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Arabian Gulf Region



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The Obama Administration:
A Shift in Foreign Policy?

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Cover picture. Barack Obama speaks in Civic Center Park, Denver, Colorado. (Photo/Jason Kosena)

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U.S. - Arab Economic Relations and the Obama Administration

Prof. Nader Habibi
and Dr. Eckart Woertz

This Brief examines four developments that affect U.S.–Middle East economic relations and present important policy challenges to the Obama administration: China’s and India’s increasing energy interests in the Gulf, which pose a challenge to the United States; the U.S. interest in the economic development of areas of the Middle East in which poverty and inequality lead to instability and political violence; the U.S. loss of market share to European and Asian countries as the Middle East’s purchasing power grows; and the Gulf Cooperation Council’s (GCC) emergence as the financial and economic center of the Middle East—and the concomitant need on the part of the United States to preserve its relations with the GCC.

Growing competition for Middle East oil

The Middle East and North Africa (MENA)—Sudan included—accounts for more than 66% of the world’s proven global oil reserves, most of which are concentrated in the littoral states of the Gulf.¹ In 2007, this area accounted for 36.7% of worldwide crude oil production.² As the oil and gas reserves in other regions of the world get depleted, the United States and other oil-consuming nations will become even more dependent on Middle East oil.

It is no wonder, therefore, that the security of the Middle East’s oil

assets and their effective means of transportation (especially in the Gulf region) have remained prime preoccupations of U.S. Middle East policy ever since World War II. The United States’s approach to oil security in the Middle East has three important components. First, ever since 1971 the United States has maintained a strong naval presence in the Gulf in order to protect oil shipping routes. Until the 1979 Islamic revolution and in accordance with the so-called “twin pillar policy,” it relied on Iran and Saudi Arabia as allies. After the 1979 revolution, as U.S.-Iranian relations turned hostile and the Iran-Iraq war broke out, the U.S. had to strengthen its own naval forces in the region.³ Therefore, in the 1980s, it beefed up its naval presence in the Gulf in order to contain both Iran and Iraq before becoming more directly involved in the region by stationing troops in the wake of the liberation of Kuwait in 1990-91.

The second component of U.S. oil policy in the region is close alliances with

the oil monarchies of Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman. These six oil-exporting countries, which make up the GCC, rely on the U.S., and to a lesser extent on the UK and France, for their external defence and domestic security assistance.

The third component of U.S. oil policy is to maximize the participation of U.S. oil companies in the production,

Indian Prime Minister Manmohan Singh with UAE Prime Minister and Ruler of Dubai Mohammed bin Rashid Al Maktoum. Indian Interest in the Gulf may pose a challenge to the United States



¹ BP Statistical Review of World Energy, June 2008. The latest reserve estimate data are as of December 2007.

² Data retrieved from the U.S. Energy Information Administration (EIA) website.*

³ The elevated American military commitment to the security of oil supplies in the Gulf was also known as the Carter Doctrine. According to this doctrine, the United States will use military force if necessary to prevent any outside or regional power from dominating this region.

refining, and transportation of oil and gas products in the region. Western oil companies such as Halliburton, ExxonMobil, Texaco, and British Petroleum (BP)—with a large American ownership—are actively involved in exploration, production, and refining activities in GCC countries. In the past two decades, American oil firms have continued their involvement in the production and distribution of oil and gas in several MENA countries. This cooperation has mostly taken the form of service contracts for specific activities—whereas lucrative production-sharing agreements that allow international oil companies to show the oil reserves of a particular project on their balance sheets have been off-limits.

Some American oil firms have also participated in public-private joint ventures in partnership with national oil companies. The Bush administration actively promoted the participation of American oil firms in these public-private partnerships and encouraged GCC governments to accept foreign investment in their energy sectors.⁴

In recent years, the dominance of U.S. oil firms has been challenged by Chinese and, to a lesser extent, Indian firms. China's rapid economic growth has led to a sharp increase in oil consumption, and it is now second to the U.S. in oil imports. As part of an aggressive strategy to acquire oil assets and develop long-term oil purchase contracts, the Chinese have created three large oil and gas companies: SINOPEC (China Petroleum & Chemicals Corporation), CNPC (China National Petroleum Corporation), and CNOOC (China National Offshore Oil Company). Since 2003, the Chinese government has encouraged these

firms to expand their operations in oil-exporting countries worldwide. They have competed with American and European firms for oil and gas projects in the Middle East and Africa ever since. A similar pattern is emerging with respect to India and Indian oil firms, although they have had less success than Chinese firms.

The penetration of Chinese and Indian firms in the MENA energy markets not only takes away business opportunities that might otherwise have been awarded to American firms, but also diverts a larger share of Middle East oil exports to Asia. This is because the service contracts awarded to Chinese and Indian firms are often part of larger long-term oil and gas export contracts which sometimes involve reciprocal investment agreements. State-backed Chinese oil companies are in a better position than Western ones to overlook short-term commercial profitability in favor of long-term strategic considerations. In January 2006, King Abdullah of Saudi Arabia paid a formal visit to China, and oil sector cooperation was the main topic of bilateral negotiations. During this visit, the two sides signed a "protocol, on cooperation in the areas of petroleum, natural gas and mineral resources."⁵

Energy cooperation between the GCC and Asia is expected to intensify in the coming years. In March 2007, SINOPEC signed an agreement with Aramco and ExxonMobil for a \$3.6 billion refinery project in Fujian province in Southern China. (Saudi Aramco is also a 25% stakeholder in another SINOPEC refinery project in the Shandong province.) SINOPEC also won a major project in Saudi

Arabia in 2004 for gas exploration in the Southeastern desert region known as the Empty Quarter (Rub al-khali): SINOPEC was awarded a 30,000-square-kilometer area for exploration

"While oil will continue to dominate the U.S. strategic concerns about the region, the growing economic and financial power of some Middle Eastern countries also deserves some consideration"

after Western oil companies like ExxonMobil backed out of the tender because of commercial considerations. SINOPEC now owns 80% of Sino-Saudi Gas Limited (SSGL), a joint venture with Aramco. China also has a joint refining venture with Kuwait Petroleum Corporation (KPC) in China's Guangdong province and is engaged in exploration and maintenance activities in Oman.⁶

China poses another challenge to United States energy interests in the Middle East by investing in countries that are off-limits to Western energy firms because of international sanctions and political considerations. Whereas the U.S. has imposed sanctions on Sudan and Iran, for example, Chinese oil firms have aggressively penetrated these countries. China is the main provider of oil technology to Sudan, and in return it is the main importer of Sudanese crude oil. China National Petroleum Corporation (CNPC) has purchased several oil assets, including a controlling share (40%) in Sudan's Greater Nile Petroleum Operating Company (GNPOC), which

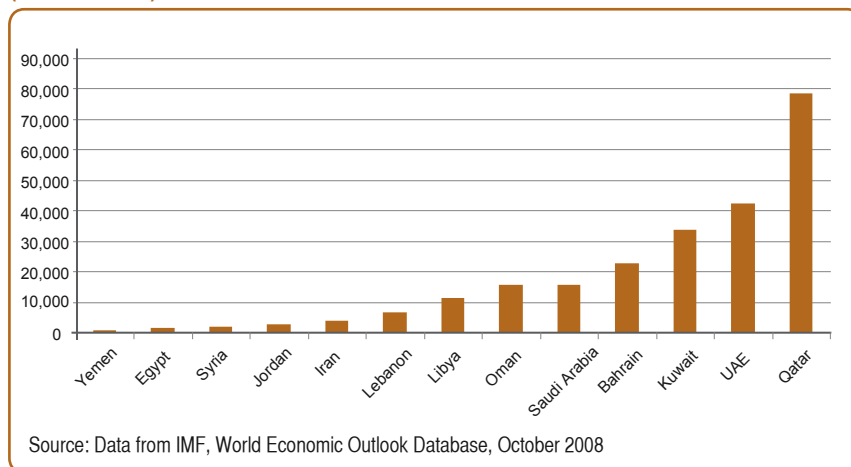
4 U.S. Department of Energy, "National Energy Policy Report" (2001), Chapter 8, p. 6.*

5 "Hu Jintao Ho"

6 In 2002, Oman awarded a small production maintenance contract to CNPC, which was able to increase the yield of the small oil well that it was responsible for from 2,000 to 12,000 b/d. This success encouraged the Omani government to award more contracts to Chinese firms. In August 2004, it awarded an exploration and output-sharing contract to SINOPEC for two land blocks in Southern regions of the

owns significant oil reserves and produces approximately 300,000 barrels per day. It is also a minority stakeholder in this project.

Chart 1. Per Capita Income in Middle East Countries, 2007
(in US dollars)



barrels per day. Another major shareholder in GNPOC is the Indian oil firm ONGC, with a 25% share. Both China and India are expected to expand their energy cooperation with the Sudanese government despite international criticism.

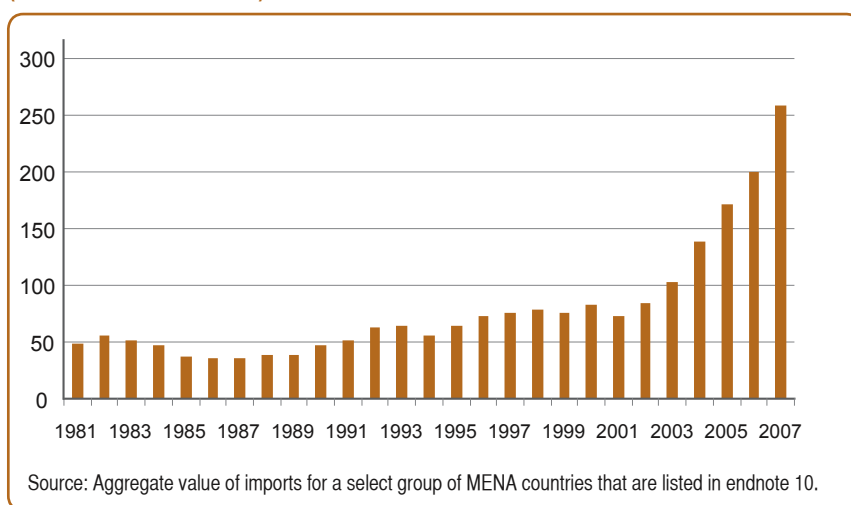
More significantly, China and India have both invested in Iran's oil and natural gas sectors, though the progress of these projects has been affected by occasional United States diplomatic pressure on both countries. In October 2004, China and Iran signed a long-term 25-year agreement for the development of the Yadavaran oil and gas field in Southern Iran. The agreement is worth approximately \$100 billion dollars and requires the Chinese firm SINOPEC to construct a refinery and a liquefied natural gas (LNG) export facility near this field in return for buying 10 million tons of LNG per year for 25 years. (After initial doubts regarding whether the agreement would materialize, its prospects advanced as SINOPEC committed to investing \$2 billion in December 2007.) The Indian firm ONGC is

China is also involved in the construction of a 240-mile oil pipeline for transport of crude from the Caspian Sea port of Neka to a refinery near Tehran. This pipeline will allow Iran to swap oil with Kazakhstan for export to China.⁷ India is also negotiating for the construction of a pipeline for importing natural gas from Iran via Pakistan (nicknamed "the Peace Pipeline"). The success of these negotiations, however, is in doubt because of U.S. pressure on India and the fragility of Indo-Pakistan cooperation.

Overall, the policies that China and India are currently pursuing with respect to securing long-term energy supplies from the Middle East pose a challenge to U.S. oil and security interests in the region.⁸ In order to limit their energy investments in Iran and Sudan, the United States has offered several economic and political incentives to both China and India. At the same time, it has imposed trade restrictions on specific Chinese and Indian firms for violating U.S. sanctions. So far, however, this carrot-and-stick strategy has had mixed results. Neither China nor India is prepared to fully sever its energy ties with Iran. Instead, the two countries are using Iran as a bargaining chip in their diplomatic and economic relations with the United States.

The energy competition from China and India will also affect U.S. economic relations with friendly oil-exporting regimes in the region, such as the GCC countries—and U.S. oil companies may have to be more flexible in their dealings with these countries and offer more concessions in order to remain competitive. The Obama administration might also try to create more business and investment opportunities for American energy

Chart 2. Volume of Merchandise Imports of Major Middle Eastern Countries
(in billions of US dollars)



⁷ Michael T. Klare, *Rising Powers, Shrinking Planet* (New York: Metropolitan Books, 2008), p. 196.

⁸ In his 2008 book (op.cit.) the energy expert Michael Klare argues that the United States must work out a cooperative arrangement with China (and India) to manage the growing competition for energy resources in the Middle East and elsewhere. He further warns that in the absence of such cooperation, this competition could result in diplomatic tensions and a higher risk of conflicts over resources.

firms in the context of bilateral trade and investment agreements with the moderate oil-exporting countries—but to achieve this goal, the U.S. might have to offer other trade or diplomatic concessions.

The promotion of growth and economic development in MENA countries

There is considerable disparity in both per capita income and economic development among Middle Eastern countries. Some oil-exporting countries, such as those in the GCC, enjoy living standards that are close to those in advanced industrial countries, while poverty and underdevelopment are still major concerns in many other countries, such as Egypt, Yemen, and Morocco. Furthermore, in some of the

States in the Middle East, it is in the American national interest to promote economic growth and development in the less developed areas of Middle East for several reasons. First, poverty and underdevelopment create a breeding ground for the promotion of Islamic militancy and political violence, which is frequently directed toward the United States. Critics in Arab countries that maintain friendly relations with the United States often view the U.S. as the supporter of the ruling elite in their country and blame the U.S. for the economic shortcomings of their own governments.

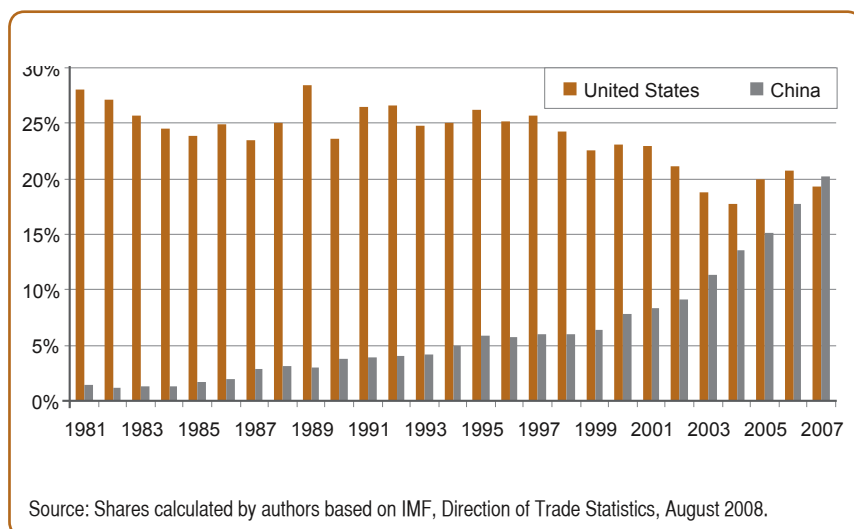
Second, if properly channeled, the region's oil revenues are large enough to finance its much-needed sustainable development. In countries

“The current economic crisis is forcing the United States to introduce a deficit-financed economic stimulus plan which will require even more investment by GCC countries and China in U.S. government treasury bills and bonds”

Western countries to the United Arab Emirates—the region can even reverse the Arab world's pervasive brain drain.

Third, U.S. businesses will benefit from the economic growth and development of MENA countries. The United States enjoys a comparative advantage in sales of high-tech products such as airplanes, advanced computers, electronic devices, and—for better or for worse—advanced weapons systems. It is also a leading provider of oil technology and services, which are in high demand in many parts of the region. Even more significant for the United States is MENA's food deficit, which offers attractive export opportunities for U.S. agricultural products. The U.S. is one of the leading food exporters in the world, and as the MENA region—which has mostly stagnant agricultural production, due to scarcity of water and arable land—grows, demand for imported food products will increase.⁹ The United States must seek international cooperation, however, with respect to the promotion of sustainable growth in the Middle East. Unilateral initiatives will put a higher financial burden on the U.S. government—and in light of recent tensions between the U.S. and Arab countries over Iraq, are also less likely to gain acceptance inside the region. But if the U.S. does not take the lead, it is likely that Europe

Chart 3. U.S. vs. China: Shares of Total Exports to Middle East



MENA countries that fall between these two extremes, there is considerable income inequality and uneven development. Overall, the region's human development report card shows some improvement in the past two decades, but the region as a whole still lags far behind the OECD nations.

In light of the sizable economic and geopolitical interests of the United

States that have reformed their economic and financial institutions, the oil revenues are complemented by growing inflows of foreign investment. The MENA region also has an adequate young and semi-skilled labor force. Furthermore, as the experience of the GCC states in recent years has shown—exemplified in the recent immigration of thousands of educated Arab and Iranian professionals from

⁹ Eckart Woertz, Samir Pradhan, Nermina Biberovic, and Chan Jinzhong, “The Potential for GCC Agro Investments in Africa and Central Asia,” GRC Report (Gulf Research Center: September 2008).

and China, which enjoy more goodwill in the region, will launch their own developmental assistance initiative for the region, causing a further reduction in U.S. influence.

The United States can also encourage the GCC countries to increase their investment in and financial assistance to low-income countries in the region. This can take the form of multilateral cooperation in private sector initiatives in which American firms partner with GCC firms in large-scale investment projects. A number of GCC real estate firms, such as Emaar (a Dubai-based real estate firm with worldwide operations), are already investing in several MENA countries, but partnership with American firms would enable investment in many more sectors, particularly those which require more advanced technologies.

The US trade and investment relations with the region

High oil revenues and the strong economic growth of recent years have led to a sharp increase in the volume of imports by Middle Eastern countries. As demonstrated in Chart 2, imports by major Middle Eastern countries have increased by more than 200% during the period 1997-2007: from \$75.05 billion in 1997 to \$258.3 billion in 2007.¹⁰

U.S. exports to these MENA countries rose from \$19.4 billion in 2000 to \$50 billion in 2007. While these figures indicate positive growth, several other countries—China in particular—were able to increase their exports at a faster pace than the United States. China's exports rose by more than tenfold, from \$4.5 billion in 1997 to

\$52 billion in 2007. As demonstrated in Chart 3, the U.S. share of the Middle East export market has declined from 1997 to 2007, while China's share has increased during that period. Starting from a small share of 5.9% in 1997, China was able to expand its share to 20.1% in 2007, which exceeded the U.S. share (by a small margin) for the first time. The European countries have also lost market share to China, but the magnitude of their market loss has been smaller than that sustained by the United States.¹¹

High oil revenues and extensive investments in infrastructure, real estate, and manufacturing in some MENA countries point to strong growth

least preserve the U.S. share in this market. Improving the image of the United States in the region and fine-tuning U.S. trade policy toward MENA countries are two important steps that could be taken in this direction. With respect to the first, U.S.-Arab diplomatic relations have historically had an indirect impact on the U.S. share of the MENA export market. In the 1990s, when the U.S. was actively involved in the Oslo peace process, there was a noticeable improvement in the image of the United States in Arab countries, and the U.S. market share remained stable after a visible decline in the 1980s. As shown in Chart 3, the U.S. market share suffered another downward trend in 1999-2005 as the

Oil Rig in the Gulf. China is beginning to show increasing energy interests in the region



in both economic activity and demand for imports over the next ten years.¹² But as the Middle East export market continues to grow, the U.S. will face strong competition from Asia and Europe, and the Obama administration will have to take steps to grow or at

Middle East peace process gave way to the second Palestinian Intifada, the September 11 attacks on the United States, and the U.S. military involvement in Iraq and Afghanistan.¹³ If the Obama administration makes progress with respect to the Arab-

10 These figures are based on the merchandise imports of 10 Arab countries: Bahrain, Egypt, Kuwait, Oman, Saudi Arabia, Tunisia, United Arab Emirates, Morocco, Jordan, and Qatar. Furthermore, the data refers to these countries imports from seven major trade partners: the United States, the United Kingdom, France, Italy, Germany, Japan and China. Source of data: IMF, Direction of Trade Statistics, September 2008.

11 The European Union is the largest exporter of merchandise goods to the Middle East. Four European countries—the United Kingdom, France, Italy, and Germany—accounted for 58% of global merchandise exports to the ten MENA countries in our sample in 1999, but their share had declined to 49% by 2007.

12 This projection is based on

13 For a detailed empirical analysis of political developments that have affected the U.S. market share in the Middle East, see Nader Habibi, "U.S. Trade Relations with the Middle East, 1980–2002: Has the United States Lost Market Share to Europe because of its Middle East Policy?" (paper presented at the 10th Annual Economic Research Forum Conference, Marrakech, Morocco, December 16–18, 2003).

Israeli peace process and significantly reduces the U.S. military presence in Iraq, these policies are likely to have a positive impact on the volume of U.S. exports to the region.

The Bush administration tried to strengthen trade and investment ties with MENA countries by negotiating bilateral Free Trade Agreements (FTAs); it has already signed FTAs with Morocco, Israel, Jordan, Bahrain, and Oman. Currently negotiations are underway with several other MENA countries, including Egypt, Qatar, and the United Arab Emirates (UAE). The current U.S. trade agenda in the Middle East was formulated by the Bush administration in 2003 as a graduated path toward a comprehensive U.S.-Middle East FTA. According to this plan, the United States would first negotiate bilateral FTA agreements with individual Middle Eastern countries and over time consolidate these individual FTAs into an integrated regional FTA. Critics argue, however, that the separate FTAs that the United States is interested in undermine existing regional trade agreements among Arab countries. Tensions with Bahrain rose, for example, when Saudi Arabia became concerned that the U.S.-Bahrain FTA (which went into effect in August 2006) violated the GCC customs union, which called for a 5% tariff on imports from non-GCC countries.

In contrast with the United States, the European Union and China are negotiating regional FTAs with groups of Middle Eastern countries and encouraging inter-Arab economic integration. The EU has established the Euro-Mediterranean Partnership (EMP) to promote trade and economic cooperation with the MENA countries that surround the Mediterranean Sea. The EU is also pursuing a free trade

agreement with the GCC bloc.¹⁴ The GCC-China negotiations began in 2004, and four rounds of talks have been completed so far.

The Arab countries seem to prefer collective free trade agreements with their major trade partners. As the Obama administration reviews the state of U.S. economic relations with the Middle East, it must decide whether to continue the current policy of independent trade negotiations or to switch to a collective FTA option with multicountry blocs, similar to the approach taken by the European Union and by China. Since Arab countries are gradually moving toward deeper regional or subregional economic integration, they might find it more difficult in any case to sign independent FTAs. By modifying its FTA program along these lines, the United States would demonstrate its goodwill toward the region and would in all likelihood, be able to sign trade agreements with larger groups of Arab countries.

The growing financial and economic power of GCC countries

The economic ascent of GCC countries poses both opportunities and challenges for the United States. With a total resident population of less than 40 million, the six GCC countries already account for more than half of the MENA region's economic output. Over the past two decades, the center of economic and financial power in MENA has shifted from larger economies such as Iran and Egypt to this small, economically potent group of Arab nations.¹⁵

The U.S. needs the Gulf to finance its deficit, and the Gulf has a large stake in the American economy on account of its investments in dollar-denominated assets. Furthermore,

“The Arab countries seem to prefer collective free trade agreements with their major trade partners. As the Obama administration reviews the state of U.S. economic relations with the Middle East, it must decide whether to continue the current policy of independent trade negotiations or to switch to a collective FTA option with multicountry blocs, similar to the approach taken by the European Union and by China”

the current economic crisis is forcing the United States to introduce a deficit-financed economic stimulus plan which will require even more investment by GCC countries and China in U.S. government treasury bills and bonds. The U.S.'s high deficit, which allows the U.S. to maintain its large volume of imports, can put added downward pressure on the dollar, which is a matter of concern for the GCC countries, who hold over 60 percent of their foreign assets in dollars. The value of these foreign assets has decreased by an estimated 25 percent during the recent turmoil in global financial markets.

Consequently, GCC governments have no alternative but to prevent a dollar collapse in the short run because of their existing dollar assets. But a gradual divestment toward European and Asian assets might occur in the long run if they fear further weakness in the dollar. Since the Obama administration has already announced that it plans to

¹⁴ The GCC-EU free trade negotiations officially began in 1988 but languished in the 1990s, as the stated precondition was a GCC customs union. Since the GCC announced its intention to form such a union in 1999 and finally launched it in 2003, the negotiations have gained momentum, and the impending completion of an agreement has been announced on several occasions, amidst persisting debates about human rights and technical issues.

¹⁵ Anoushiravan Ehteshami, *Globalization and Geopolitics in the Middle East* (London: Routledge, 2007), Chapter 6.

finance a large economic stimulus plan in the next few months, it must engage in close consultations with its GCC and Asian creditors, who will be asked to purchase a portion of this additional debt.¹⁶ Although stimulating the U.S. economy will remain the top economic priority of the new administration, it must also demonstrate a strong commitment to long-term price stability and to the strength of the dollar in order to reassure its international creditors and restore confidence in the U.S. economy. Given the magnitude of debt involved this will be a very difficult task, but it is absolutely essential. The U.S. economy will face new hardships in the long run if the GCC countries and other international creditors lose faith in the stability of the dollar and reduce their investments in U.S. assets.

Additional problems could arise from dwindling current account surpluses in the GCC countries and China in the wake of recent declines in oil prices and Chinese manufacturing export revenues. The current account and fiscal surpluses of the GCC countries will be significantly reduced or will vanish altogether in 2009-10, according to the IMF and the Institute of International Finance (IIF).¹⁷ Consequently, the GCC countries will not be able to spare the “hundreds of billions” of dollars that British prime minister Gordon Brown asked for the proposed IMF bailout fund during his November 2008 visit to GCC capitals, not to mention similar sums for U.S. bailout packages—even more so, because GCC countries need significant capital injections into their own local economies, which have been hit by the global financial crisis.¹⁸ The possible decline of capital injections from Asia and GCC countries will make it more difficult

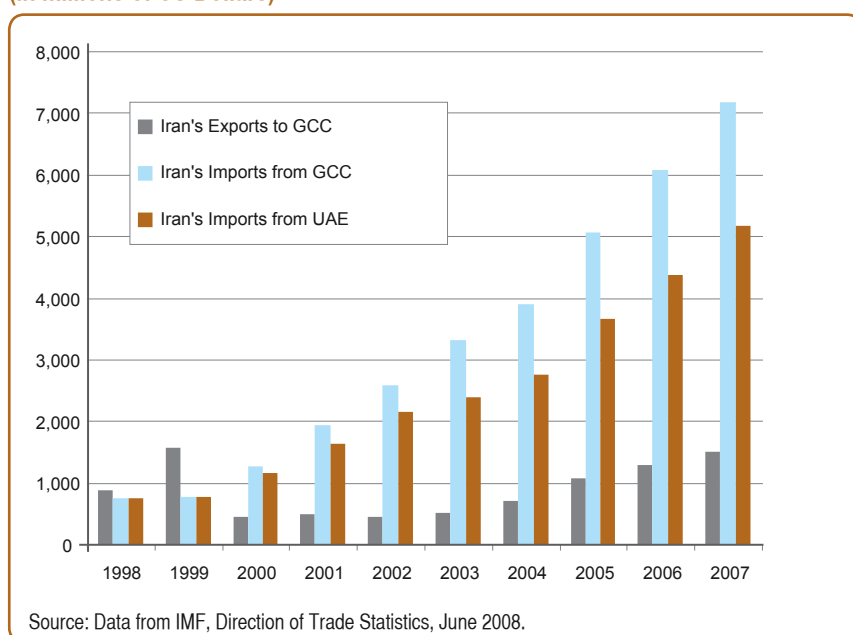
for the United States to finance a stimulus package and force the U.S. to rely more on domestic borrowing and on monetization of debt by the Federal Reserve.

Another issue of interest in U.S.-GCC economic relations is U.S. policy toward foreign equity investments. As part of their long-term investment strategy, the GCC Sovereign Wealth Funds (SWFs) are allocating a larger share of their assets in equity investments, but some political and media circles in the United States have recently opposed large-scale investments that would offer a foreign investor substantive management power in large American firms. In 2005, for example, the United States prevented the China National Offshore Oil Company (CNOOC) from acquiring Unocal, although its bid was better than Chevron's competing bid. This was followed by the strong political opposition to a Dubai-based firm's interest in acquiring six port authorities in the United States in 2006.

This sensitivity has diminished since 2007. Saudi petrochemical giant SABIC bought GE Plastics for \$11.6 billion, the Abu Dhabi Investment Authority (ADIA) bought 4.9 percent of Citigroup, and the Abu Dhabi Investment Council (ADIC) bought the Chrysler building, to mention just a few examples. As more and more American firms face financial difficulties in the current economic crisis, foreign investment is often an attractive alternative to bankruptcy and government bailouts. Yet the United States and other Western governments are still concerned about large-scale equity investments on the part of Asian and Arab SWFs. The main concern of Western governments is that since SWFs are government-owned, these investments will be used to serve political objectives and thereby harm the national interests of the host countries.

To address these concerns, in the spring of 2008 the International Monetary Fund formed a 26 member International Working Group of

Chart 4. Merchandise trade between Iran and the GCC
(in millions of US Dollars)



¹⁶ It is no surprise that then Treasury Secretary Henry Paulson had several high-profile meetings with the managers of leading Arab and Asian Sovereign Wealth Funds in 2008. In these meetings, he persuaded them to invest in ailing U.S. financial firms.

¹⁷ International Monetary Fund, “Regional Economic Outlook: Middle East and Central Asia,” October 2008; Institute of International Finance, “Regional Report: Gulf Cooperation Council Countries,” December 3, 2008.

¹⁸ Eckart Woertz, “Impact of the US Financial Crisis on GCC Countries,” GRC Reports (Gulf Research Center: October 2008).

Sovereign Wealth Funds (IWG), comprising representatives of Investor governments and several international organizations, to come up with a set of recommendations and guidelines for SWFs, leading to 24 “Generally Accepted Principles and Practices (GAPP),” known as the Santiago Principles.¹⁹ It is important that the Obama administration support this process of international negotiation so that a set of universally accepted guidelines for SWF investments will be adopted by the international community. Such a step will facilitate larger GCC investments in U.S. firms and provide more liquidity to the U.S. economy.

Another issue of concern in U.S.-GCC relations is the U.S. demand for GCC participation in economic sanctions against Iran. Since 2007, the United States has put pressure on GCC governments and businesses to limit their trade and investment relations with Iran. In response to these pressures, some banks in Bahrain and the UAE have refused to support financial transactions with Iranian firms. In general, the GCC countries tend to cooperate with U.S. demands on such issues, while being otherwise reluctant to take sides in the ongoing tensions between Iran and the United States. In recent years, the volume of trade between Iran and GCC countries has enjoyed a rapid increase—and, as demonstrated in Chart 4, the GCC countries enjoy a considerable trade surplus vis-à-vis Iran. Cooperating with U.S. economic sanctions, therefore, will impose an economic cost on these countries.

The country that will be most impacted by U.S. pressures against trade with Iran is the UAE. After China (14.3%) and Germany (9.7%), the UAE is the third largest exporter to Iran, with a

share of 9.2% of total exports to Iran. In recent years, the UAE has emerged as Iran's window to the world, serving as a re-export center for many types of machinery and spare parts that Iran needs. Up to 300,000 Iranians live in the UAE, according to some estimates, and Iranians own 15 percent of the Dubai real estate market.

The U.S. has increasingly pushed the UAE to limit the trade flows and financial transactions that are so vital to the Iranian economy. The UAE has complied with these demands to some extent, but full compliance would be very costly for its economy: UAE exports to Iran were worth \$4.7 billion in 2007; exports to the U.S. only \$1.27 billion.²⁰ GCC countries also look to Iran to overcome their looming natural gas shortage—and cooperation with U.S. sanctions would make it more difficult for them to expand their natural gas trade with Iran.

If the United States insists on broad GCC participation in the sanctions, it will have to offer some political and economic concessions to offset the above-mentioned costs that GCC countries will have to incur. From the GCC's point of view, an even better alternative would be an attempt by the United States to resolve its dispute with Iran through direct negotiations, allowing the GCC countries to remain neutral.

Conclusions

In this Brief we have identified four issues that affect U.S.-Arab economic relations and must be taken into consideration by the U.S. administration as it sets a new course for the American Middle East policy. While oil will continue to dominate the U.S. strategic concerns about the region, the growing economic

“The penetration of Chinese and Indian firms in the MENA energy markets not only takes away business opportunities that might otherwise have been awarded to American firms, but also diverts a larger share of Middle East oil exports to Asia”

and financial power of some Middle Eastern countries also deserves some consideration. These countries are combining their large oil revenues with sound economic policy to achieve high economic growth rates and they are being actively courted by European and Asian countries who seek to expand their trade and investment relations with these nations. The United States also has an interest in promoting economic growth and higher standards of living in lower-income Middle Eastern countries. Poverty and inequality in countries like Egypt and Yemen often leads to the rise of militant movements and political violence which spreads throughout the region and is frequently targeted towards U.S. interests. Global competition for the Middle East export markets will be intense in the coming decade. The ability of the United States to succeed in this market will partially depend on the diplomatic and military dimensions of the U.S. Middle East policy, particularly its perceived role in the Middle East conflict.

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¹⁹ For a detailed account of IWG and the Santiago Principles see: International Working Group of Sovereign Wealth Funds, “Sovereign Wealth Funds, Generally Accepted Principles and Practices ‘Santiago Principles,’” October 2008.*

²⁰ IMF, Direction of Trade Statistics, December 2008.

* Weblinks are available in the PDF version found at www.brandeis.edu/centers/crown

Water Policy in the Arabian Gulf Region

Dr. Mohamed Abdel Raouf

Natural resources are the real wealth of nations. As is well-known, GCC countries are rich in oil and gas reserves; however, they are poor in water resources and arable lands. According to the UN, GCC countries, except Oman, fall in the category of 'acute scarcity.'

This means that these countries have an annual renewable water capacity of less than 500 cubic metres per capita. Environmental analysts say it is closer to 100 cubic metres. Physical water scarcity occurs because of the area's traditionally low annual rainfall. As a result, the region is largely dependent upon unsustainable groundwater abstractions. The major causes of increasing water demand include population growth and rapid urbanisation, and wasteful consumption patterns both in domestic, industrial and agriculture sectors. Besides, the efficiency of water systems, when compared to those in other parts of the world, could be improved. While the supply of water is short because of natural and climatic conditions, water consumption in the GCC countries ranges between 300–750 litres per person per day, which is among the highest in the world. Water policies are in need of reform.

The conventional water resources of the Arabian Gulf region include surface water, groundwater, and shallow and deep aquifers. Non-conventional water resources come from desalination

and wastewater recycling. While water resources are in short supply, demand for water is growing in the GCC countries. Given this situation, the question of the optimal management of water resources is clearly of crucial importance, with implications not only for the future development of those countries, but also for the sustainability of their past economic and social achievements. The dilemma arises from continuing growth in demand, which is the result of population increase and other social factors, in conjunction with the fact that the region is already exploiting all its annual surface water resources, while its aquifers are becoming depleted.

Over the last 20–30 years, most of the potable water demands have been met through desalinated water (see Table 1). GCC countries have become the

forerunner in desalination technology. However, most of the existing desalination plants were built during the 1970s and 1980s and have operated at almost their maximum capacity. It is reported that some of the plants have faced interruptions in operations, resulting in intermittent water supply disruptions during repair periods. Furthermore, the increasing level of salt concentration in the Gulf region — owing to large amounts of highly saline brines discharged from desalination plants — could render the operation of desalination plants more costly and challenging in the future.¹

Any chemicals added to the desalination process for scale prevention, corrosion reduction, and corrosion products might be discharged to those water bodies together. Likewise, inland brackish water desalination plants also can face major challenges in disposing

The Taweelah A1 Power and Desalination Plant in Abu Dhabi, United Arab Emirates. Desalination is one of the ways many GCC States combat water scarcity



¹ World Bank, "A Water Sector Assessment Report on the Countries of the Cooperation Council of the Arab States of the Gulf", Environment, Social and Rural Development Department, Middle East and North Africa Region, [Report No. 32539-MNA], Washington, 2005.

of brine discharges in a safe manner and incur heavy treatment costs.

The governments need to act right now in order to secure water needs in the short, medium and long term for different sectors by using different policy options, technologies, and even political pressure, and deals that can secure water supplies from friendly countries.

A new tariff system was introduced in March 2008 by Dubai Electricity and Water Authority (DEWA). The rising tariffs will make people more conscious of using water efficiently as it would encourage customers who fall into the higher categories of consumption to cut back on use. One must admit that this is a step in the right direction to send signals to consumers about the true cost of water. However, the new tariff does not apply to UAE nationals. In fact, it would be better to offer them a monetary allowance and charge their wasteful water consumption instead according to the new DEWA tariff.

Agriculture accounted for just 3.3 per cent of the UAE's GDP, less than one percent of Kuwait's and about 6.5 percent of KSA. However, agriculture continues to be the prime water-consuming sector in the GCC. In fact, agricultural water use has increased from about 73.5 billion cubic meter

(BCM) in 1990 to over 90 BCM in 2000, exerting immense pressure on the limited water resources in the region.

It is worth mentioning that many corporate companies and environmental NGOs across the region have embraced programmes for greening deserts. This is an unwise solution in a water-scarce country, even if the argument is that they are planting indigenous species. We have to accept and adapt with our surrounding eco-system. It is a desert area with scattered indigenous species.

It will be wise to seize upon the chance of making use of the adaptation fund that became available following the Bali negotiations last December. Regional cooperation and joint projects will ensure that the possible consequences of water policies are anticipated and examined and water issues are included in countries' interests.

Reliance on desalinated water alone could be a risky policy considering the volatile nature of oil prices and revenues and various negative environmental impacts. However, there is no doubt that desalination is an important component in the water budget of GCC countries. The sustainable use of groundwater resources should be a consideration in the overall integrated

water resource management policy of each country. More research should be devoted for cutting down costs and obtaining new environment-friendly desalination technologies.

“While the supply of water is short because of natural and climatic conditions, water consumption in the GCC countries ranges between 300–750 litres per person per day, which is among the highest in the world. Water policies are in need of reform”

Most of what is traditional is more environment-friendly. It is important to protect traditional systems like aflaj (a system of conveying water from its source through sloping, open channels to irrigation points).

Water Quality is of importance too. If water quality continues to deteriorate, then it will be unsuitable for many purposes and total freshwater supplies will decline. The concept of 'virtual water' holds immense relevance for the water-scarce countries. Much water can be saved by cultivating only those food crops which need less water and importing the food items and other agricultural produce that need high amounts of water.

Table 1: Desalination water supply share in 1990 and 2005

Country	1990			2005		
	Desalination Production (mcm)	Domestic Demand (mcm)	Desalination to Demand ratio (%)	Desalination Production (mcm)	Domestic Demand (mcm)	Desalination to Demand ratio (%)
Bahrain	56	103	54	122.7	133	92
Kuwait	240	303	80	589.1	610	96.5
Oman	32	86	37	67.932	170	40
Qatar	83	85	98	250.13	252	99
Saudi Arabia	795	1,700	47	1,063.28	2,458	43
UAE	342	540	63	812.61	951	85
Total	1,548	2,817	55	2,905.75	4,574	63.5

Source: World Bank (2005), Dawoud (2007)

Experience has also shown that specific environmental problems such as water scarcity are usually addressed by employing a “policy mix” consisting of various command and control instruments (penalties and fines), economic instruments (incentives) and awareness and educational programmes.

Al Taweelah Power Plant in Abu Dhabi, United Arab Emirates



Needless to say, in Islamic societies such as in the GCC, efforts to increase awareness and find solutions to water scarcity should have been easy because of religious reasons. Many *Ayat* in the Quran, encourage the preservation and protection of water, a precious commodity, even during the mandatory ablution before prayers. The use of religious guidelines can be an integral part of any awareness campaign.

According to various scientists and scientific research centers around the world, the amount of the water in the world — which has been a constant since the world was created — is enough for all living creatures on the earth. The problem lies in mankind’s misuse and mismanagement of this

valuable resource. The main problem lies in the value system that governs the usage and management of natural resources nowadays, rather than being a technical or engineering challenge. The current value system is mainly driven by economic benefits without taking into consideration social and environmental sustainability,

which are at the core of Islamic values. These values require that man serve as a custodian of the earth by preserving resources and only developing communities that maximize positive impacts and avoid or eliminate negative impacts.

Needless to say, in Arab Islamic societies such as the GCC, efforts to increase awareness and find solutions to water scarcity should have been easy because of religious reasons, as many Qur’anic verses encourage the preservation of water, a precious commodity, even during the mandatory *wodhu’* or ablution before prayers. The use of religious guidelines must be an integral part of any awareness campaign.

GCC countries need to enhance water harvesting and storage measures; improve monitoring to develop a sound analytical base for policymaking; focus on human-induced climate change; and expand studies on groundwater as an adaptation strategy. GCC countries should also pursue opportunities for community-owned infrastructure.

The water issue is a crucial issue for the future of the people of the GCC countries. There is a need to store water for future generations’ use of natural depleted wells and aquifers. There is an urgent need to prioritize water uses and sensible usage especially in agriculture. Agriculture policy requires a total rethinking. Some recent trends point towards this necessity. Organic agriculture, which is the recent trend in the GCC, is much better than heavy chemical agriculture. Greenhouse agriculture methods may be of some importance to GCC countries as a replacement for traditional, heavy water-consuming practices.

There is a need to look for alternatives to water in various uses, such as the recent initiative by ENOC Petroleum Company in Dubai to use some safe chemical materials to wash cars.

Finally, the GCC should recognize that there is no one solution that fits the entirety of the problem. Every country may need to shape its management system to fit its specific needs. Policy measures must be tailored not simply to each state’s needs, but to those of each municipality and region, whose perceived problems and priorities are unlikely to be identical.

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The Taliban Resurgence: A New Challenge for the US

Dr. Ashraf Ali

The Pak-Afghan Taliban nexus has emerged as the most dangerous threat to the US-led coalition forces in Afghanistan. In this article Dr. Ashraf Ali explores the politics and challenges surrounding the Pakistan –Afghan border and what it means for US-led coalition forces.

The fall of the Taliban government in Afghanistan in the wake of the attack by US-led coalition forces in 2001 sent a message across the world that the Taliban chapter had been closed forever and their six-year long 'draconian rule' had become part of history. However, even as the allied forces believed that they had destroyed the group, the Taliban, who were on the run, described it as a tactical retreat.

Just a few years later, the forceful comeback of the Taliban on the political stage of Afghanistan took the world by surprise. The question on most people's minds was: how did a politically demoralized, militarily weakened and dispersed force which had vanished into the mountains, come out of their hideouts with new zeal to pose a challenge to the world's most powerful military power – the US – and its allies in the war against terror?

There could be many answers to this question, but those who have closely watched the events that followed the fall of Kabul to the allied forces believe that the Pakistani Taliban played a vital role in pushing the parent Afghan Taliban movement to strike back and

wage a full fledged war against the US-led NATO forces in Afghanistan.

Following the fall of the Taliban regime and the subsequent establishment of the Hamid Karzai-led government in Afghanistan, a majority of the Taliban crossed the border and settled in the tribal areas of Pakistan bordering Afghanistan where they found sanctuaries among their sympathizers. The Taliban, during their stay in the Federally Administered Tribal Areas (FATA) used the opportunity to re-organize themselves and garner the support of those who already had anti-American views in the area.

This bond of friendship and sympathy between the locals and the Afghan

Pakistan's para-military force uses heavy artillery to bombard hide-outs of suspected militants during a crackdown operation in Bara Akakheil of a major offensive against Taliban fighters threatening the main city in the country's volatile northwest. (AP Photo/Mohammad Sajjad)



Taliban became stronger when the tribesmen declared an open war against the Pakistan government after it sent more than 70,000 security men to the area in 2003 to take on the Taliban and put an end to the rising tide of militancy. The tribesmen viewed the government's move as an open violation of an agreement reached way back in 1901. Accusing the government of violating tribal traditions and damaging the independent status of the tribal areas, the militants were able to mold public opinion in their favor.

The Pashtuns on both sides of the border have much in common, including values, customs and traditions, language and, of course, religion. These connections were further strengthened by common business interests. Besides, some of them were linked by marriage. All these factors brought the Afghan Taliban even closer to the Pakistani Taliban.

On October 10, 2002, the conglomerate of six religious-political parties – the Muttahida Majlis-e-Amal (MMA) registered a sweeping victory over its Pashtun secular nationalist rivals in the North West Frontier Province. The MMA exploited the situation by criticizing the US occupation of Afghanistan in its election campaign and were about to assume power in the two comparatively conservative provinces of the country, NWFP and Baluchistan with a strong opposition force in the center as well.

The MMA's five-year reign, even if it did not encourage the militants, did not discourage them either from carrying out their activities in the open. In fact, this period provided the militants an opportunity to emerge with confidence. A simple example is that of Maulana Fazlullah, the leading figure in the Swat insurgency. Fazlullah was an unknown name even locally, but the government's indifference to the inflammatory speeches he makes on his illegal FM radio station – mostly

against the presence of NATO forces in Afghanistan and earlier, about the pro-American policies of President Musharraf – have made him so strong in the area that he finally faced no resistance in taking control of Matta and Khawazakhela within days, supported by his armed brigades, and extending his control to the rest of the area. The worsening law and order situation in the troubled valley left the then President Musharraf no option but to impose a state of emergency in the country in November 2007. The crisis was resolved only when the government dispatched a contingent of 18,000 forces to the valley to take on Maulana Fazlullah and his brigades.

There is no denying the fact that from 1994 to 1996, the Taliban's sweeping victories against its rival forces – Northern Alliance and Hizb-e-Islami – and ultimately consolidation of power in Kabul was made possible only because of those Taliban who joined the movement from various Deeni Madaris (religious seminaries) of Pakistan and fought shoulder to shoulder with the Afghan Taliban. Dar-Ul-Uloom-e Haqqania, Akora Khattak, Dar-ul-Uloom-e-Sarhad, Peshawar and the Binori Town madrassa in Karachi have been at the forefront of sending reinforcements to Afghanistan. The Pakistani Taliban has always said yes to the call of their spiritual leader Amir-Ul-Momineen Mullah Muhammad Omar Mujahid whenever they have been called upon.

Following the US attack on Afghanistan in October 2001, the leader of the Tanzeem-e-Nifaz-e-Sharia-e-Muhammadi (TNSM), Maulana Sufi Muhammad, led more than 10,000 young zealots across the border to fight the US-led NATO forces in Afghanistan. The majority of them were maimed or killed and many of them are still languishing in various prisons of Afghanistan. On their way back, Maulana Sufi Muhammad and his son-in-law Maulana Fazlullah – the

“The question on most people's minds was: how did a politically demoralized, militarily weakened and dispersed force which had vanished into the mountains, come out of their hideouts with new zeal to pose a challenge to the world's most powerful military power – the US – and its allies in the war against terror?”

main figure in the Swat insurgency now – were arrested along with 30 other members of their group and imprisoned. On January 12, 2002, President Pervez Musharraf banned the TNSM along with four other jihadi organizations. Maulana Fazlullah was released in 2003 while Sufi Muhammad was kept in custody until an agreement was reached between the government and his organization on May 21, 2008.

The Taliban's movements across the border are facilitated by the strategic location of the tribal areas. This area provides the Taliban and Al-Qaeda fighters a safe haven where they can easily re-group, discuss new strategies and finalize action plans. Following the coalition forces' attack on Damadola in Bajaur Agency on January 13, 2006, which killed 18 persons including four foreign militants, then-President Pervez Musharraf had publicly said that although the deputy head of Al Qaida, Ayman Al-Zawahiri had escaped, his close relative had been killed in the attack (he was later identified as Zawahiri's son-in-law, Abdul Rahman Al Misri Al-Maghribi). Ayman Al-Zawahiri had been expected to attend a dinner the same day but luck favored him and, for some reason, he did not turn up.

On October 30, 2006, a US guided missile attack on a religious seminary in adjacent Cheenagai in Bajaur, which killed 80 students and left three others injured, led the fugitive Taliban leader

Faqir Muhammad to publicly announce that he would feel honored to welcome Taliban and Al-Qaeda leaders, Osama bin Laden, Ayman Al-Zawahiri and Mullah Muhammad Omar, at his home. Maulana Faqir, who is also the deputy head of the Tehreek-e-Taliban Pakistan (TTP), while reacting to the incident before a gathering of more

government, he added, “we are forced to fight ‘defensive Jihad’ inside our own country.”

Baitullah Mehsud, the Pakistani Taliban commander who owes allegiance to Mullah Muhammad Omar, has repeatedly been saying that the Pakistani Taliban would carry

A U.S. soldier on the Pakistan-Afghan boarder. The rise of the Taliban in the area, has made the region the nexus in the war against terror



than 20,000 people at a football ground in Khar, Bajaur, said that, “By killing 80 students, America has produced more than 80,000 suicide bombers and we will soon take revenge.” Maulana Faqir is wanted by the Pakistani authorities for allegedly hosting Al-Qaeda’s no. 2, Ayman Al-Zawahiri at his home. Just a week later, on November 8, the Taliban attacked an army base in Dargai in the North West Frontier Province killing 42 new recruits and injuring 20 others.

On December 12, 2007, when the Pakistani Taliban formally formed an umbrella organization under Baitullah Mehsud as its head, its spokesman Maulvi Omar told the media from an undisclosed location that the main objectives of the Tehreek-e-Taliban Pakistan (TTP) were to enforce Sharia law in their respective areas and resist the US-led coalition forces in Afghanistan. However, due to the wrong policies of the Pakistani

on their ‘jihad’ till the NATO forces are ousted from Afghanistan. Following the assassination of his predecessor, Commander Nek Muhammad (in an American laser guided missile attack in May 2004), Mehsud emerged as the undisputed leader of the troubled Waziristan area. South Waziristan, which provides an outlet to Afghanistan via Angoora Adda, has been a safe haven for the Afghan Taliban who have established bases there, and Mehsud’s armed militiamen have a visible presence. In the area controlled by Mehsud, the Taliban feel at ease to organize Shura meetings to finalize strategies for further action.

Besides offering sanctuaries to the embattled Afghan Taliban, the Pakistani Taliban have provided training facilities to the new recruits where they learn new war tactics before launching attacks on the NATO and Afghan forces across the border.

Most importantly, the tribal areas are used as a launching pad for suicide bombers who are mostly drawn from the conservative areas of the North West Frontier Province. In a surprising move, some 26 school kids were picked up towards the end of 2008 by unknown persons from various schools of the troubled Swat valley and shifted to various locations. A few of the kids, who were later found, revealed that they had been shifted to the tribal areas for military training.

Injured jihadis from Afghanistan are easily transported to the tribal areas and onward to destinations in Peshawar, Quetta, Lahore and Karachi for treatment. The Pakistani Taliban facilitates the move by providing logistic support and transportation to get them to their destination.

Most Afghan militants come to Pakistan via tribal areas during winter. They are able to take a breather before beginning preparations for offensives to be launched in spring. The Pakistani refugee camps offer them shelter where they relax after the rigors of war against the NATO and Afghan forces. Owing to severe public and international pressure, Jalojai, the biggest refugee camp located in the North West Frontier Province of Pakistan, was closed by the government recently; however, the Taliban still have access to the Shamshatoo and Akora Khattak camps.

The Taliban have also been fighting a productive propaganda war against the coalition forces in Afghanistan through CDs, DVDs and printed materials which accuse the coalition forces of atrocities on innocent Afghan civilians in such a convincing way that it influences the common man to think in favor of the Taliban. Sometimes they show footage of US bombing of mosques, hospitals and wedding ceremonies which push the young generation to join the Taliban in their hatred against ‘the enemies of Islam’. The Pakistani Taliban have been instrumental in getting these CDs

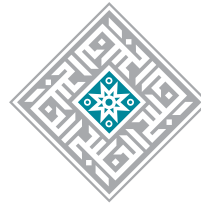
produced and marketed. The CDs are mostly produced in the studios set up in the tribal areas and marketed in adjacent areas. Peshawar's Karkhano and Nishtar Abad markets offer a variety of Jihadi CDs. The sophisticated propaganda against the US and its Western allies has prompted many US officials including the former US Secretary of State Colin Powell to admit that "America is losing the war of words against the Taliban."

To sum up, the Pak-Afghan Taliban nexus has emerged as the most dangerous threat to the US-led coalition forces in Afghanistan. The Haqqani network headed by Jalaluddin Haqqani, the Afghan war veteran and a close aide of Mullah Muhammad Omar, is said to be the bridge between the Afghani and Pakistani Taliban. Jalaluddin Haqqani, believed to be in his late seventies, is now giving more room to his son, Sirajuddin Haqqani, to lead the network.

Sirajuddin, alias Khalifa, belongs to the Zadran tribe of Afghanistan which also has roots on the Pakistani side of the border. He is in his early thirties and carries a \$200,000 bounty on his head. His popularity among the Taliban on both sides of the border has prompted NATO officials to declare him as one of the most dangerous Taliban commanders in the ongoing insurgency in Afghanistan.

The Haqqani network's growing influence on the Pakistani side of the border has become a severe headache for Islamabad as well. Countering this threat will need strong political will and coordinated efforts on the part of the Pakistan as well as the Afghan government. The two countries must put an end to the blame game and join hands to stop the advance of the Taliban. If they fail to do so, Pakistanis and Afghans will have to bear the consequences for many years to come.

Dr. Ashraf Ali works for the BCC in Peshawar, Pakistan



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The Obama Administration: A Shift in Foreign Policy?

Kareem Mahjoub

With the new US administration in place, its policies towards the Middle East and Gulf region are moving into focus

The inauguration of US President Barack Obama was one of the most eagerly anticipated events of the New Year. The huge expectations generated by the new President were felt across the global community. While the new presidency will be closely watched, it will be interesting to see how the Middle East and Gulf region responds to the Obama administration and its policies.

US dominance has diminished in recent times. This has coincided with a sharp rise in anti-American feelings all over the world, especially in the Middle East

where any presidential appointment is viewed with skepticism. Many feel that while new administrations promise much, US policy in the region remains unchanged.

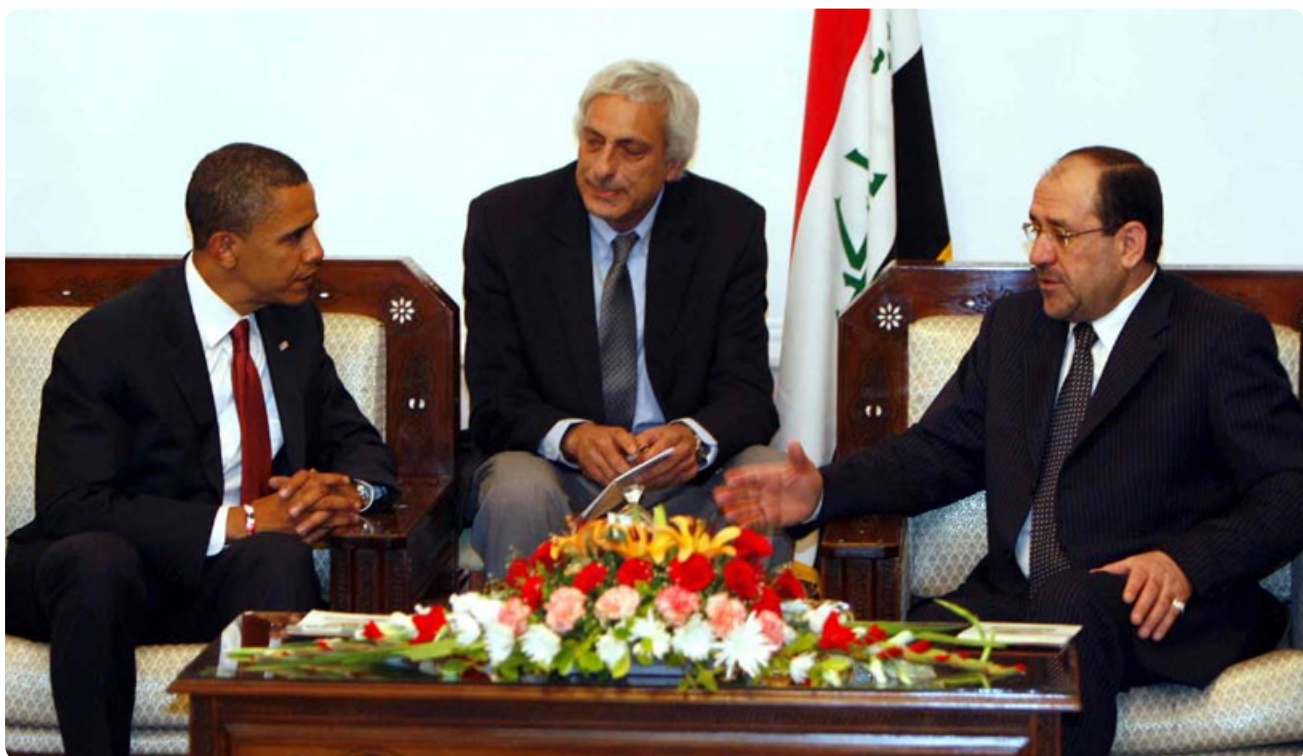
The US-led invasion of Iraq and the US stance in the Arab-Israeli conflict have done little to improve America's standing in the region. Therefore, appointments made by President Obama have been keenly watched by observers, looking for signs of a change in policy.

Some of the initial steps taken or statements made certainly do point to a change in approach by the new administration. President Obama has made the Middle East a top priority since assuming power. In his inauguration speech he directly

addressed the Muslim world and offered to work towards peace. He engaged with Middle East leaders in his first few days in office, making contact with Palestinian President Mahmoud Abbas, Egyptian President Hosni Mubarak, Jordan's King Abdullah, and Israeli Prime Minister Ehud Olmert. Since becoming president, Obama has halted prosecutions at Guantanamo Bay, distancing himself from the Bush administration policies. He indicated his willingness to speak at a Muslim capital within his first 100 days in office and has said that he will attempt to 'redefine our struggle against Islamic extremism.'

The Middle East and the larger Muslim world will undoubtedly be a top priority of the Obama presidency. According

U.S. President Barack Obama, left, talks with Iraqi Prime Minister Nouri al-Maliki, right www.washingtontimes.com/.../23/the-gg-statesman/



to the newly updated White House website, the Administration's main areas of focus in foreign affairs will be Iraq, Afghanistan, Iran and Israel-Palestine. Obama has criticized former President Bush for treating conflicts in Iraq, Afghanistan and Pakistan as 'discrete' problems and has stated his intentions to solve such issues with priority. With regard to the Palestine-Israeli crisis, Obama also remarked that both sides will have to make 'hard choices' in order to achieve a political settlement. He even commented on Saudi King Abdullah's peace proposal stating that "there are ideas across the region of how we might pursue peace." The Obama team has further pledged to hold talks with Iran in an attempt to halt Tehran's nuclear ambitions. President Obama, while emphasizing the importance of diplomacy in this matter, did warn however that he would "never take the military option off the table."² In fact, further economic sanctions have already been suggested by Stuart Levey, treasury department's undersecretary for terrorism and financial intelligence, who retains his position from the previous administration.

President Obama's initial appointments, nevertheless, suggest the new administration's willingness to shift the direction of foreign policy. This is particularly important since Obama lacks foreign policy experience, thereby making it all the more necessary for his advisers to have the necessary credentials to deal with foreign relations. Certainly his lack of expertise is a concern for the Gulf States who rely on US assistance. Obama's appointment of Joe Biden as Vice-President could therefore be one of the most important. Biden comes into office with a wealth of experience having served as chairman of the US Senate Committee on Foreign Relations. This certainly strengthens Obama's entrance into the realm of foreign policy.

But the President's more specific appointments as far as the Middle East is concerned could be more relevant for progress on the ground. One appointment that should generate great interest is that of former Senator George Mitchell, who has been appointed special envoy for the Middle East and was described by Obama as "one of the few people who have international experience brokering a peace deal."³ Mitchell had been involved in the Northern Ireland peace process as the US Special Envoy for Northern Ireland. Mitchell's emphasis on non-violence for all parties in Northern Ireland led to the Belfast Peace Agreement signed on Good Friday 1998 (known since as the Good Friday Agreement). His personal involvement and intervention with the parties was crucial to the success of the talks. Besides, the Mitchell Report on the state of the Arab-Israeli conflict during the first Intifada in 2001 has become the basis of what is now the road map for peace. His criticism of both Israeli settlement activity and the role of the PLO showed a willingness to be critical of both parties. This should serve to his benefit at the negotiating table. His half Lebanese background should also serve him well as the US attempts to improve its standing in the Middle East. Many analysts see this as a wise appointment. Mitchell's initial step has been to tour Middle Eastern and European capitals in what was described as a 'listening tour'. The key ultimately will be, of course, the lessons that he will draw from his talks and how he can translate them into policy. In fact, he may have to wait for Israel to complete the formation of a new government following elections held recently to move forward.

Another important appointment to the Obama administration is that of Rahm Emanuel, the White House Chief of Staff. Though primarily involved in the domestic side of the administration,

Emanuel's appointment is important because of his close connections with Congress, and this is likely to be used to ensure that the President has a solid working relationship with the Democratic majority in Congress. Emanuel also

What is needed from Obama are two things: A different approach to American diplomacy and the new appointments to his administration

served as an advisor under President Clinton and was involved in the historic Oslo accords in 1993. This is an aspect that is too often overlooked by outsiders especially when it comes to foreign policy formulation. If the new President wants to succeed in the Middle East, he will need to make sure that he has sufficient backing in the US Congress for his initiatives, especially given the fact that the Jewish lobby remains strong there. Rahm Emanuel's job will be to have this consensus established and it could be well be one of the most critical functions within the new administration.

The appointment of Richard Holbrooke as special envoy to Afghanistan and Pakistan is also worth noting. Obama has previously stated the importance of tackling the problems on the Afghan-Pakistan border and said that he believes that the conflict occurring in this region is endemic to the war against terrorism. As he contemplates the withdrawal of troops from Iraq, Obama has announced the deployment of an additional 17,000 troops to Afghanistan in order to stem the tide of the growing Taliban insurgency. This is modeled somewhat on the surge strategy applied by the Bush administration in Iraq. Richard Holbrooke is widely respected in diplomatic circles and well-known for creating the agreements

² Rodger Cohen, "The Unthinkable Option," New York Times, February 9, 2009 <http://www.nytimes.com/2009/02/05/opinion/05cohen.html>

³ Interview with Barack Obama, Al Arabiya News <http://www.alarabiya.net/articles/2009/01/27/65096.html>

that led to the signing of the Dayton Peace accords in Bosnia in 1995. Holbrooke comes with considerable experience and is another symbol of Obama's shift in foreign policy. He is known for toughness, a quality that will probably be needed as he tries to get Afghan and Pakistani officials to be more serious and committed about combating extremism.

The appointment of Dennis Ross as advisor to Hillary Clinton for the Gulf region is an equally significant indicator of change albeit for different reasons. Given Ross's controversial role in the previous Clinton administration with the Arab-Israeli peace process, where some have laid the blame for the lack of progress and ultimate failure squarely on his shoulders, there were genuine fears that if he were given a central role in the new administration, it would once again signal a weakened commitment of the Obama administration to real

ideology appears to be the prevailing mood in the new administration. With regard to the Gulf region, Puneet Talwar has been appointed as director of the Gulf in the National Security Council. He has worked in the Senate Foreign Relations Committee with Vice-President Biden and has also published work on Iran (in which he advocates modest engagement).

Despite the generally positive response to Obama's changes in foreign policy, he will continue to tread a fine line between engagement and restructuring. Such appointments and possible diplomatic ties may stimulate debate, but it remains to be seen whether they offer the fundamental re-thinking that US policy desperately needs. Obama has made the Middle East part of his core foreign policy agenda but this is a risky step for any new President. If he fails, this would immediately cast a negative light on his presidency. In addition, on some

The President's initial appointments suggest a willingness to shift the foreign policy thinking of the new administration.

inevitable in the US domestic context and should not be overrated. But until changes are visible on the ground, they will strengthen existing Arab skepticism. Domestic pressures will also significantly impact the Obama team. Reviving the economy and improving the infrastructure of the US would be the President's key goals in office, and would appease his domestic constituency more, rather than how he deals with foreign issues. The global financial crisis could ultimately hinder America's role in the Middle East.

While the concerns of the Middle East region are varied, the Gulf States have their own key concerns that the new administration needs to address. The Gulf understands the importance of a lasting Israeli-Palestinian peace plan as this would help change the dynamics of the area. Saudi Arabia is emerging as a front-runner towards implementing peace and Obama should seek to improve ties with the Kingdom. King Abdullah's plan can become the starting point for the peace process and the basis for both sides to work together and strengthen ties. In the meantime, Obama's shift of focus from Iraq to Afghanistan will concern the Gulf region especially with regard to the possibility of continued Iranian influence in Iraq. While his announcement on leaving a larger residual force in Iraq than initially suggested following the withdrawal of combat forces by the end of 2010, is a welcome sign, the Gulf is concerned that the withdrawal would be too quick and would thus plunge Iraq into another cycle of instability. Further discussions also with the GCC states are thus needed. Finally on Iran, while there is

A man watches a speech of U.S. President Barack Obama in Baghdad, Iraq. The new Obama administration has generated great interest throughout the Gulf



progress on the peace process front. The fact that Dennis Ross was not extended the mandate of an envoy to the entire Middle East and that even within the announced capacity of an advisor, his role remains largely undefined, should be seen as an encouraging sign that pragmatism over

fronts Obama's actions have simply confirmed Arab suspicions of neglect of the region. Obama continues to reiterate that "Israel is a strong ally of the United States. They will not stop being a strong ally of the United States, and I will continue to believe that Israel's security is paramount."⁴. These statements are

4 Interview with Barack Obama., Al Arabiya News <http://www.alarabiya.net/articles/2009/01/27/65096.html>

support within the GCC for US diplomatic engagement with Tehran, there is concern that the new administration will not show sufficient toughness with the power holders in Tehran and there will be too much emphasis on trying to reach a so-called grand bargain. In all these aspects, the GCC states want to stay in the loop and President Obama would be well advised to ensure that the GCC are part of the overall negotiations. Secretary of State Clinton's reassurance on this issue was certainly welcome news for GCC leaders.

President Obama and his team have inherited a role which has ultimately been damaged by the previous administration. New faces and new appointments are signs of engagement and the new recruits seem to have the credentials to tackle the problems facing America's role in the Middle East and Gulf. While engagement is important, what remains to be seen is whether tangible results can be obtained. With regard to the Palestinian-Israeli conflict, Secretary Clinton's recent visit was encouraging, emphasizing the importance of a permanent peace deal and also expressing concern regarding the humanitarian situation in Gaza. Clinton has also informed Palestinian Authority President Mahmoud Abbas that she has the full support of President Obama and will try to seek a comprehensive solution to the region. From such actions, a reshaping and redefining aspect to US policy in the region appears to be in the works, but more time is needed for any concrete conclusions to be made. What is also important to consider is that while Obama attempts to reach out the region, Arab skepticism will remain regardless. Changes will occur in the region, yet it remains to be seen whether they will be for the better for Arab interests or whether they will further affect American dominance in the Middle East.

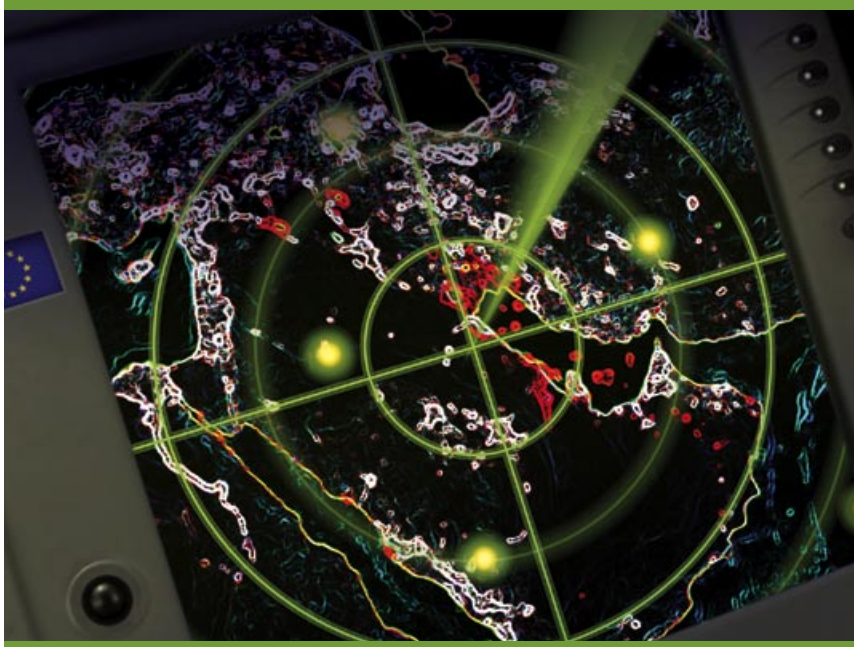
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Gulf Research Center
Knowledge for All

EU-GCC Relations and Security Issues

Broadening the Horizon



The relationship between the member states of the European Union (EU) and those of the Gulf Cooperation Council (GCC) is multifaceted and has over the years taken on a number of different dimensions. With security issues such as those related to terrorism, the US-led invasion of Iraq and its aftermath, and concern over a potential Iranian nuclear program coming to the forefront, ties between the EU and the GCC have taken on a security component that up to this stage remains largely undefined and understudied. The collection of papers included in this volume highlight many of the different salient issues playing a role on the security front and put forward perspectives under which this new dimension in relations can be better understood. This includes an attempt to move from the currently still vague and largely theoretical notions of GCC-EU security cooperation into more policy-applicable and relevant approaches that build on past European experiences. *EU-GCC Relations and Security Issues* extends empirical insight into various aspects of the European approach to the region from a security-based perspective, provides a comparative context into which it becomes possible to frame a more solid base for understanding European policy in the region, and through the use of case examples illustrates how the present cooperation can be expanded and improved upon.



Gulf Research Center

Knowledge for All

Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider and consultancy specializing in the Gulf region. The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented.

The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

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