

The Economic Ties and Political Interests of the United States in the Middle East and North Africa

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Abstract

American policymakers typically view the Middle East and North Africa (MENA) as a strategic region, a place of “vital” economic and political interest for the United States. The region’s markets have also been developing and have become targets for US exports and investment. But those interests, though growing, remain overshadowed by oil and other non-economic concerns. The region’s vast oil reserves are clearly a key component of American strategic interest, intertwining a variety of other economic and political factors. Among the non-economic concerns, America’s commitment to support Israel has been the determinant factor in shaping the American policy toward this region. The pursuit of these interests has been associated with complex, sometimes quite polar, reactions among the region’s population, some welcoming the US involvement and some rejecting it.

This article discusses these issues in the context of the political economy of the US and MENA countries, focusing largely on Iran, Israel, and the GCC. It first examines the trends in economic relations between US and MENA countries and then compares them with the trends in the corresponding political relationships. It then reviews the interests and strategies of the US, Iran, Israel, and the GCC and analyzes various scenarios emerging from their interactions. It argues that the Arab Awakening and other recent political developments in the region are likely to reduce tensions between Iran and the other countries. Finally, the article derives implications for possible ways tensions might be reduced apart from or in addition to the Arab Awakening effects.

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1. Introduction

While Arab countries are going through massive political change, the role of the United States in the Middle East and North Africa (MENA) region is changing. The political ties between the US and the newly emerging democracies are likely to be weaker than has been the case under dictatorship. At the same time, tensions between the US and Iran are rising and getting close to a boiling point. To explore the potential outcomes of these developments and to come up with possibilities for reducing the tensions in the region more effectively, one needs to examine how the interests and strategies of the actors involved have shaped their multi-lateral interactions. Thus, the questions are: What are the objectives of the United States in the Middle East and North Africa (MENA)? How do those objectives interact with the interests of different countries in the region; in particular, those of America's biggest adversary, Iran, and the closest US ally, Israel? What are the options of these stakeholders in avoiding tension and unnecessary conflict? How are the recent political developments in Arab countries influencing these relations and the possible outcomes?

There is a vast literature that examines the above questions from various angles across the field of international relations. (For a recent survey article, see Terhalle, 2011). This paper is an attempt to address these questions jointly in an interdisciplinary context, taking into account the economic as well as political dimensions of the US relationships with MENA countries in the global context. The paper particularly highlights the role of Iran, Israel, and the GCC in these relationships. I start with by examining the economic relations of the US with MENA countries to assess the significance of oil vs. other forms of trade and investment in US-MENA interactions. Then, I examine the characteristics of the key stakeholders and analyze the way they influence their multilateral interactions. Finally, I explore the potential developments in the near future and the possible strategies and actions that might help ward off serious conflict.

2. The Economic Ties between the US and MENA Countries

In this section, I assess the economic significance of MENA countries for the United States and vice versa. To this end, I start with the trends in the share of MENA countries in US merchandise exports and compare it with the trends in the shares of other major country groups (see Figure 1). In this and all other graphs, MENA region refers to the Arab countries, Iran, and Turkey. (I include Israel in the "Other Developed Countries" group and show its data separately in some of the subsequent graphs.) Figure 1 shows that in the past few decades, the composition of US exports have been shifting in a major way away from developed and towards developing countries. However, MENA's role in this shift is very

recent. Indeed, MENA's share in US export was persistently dropping from the early 1980s until the early 2000s and started to turn around only in 2005. Figure 2 breaks down this share by country and shows the trends in countries with non-negligible shares since 1998. For comparison purposes, the figure also shows Israel's share, which has been fluctuating around one percent. It is clear from this figure that only THE Gulf Cooperation Council (GCC) countries and Turkey have shares comparable with that of Israel. Egypt, Iraq, and Algeria are next, but trailing them by increasing margins. This shows that the rise in the share of MENA in US exports is largely driven by GCC's purchases of US products, and that in turn seems to have been caused by the rise in the price of oil after the mid-2000s. The increases in the demand for US goods in Egypt and Turkey, on the other hand, are likely to have been due to acceleration of economic growth in those countries in the mid-2000s.

Figures 3 and 4 show the industrial structure of US exports to the world and to MENA countries. It is noticeable in Figure 3 that before the late 1990s, manufacturing had gained prominence in the US exports to the world, but it has been losing quickly losing its share since then. Interestingly, this is not the case for the US exports to MENA countries (Figure 4). The main sources of this demand are Arab oil rich countries. While, high oil prices seem to have kept the demand for the US goods buoyant in those countries, there is another important factor driving the demand as well: Imports of weapons systems from the United States in response to the perceived military threat from Iran and Iraq. While such imports have declined somewhat at times, they have jumped back up with rising tensions in the region. This can be seen, for example, in the sharp rise in manufactured US exports to MENA in the early 1990s following Saddam Hussein's invasion of Kuwait. Two other bumps in the late 1990s and the second half of 2000s correspond to the rising tensions with Iran, especially over its revival of its investments in nuclear technology after 2005. The high levels in the late 1970s and early 1980s can also be attributed to events around the Persian Gulf, first when the Shah of Iran and his rivals in the region were building up their arsenals, and later when Iran experienced a revolution and got engaged in a destructive war with Iraq.

It may be worthwhile to note that according to Figure 3, chemical products and the "other" category (agriculture and processed materials) have been replacing manufacturing among US exports to the world since 2000. However, such trends cannot be observed in exports to the MENA (see Figure 4). This shows that, in contrast with other developing regions, industrial development may not have been a major driver of US exports to the MENA region.

Looking at the other side of the trade flows—i.e., exports from various regions to the US—Figure 5 shows that the shift in the origin of US imports towards developing countries has been even more pronounced than the trend in its exports. In this case, the share of MENA countries did increase somewhat in the early 2000s, but that trend has been more or less flat since then. Figure 6 further shows that the

increase was associated with the rise in the value of US oil imports from GCC, Iraq, and Algeria, while there has not been much trade activity in other products and other countries in the region. Other than oil, US businesses do not buy much from MENA countries. Israel, however, has pushed up its trade with the US and maintained it at a higher level, especially compared with its size.

To show that oil has been by far the most important import item from MENA to the US, Figures 7 and 8 compare the industrial structure of US imports from the world and from MENA. It is clear that while manufactured products, machinery, and transport equipment are the most significant import items for the US, close to 90 percent of its imports from MENA consists of fuels, and that share has been rising since early 2000s.

To summarize the above observations, MENA countries seem to have gained some more weight in the US trade as exporters of oil and buyers of manufactured goods, of which a non-trivial part is military equipment. However, these trends are dwarfed by the dynamism in US trade with other developing countries, especially those in Asia. Beyond a narrow set of products, MENA countries do not seem to have much significance for the United States as trading partners.

If US economic interests in MENA are narrow, can the same thing be said about the interests of MENA countries in the US economy? As Figures 9-12 show, the role of US trade in world markets has been on the decline since 2000, and this generally applies to the share of the United States in the imports and exports of MENA region as well. However, for Israel and some MENA countries, the US remains a major trading partner. On the side of exports from MENA, the US had gained prominence for Iraq, Jordan, Algeria, Egypt, Turkey, and GCC, though that trend seems to have later been reversed, especially after 2007. On the side of MENA imports, the pattern is rather similar, with the exception of Turkey and Morocco that seem to have bought somewhat larger shares of their imports from the United States after 2007.

While the figures that we have examined above focus on merchandise trade, they largely mirror the pattern of foreign direct investment (FDI), portfolio investment, and trade in services as well. Outside the petroleum and gas sectors, US investment in MENA countries is very limited.¹

These observations further confirm that oil remains a major economic objective of the US in MENA. However, this does not fully explain the extensive roles that the United States takes on in the region. In particular, the unequivocal support of the US to Israel and the tensions that it experiences in the MENA region as a result of that support do not seem to be related to the US interests in controlling oil

¹ To save space in this article, I do not present the data concerning these other aspects of economic interaction between the US and MENA. For data and analysis of FDI in MENA, see Dasgupta and Nabli (2003), Hoekman and Sekkat (2010), and Mellahi, Kamel, Mehmet Demirbag, and Liesl Riddle (2011).

resources or flows. For this reason, we need to examine the characteristics of the stakeholders across MENA and identify the broader foundations of US interests in the region. I turn to this issue in the following section.

3. Interests and Strategies of the Key Players

There is a myriad of actors involved in the political arena of MENA. For the purposes of this paper, I concentrate mostly on the relevant characteristics the GCC, Iran, Israel, and the United States. I will also briefly discuss other MENA countries and important outside players, especially China, the European Union (EU), and Russia. I start with the United States and then discuss Israel, Iran, and other players.

3.1. US Interests and Strategies

US businesses and consumers have a keen interest in ensuring a reliable and efficient flow of oil. While they mostly prefer lower oil prices, they understand that little can be done to control the price when it is market driven. However, they are concerned about supply disruptions and potential holdups by major producers. To deal with this concern, US policymakers find it necessary to maintain military and political presence in the Persian Gulf area to ensure that trade routes remain open and the oil-rich countries there have “friendly” governments. They are also keen to keep out potential rivals (e.g., Russians, who have historically tried to extend their influence in the region). In recent decades, such rivals have included some countries within MENA (particularly, Iran and Iraq) that have tried to become regional powers independently of the United States.

A second source of US interest in MENA is domestic support for Israel. There are a number of powerful lobbies in the United States that identify with the interests of various groups in Israel. Though they have different views about Israel’s interests, they have managed to ensure that American politicians accept a wide range of them as priorities. Some of these lobbies are led by Jewish groups who subscribe to Zionism for ethnic and ideological reasons. But, the other groups are of Christian denominations and pursue Zionism from religious angle. The combination of efforts by these groups has become a powerful force in US politics that manifests itself in many different ways on a systematic basis, most notably in election processes. For example, during the current presidential campaign, Republican candidates have been trying to outdo each other in showing support for Israel to prove their credentials to conservative voters. This race has led to a point where one candidate, Newt Gingrich, has rejected the premise that Palestinians have a distinct identity that separates them from other Arabs and, thus, legitimizes their claim to constitute a nation. He has further claimed that the name Palestine had not been commonly used before

the 1970s, although it is a well-known fact that the land that came to be called Israel was part of a larger region that had been known as Palestine for centuries before 1948! No US politician who plans to remain in office dares to criticize Israeli actions and policies or the conduct of American policymakers who unconditionally support Israel and overlook its violations of international law and human rights. Even veteran politicians with pro-Israel credentials who offer limited criticisms are treated harshly. For example, ex-President Carter was labeled as “anti-Semitic” and bombarded with personal attacks because of the views he expressed in his recent book, Carter (2006), even though those views are shared by many Israelis. (For discussion and details of the ordeal, see the Wikipedia page on this subject, en.wikipedia.org/wiki/Palestine:_Peace_Not_Apartheid). Also, some academics who question America’s lopsided policy towards Israel can come under severe pressure. This was certainly the case for John Mearsheimer and Stephen Walt who wrote a well-known paper on the matter arguing that unqualified US support for Israel is unnatural and unnecessary, in the sense that the costs of this support far outweigh the benefits for the United States (Mearsheimer and Walt, 2006).² Relentless critiques of their views came from many different quarters.

It should be noted that the connection between the US and Israel goes beyond the political sphere and has a non-negligible economic dimension as well. As we have seen, Israeli-American trade is significant for both countries. Moreover, given its scientific, business, and financial capabilities, Israel has become a source of technology and foreign investment for the US.

US support for Israel takes a number of forms. Israel is by far the largest recipient of American foreign aid, even though it enjoys a high level of income. The US also shares intelligence and some of its best military equipment with Israel. Furthermore, the US uses its position at the UN to veto all resolutions that are deemed damaging to Israel. This special relationship has important implications for US relations with MENA countries as well. US interactions with Egypt, Jordan, Lebanon, Palestinian Authority, and Syria have largely been shaped by its effort to keep Israel’s neighbors friendly or subdued. There is no other plausible explanation for the large American foreign aid to Egypt, Jordan, and the Palestinian Authority. Even the invasion of Iraq has been partly blamed on the desire of some supporters of Israel to eliminate Saddam Hussein as an enemy, to bring Iraq under US influence, and to make it easier to confront Iran (Mearsheimer and Walt, 2006; Walt, 2010). Currently, the animosity between Iran and

² The view that unconditional support for Israel could be increasingly costly for the US has been articulated by many others. For example, Crossroads (2011) makes this case, especially eyeing the changing conditions on the ground in MENA as well as in Israel and in the US. It cites General David Petraeus’ testimony before the Senate Armed Services Committee that “the Israeli-Palestinian conflict foments anti-American sentiment, due to a perception of U.S. favoritism for Israel. Arab anger over the Palestinian question limits the strength and depth of U.S. partnerships with governments and peoples in the AOR [area of responsibility] and weakens the legitimacy of moderate regimes in the Arab world.”

Israel is a key reason why the United States cannot build bridges with Iran (Parsi, 2007). For more on the analysis of the current US-Israel relations and their prospects, see Malka (2011).

3.2. Israel's Interests and Strategies

Turning to Israel's objectives and characteristics, there are a number of issues that need to be listed. To begin with, Israel has been important for Jews generally around the world as a focal point and symbol of identity. So, they sympathize with its cause and want to see it survive and prosper. However, realizing this goal has been a challenge. Formation of Israel was associated with a great deal of violence and dispossession of a large part of Palestinian population. Consequently, despite the fact that peoples of different ethnicities and religions had lived together in that area relatively peacefully for centuries, Arabs came to see Jewish settlers as their enemies. Also, before the 1970s, Arab leaders and political activists had grossly underestimated the forces that were driving many Jews, especially in the aftermath of the Holocaust, to settle in Palestine and form a new state. The dominant view in the Arab world was that their armies could over-run Jewish settlers in Palestine and prevent them from establishing their own state. This turned out to be a misperception that led to a series of military defeats for the Arab states for more than two decades. However, the military confrontations and other types of violence that continued surrounding Israel posed existential challenges for the country. A problem that exacerbated the tensions was the nature of the new state. Being Jewish, it could not assimilate the Arab population and had to drive away as many of them as possible. This in turn ensured lasting animosity with its neighbors and beyond, where sympathy for Palestinians has been strong.

Israel's survival strategy has been two pronged. First, it has tried to be militarily strong and aggressive to be able to act pre-emptively, fend off any attack, and impose huge costs on any challenger. In implementing this strategy, Israelis have been pragmatic and flexible, arguing that they are not bound by the usual norms of international interaction because they need to fight for their survival. Second, Israel has heavily banked on its staunch and influential supporters in America and Europe to gain support from the most powerful countries in the world, particularly the United States. It has also used a variety of tactics to ensure that the politicians in those countries find it in their interest to support Israel's cause. As part of this strategy, it has tried to support the US agenda in MENA, while ensuring that alternative countries that might compete with it over America's affection do not emerge in the region. For example, while Iran under the Shah tried to be supportive of Israel, its leaders in the 1970s claimed that Israelis were trying to undermine its relationship with the US and to prevent it from emerging as a regional power (Parsi, 2007; Alam, 1992). The combination of these strategies and tactics seems to be aimed at preventing potential rivals from emerging, and in case they did, crushing them comprehensively so that they forget about challenging Israel.

The past success of these strategies for Israel as well as the structure of its politics have given rise to a situation that may keep the violence and tensions between Arabs and Israelis high for decades to come. In particular, Israel's strategy of "defensive aggression" has led to its support for the expansion of Jewish settlements in the occupied West Bank, apparently as an effective way of keeping Palestinians at bay and under control indefinitely, or possibly annexing parts or all of the territory into Israel in the long run. Although Arabs have essentially given up the idea of bringing down the state of Israel, the expansion of Jewish settlements along with the blockade on Gaza keep their attitudes towards Israel (and by extension towards the United States and other allies of Israel) strongly negative. This political cost seems to have been recognized by many Israelis. However, the structure of politics in Israel enables a minority who prefers the continuation of current strategies to have its way. Israel's political system is a parliamentary one with proportional representation, in which small parties representing small, but cohesive groups can get sufficient votes and enter the parliament. This also means that the parliament is likely to be fragmented, with small parties playing a major role in enabling larger parties form winning coalition and controlling the executive. In this situation, ideologically-driven and relatively extremist groups can gain disproportionate power in shaping policies. This is, indeed, the case in Israel, where extremist parties maintain the momentum of the defensive aggression strategy and ensure that Israel's frontier in the West Bank is continually pushed further.

3.3. Iran's Interests and Strategies

Iran's utmost interest in its external relations emerges from its need to ensure the security of its territory and its natural resources (and their marketing options), especially oil, gas, and marine resources. Some of these resources are shared across Iran's borders with its neighbors and have been subject of dispute in the past. Iran also suffers from a long history of superpower intervention and manipulation, aimed at gaining leverage over and its policies and resources. At times foreign forces have invaded parts of Iran or have supported external or internal proxies to destabilize the country. In the 20th century, superpower meddling has been increasingly focused on diluting Iran's control over its resources and on intruding in its disputes with its neighbors. Iraqi invasion of Iran in 1980 and Western involvement in that long and particularly destructive war is a prime example of this. As a result, containing this interference and ensuring security and sovereignty of the country have pre-occupied Iran's leaders.

Before the Islamic revolution of 1979, the Shah had come up with a sort of "solution" to this problem. He bargained with the United States to act as its client and help implement its strategy in the Middle East in exchange for military and political support from the US. This bargain proved very fruitful economically and politically for the Shah's regime and enabled him to take a leadership position in the region. However, the bargain was not internally popular because of the substantial dictatorial powers that

it conferred upon the Shah, whose views on cultural, economic, social, and political development, were not shared by large segments of the Iranian population. These internal rifts and the Shah's efforts to suppress them eventually led to the revolution, which was led groups calling for freedom, sovereignty, and Islamic Republic and promising a new regime that contrasted sharply with the old one in terms of domestic political system, relations with the superpowers, and socio-cultural policies.

Despite the vast differences between the Iranian regimes before and after the revolution, they have shared the objective to secure the country's resources and trade routes. In this respect, they have both tried to gain an upper-hand in their dealings with Iran's neighbors in the Persian Gulf area. The Shah used his alliance with the United States to achieve this goal. The Islamic Republic has tried to do so, but by contesting the US presence in the region and by trying to gain ascendancy as a regional power. To this end, it has been building its military might and projecting its power beyond its borders in various ways (e.g., developing long-range missiles and maintaining close alliances with powerful actors in Iraq, Lebanon, Syria, ...). It has also used its abundant natural resource rents to reinforce its ties with other countries, in particular, trying to make itself valuable to China and Russia, thus discouraging them from going along with the United States and the EU in international forums. In addition, the Islamic Republic has tried to drive a wedge between the United States and the EU in their policies toward Iran. But, that tactic does not seem to have worked.

As part of its strategy to counter the coalition led by the United States, the Islamic Republic has drummed up its rhetoric against US and its allies in the region, especially Israel, to appeal to large segments of MENA population that are opposed to the US, Israel, and unpopular Arab dictators. This tactic seems to have been used particularly for enhancing Iran's bargaining power vis-à-vis the GCC in the Persian Gulf region. In response to these moves, the US has boosted its military and political alliances with the GCC and has tried to strengthen its positions in other countries neighboring Iran. It has also been tightening the international sanctions on Iran to contain and undermine the Islamic Republic, which has escalated Iran's need to build its deterrence powers. This may explain Iran's single-minded effort to develop its nuclear technology, which might give it the potential capability to build nuclear weapons at some point, though that is not its stated aim.

A feature of the Iranian society that may have played a role in shaping the interests and concerns of its leaders is its ethno-linguistic diversity. While there is a strong sense of national identity in Iran, it coexists with deep-seated secondary identities among a host of minority groups. The particularistic interests of these groups sometimes clashes with national interests and makes it harder to resolve the wider internal disputes and disagreements that have developed in Iran in the past several decades based on ideological and social cleavages. Indeed, intensification of these disputes led to significant conflict and

violence around the country. In response, the new regime quickly built a strong coalition around Ayatollah Khomeini's supporters and harshly suppressed all those who opposed it, especially several groups that were armed and threatened the stability and unity of the country. Although the winning coalition at the time was relatively broad, it still left many people out. As a result, the regime's response to the opposition groups quickly eroded the freedoms promised during the revolution. Furthermore, once the dominant coalition drove away its opposition, it began to develop new disputes from within, which after a while resulted in the shedding of some of the partners. This process of factionalization and narrowing of the dominant coalition's circle still continues.

Factional rivalries have had a significant impact on Iran's foreign policy and external relations. Given the concerns over the role of foreign powers, at times some members of the dominant coalition have disrupted Iran's relations with Western countries, with non-trivial costs to the nation as a whole. A prime example of this is the invasion of US embassy in Tehran and the hostage taking in November 1979, which caused Iran to lose substantial assets and international goodwill. The groups taking such actions have at times managed to bargain for better positions within the dominant coalition before they allow the tensions that they create to resolve. At other times, they have used the disruption to weaken the leading factions in the ruling coalition or to prevent them from benefitting from improved foreign relations. Frequent use of this negative power has been an obstacle for rebuilding Iran's relations with the West.

To sum up, to counter the influences of the United States in the Middle East, the Islamic Republic has tried to become a regional power through a multi-pronged strategy. In particular, it has built its military might and has leveraged its resources to generate support for itself or to generate rivalry between the US and other major world powers. It has also appealed to the Arab street to undermine the allies of the US in the region. Insistence on these strategies, rather than a policy of compromise and accommodation towards the United States, has been reinforced by the long experience of superpower interventions and by the internal political rivalries inside Iran.

3.4. Interests and Strategies of Other MENA Countries: Turkey and Arab Countries

Arab countries are numerous and in many ways have varied interests and strategies. However, since the 1970s, almost all of them have tried to align themselves with the US and EU to receive benefits and protection. Let us first consider the case of the GCC, which is the group of oil-rich Arab countries that have relied essentially on the United States to help secure their resources, territories, and trade routes. One of the biggest threats to their interests used to be Saddam Hussein's regime in Iraq, which was removed from the scene by the US in 2003. Their remaining major rival in the region is Iran. To deal with Iran, besides the cooperation and close ties with the United States, GCC countries, especially Saudi

Arabia, have strengthened their own military might. They have also tried to weaken Iran's relationships with governments and powerful groups within in the region (e.g., with Syria and Lebanon's Hezbollah).

The citizen population in some GCC countries (Kuwait, UAE, and Qatar) is small and fully supportive of their regimes. In the other countries, part of the population has grievances against the government and can create difficulties for the ruling regimes. In addition, these regimes are also somewhat concerned about their public images in other Arab countries due to the indirect effect that those countries may have on GCC citizens and migrant communities in GCC. These effects, for example, have led GCC governments to offer foreign aid to other Arab counties and officially show sympathy with the plight of Palestinians.

The second group of Arab countries to consider is Algeria, Egypt, Jordan, Morocco, Tunisia, and Yemen, which have had different types of relationships with the West several decades ago, but have all come to form close alliances with the US and the EU and to recognize Israel in the past few decades. These alliances have provided them access to the US and EU markets, FDI, and foreign aid to different degrees. In the case of Egypt and Jordan, the alliances have further helped them reduce tensions and even build bridges with Israel.

The members of the third group are Iraq, Lebanon, Libya, and Syria, which have continued to have serious difficulties with the West. In the case of Iraq, Saddam Hussein did try to build relations with the US during its war with Iran in the 1980s, but he also had the ambition to emerge as the dominant regional power without being a US client. He seems to have misread the US's view of the situation and made the fatal mistake to invade Kuwait in 1990. The United States quickly expelled his army from Kuwait, imposed severe sanctions on the country, and eventually eliminated him in 2003. The interests and strategies of the new regime in Iraq are still being fully shaped. But, the current administration there seems to be interested in achieving security and economic recovery for the country by maintaining positive relations with its neighbors as well as the United States, without becoming too dependent on either one.

Colonel Gadhafi's regime in Libya tried to act defiantly towards the West and, for a time, even instigated hostile activity. But, after enduring serious sanctions for some years, it partially rebuilt its relationship with the EU and the US. However, once the Arab uprising started in North Africa in at the end of 2010 and early 2011, the West backed the rebels in Libya and helped remove Gadhafi's regime. The characteristics of the new Libyan regime remain to be determined in the coming years.

The Syrian regime under Assads acted very differently from all other Arab countries. It decided not to join the United States as an ally or client, but it was careful not to challenge the US too strongly.

One reason why Syria diverged from the conciliatory paths taken by the rest of the Arab world was that it perhaps saw little chance of getting help from the United States to regain the territory that it had lost to Israel in the 1967 war. Israel was willing to return the Sinai Peninsula to Egypt in exchange for a peace treaty, guaranteed by the United States. But, it deemed the captured Syrian territory, the Golan Heights, too strategic to give up. As a result, Syrian leaders perceived limited gains in bargaining with the US compared to the benefits they received from an alliance with the Soviet Union until the 1980s and from alliances with Russia and Iran after the 1980s. In addition to building connections with Iran and Russia, Syria's strategy has involved extending its influence in Lebanon as a means of strengthening its position vis-à-vis Israel and the US. Syrian activities in Lebanon have included support for Hezbollah, which has been of great interest to Iran, thus enhancing the gains from that connection.

While like other members of the third group Lebanon continues to have difficulties with the West, it can hardly develop a long term policy toward it because of the denominational nature of its semi-democratic political system. Of the ruling religious groups, some have always favored close ties with the US, whereas others have opposed it. Iranian and Syrian influence in Lebanon keep the influence of the latter strong. Tensions with Israel are somewhat broader than that because of the continued presence of Palestinian refugee camps and a history of destructive invasions by Israel. As a result, Lebanon's strategy has been rather convoluted and varying depending on who wields more power in the government at any time.

Turning to the case of Turkey, a central part of its foreign policy objective has long been accession to the EU. This had kept Turkey's interest in the MENA region largely confined to maintaining good economic relations with its neighbors. However, with the fall of the Soviet Union, Turkey's policymakers perceived an opportunity to engage in the Caucasus and Central Asia, which brought them into competition with Iran and the GCC. At the same time, US wars with Iraq and the formation of autonomous Kurdish region in northern Iraq created a security concern for Turkey. Over the past several years, turning towards east and further toward MENA region has gained prominence in Turkish foreign policy, partly because the EU has turned the negotiations with Turkey into an open-ended process with little hope that they would be concluded any time soon. Meanwhile, Turkey's domestic politics have changed as the Islamist Justice and Development Party (AKP) has risen to power. Also, being a NATO member with a strong military, having a large population, and experiencing rapid economic growth, Turkey is in a position to become a key player in the region, especially with rivals such as Iran facing serious difficulties. The upshot of these developments is that Turkey has now a more pronounced interest in developing stronger economic and political ties with MENA countries.

Turkey's strategy to fulfill its broadened interests in MENA has been to emphasize its independence from the United States and distance itself from Israel. The Arab Awakening has provided Turkey with further opportunity to present itself as an arbitrator in the region and a role model for democratization and economic growth in the Muslim world.

3.5. Interests and Strategies of Other Major Players: the EU, China, and Russia

The EU's interests and strategies in MENA region are similar to those of the US. However, the EU's interests are much more focused on economic issues, with the non-oil components also having somewhat more weight. The EU has a particular interest in helping MENA develop economically and politically so that the immigration pressure from the region would diminish. In terms of strategic difference, the EU countries focus more on the North Africa region, while the US is more focused on military presence in the Persian Gulf, where it is the dominant foreign power.

China has gained increasing interest in MENA as its economy has grown. On the one hand, Chinese economy has developed more thirst for energy. On the other hand, it has found MENA markets lucrative outlets for its exports. To these ends, China has been trying to maintain good relations with all MENA countries as well as the US. However, it has tried to cooperate with Iran more than other foreign powers for two reasons: First, the Islamic Republic offers some counterbalance to the US dominance in the region and gives China some bargaining power in its dealings with the West. Second, international sanctions and poor relations with the West put China in a good position to gain access to Iran's markets, with little competition from elsewhere.

Russia's interests in MENA have important differences as well as similarities with those of China. Russia is rich with energy resources and does not need to import oil from MENA. Also, the range of products that it can export to MENA is much more limited than is the case for China. So, economic concerns have limited weight in Russian interests in MENA. However, Russia has an interest in receiving cooperation from Middle Eastern countries, especially the GCC and Iran, for maintaining security in its southern borders and exerting influence over former Soviet states. It also sees opportunities in MENA, especially in the cases of Iran and Syria, for strengthening its bargaining position vis-à-vis the West. Its strategy in this regard is to provide political and military support for these countries in a measured way, varying it according to its needs of its bargains with the US and the EU.

Given the interests and strategies of the key players in the MENA region summarized above, I proceed in the next section to analyze the equilibrium outcome of the game in the region. I also examine the potential consequences of the Arab Awakening on this equilibrium and derive lessons for possible ways of enhancing its benefits and reducing international tensions in MENA.

4. Possible Outcomes and Solutions

The current interactions among the strategies of the players in MENA have produced a fragile equilibrium that does not seem to be sustainable. I analyze this equilibrium by showing how the actions of the countries involved fit together. I start with Iran, which faces serious internal and external constraints in reaching accommodation with the United States. To fend off pressures and threats from the West, especially from the US, the Islamic Republic has been building its military deterrent capabilities. It has also been developing its nuclear technology, which can give it industrial as well as potential military advantages. In addition, Iran has tried to find allies around the world as well as the region's population. The former part of its strategy has brought it to rely on China and Russia, while the latter part has led it to be vocal against the US and Israel. The leaders of the Islamic Republic do not see much chance of accommodation with the United States under the current circumstances because they perceive the US as intent to influence Iran's internal politics and undermine it as an independent power. The basis for this perception is Iran's own experience under the Shah as well as the situation they observe in most Arab countries aligned with the US. The situation might change if the US comes to accept Iran as an independent power, as it did in the case of China in the 1970s. But, Iran and the US have not reached such a stage yet.

To deal with Iran's strategy, the United States has been using its levers around the world to increase economic and political pressures on Iran. This has spanned the US negotiations with the EU, China, Russia, India, and many other countries. But, these efforts have had limited success due to the benefits that most of those countries get from maintaining relations with Iran and because of their interest in keeping Iran as a bargaining chip in their dealings with the United States. Within the MENA region, the US has strengthened its ties with the GCC to enhance their joint military power in the Persian Gulf. Its invasions of Afghanistan and Iraq and its efforts to work with Pakistan, Azerbaijan, and Central Asian countries may have also served the purpose of containing Iran. These latter actions, however, do not seem to have worked well, because of the strong resistance in Afghanistan and Iraq against the US and its allies. Pakistan and Turkey have not gone along with the US to confront Iran because it would have been costly for them. Pakistan has internal and external vulnerabilities that make conflict with Iran excessively costly for it. For Turkey, on the other hand, positive relations with Iran bring large economic gains and, moreover, fit well in its new foreign policy orientation.

Part of the force behind United States' containment policy towards Iran is due to pressure from Israel, which has come to see Iran as its number one enemy and as a significant security threat. Israel has been pushing for further pressure on Iran and possibly a military strike by the United States to cripple the country. While Israel has substantial influence on the US policy, the severe and highly uncertain

consequences of a military confrontation with Iran has so far deterred such an attack by the US (and has discouraged it to sanctioning an Israeli attack).

The pressure on Iran has so far remained focused on increasingly tougher economic and diplomatic sanctions. Given the internal coordination difficulties and the prospects of being undermined if it gives in to the Western pressure, the Islamic Republic has not been in a position to bargain with the US. Inevitably, it has focused on expanding its military strength and regional influence to deter a military attack. The US, Israel, the EU, and the GCC, on the other hand, have grown increasingly wary of Iran's path. Most other Arab countries, which are aligned with the US have kept their distance from Iran, but are not active followers of the US strategy. Most other countries that are not under direct US influence seem to see Iran not so much as a threat that they see it as a challenge or even an opportunity. As a result, getting them to participate in pressuring Iran further has been difficult for the US and its allies. Syria and, to some extent, Lebanon have tried to benefit from their connections with Iran.

The regimes in the GCC and other Arab countries, except Syria, have been benefitting from alliance with the US in economic and political terms. However, this has been associated with absence of democracy and increasing alienation of most of the population from the regimes in those countries. This has been exacerbated by the fact that they have turned a blind eye to the plight of Palestinians, despite their formal expressions of support. The lip-service to the Palestinian cause has been a response to the public sentiment in the Arab countries, but they have mostly found it costly to confront Israel or defy the US in this regard. As a result, Israel and the US have not been under much pressure to reign in the groups that favor the occupation of the West Bank and back the expansion of Jewish settlements there. This has opened up an opportunity for Iran to champion the cause of Palestinians and exacerbate the tensions in Arab countries, discouraging them from exercising hostility towards Iran.

The situation described above has produced an equilibrium in the MENA region over the past two decades. However, it may not be sustainable in the coming years in the sense that some accidents or small new moves by either player may destabilize the situation and lead to an international crisis. In particular, the belief in Israel and the West that Iran is developing nuclear weapons may eventually lead to an attempt to disrupt that program through military strikes. For example, under pressure from some interest groups, Israeli government may initiate such a strike to show that it is not idly sitting by and watching Iran come to possess a nuclear bomb. This would likely engage the United States in a larger attack, which would disrupt oil flows out of the Persian Gulf for a while and may cause a military confrontation in that area, possibly triggering a global economic crisis. This could entail sizable costs for the world and would probably be devastating for the people in Iran (maybe similar to the disastrous condition of Iraqis after 1991). However, it is very unlikely to bring down the Islamic Republic and may even strengthen the

regime as many Iranians might rally behind their own government. Open opposition to the regime would become almost impossible. That could give rise to a new equilibrium far worse than the current one, with the threats of war and destruction lingering over the region for a long time.

Another possible scenario is that under pressure, Iran might leave the Nuclear Non-Proliferation Treaty (NPT), and reinforce the suspicion that it is developing or has access to nuclear weapons. This might drive the US or its allies to rash action, including a pre-emptive military strike on Iran, with disastrous consequences. But, it may alternatively create an arms race and militarized standoff around the Persian Gulf. This would make oil trade costly and impose significant economic costs on many people, especially Iran's population.

So, are there any possible ways that would allow the tensions to diminish and help establish a more stable and productive equilibrium? Fortunately, the sweeping political change in parts of MENA, the Arab Awakening, is changing some of the equations in ways that may help move the equilibrium in less destructive directions. As a result of the uprisings, new Islamist-oriented governments are emerging in important parts of the Arab world, especially in Egypt, Libya, Tunisia, and Yemen. These regimes are likely to be less friendly towards the United States and Israel than their undemocratic predecessors. The new governments are also likely to be more sympathetic towards Iran, but most probably not in any position to form any alliance with the Islamic Republic. The GCC countries may also need to adjust their positions closer to those of the new regimes in the region and, as a result, reduce their cleavages with Iran. This will reduce the United States' ability to maneuver against Iran in the Middle East region. At the same time, the US and Israel will have to be more accommodating towards the Arab public opinion and show more compromise in their dealings with the Palestinians. This would take the wind out of Iran's sails when it comes to the support for the Palestinian cause and opposition to Israel and the US. This effect can already be seen in the impact that Turkey's new MENA-oriented policy is having on Iran's attractiveness to the Arab street. With the Islamic Republic's payoff from championing anti-US and anti-Israel movements diminishing, it may come to be viewed as a smaller threat to Israeli and US interests than currently is the case. This can, in turn, further reduce the US pressure on Iran and prepare the ground for a less confrontational relationship. Overall, the combined result of all these changes for the Islamic Republic seems to be a reduction in the severity of external threats and a chance to act from a more secure position. This could strengthen the hands of those in Iran who would prefer to reach a compromise with the US and its allies and to focus more on improving the economic lot of their people.

While the consequences of the Arab Awakening are likely to help the MENA region to move towards greater stability, the transition may be achieved earlier and more effectively, if there is a better understanding of the forces that have given rise to the current confrontation and the ways in which change

in some relations in the region can influence everything else. For example, realizing the beneficial consequences of independent Arab democracies, the United States may be more willing to help Arab armies step aside and let the new democratic regimes be established, even when they are not expected to be particularly friendly towards the West. Also, a deeper grasp of Iran's situation may allow the US to give it more recognition earlier and prepare the ground for a *détente*. A deeper understanding of this nature may indeed help adjust the way interests and strategies are perceived, hence making a solution feasible regardless of the outcome of Arab Awakening. After all, most of the population in MENA and elsewhere can only lose as a result of continued or escalated confrontation in the Middle East.

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Figure 1

Destination of United States' Exports by Major Country Group
Percentages of Total, 3-Year Moving Averages

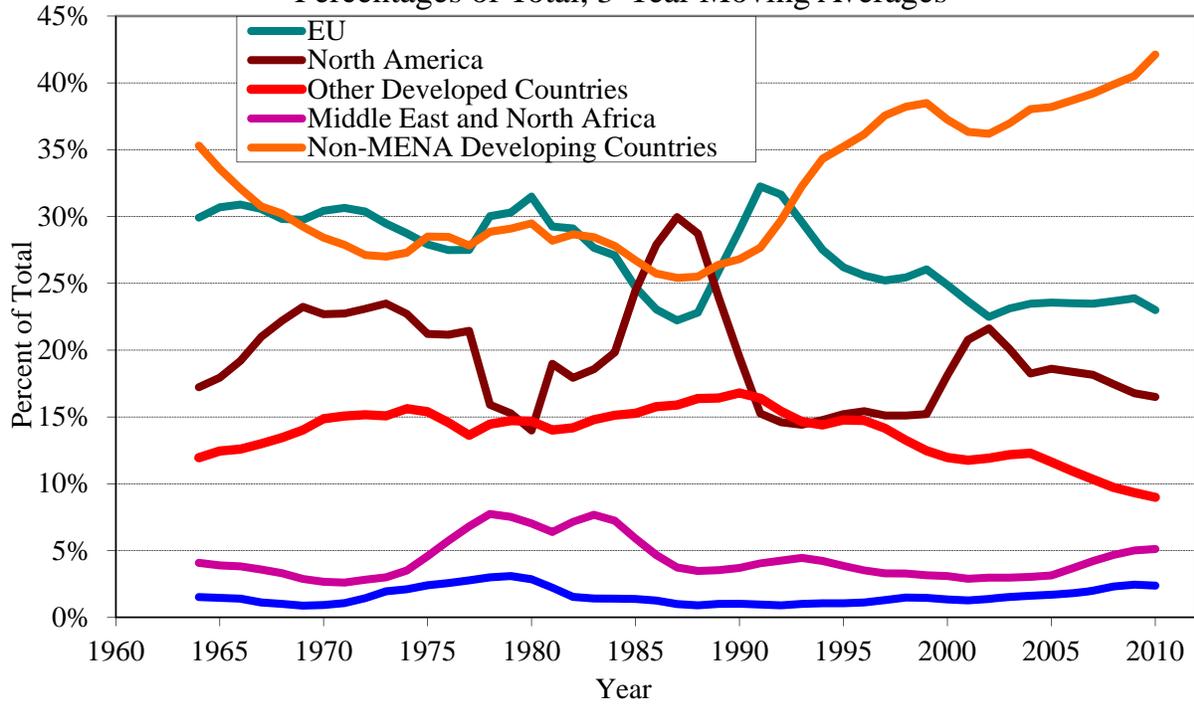


Figure 2

Share of MENA Countries and Israel in US Exports
Percentages of Total, 3-Year Moving Averages

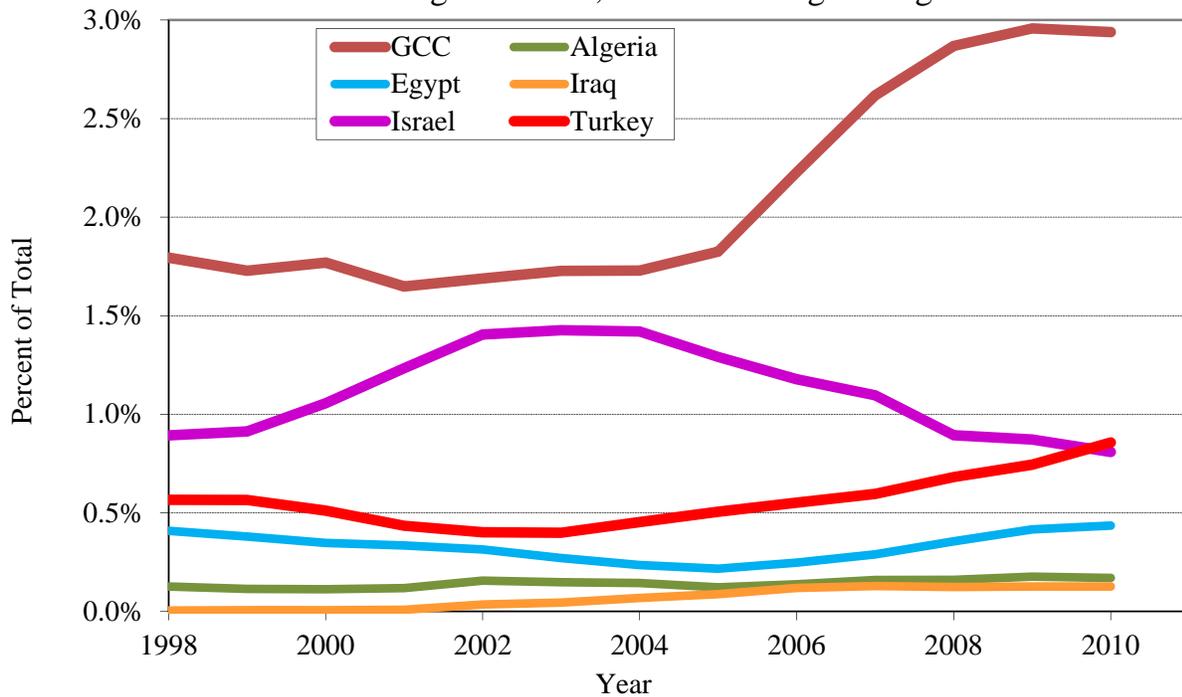


Figure 3

Structure of US Exports to the World by Industry
Percentages of Total, 3-Year Moving Averages

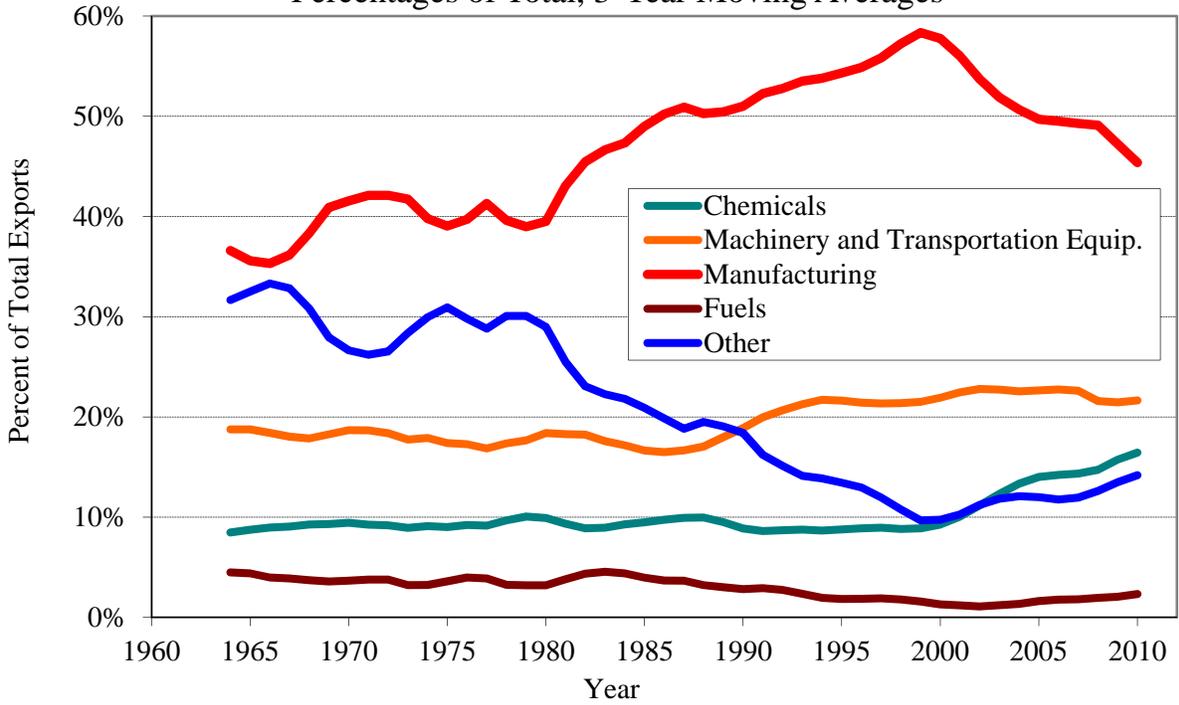


Figure 4

Structure of US Exports to MENA Countries by Industry
Percentages of Total, 3-Year Moving Averages

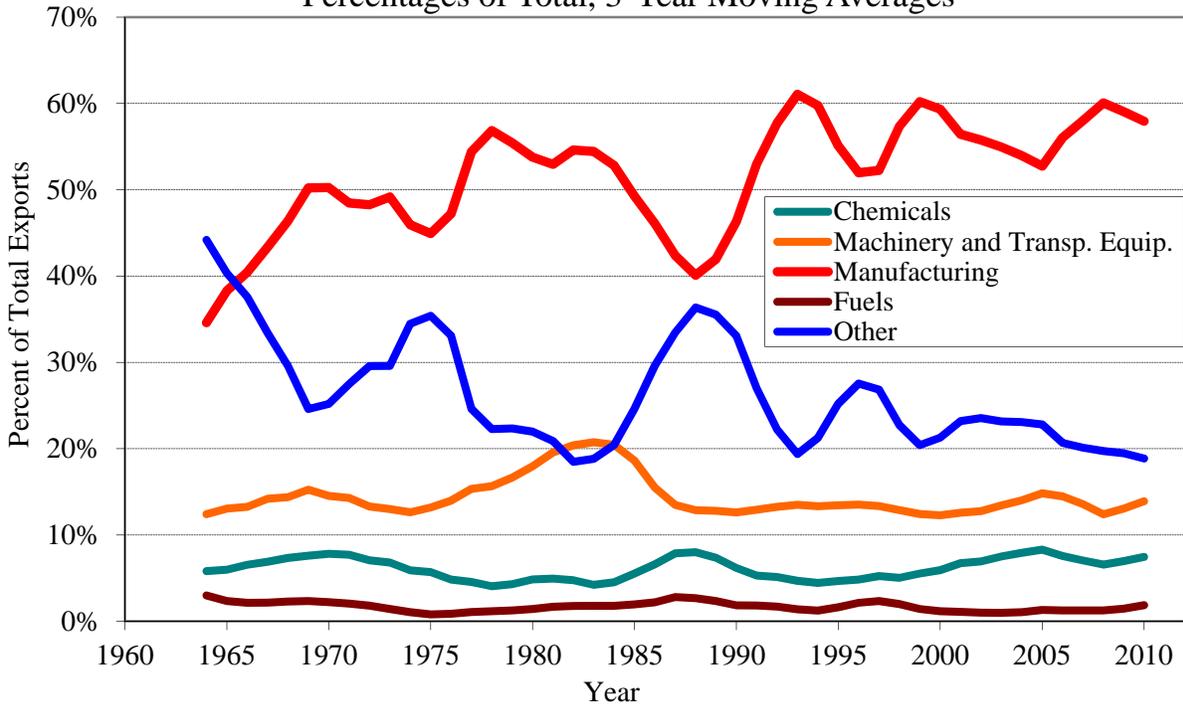


Figure 5

Regional Origins of United States' Imports
Percentages of Total, 3-Year Moving Averages

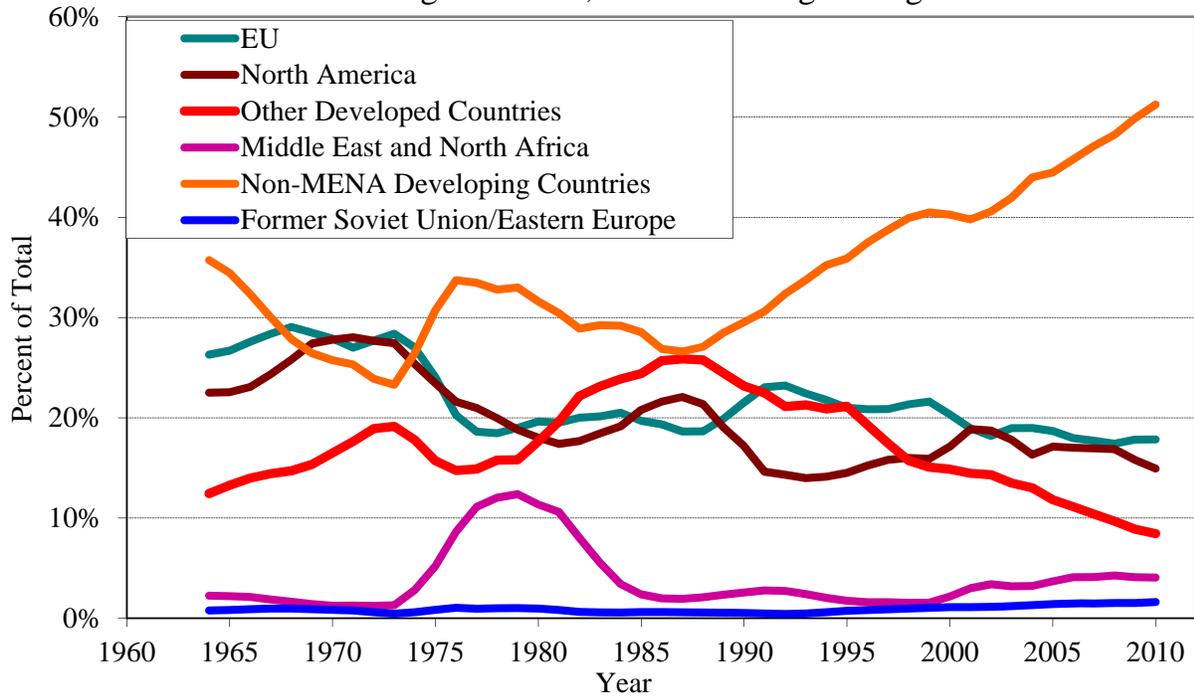


Figure 6

Share of MENA Countries and Israel in US Imports
Percentages of Total, 3-Year Moving Averages

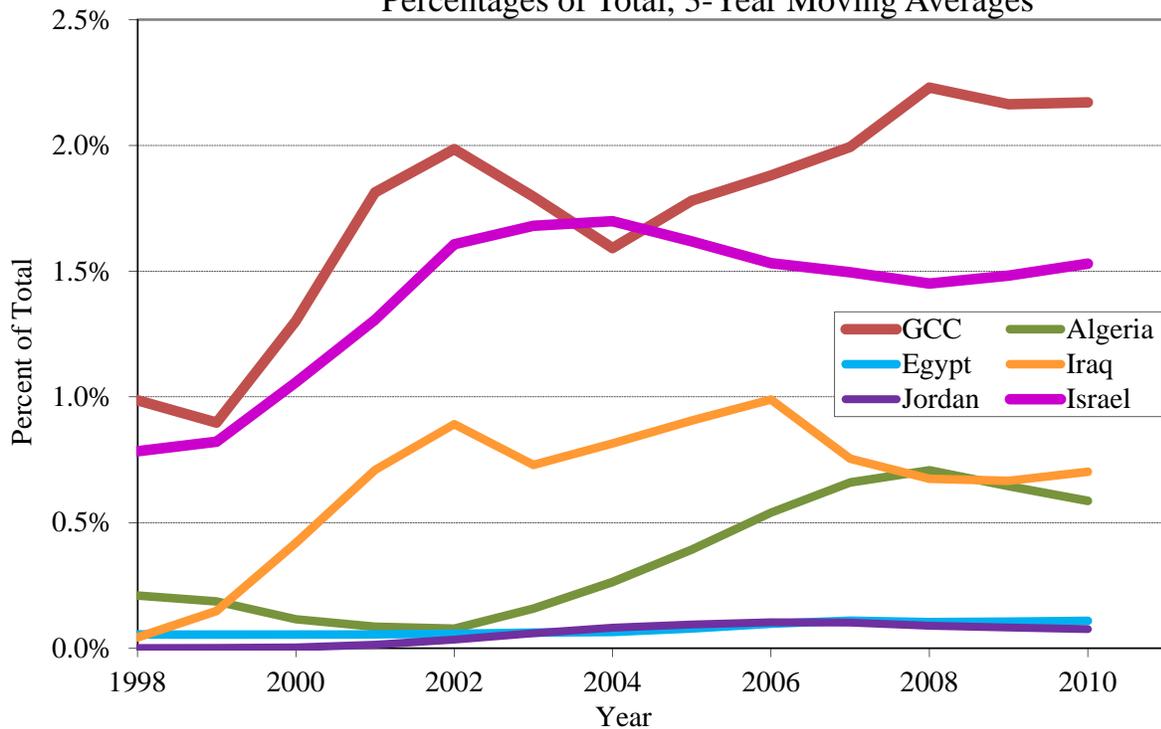


Figure 7

Sturcture of US Imports from the World by Industry
Percentages of Total, 3-Year Moving Averages

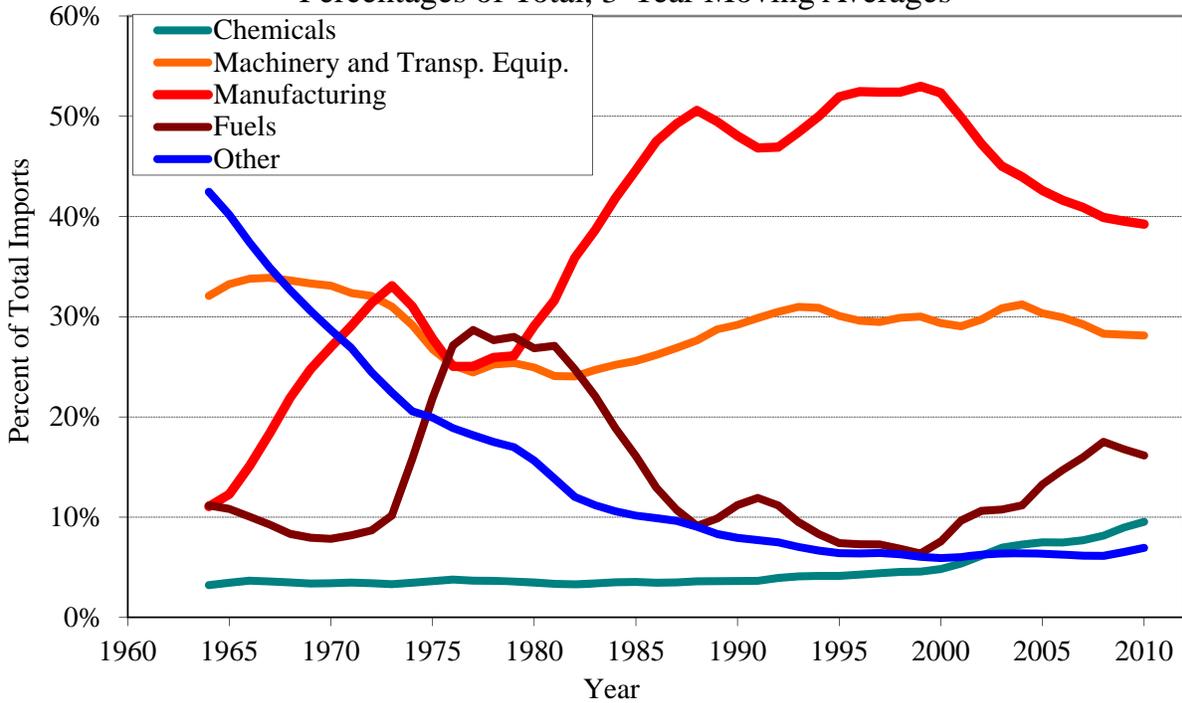


Figure 8

Sturcture of US Imports from MENA Countries by Industry
Percentages of Total, 3-Year Moving Averages

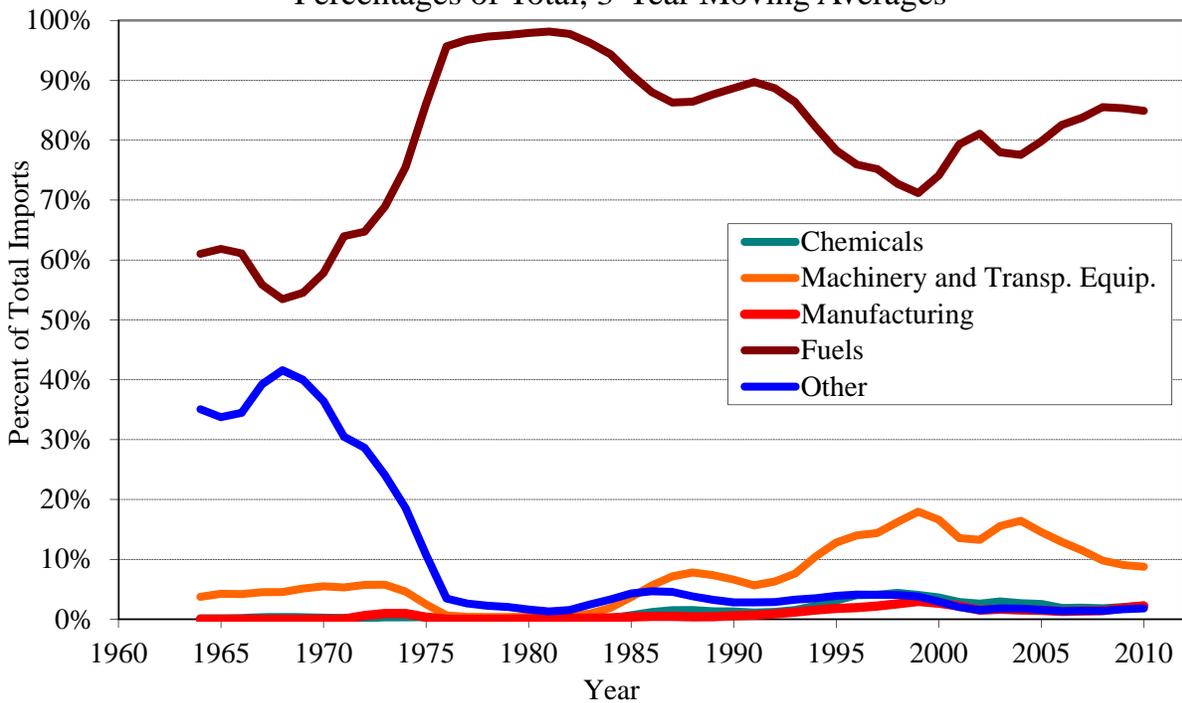


Figure 9

US Share in the Imports of Major Country Groups
Percentages of Total, 3-Year Moving Averages

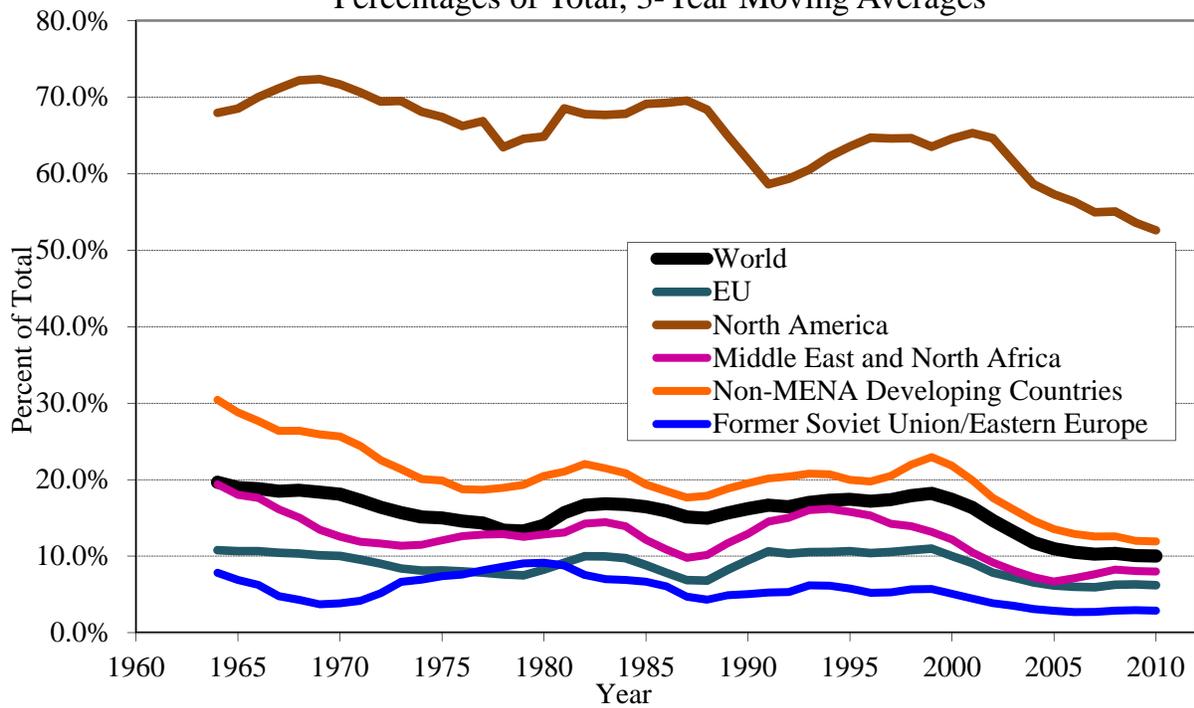


Figure 10

United States' Share in the Imports of Selected MENA Countries
Percentages of Total, 3-Year Moving Averages

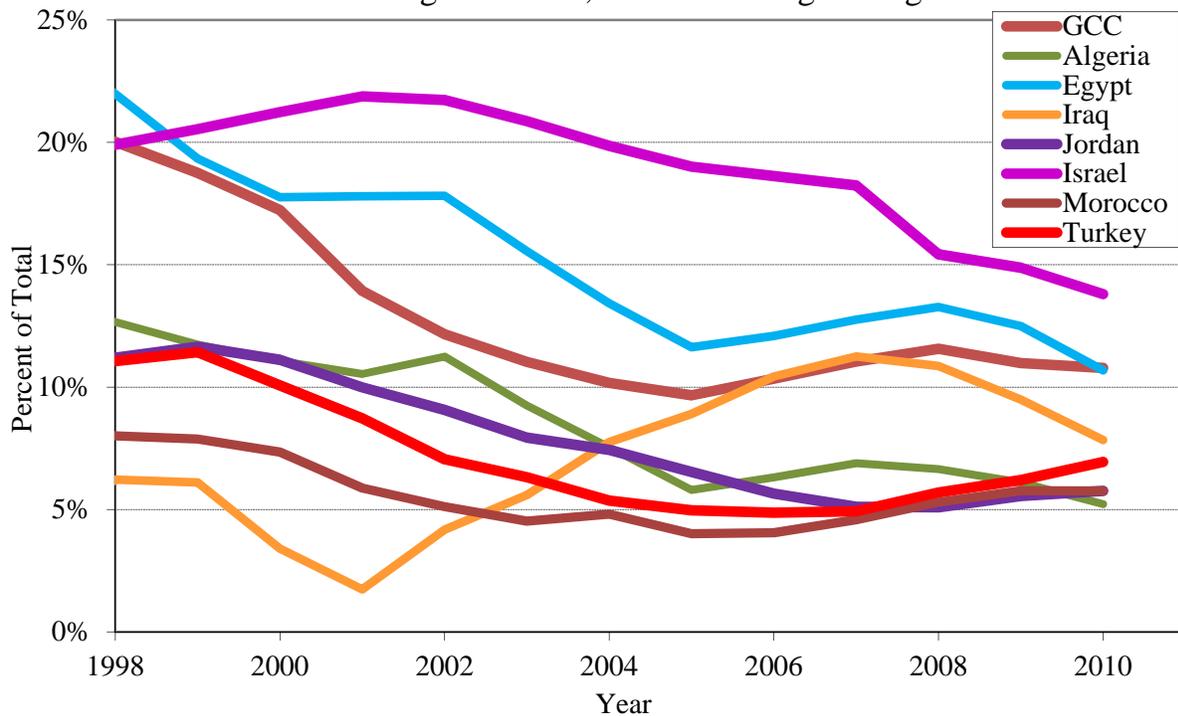


Figure 11

US Share in the Exports of Major Country Groups
Percentages of Total, 3-Year Moving Averages

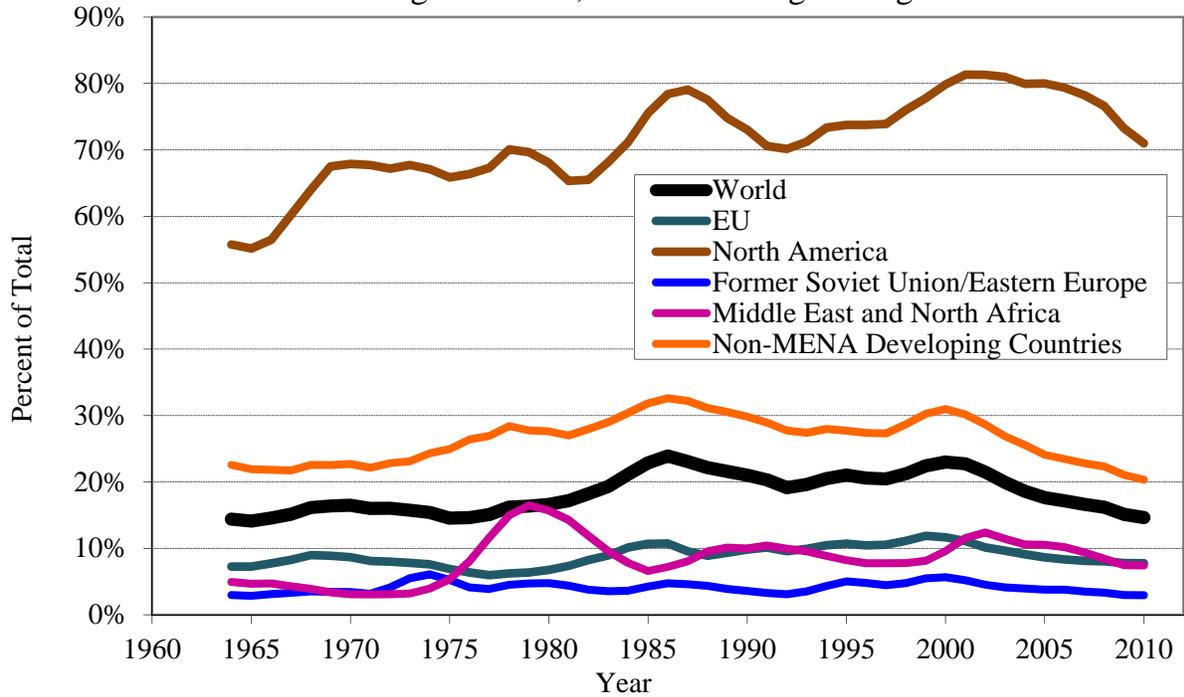


Figure 12

United States' Share in the Exports of Selected MENA Countries
Percentages of Total, 3-Year Moving Averages

