Beyond the Headlines:

Long-Term Trends in Mideast Stability

by Simon Henderson **(/experts/simon-henderson)**

May 3, 1996

ABOUT THE AUTHORS

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Brief Analysis

Day-by-day events of the Middle East -- from conflict in South Lebanon, to terrorism in Cairo, to elections in Israel -- obscure already well-established, longer-running economic trends that are having a profound impact on the shape of the region for years to come. Increasing populations, declining oil revenues and the vitality of Israel's economy relative to its neighbors are the most important factors for change.

Oil: Soft Market Continues Although possession of oil reserves used to be the best indicator of prosperity, the future well-being of every country in the Middle East will be more dependent on its ability to attract foreign investment. The price of oil, after an unexpectedly cold winter, has been at a recent high but the trend is stable or even downwards. None other a luminary than the former Saudi oil minister, Sheikh Ahmed Zaki Yamani, predicted earlier last month at a London conference a price collapse to rival the crash of 1986 (when oil fell from $30 a barrel to $10 in a matter of months).

Virtually all major forecasts, including last week from the Paris "based" International Energy Agency, see little room for an oil price increase despite growing demand from the tiger economies of Southeast Asia and China. Any increased demand will be met from new or revived non-OPEC sources in Russia, Azerbaijan, Central Asia, and South America, at least until the year 2000, the IEA said. By then, many analysts believe, natural gas will have become increasingly important in the world energy equation and oil's role in the key transportation sector may have begun to be undercut by an efficient electric car.

Such developments do not alter the basic truth that nearly two-thirds of the world's oil reserves lie in the Persian Gulf (of which Saudi Arabia possesses over 25 percent of the global total), but the significance of this fact has begun to change. OPEC supplies currently account for just 35 percent of world consumption; the cartel is not expected to recover the domination it had in the 1970's when it controlled 65 percent.

Economics and Demography: Structural Impediments to Growth Meanwhile, the transition of many national economies to industrial status is hampered by a lack of educational and training resources -- and with reduced government budgets, the trend is worsening. The population growth of many Middle Eastern countries is among the highest in the world, but this is a two-edged sword. A growing population can fill job vacancies and boost a consumer society -- or it can lead to high unemployment and great disparities of income. Foreign investors prefer to staff their factories with well-educated, although perhaps relatively cheap, workers. Clothing companies might still go to North African states like Tunisia and Morocco for cheap stitching but the computer chip giant Intel chose Israel for its latest billion-dollar plant.

A further disincentive to the flow of foreign capital is the lack of transparency in business dealings in many countries of the region. Although not confined to the Arab world, poor corporate information, apparently arbitrary laws and widespread corruption continue to deter many foreign investors. Japanese companies, being encouraged to invest in Saudi Arabia as the price of the renewal of a major government-to-government oil production agreement, find such disadvantages outweigh apparent attractions of generous tax holidays, cheap or free land and cheap energy.

When the U.S. Commerce Department last year selected ten "big emerging markets" where export efforts should be concentrated in the next two decades, no Arab county was chosen. Turkey was the only Middle Eastern county on the list, chosen for its large territory, big population and "significant economic policies." It has since signed a customs agreement with the European Union which should help justify its selection.

Preferring to avoid meaningful elections, too many Middle Eastern governments rely on the strength of their military and security forces to stay in power rather than the success of their economic policies. Subsidies and opportunities favoring their friends and supporters sometimes give an impression of economic advance but statistics indicate otherwise. United Nations comparative data for the period 1984 to 1992 (the latest available) show that Syria's gross domestic product -- the size of its national economy -- increased from $21.0 billion to $29.3 billion, a 39 percent increase. The equivalent (constant dollar) figures for Israel are $43 billion and $63 billion -- a 46 percent hike. Perhaps more significantly, per capita figures for Syria showed a mere 30 percent rise to $2,489 while Israel more than doubled in this period, to $13,522 (Israel's latest figures exceed $16,000). For the reportedly ascetic President Assad, standard of living data might be irrelevant (or incomprehensible), but no group of western voters or shareholders would tolerate such a poor managerial performance.

Countries facing the squeeze of too high population growth and shortage of investment include Algeria, Egypt, Syria, Iraq, Iran, Saudi Arabia, and Oman. Declining living standards can quickly lead to political frustration. Both factors have boosted Islamic fundamentalist movements in the past because such organizations not only provide a social security net but are also a semi-tolerated way of expressing opposition to the mainstream authorities. Yet the current examples of Syria and Iran show that domestic economic difficulties do not apparently limit foreign policy adventures. Indeed, troublemaking tendencies could worsen because they distract domestic audiences from problems at home.

Long-Term Trends and U.S. Policy While none of these trends should come as a surprise to U.S. officials, chances are unlikely that these worrying developments affect day-to-day decisions. That is because: 1) trends are, by definition, going to happen anyway so there is little to be done about them and 2) there are too many short-term problems to be tackled -- the next Administration, or even the one after that, can sort out any longer-term difficulties. This thinking, however, ignores the extent to which trends may be able to advance U.S. policy (as in isolating Iran) or, as in the case of Egypt and Saudi Arabia, undermine the strength of key U.S. allies.

Playing on economic strengths and weaknesses should be as important a part of U.S. diplomacy as political and military balances. In this regard, distance, as well as comparatively low levels of U.S. business involvement in many Middle East countries, suggest that the European Union could play a useful role in complementing U.S. policy, especially in modernizing the economic structures of regional allies based on carefully nurtured market economies. More generally, near-term success in promoting Arab-Israeli peace and maintaining Gulf security does not obscure the need to underscore the appeal of prosperity -- based on carefully nurtured market economies -- as a cornerstone of U.S. policy. Although now one element of U.S. Middle East strategy, building free markets to deal with the pressing social and economic problems of the regions needs clearer definition and higher priority.

Simon Henderson, a former visiting fellow at The Washington Institute, is the author of The Middle East in the Year 2000: New Opportunities, New Dangers, from Financial Times Energy Publishing, London.

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