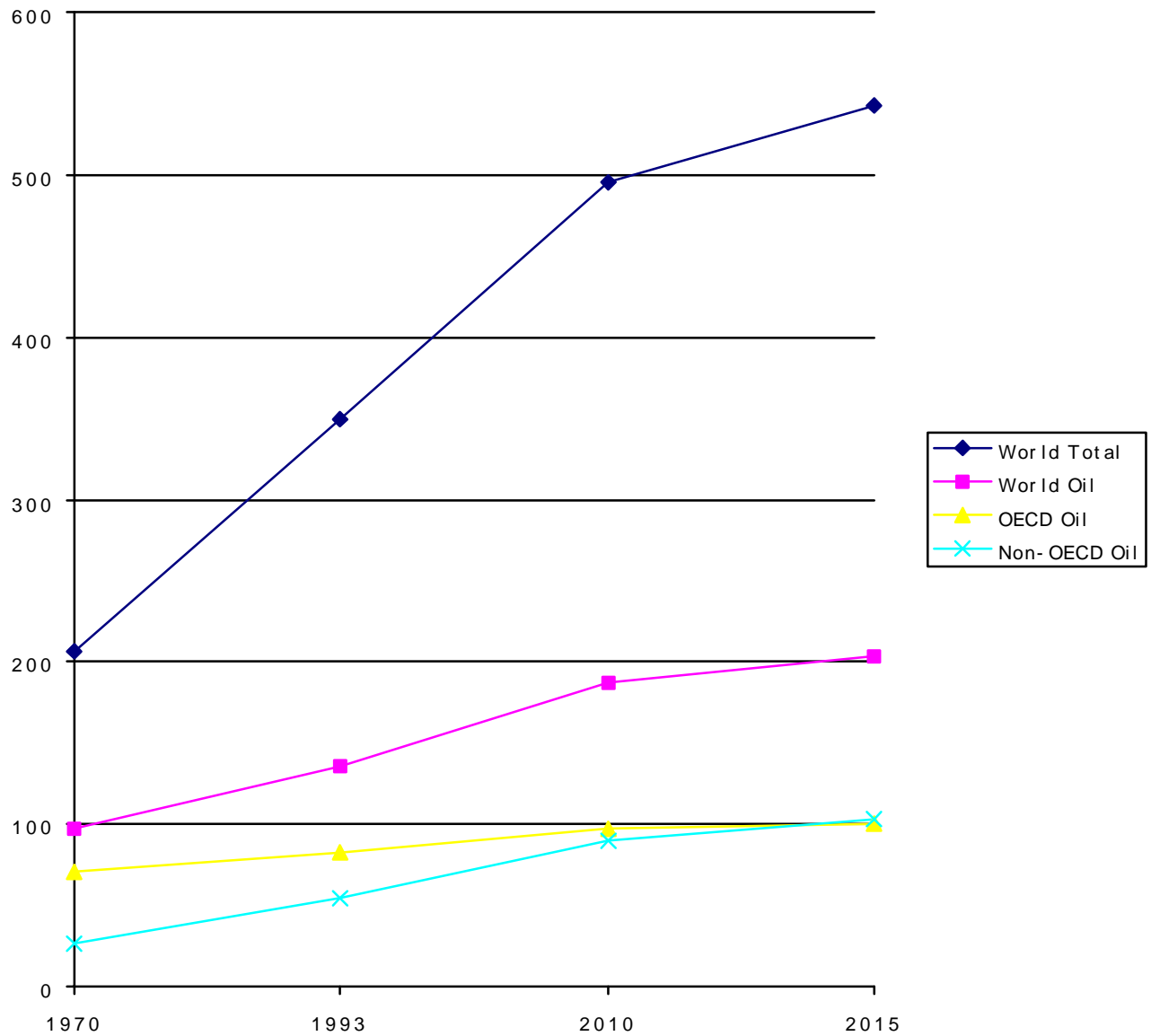
Adapted by Anthony H. Cordesman from World Bank data base for World Population Projections, 1996.

The Middle East Has By Far the Worst Problem: Time for Population to Double in Years



Source: Adapted by Anthony H. Cordesman from World Bank/CIA population growth estimates

The Declining Importance of Oil: Changes in World Energy Demand: 1970-2015 (Quadrillion BTU)



Source: EIA, Internet, July 4, 1996

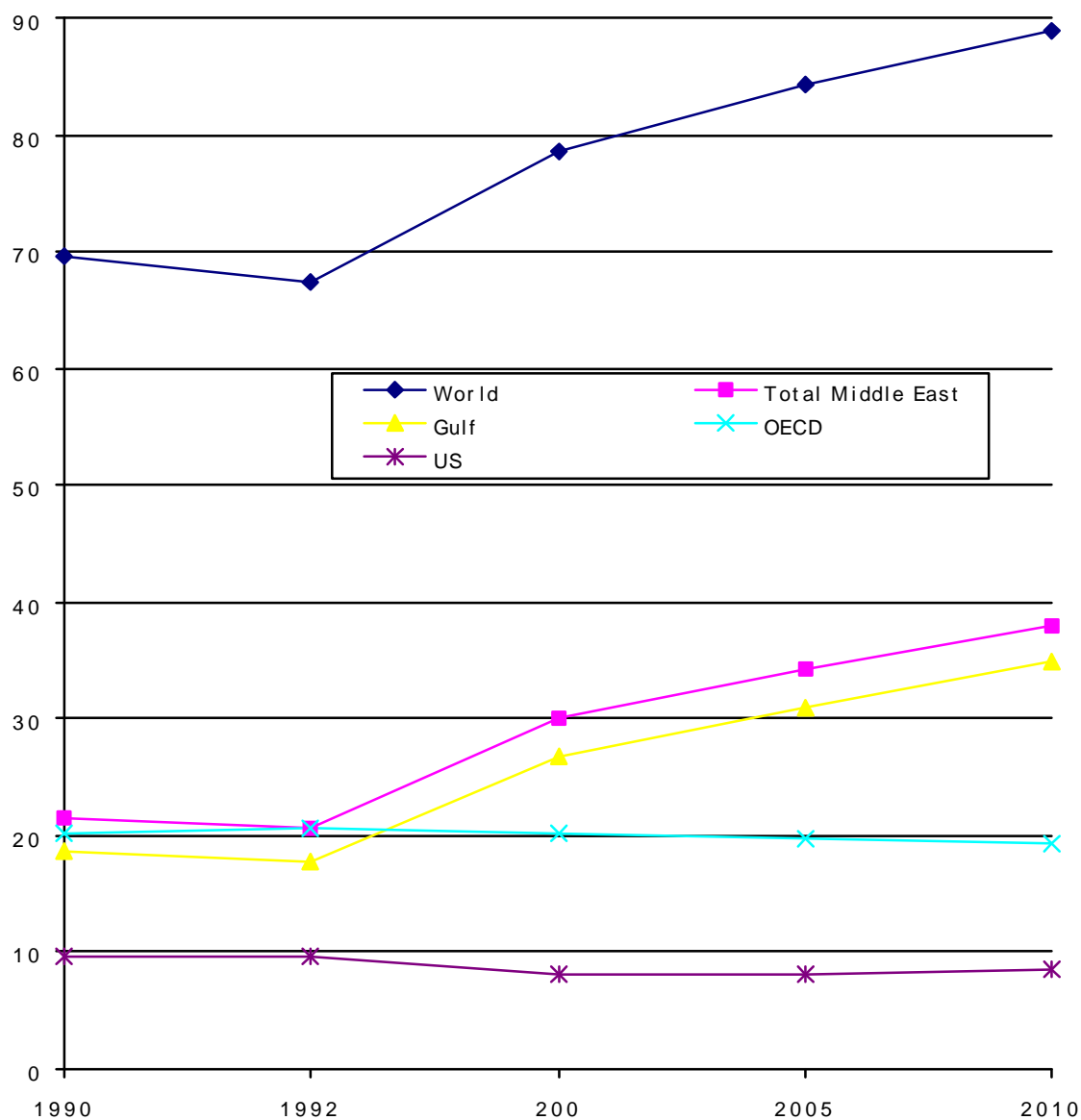
Oil and Gas Demand Continues to Rise, but Is Dropping in Global Importance: World Energy Demand Rise in Quadrillion BTU

<u>Region</u>	<u>1970</u>	<u>1993</u>	<u>2010</u>	<u>2015</u>	<u>Annual Rise</u>	
					<u>1970-1993</u>	<u>1993-2015</u>
<u>Total Energy</u>						
OECD	135.1	190.7	239.8	251.4	1.5	1.3
US	67.6	87.3	104.7	108.0	1.1	1.0
Non-OECD	71.7	158.3	225.3	291.0	3.5	2.8
Non-OECD Asia	18.9	60.3	126.6	150.8	5.2	4.3
EE/FSU	39.7	60.9	74.0	79.7	1.9	1.2
Total World	206.7	349.1	495.1	542.3	2.3	2.0
<u>Oil</u>						
OECD	70.6	82.1	97.2	100.0	0.7	0.9
Non-OECD	27.2	54.1	90.5	102.8	3.0	3.0
Total World	97.8	136.2	187.7	202.8	1.4	1.8
<u>Gas</u>						
OECD	27.1	38.9	58.1	65.0	1.6	2.4
Non-OECD	9.1	36.2	59.9	68.7	6.2	3.0
Total World	36.1	75.1	117.9	133.7	3.2	2.7

DOE/EIA, International Energy Forecast, 1996

The Increasing Importance of Middle Eastern Oil (Really Gulf Oil) Which Meets Virtually All Projected Growth in World Demand: 1990-2010

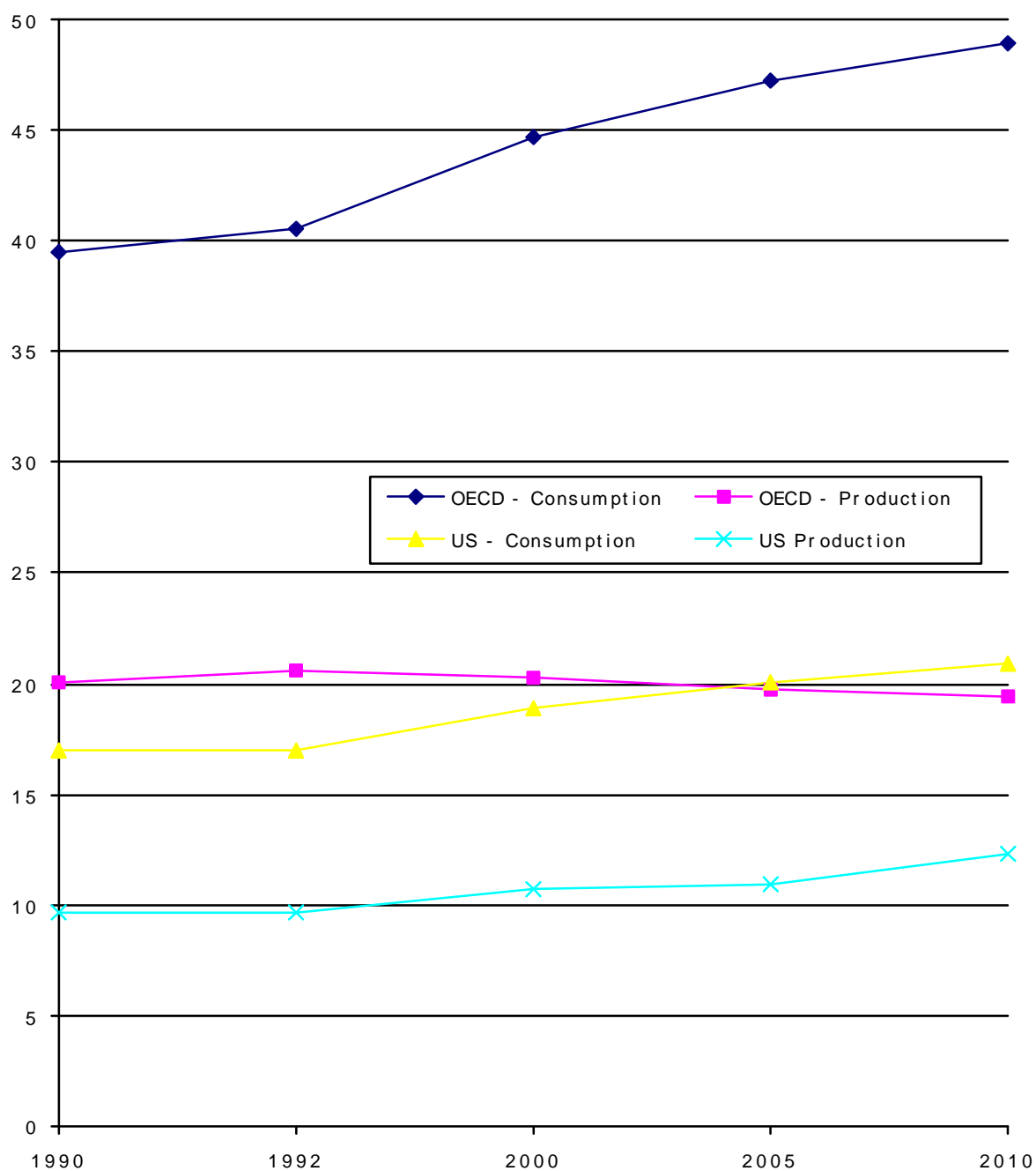
(Average Daily Production in Millions of Barrels Per Day)



Source: EIA, Internet, July 4, 1996

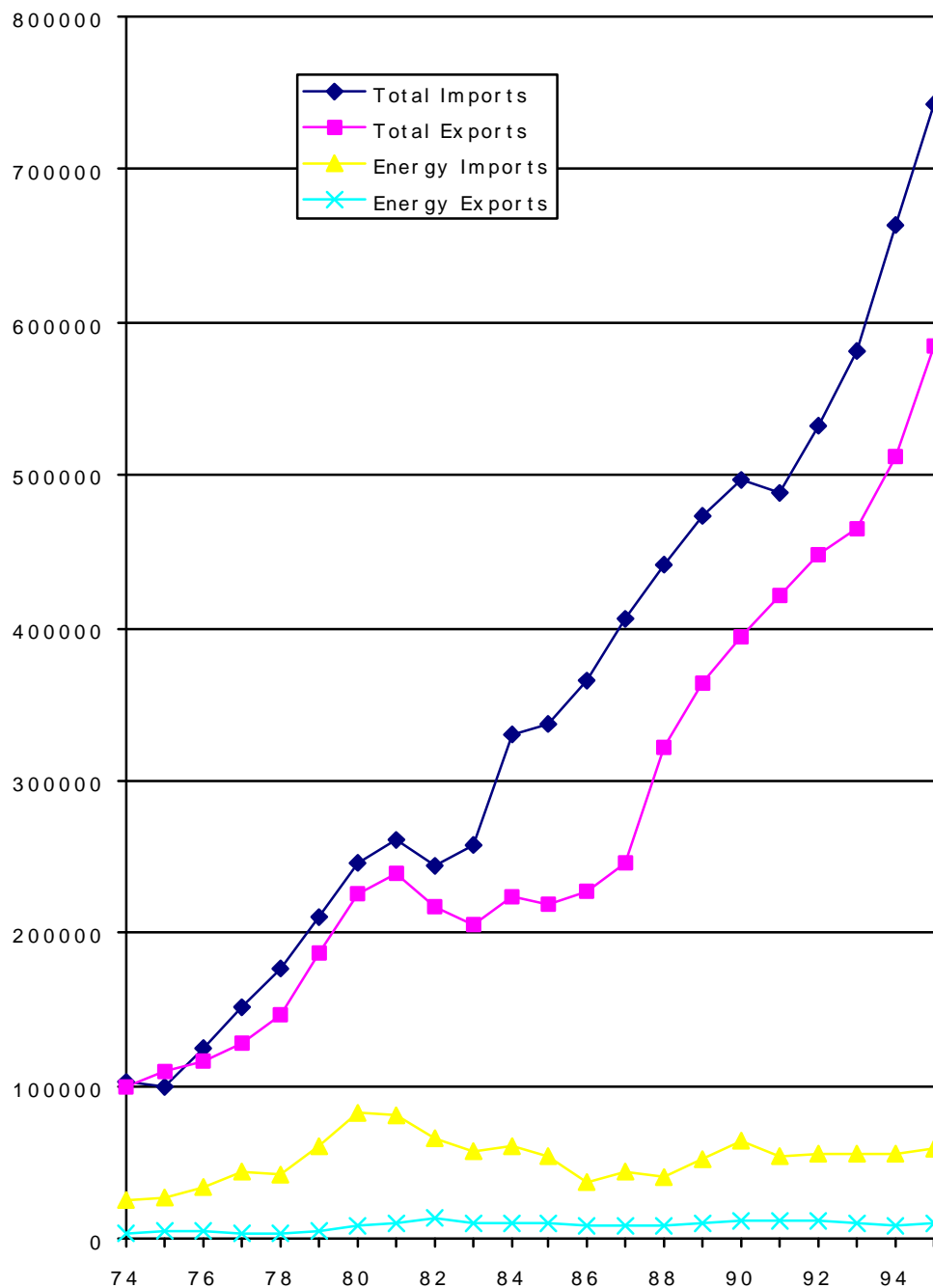
Growing OECD and US Dependence on Imported Oil: 1990-2010

(Demand versus Domestic Production in MMBD)



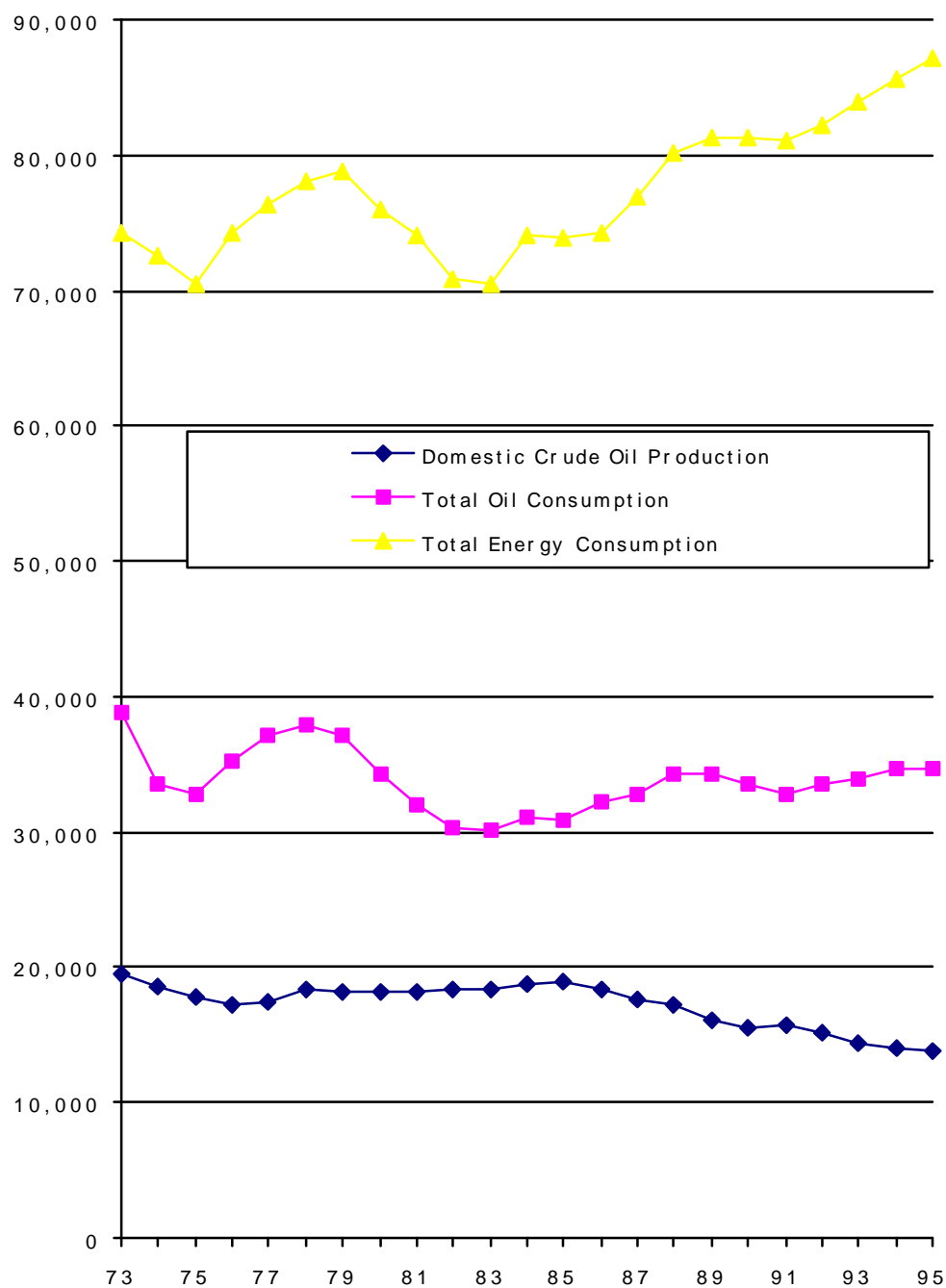
US Energy Imports Have Steadily Less Importance Relative to Total Imports and Exports

(\$ Current Millions)



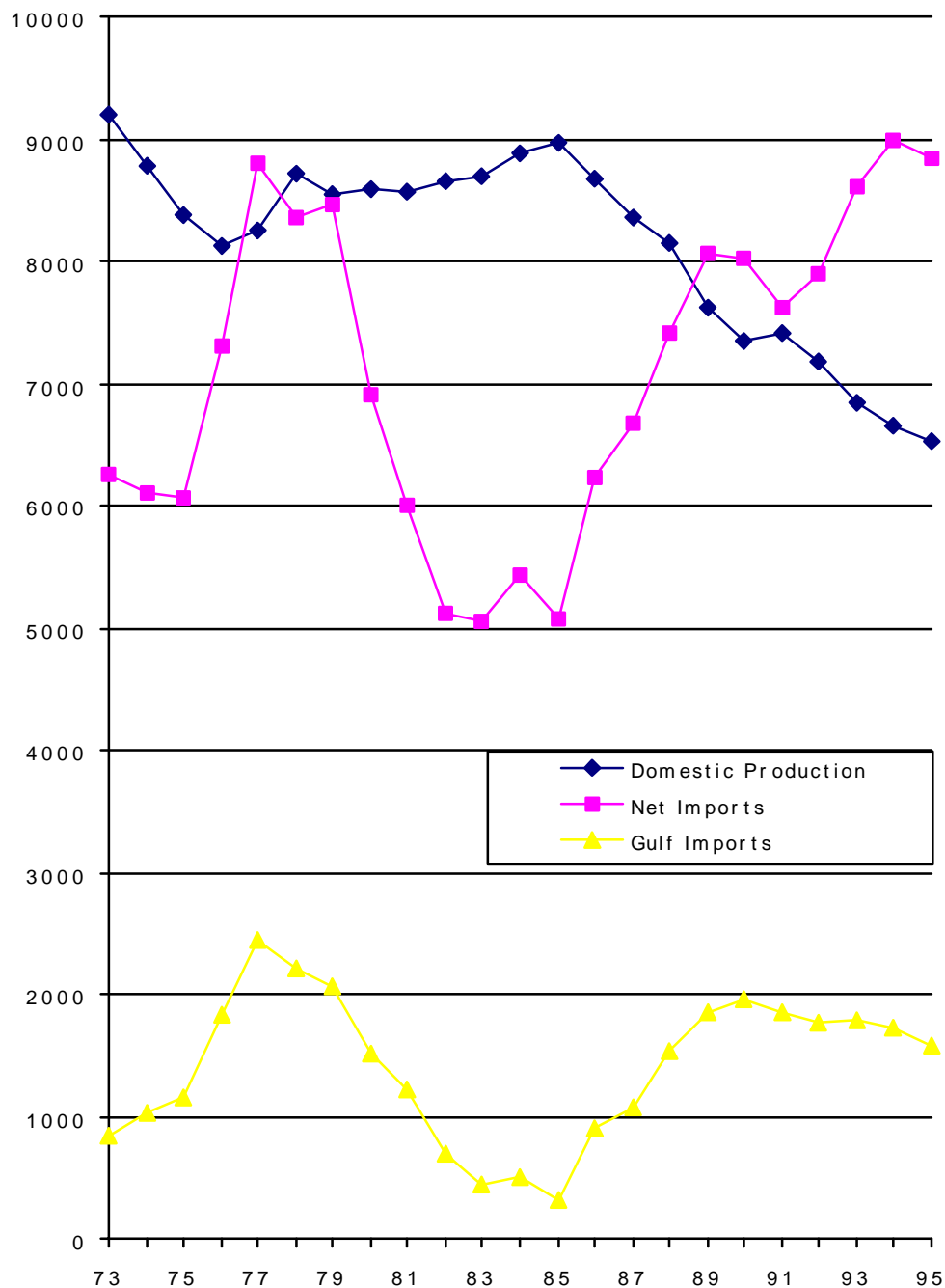
Source: DOE/EIA, 0035(96/05), p. 11.

US Oil Imports are Growing, But Declining in Relative Importance to Total Energy Needs and the Economy



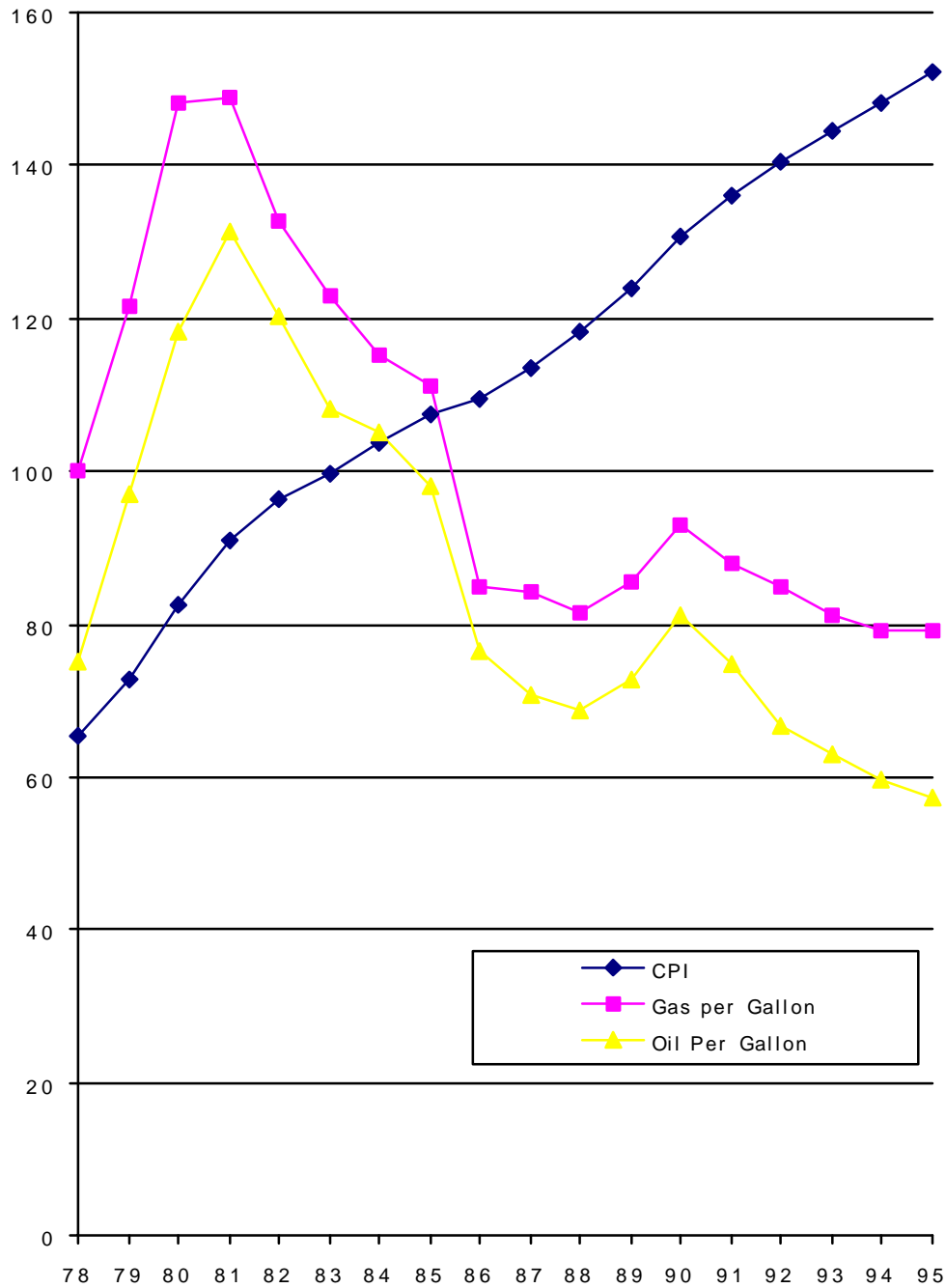
US Dependence on Middle Eastern Oil Remains Limited: Domestic and Total Oil Consumption Relative to Total Energy Use in the US

(Quadrillions of BTUs)

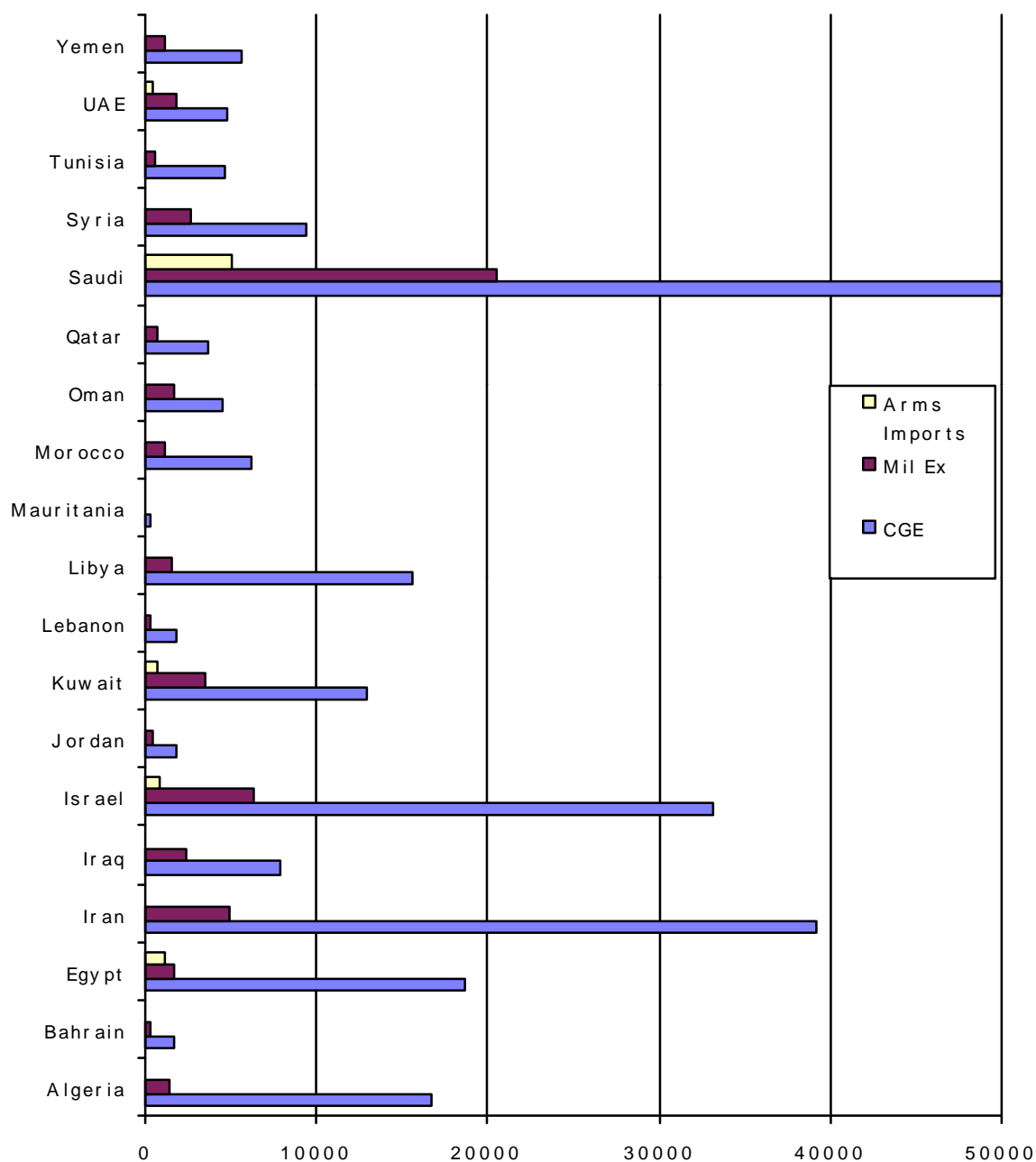


Source: DOE/EIA, 0035(96/05), p. 7.

**Energy Costs are Steadily Less Important to the US:
Increase in Cost of Gasoline and Heating Oil Relative to US CPI**
(CPI Index =100 in 1984)



**Military Expenditures and Arms Imports are a Minor Aspect of “Statism” in Most Middle Eastern Countries: The Impact of Military Expenditures: Central Government,
Military Expenditures, and Arms Imports in 1993**

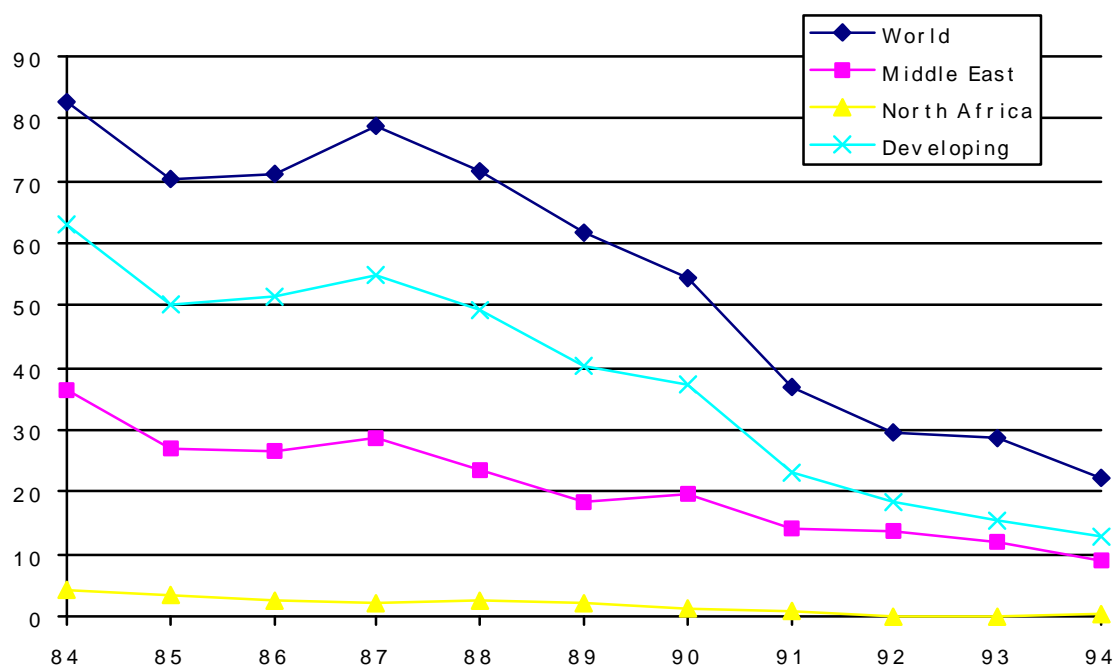


Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1994, Washington, GPO, 1995

Middle East Arms Sales Are Declining, But Are Still a Major Portion of World Market

(Arms Exports in Constant \$94 Billions)

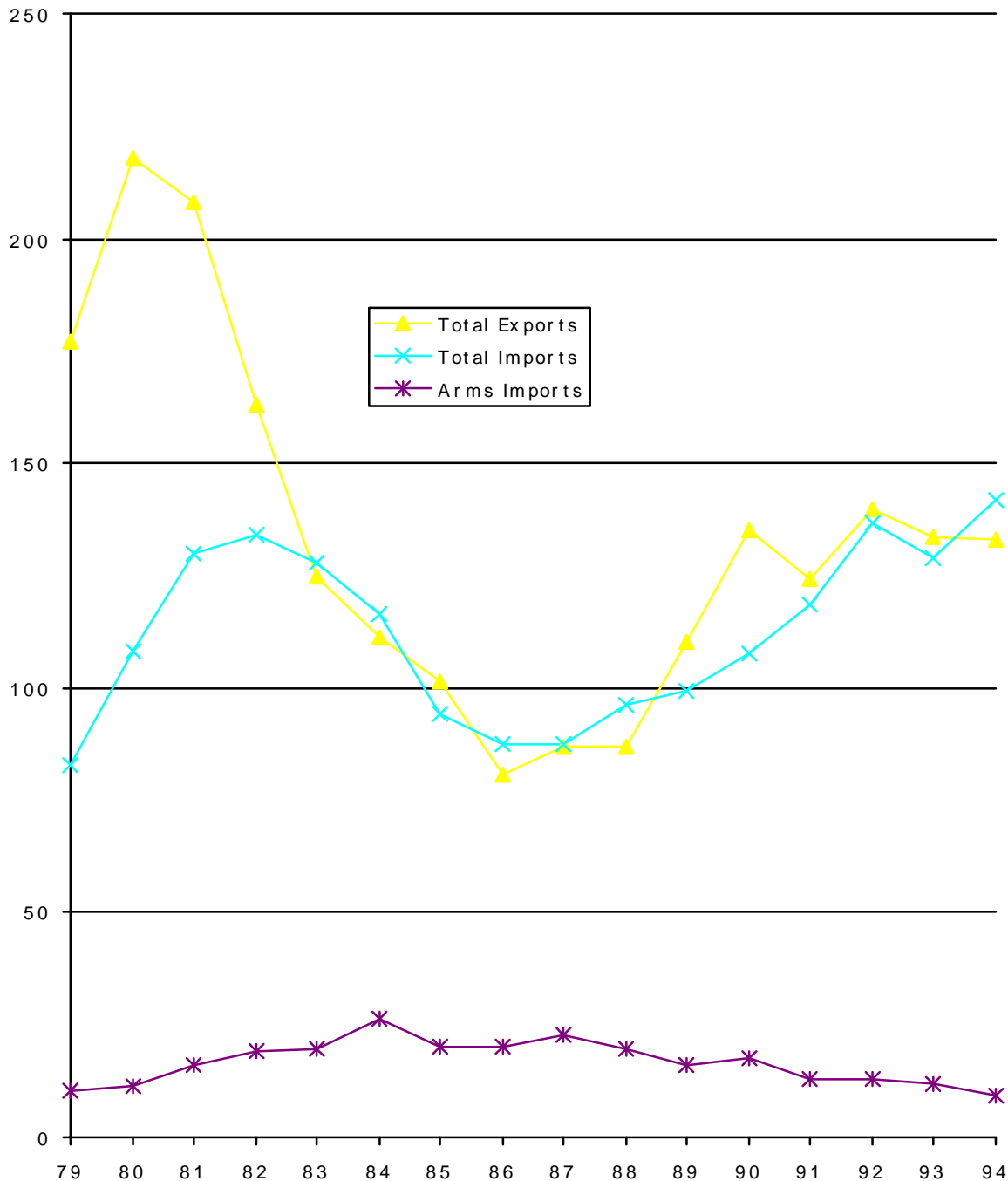
<u>Year</u>	<u>World</u>	<u>Middle East</u>	<u>North Africa</u>
1984	82.9	36.5	4.3
1985	70.2	27.0	3.3
1986	71.1	26.4	2.6
1987	78.8	28.6	2.2
1988	71.5	23.7	2.5
1989	61.8	18.4	2.2
1990	54.3	19.6	1.1
1991	37.0	14.0	0.7
1992	29.7	13.5	0.2
1993	28.6	12.2	0.1
1994	22.1	9.1	0.3



Arms Imports are A Growing Problem Because of Low Oil Prices and the Failure to Develop:

The Middle East Total Trade Relative to Arms Imports

(\$Current Billions)



Adapted by Anthony H. Cordesman from ACDA, WMEAT, various editions. Middle East does not include North African states other than Egypt.