

Repercussions of the Saudi-Iranian Conflict on North Africa

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The Iranian Shura Council and Assembly of Experts elections in February have resulted in gains for moderate reformists in a peaceful political contest. The elections' contrast to the region's political turmoil brings to mind the ironic words of British Parliamentarian Jock Bruce-Gardyne. In 1966, the politician described Iran as an "oasis of stability."

The scramble of European and American companies to enter the Iran market and an acceleration of capital flow both indicate that the international community is once again embracing the narrative of Iranian stability. Tehran, in the wake of lifted international sanctions, has become a promising new environment for investment. Iran's current stability is underwritten by not only the country's significant oil and gas reserves but also the diversity of Iran's economy, which stands in marked contrast to monolithic markets elsewhere in the region. Moreover, Iran boasts a flourishing automotive industry that served as the second largest contributor to Iran's GDP in 2014. The nation has thirty key economic sectors represented in its stock market and is ranked seventh globally in the field of nanotechnology.

Sanctions lifts accelerated Iran's economic recovery. But it has also had profound international policy effects, bolstering Tehran's regional influence. The rising concerns of Gulf States closely correlate to the arc of Iran's economic upswing. Much to its Sunni neighbors' dismay, Iran has the economic flexibility to purchase highly sophisticated weapon systems and advanced technology. Now, the country's capability to use its military edge to project Tehran's influence over the Persian Gulf and its interests in a variety of Arab states are increasing. The removal of financial and economic sanctions is expected to usher in economic growth of 3 to 7 percent, allowing Iran to expand foreign trade and capital flow. Iran is also expected to increase its investments in the natural gas sector, as it holds the second largest gas reserves in the world after Russia. Iran is close to gas markets in Asia – particularly India, China, Pakistan, Japan, South Korea, and even Turkey, which currently aims to move away from dependence on Russian gas. More importantly, oil production has gradually increased from 800,000 barrels a day to approximately 4 million barrels, which will no doubt expand hard currency reserves and available funding for Iran's regional wars. Iran's increasing oil production also points to a continued collapse in oil prices, pushing the Middle East and North Africa into a new phase of conflict.

Iran's actions have deepened concern over this potential conflict. In early March 2016, the Iranian Pasdaran (Revolutionary Guard), loyal to the Iran's Supreme Leader, conducted tests to develop its 373 Bavar missile program. These tests drew further concern from the Gulf States and many analysts consider this move provocative. The U.S. Ambassador emphasized that Washington was "very concerned" over this "provocative and destabilizing" move. Nor was the Iranian response to the event reassuring: Supreme Leader Ayatollah Ali Khamenei called Western expectations that Iran would limit its missile program "stupid and foolish," and urged the Pasdaran to produce large quantities of missiles to "injure far-off enemies," especially the "Zionist regime." Such missiles would have a range of up to 1,400 km, meaning that Iran possesses the capability of reaching a number of Arab capitals and Israel. Khamenei has reiterated his support for the missiles and derision at their international condemnation in recent weeks. During a visit to the Revolutionary Guards' Aircraft Expo, Khamenei stated: "They expect us to limit our missile program despite constantly threatening Iran with military action. This expectation is stupid and foolish." He added that, "The Revolutionary Guard must execute the program and should not be satisfied with its current state. They must produce large quantities, and this is a critical responsibility for all military officials." These statements and missile tests called to mind old fears of Iranian influence, as well as both ancient and modern iterations of Shia-Sunni conflict for domination over the region.

In a 2012 study titled "Iranian Influence in the Levant, Egypt, Iraq, and Afghanistan," Frederick W. Kagan, Danielle Pletka, and Ahmad Majidyar emphasized that the post-1979 Iranian regime is based on the several tenets. These include the belief that Iran society is unified through identity, power, Islam, and the shared history of Persia as a source of national and historic pride.

Concurrently, the most important determinants of Iranian military and strategic thinking include the need to confirm Iran's regional role and its dominant position in the Gulf, as well as the rest of the region. The mullahs' regime believes that it is Iran's natural right and destiny to dominate the region and lead the Muslim world, which informs the Iranian decision-makers' belief that Iran has a direct interest in all regional issues.

Another definitive driving ideology is the perceived need to enhance Iran's ability to defend itself against any military attack. This fuels Tehran's objective of achieving economic independence in tandem with strategic and tactical self-reliance, especially in the military field. This goal has spawned Iran's eagerness to possess nuclear technology and potentially the ability to create nuclear weapons. Iran is also furthering its regional control through expansion of its soft power, which involves building networks throughout the region that support Iran, strengthening allies, promoting economic and commercial ties with neighboring countries, and working to sign defense and security agreements.

Iranian ambitions to extend influence across the region have clashed with the Sunni project led by Saudi Arabia. Both sides' interest in dominance has fueled their competition to prove to Muslim communities which country deserves to lead the Muslim world. Iranian leaders have pledged to export their Iranian Shiite revolution and undermine countries they consider home to undeserving princes and corruption. Saudi Arabia opposes anything Iranian, labeling it un-Islamic. Each party has developed strategic partnerships with countries sharing their ideology while simultaneously providing support to extremist groups inside their rival's borders or spheres of influence.

The open hostility of the Saudi-Iranian relationship continues to draw out the war in Yemen and Syria. Nor can a diplomatic solution be reached when each party continues to work against the other other. The Iranian economic recovery and a return to the international stage following the lifting of sanctions will reinforce the country's desire and capability to fund regional wars, making it difficult to expect breakthroughs in the region. These changing dynamics signal a new phase in Middle East and North Africa conflict.

The oil war is one of the harshest theaters in the war of attrition between Saudi Arabia, Iran, and shale energy producers. By January 20, the price of oil had fallen to \$27 per barrel, down 75 percent from 2014 prices after OPEC,

led by Saudi Arabia, refused to cut production despite declining demand. Simultaneously, shale oil producers in the United States also refused to halt supply. It is clear that Saudi Arabia is exerting all possible efforts to stymie Iran's return to oil production after the lifting of sanctions and abolition of the Western-led oil embargo on Tehran.

Amid this frenetic conflict, a number of beneficiaries of declining energy prices have emerged. The price drop has brought on an economic boon for oil-importing economies, with recent World Bank reports on North Africa suggest that Morocco, Egypt, and Tunisia saw trade balance improvements following a decline in import bills. Moreover, these states have seen improving public budget balances thanks to a decrease in the cost of fuel subsidies, which in some cases amounted to 10 percent of the GDP.

Lower oil prices will also lead to a reduction in import inflation for importing and exporting countries alike, as well as benefit the poor via indirect influence on local inflation levels. The slight increase in consumption resulting from the drop in prices will help revive economic growth and may also allow Egypt to take advantage of extra fuel supplies to avoid frequent power cuts. This in turn could help boost fragile political and social stability in the country. On the other hand, the decline in oil prices could weaken cash inflow into the country, as Egypt is one of the largest recipients of remittances, foreign aid, and investment from the GCC countries. More than three quarters of remittances sent to Egypt originate in those countries, and the price drop could adversely affect growth by reducing investment as well. It is likely that the decline in oil prices will allow the Egyptian and Moroccan governments to continue their reform programs aimed at rethinking strained public aid policies within those countries' budgets. Recently, efforts to combat poverty and vulnerability in Egypt and Morocco have borne fruit.

Oil-exporting countries in North Africa are on the losing side of the dropping oil prices, as demonstrated by 2015 International Monetary Fund statistics. Oil accounted for more than half of budgetary revenues and profits for exports in Libya and Algeria; it represents more than 95 percent of total exports for these countries. The fall in oil prices has forced both governments to adopt austerity measures. These included boosting prices for fuel and consumer goods and services, imposing new taxes on some materials, increasing tariffs to create new sources of public revenue, and reducing government spending to halt the drain on budgets. The current account balance for oil exporters also deteriorated, creating currency pressures which led to devaluation and forcing governments to tap into foreign currency reserves. Algerian reserves dropped from \$185 billion to \$152 billion during this period as a direct result of a foreign shock following the significant and sustained drop in oil prices.

This confluence of events makes for a pessimistic outlook for the region. Post-Arab Spring wars, schisms, conflicts over survival and expansion, rising Iranian military and economic power following the nuclear deal all point to a destabilizing shift in the regional balance of power. The Gulf's declining dependence on their traditional American ally and attempts to thaw relations with Iran as a key player in the new Middle Eastern equation show how international relations with the region are also heading into uncertain territory. Through this lens, the Middle East and North Africa is on the verge of an extended war similar to those waged between the Catholic and Protestant states to gain control and influence during the 17th century. The conflict is a proxy war, the results of which are a winner-take all, zero-sum game based on a sectarian foundation between the Sunni axis in the Middle East and North Africa and the Shiite crescent. This phenomenon threatens the stability of the entire region, and has the potential to thrust the region back into divisions not seen since the Cold War.

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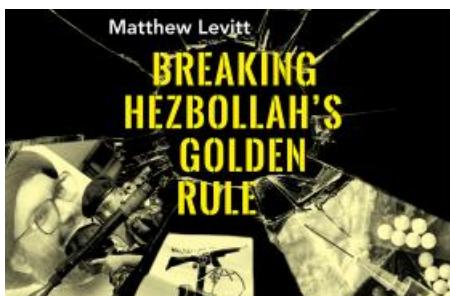
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