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GLOBAL INTERDEPENDENCE AND THE FUTURE OF THE MIDDLE EAST: CONFLICT, COOPERATION AND REGIONAL INTEGRATION

Final Report of the Research Project on "Global Interdependence and the Future of the Middle East: Conflict, Cooperation and Regional Integration
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INTRODUCTION

This final report summarizes the findings of a two-year research project conducted in 1993-95 by the Istituto Affari Internazionali (IAI). The research consisted in a wide-ranging analysis of forces at work, inside and outside the Middle East,* in favour of or against integration of the region in the emerging new international system. The emphasis has been put on trends and prospects rather than on data description. In accordance with that agenda, this report analyzes the prospects for politico-economic interactions within the Middle East, and between the international system and the Middle East region, on the basis of three parameters: integration, cooperation and conflict.

The sources of this report are the studies produced in the framework of the research. Nineteen background studies (see the Appendix for a list) explored Middle East countries in detail in the four fields of comparative politics, regional security, political economy and international relations. Additional inputs, namely regarding national situations and perspectives, were gathered in Middle East countries by IAI researchers, during individual visits, a regional seminar held in Tehran (May 1994) and at an international conference held in Rome (November 1994).

Thereafter, a report for each field underlined the main findings which had emerged from the background studies and other inputs. These sectorial assessments are included as chapters 2-5 in the present report, while Chapter 1 and 6 underline the main transregional and international trends presently affecting the Middle East; these trends represent the basis for the development in chapter 7 of different scenarios for the future of the Middle East and their relative policy implications.

The research project was funded by the National Institute for Research Advancement-NIRA (Tokyo) and the Istituto Affari Internazionali. It was conducted under the direction of Laura Guazzone (Head of the IAI Mediterranean and Middle East Program) and Pier Carlo Padoan (Professor of Political Economy at

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* In this report, the term Middle East is used as shorthand for the entire area considered which includes the sub-regions and countries listed below; adjoining areas like the Balkans, Caucasus, Central Asia and the Horn of Africa are considered whenever they influence significantly the Middle East proper, which consists of:
North Africa (Morocco, Algeria, Tunisia, Libya, Egypt, Sudan);
the Near East (Israel, Palestine, Syria, Lebanon, Turkey);
the Gulf (Yemen, Oman, Qatar, UAE, Kuwait, Saudi Arabia).

the University of Rome "La Sapienza" and IAI Scientific Counsellor) in cooperation with individual Middle East scholars and research institutes. In addition to the directors, the IAI research team for this project included a steering committee composed of: Roberto Aliboni (IAI, Director of Studies); Paolo Guerrieri (Professor of Political Economy at the University of Naples and IAI Scientific Counsellor); Stefano Silvestri (IAI Vice-President, presently Undersecretary of Defence), and two research assistants: Carlos Garcimartín (a junior economist from Spain) and Francesca Rambaldi (a junior Arabist from Italy).

EXECUTIVE SUMMARY

As a result of deep changes in both the international and regional systems, the entire Middle East today is in the midst of profound and interlocking transformations:

- in domestic politics, where increasing popular pressures for enlarged participation and state efficiency are led by opposition forces divided between liberalism and religious autocracy.
- in domestic economics, where the need to adapt to international competitiveness is being met with structural adjustments and new export-led strategy of growth.
- in regional security, where the looming end of the Arab-Israeli conflict and the unsettled strategic balance unleash the potential for new inter- and intra-state conflicts.
- in international relations, where the end of the Cold War has diminished the region's strategic relevance and the new global trends towards regionalism have not yet provided a new form of integration of the Middle East into the international system.

Individual countries are trying to cope with the effects of these changes, but only few seem to be succeeding in these multiple transformations. Among those better equipped to succeed, Israel obviously stands out, followed, although at some distance, by Turkey and, at the opposite end of the region, Morocco. For all the remaining countries, successful transformation and in many cases survival depends on the existence of a more or less cooperative regional and international environment. It is for this reason that the evolution of the future of the Middle East is to be analyzed along two main parameters: alternative scenarios for regional cooperation and the international incentives needed to support it.

Chances for renewed conflictuality in the Middle East are high -and possibly higher than those for peaceful development of the current multiple transition- if factors presently favouring regional cooperation are not sustained in the medium term. Three cooperation scenarios can be considered: rapid integration, gradual cooperation, nationally-driven cooperation. Among these, the best course for the future of the Middle East countries in a setting of global interdependence is the

scenario of gradual cooperation since this would allow the needed economic, political and cultural pre-conditions for regional cooperation to mature, both regionally and internationally. Most of the policies needed to ensure this result are presently supported by the ongoing Middle East peace process. This confirms its fundamental role in favour of the integration of the Middle East in the new international system. However, some of the necessary policy options are not fully supported by the peace process and needs to be complemented. In particular, the policies that need to be consolidated are: graduality, sub-regionalism, revitalization of regional institutions, Western Europe's ability to support regionalism in the Middle East and the multilateralization of security guarantees, cooptation of Iran and Iraq into regional cooperation schemes, greater acceptance for cultural diversity.

CHAPTER ONE
THE GLOBAL SYSTEM AND THE MIDDLE EAST

1. Past record

During the last two centuries the Middle East and North Africa (MENA) have been linked to international politics more than any other region of the non-Western world. The struggle for control of the Middle East and its strategic resources has affected the international balance of power, sometimes acutely, but no single external power has ever controlled these regions alone. While the region's integration in the international system has remained partial and conflictual, external interventions have deeply influenced it and its local actors have, in turn, emerged as forces to be reckoned with internationally.

In the nineteenth century, the Middle East and North Africa were central to the struggle among European powers (including Russia) for colonies and spheres of influence. After 1911, the struggle for control of the Middle East increased its global significance with the adoption of oil as a propellent first for military and then for general purposes. In the second half of the twentieth century, the close connection between the global balance of power and control of the Middle East continued unabated through superpower competition, with the Cold War significantly affecting economic and political developments in the Middle East. The creation of Israel was, at least in part, a result of the policies followed by the great powers, as was the independence and form of government adopted by a number of Arab states. The United States and the Soviet Union each cultivated their own allies in the Middle East.

During the Cold War the control and price of oil was more the result of political than economic calculations. The United States tolerated not only the nationalization of the holdings of the international oil companies, a development that would have been hard to repress in any event, but also major and discontinuous increases in the price of oil in the early 1970s, a development that could have been avoided had purely economic interests rather than broader geo-strategic calculations determined American policy. It was possible for the Arab-Israeli conflict to drag on through four wars and over forty years because the Arab states, despite four defeats, could still nourish the hope that the Soviet Union would give them greater support or that the United States would become disillusioned with Israel.

The reaction of local political actors to persistent external interest has been twofold. On the one hand, they have capitalized on this interest, learning to manipulate external competition in order to get political, military and economic support locally and internationally. On the other hand, external interference has provoked a resentment which has sown the seeds of political radicalism and a rejection of interlopers.

In the last 50 years, and even earlier, the basic structure of regional relations has been shaped and dominated by the Arab/non-Arab distinction. It was, however, the 1948 establishment of the state of Israel that made this distinction politically acute and indeed bloody. On the basis of this distinction, a regional system based on an Arab core, an Arab periphery and an intrusive sector emerged in the post-colonial Middle East and North Africa. The composition of the Arab core and periphery shifted over time, as did alliance patterns within and outside of the system, but the intrusive sector made up of Turkey, Iran and Israel remained confined until 1990. Dominant Arab nationalism under the leadership of Egyptian president Nasser (1954-1967) tried to make the region function through the exclusion of intrusive powers. In the 1970s, *Thawra* (revolution) retreated in the face of rising *Tharwa* (wealth - of the Gulf oil states). The oil powers tried to establish an alternative regime dominated by political petrolism, but were unable to establish a hegemonic stability because of their limited power. In effect, their power is one-dimensional, being mainly financial and, in spite of Islamic credentials, the tribe-based character of the Gulf governments made them incapable of acting as a pole of attraction for the values or political interests of the new rising middle class in other Arab countries.

2. Changes in the global system since 1990

Since the end of bipolarism, the international system has been undergoing major changes and continuous adjustments. Three main trends seem to be at work: the emergence of a 'pyramid of multilevel interdependence' in international relations; an increasing primacy of economics in shaping international power relations; a precarious balance between multilateralism and nationalism.

The system of 'multilevel interdependence' has a unipolar military power at the top (US-NATO), a tripolar economic power system in the middle (US, Europe, Japan) and transnational interdependence of diffuse power at the bottom. Since 1990, serious problems of coherence and efficiency have been manifested at each of these levels and the emergence of a new international order is by no

means in sight.

While the foundations of current politico-security relations are being reassessed, the world's stability seems to be determined increasingly by the struggle for control of global markets and resources. In the economic sphere, pressures toward more managed trade and the creation of economic blocs coexist with a transnational economy whose pace is set mainly by the movement of capital. In the political sphere, worldwide interdependence - in areas ranging from the environment to military security - and efforts to develop and sustain international agreements and institutions for global management coexist with the revival of nationalism, localism and the increasing impact of transnational factors such as migration and information flows.

There is a crucial interaction between security and economics in shaping trends towards regional agglomerations in which multilateral, regional and bilateral relations coexist and interact according to complex yet distinctive patterns. But the parameters of global economic and military security, no longer delineated by superpower competition, are increasingly difficult to define and national definitions tend to prevail by default.

In fact, the global strategic situation has profoundly changed since the end of the Cold War, with the dissolution of the Warsaw Pact, the retreat of the Soviet Union from Eastern Europe and its fragmentation. The old Western strategy of defence and containment has lost its meaning while a new strategy of crisis management is developing. But with the end of the Communist threat and the relative decline in American power, conflict outcomes that are inconsistent with specific national economic interests have become less acceptable for Western powers and namely for US policy makers.

3. Changes in the Middle East system since 1990

Since 1990 the Middle East and North Africa have witnessed the end of the Cold War, the 1990-91 Gulf war and the Arab-Israeli peace process. These major events, entwined with long term socio-economic and cultural processes, have changed the political map of the Middle East.

The end of the Cold war has meant the end of automatic external support for the states of the Middle East according to their alignment. The now looming end of the Arab-Israeli conflict will deprive the confrontation states, primarily Israel, Jordan and Syria, of political legitimation through reference to this conflict. The Gulf war marked the defeat of some regional radical states (Iraq,Sudan) and

obliged others to align with the West, (Syria), or remain neutral (Libya,Iran). It also marked the demise of the politically fictitious, but ideologically important, myth of Arab unity. The result at present is a pattern of not only diffuse power but also diffuse weakness, where non-Arab regional powers (Israel, Turkey and Iran) seem to prevail over Arab ones. This Arab perception is intensified by the tendency after 1990 of the non-Arab Middle East to be taken to include the ex-Soviet republics of the Caucasus and Central Asia.

In effect, the Gulf war, the peace process in Palestine, the decreasing importance of oil revenues and policies has fostered the fragmentation of the Arab world along national lines. National priorities have become more important than common Arab perceptions and policies - factors like common language and common religion were previously an integral part of both the Arab and the national identity and were important for maintaining domestic consensus.

The Arab/non-Arab distinction in regional politics is fading. One alternative could be a reorientation of regional politics toward the adoption of a new conceptual lens: a balance of benefits calculated on the basis of national interests. But perceptions and policies based on the traditional Arab/non-Arab divide still persist alongside new ideas.

At the domestic level, these new ideas generate popular pressure for more accountable and efficient governments and, in effect, the second main feature of the political transformation that Middle East states are undergoing, besides the end of the organization of the regional system along the radical vs. conservative and Arab vs. non-Arab divides, is the quest for domestic political and/or economic liberalization.

In terms of political and strategic stability, there are several negative sides to this transformation. Just as the major players in the Cold War may now be searching for new enemies, so the regions' governments and their international partners can be expected to discover new foes, new demons. Indeed, in Egypt, Algeria and Israel the search has been brought to a successful conclusion: the new demons are the Islamists. Also, as national rivalries are no longer masked by the Arab-Israeli conflict, subregional conflicts have become more evident, as well as more divisive. In addition to the revitalization of old interstate disputes about borders, resources and movements of people, turmoil in the region may also emanate from attempts to interdict political change, and, given the permeability of both state and society to outside influences, there can be little doubt that some spoiling efforts will succeed.

The old regional system based on the Arab/non-Arab divide has lost most

of its function as the basic underpinning of bilateral relations and ideological currents, but a new basis for regional relations has not yet fully emerged. This vacuum has created a fragmentation along national lines and a prevalence of bilateralism that is reflected in the weakness of existing regional institutions (see appendix, synopsis B). Arab regional institutions - both subregional and pan-Arab - either are dormant (e.g. the Arab Maghreb Union and the Arab League), have disappeared (e.g. the Arab Cooperation Council) or are unable to grow (e.g. the Gulf Cooperation Council); in the Northern Tier (Turkey-Iran-Caucasus and Central Asia) of the Middle East, economic cooperation schemes have developed, but results have been limited. At the same time, the various European institutions dealing with the Middle East are still fragmented and region-wide institutions including Israel have yet to be established (see appendix, synopsis C).

4. Changes in the relationship between the global system and the Middle East

As a result of the changes observed in both the international and regional systems, the pattern and content of the interplay between the two have also changed. The core of the present interaction lies in the following areas:

- economic regionalism, both North-South and within the Middle East, coopted to globalization of economic competition.
- peace between Israel and the Arab states and the shape of the new regional balance.
- cultural attributes of political legitimacy in the region (Western, democratic or religious).

The content of interaction between the international system and the Middle East has changed to some extent, but the overall pattern has not, as it remains one of mutual opportunities and threats, marked by a lack of stable regionalism.

At the strategic level, the disappearance of one of the poles of the previous balance (the USSR) has permitted the resolution of the Arab-Israeli conflict as well as establishment of the US as the external balancer against any effort by a Middle Eastern state to exercise hegemony over the Gulf, an act which could lead to precipitous oil price increases. The stabilizing effect of US strategic dominance is limited, however, and has given rise to a growing fear of strategic insecurity and interference from the outside. The evolution of new "global intervention strategies" (especially in the US, but supported also by its allies) does not simplify the matter. Crisis management practices and peace

enforcing policies (or "humanitarian interventions") are seen as challenging the traditional concept of national sovereignty.

On the cultural or ideological level, the perception is growing of a capitalist, imperialist, over-liberal, Christian West pursuing a global agenda of political, economic and cultural domination, with the Muslim world as one of its main targets. The events in Bosnia, and the perceived double standards used by the UN in implementing Security Council resolutions against Arab countries (and not against others) only confirmed these suspicions for many. In brief, the end of the Cold War could have hidden exacerbating effects on local political attitudes alongside the more obvious stabilizing ones.

On the one hand, the growing dominance of Western and above all American power has caused more and more Arab governments gradually to line up in the American camp, and this has signified the emergence of a spirit of realism and negotiated compromise among Arab states with regard, not only to Israel, but also to the world order in general. Yet, while most Arab governments move inexorably deeper into the American camp, the gulf between their positions and those of their people is widening. Instead of heralding a new era of non-confrontational international politics in the region, the growing Americanization of Middle East foreign policy may widen the gap between governments and peoples, especially in the Arab world, which could be more dangerous than the original radical positions of their governments. This, in turn, could result in increasing domestic polarization followed by regime crisis and breakdown.

On the other hand, with regard to the recent advances in the Arab-Israeli peace process, some possible negative political-cultural consequences should not be overlooked: (a) The ending of the Arab-Israeli struggle at the state level could rob the present states of a good part of the little that remains of their political legitimacy and could very easily strengthen the hand of the Islamist opposition. (b) The ending of the struggle at the state level could encourage a reinterpretation of the struggle which was seen as being between Arab nationalists and Zionists as a perhaps more volatile and intractable conflict between Muslims, Jews and Christians.

Finally, in the field of economics, new international trends have had mixed effects on Middle East countries. So far globalization of competition has led to a spatial concentration of technological capability. As a result, developing countries are facing increasing difficulties in gaining access to new industrial and technological opportunities. It is very likely that a rise in competitive bidding for investment and technology at the international level will be seen in the near future

from developing countries (DCs). But only very few countries will probably be able to succeed, while the rest could experience a further decline in their technological and growth capability - and these risks of marginalization are higher for the weakest group of developing economies.

At the same time, a renewed push for regionalism, both North-South and within the region, could provide a new launching pad for Middle Eastern economies and their international integration. There is a broad consensus that long-term economic growth in the Middle East countries should be based on an export-led strategy, in order to take advantage of economies of scale made possible by access to the world market. In light of past experience, however, this goal seems very hard to achieve: structural adjustment programs were implemented by many countries in the Middle East from the mid-1980s to the early 1990s, but results have been mixed in terms of the restoration of macroeconomic stability in individual countries, and highly negative in terms of the creation of new investment and growth opportunities. Therefore, Middle East developing countries are confronted with contrasting evidence as to whether they stand to gain or be penalised by the new strategic, political and economic trends in the global system.

CHAPTER TWO
THE POLITICS OF THE MIDDLE EAST

1. General trends: liberalism and Islamism

The role of domestic factors in shaping the overall direction of politics in the Middle East has definitely increased. No longer defined in relation to the major international and regional conflicts, stability and security in Middle East countries are increasingly being determined by the parameters of political legitimacy and economic efficiency. Rather than by the new regional and international environment, trends of political change in the Middle East are presently determined by the effects of long term socio-economic and cultural factors resulting in increasing qualitative and quantitative demands on limited resources.

Exhibiting some of the highest growth rates in the world, the population of Middle East countries has doubled since the end of World War II and is expected to double again by the year 2010; as the inability of the majority of countries in the region to feed their own people increases, rural inhabitants are forced to earn a living in cities already characterized by massive unemployment or underemployment; again by the year 2010, the urbanization rate of the Middle East is expected to be 73 percent, second only to that of Latin America. About forty percent of the population of the region is below the age of 15; rising female literacy rates and government-sponsored birth control policies portend declining birth rates, but the effects will not be felt for decades. In the intervening years, demands for food, housing, services and jobs will continue to rise steeply and failure to fulfil them is likely to produce more urban riots over shortages.

However, as a result of the decades of significant, although insufficient, economic growth and modernization experienced since independence, the prevailing socio-economic condition of Middle Eastern peoples is one of relative deprivation, not sheer poverty; relative meaning that comparisons are made to memories of earlier periods, to more affluent fellow citizens and, especially, to the high expectations fuelled by government promises and increasingly frequent visions of Western wealth.

As everywhere else, states and governments are the target of anger generated by frustrated needs and expectations. These feelings are especially strong in the Middle East, however, because the patrimonial, authoritarian and patronizing nature of the prevailing systems does not provide adequate outlets for absorbing socio-economic transformation through politics. As a result,

pressures for political liberalization are prominent in the Middle East and are simultaneously affecting domestic politics at three levels:

- the nature of the relevant domestic political actors (i.e. the socio-economic groups that contribute in determining national policies, from government or from opposition) and the modalities of their interaction;
- the nature of the political systems and their ability to foster national consensus;
- the nature of the prevailing political cultures.

These long-term processes of change manifest themselves in the debate about four core interrelated political issues:

- liberalism and democracy;
- the relations between religion and politics;
- the Arab-Israeli peace process;
- relations with the West.

The **evolution of domestic political actors** is characterized by an increasing request for political legitimacy and economic efficiency led by the emergence and empowerment of formerly marginal social sectors and class segments, such as women and minorities, the middle class active in the organizations of the so-called civil society (professional associations, non governmental organizations), and the newly urbanized and lower middle classes which form the base of the moderate Islamist movement.

Overall, neither the emergence of new social sectors nor their requests for increased efficiency seem likely to result in the overthrow of the middle class presently ruling most Middle Eastern states, but these factors may determine changes in the composition of the dominant coalitions and therefore affect the policy choices of the countries concerned. The role of the state bureaucracy and the military is diminishing, while the role of the new private entrepreneurs is increasing; Egypt, Syria, Israel and Turkey are the countries in which these changes are already most evident. Also, and more importantly, the empowerment of new social formations has already substantially altered the balance of power between government and opposition; this is especially true in the Arab countries, where now vocal and diversified oppositions were suppressed and almost non existent until less than 10 years ago.

The effects of these changes on the nature of existing **political systems** and regimes is still uncertain. Some of the changes concerning political actors and their relations, like the shifts of power among sectors of the middle class already mentioned, may be accommodated within the framework of still

authoritarian but more inclusive political systems. Examples of this kind of evolution are represented by Morocco, Tunisia and Jordan. Other changes, such as the empowerment of social minorities, have a more ambivalent role: if the demands emanating from these sectors are accommodated at least partially, this could hasten the transition to truly liberal systems; if they are not, this could threaten the survival of the existing national polities. The role of ethnic minorities such as the Berbers in Algeria, the Kurds in Iraq and Turkey and the Israeli Arabs are important cases in point.

In any case, the integration of new social and political forces requires mediation skills and a political vision that some of the incumbent **ruling élites** seem unable to exercise; regimes unable to absorb change and lead a carefully managed transition will inevitably lose power and in most cases this will be to the advantage of more exclusionary and authoritarian élites (Islamists, right-wing military and radical nationalists). A most worrying example in this sense is that of Egypt, whose regime, while pursuing a skilful foreign policy, seems unable to follow the path of internal reforms it had set for itself.

A final generalization about ongoing political change in the Middle East and North Africa countries concerns the evolution of regional **political cultures**, which are still based more on identities than on political ideologies. The most important sources of individual and collective identities at the regional level are such that they determine bipolar divisions: Arab vs. non-Arab, Muslim vs. non-Muslim, secular vs. religious, étatist-authoritarian vs. liberal-democratic. Although the possibility of combining various identities (e.g. an Arab Muslim liberal) may provide a basis for overcoming bipolar divides, the room for cultural mobility is subject to the contradictory pressures of globalization and authenticity and, in general, tends to be increasingly restricted as a result of the anti-Islamist entrenchment of regional regimes.

In as much as Middle Eastern identities are translated into more or less formalized political ideologies, it has to be noted that liberalism has once again become a part of regional political discourse in the Arab countries as well as in Israel, Turkey and Iran, with a relative decline in macro-nationalism (pan-Arabism, Zionism, pan-Turkism and even pan-Islamism). As a result nationalisms of a more local brand are re-emerging and may radicalize in connection to the emergence of neo-authoritarian regimes; radical local nationalism is already well embedded in Islamist discourse.

Finally, and most importantly, unlike the period of the independence struggles and the early decades of nation building in the Middle East, today only

the Islamist ideology has a unifying interclass appeal. This contributes to some extent to explaining why Islamism is at present the most forceful political ideology in the region. Instead, the other widespread political currents - such as democratic liberalism or étatist (Arab) nationalism - stress different class interests and do not seem able to support ideologically the widespread request for political change.

Political liberalization is the central issue in today's Middle East political debate. In this context, the widespread use of the term democracy is due more to the influence of Western and namely US political parlance than to the existence of a common political project aiming at Western-style democracy. The underlying problem in this debate is the definition of "democracy" and what is meant by it. Westernized Middle East elites tend to define a democracy as meaning a secular system of government, with complete separation of religion and state, where popular will is the source of law and political legitimacy, and where a series of rights for individuals derived from the principle of "natural law" are guaranteed by the state; in this context, they see an inherent incompatibility between Islam and democracy. Others in the Middle East, including moderate liberals, nationalists and Islamists do not equate democracy with Western-style secularism. Rather, they emphasize the participatory and consultative aspect of democracy and see the potential for an Islamic version of democracy. In effect, since the mid-seventies the general evolution of socio-economic and political factors in the region has converged in creating pressures for more liberal and participatory political systems, which may take different forms. Regional governments have responded to pressures for wider political participation and accountability with a set of political reforms introducing measures of relative democratization which are different in content and form in each country. This process, labelled as transition to democracy, will take some time to mature, and while it may have a stabilizing effect in the long term, it entails a degree of destabilization in the short run. The January 1992 *coup d'état* in Algeria marked the end of a phase of fast-moving experiments in political reform in the Arab world, which nevertheless continue at a more cautious pace throughout the region.

Islamism, and more generally the relation between religion and politics, is another central political issue. As noted before, identities often play a political role in the Middle East. It is commonplace to explain the growth of the Islamist movements in the Middle East as a reflection of the inherent appeal of Islam *vis-à-vis* secular ideologies, often seen as alien and having failed. Equally important

is that Islamists combine this appeal with a penetrating critique of government performances articulated around the need to restore public morality, social equity and political legitimacy by implementing the Islamic law (*shari`a*). The political, economic and cultural failures of the incumbent regimes have created a vacuum that has been filled by the Islamists. Politically, the theology of the Islamist movements is less important than their ability to monopolize domestic political opposition and take up the mantle of radical nationalism. Religiously-motivated movements are leading political actors not just in the majority of the Arab countries, but also in Turkey and Israel.

In assessing the negative impact of Islamism on Middle Eastern politics some caveats must be borne in mind. First, the current authoritarian nature of Islamist movements is not totally immune to a less illiberal hermeneutic and practice, and could evolve in this direction if integrated in the democratic maturation of the entire political culture of the Middle East world, which is still substantially illiberal.Second, the cultural **clash between the West and Islamism** exist only if the Western world were to view the global application of its secular political model as a vital interest. Divergence, however, is not so much about the political process needed to ensure popular participation and consultation (formal democracy). Rather, it is about the sources of law and political legitimacy. For the Islamists, the fundamental laws and moral code of Islam are divine, eternal, and thus unchangeable. For the Western secularists, the individual and society are the source of law. Third, greater Islamist influence in the Middle East would damage at least some Western interests in the short term, but the extent of that damage would depend on a set of factors that vary from country to country and from issue to issue. In fact, it is the radical and anti-Western interpretation of the ideology and not the ideology itself which threatens some Western interests, and the origin of the sentiments of mistrust and hostility towards the West entertained by Islamists is to be found much more in existing historical grievances (epitomized by colonialism, Palestine and, now, Bosnia) than in the Islamist ideology.

2. National Situations: Algeria, Morocco, Egypt, Palestinians, Israel, Saudi Arabia, Iran, Turkey

The political trends described above affect all countries of North Africa and the Middle East, including the newly independent Muslim republics of Caucasus and Central Asia. Indeed, this fact creates an interconnectedness of regional political

factors which is one of the key reasons justifying and requiring a common analytical approach to this otherwise highly diversified and fragmented region. However, the evolution and impact of the political changes and issues considered above is deeply differentiated between Arab and non-Arab states and, among the former, between Maghreb, Levant and Arab Gulf countries.

In accounting for these differences the geopolitical context in which each country operates seems more important than the form of government and the socio-economic fabric; nevertheless, within the same sub-regional setting, it is the nature of the political system and natural and social endowments which determine local differences. For instance, while the Maghreb countries entered the post-Cold War and post-Arab-Israeli conflict era well before the countries of the Levant as a result of their distinct geopolitical situation, characterized by distance from the Arab-Israeli conflict and the intensity of ties with Western Europe, it is the different nature of the respective political systems and national endowments that accounts for the profoundly different reactions to political change in Morocco, Tunisia and Algeria.

In order to assess the impact of the forces at work in the political sphere it is therefore necessary to consider the position of the key regional countries in regard to the four core issues of liberalization, Islamism, the peace process and international orientation.

Since the January 1992 *coup d'état*, political developments in **Algeria** are dominated by the civil war opposing the military-backed government to the Islamist opposition. The military *coup d'état* followed a landslide electoral victory of the Islamist FIS party which would have led to their domination of parliament and government, possibly in coalition with a civilian wing of the previously ruling FLN party. This outcome was made possible by the hurried process of political and economic liberalization undertaken by then President Chadli Benjedid and his entourage after the bloody food riots of October 1988. The autocratic process only partially satisfied the requests of the secular and Islamist opposition and ran against the will and interests of the more conservative sectors of the ruling military and civilian elite. President Benjedid's quick path to reform was also looked upon suspiciously by the government of neighbouring Southern European and Maghreb countries.

Three years after the coup, it is clear that neither side has the military force to end the conflict and that recurring efforts to find a political compromise have failed so far because of the opposition of the radicals in each camp and the extreme fragmentation of the political struggle. In January 1995, the major

opposition parties agreed on a political platform defining the conditions for a compromise solution with the existing government and a set principles for future national politics; the platform was rejected by the government which proposed instead a temporary truce in preparation for presidential elections to be held in November 1995.

Whatever its form, it is evident that solution to the present Algerian crisis will be based on a political compromise that will cautiously resume the process of renewal of the political elite and reform of the political institutions thwarted by Benjedid's self-interested haste and the military coup. As for the social sectors and political actors that will lead this new course, this will depend to a great extent on the timing and content of the compromise. With both democracy and Islamism having lost part of their appeal for the exhausted and impoverished Algerians, it is likely that the post-compromise course will concentrate on economic recovery and national reconciliation, leaving little room for any significant leadership role in the Maghreb, in the wider Middle East or in the international system at large. At present, the Arab-Israeli peace process is not an issue in the national political debate: government representatives have kept a low profile in the multilateral groups and Islamists have denounced the process as part of the Christian-Jewish ploy to weaken the Islamic world. More importantly, both of the warring sides have sought support for their cause in the international community and both feel that they have been ignored or betrayed: whatever the outcome of the present crisis, traditional nationalist and irredentist Algerian feelings *vis-à-vis* the international community have only been deepened by it.

A leadership role is being taken up by **Morocco**, whose more traditional political system has proved able to steer the country through political and economic reform at a slow but steadier pace. The country is eager to posit itself as a bridge between the Maghreb and the Levant countries, carefully balancing its ties to both Western Europe and the US, but as pressures for political change and greater social equity remain strong and largely unsatisfied, periods of political instability stirred by the Islamist and leftist opposition cannot be ruled out. Also, without the support of Algeria, Morocco's bridge building cannot contribute much to regional and sub-regional stability and cooperation.

Assessment of **Egypt**'s position with regards to the effects of political change is more complex. Pressures for change were first felt in the mid-seventies and Sadat responded with a bold set of policies: economic liberalization through the 'open door' (*infitah*) policy (1974), political liberalization through multipartitism (1976), a renewed foreign policy (disengagement from the USSR in 1972 and

peace with Israel in 1979). Twenty years later sound economic development, democracy and a favourable regional and international environment are still elusive goals in spite of important achievements in each of these fields. As regards political change in particular, Egypt has witnessed a reversal of previous liberalization policies since 1990 and now seems locked in a dangerous stalemate. The ultimate reason for this state of affairs seems to reside in the lack of vision and leadership of President Hosni Mubarak and his entourage.

After taking office in 1981, Mubarak set out to resume the path of controlled political liberalization charted by Sadat, but which Sadat himself had abandoned in his last years. Together with overall socio-economic modernization, this path, based on careful control of a degree of freedom of expression and party activities, had generated a constant growth of interest in and expectation of political participation which was not matched over the years by any further opening of the public space. The unwillingness of the regime to allow for more change and the frustration of the opposition reached a breakpoint in 1990, when the Interior Ministry refused to license an independent party of the Muslim Brothers and opposition parties (and voters) boycotted general elections in protest over unfair privileges for the ruling National Democratic Party. Since 1990, new laws have been passed and old ones have been applied to restrict the political autonomy of trade unions, professional associations and local governments. In the same years, and especially in 1992-94, a new wave of terrorism and political violence by radical Islamist groups provided both the justification and the cause for massive violations of human rights, which were matched by more violence. By early 1995 the Islamist insurgency was almost quelled but the regime's inability to differentiate its response had further alienated its moderate opponents and increased its isolation, as was demonstrated by the unwillingness to participate in the 1994 self-styled National Dialogue. While the extension of security crackdowns on Islamist moderates of the Muslim Brotherhood does not bode well for any future mediation between religious and secular forces, the ruling civilian and military elites appear increasingly fragmented and corrupt, but unable to change.

The role performed by the Egyptian government in starting and sustaining the Arab-Israeli peace process is well known, as are its (the country's) pro-Western orientation and strong relations with the US, Western Europe and Japan. This attitude has been qualified in recent years and especially since 1994 by a fear which spread among the political elite that Egypt may be losing its geopolitical role in the region as a consequence of the end of the Arab-Israeli

conflict. At the diplomatic level, this has led to a series of initiatives, such as the 1994 Alexandria summit with Syria and Saudi Arabia, aimed at retaining a leading role in the main political issues in the region, sometime in contrast with US interests. In terms of informed opinion, the fears of marginalization and the Islamist critique of Western dominance have resulted in a relative disenchantment with foreign policy issues.

The Egyptian state apparatus and the Egyptian people seem resilient enough to survive until a bolder leadership enacts new policies, more capable of giving political vent to pressing socio-economic demands. However, the Egyptian socio-economic crisis is severe and protracted lack of leadership or unforeseen domestic or international events could catalyze widespread malaise and precipitate a sudden collapse of the regime.

Since the Declaration of Principles (DOP) was signed in September 1993, many **Palestinians** in the West Bank and Gaza find themselves worse off than before. Tens of thousands are out of work as a result the almost permanent closure of Israeli borders and suffer from reduced social services, as non governmental organizations run out of funds and Palestinians lose access to Israeli-controlled zones. With the deterioration of daily life, frustration with the peace agreements has risen steadily. Although Arafat's personal popularity remains high, his Fatah organization now has the support of only 40 percent of the nearly 3 millions Palestinians living in the Territories. This compares to 35 percent for the left wing parties in the 'rejectionist camp' (PFLP, DFLP and former communist PPP party), and 15-20 percent for the Islamists (Hamas and Islamic Jihad). The fastest growing group (reaching 30 percent in recent opinion polls), however, is that of the independents, disenchanted with all parties. This means that just as the 'pro-peace camp' has lost its initial euphoria, so the 'rejectionists camp' has lost its ability to annul the PLO-Israeli agreements, which are overwhelmingly perceived as *faits accomplis*.

The biggest issue in Palestinian politics today is transition from occupation to national autonomy, that is, how to redirect Palestinian energies from an independence struggle to state building. But the new Palestinian National Authority (PNA), caught between Arafat's autocratic rule, Israel's security requirements and pressures from donor countries has not yet put forward any mobilizing program for national reconstruction. Fractures emerging in Palestinian society as a result of long-ignored class and social issues can no longer be managed through autocratic politics and patronage-based economics.

At the same time, a weakened and divided PNA cannot exert pressure to move the peace process forward on its own terms on the most vexing issues that remain to be dealt with in the final phases of negotiation with Israel: refugees, Jerusalem, settlements and full self-determination. The resolution of these issues on terms that are unfavourable for the Palestinians will not mean the reversal of the entire peace process, but it will mean the end of Arafat's leadership, the demise of Palestinian independence in favour of a federal or confederal and unwillingly accepted solution with Jordan and Israel and, thus, the end of any hope for a politically stable and economically fast developing Levant. A renewal of the political legitimacy of Palestinian leadership through general and democratic elections therefore seems an unavoidable pre-requisite for Palestinian national reconstruction.

In **Israel**, the overall design of the peace process continues to enjoy popular consensus and bipartisan support. The content of specific provisions in the bilateral agreements (namely regarding Syria and the Palestinians) creates internal contradictions, however, which are carefully exploited by right-wing parties seeking to supplant center-left domination at the next general elections scheduled for 1996. In order to avoid losing political ground to the right, the present Rabin-Peres leadership has gradually shifted during 1994-95 towards an increasingly restrictive interpretation of the principles for an Israeli-Palestinian settlement agreed upon in 1993. Therefore the nature of the government which will lead negotiations for the final agreement with the Palestinians (due to begin in April 1996, according to the DOP), will not basically change the content of the Israeli negotiating position (already well publicized through a number of semi-official plans).

In fact, what is more important for Israeli politics is the overall consistency of the terms for peace with the economic and political transformation that the Israeli state and society has undergone in the last decades - a transformation which is basically from Zionism to capitalism, from a state with a rationale and a mission different from any other in the world to a 'normal' state. When the state of Israel was founded in 1948, the pioneer ethos of the early communities was transferred to the state and political rights were defined according to the different contributions to the project of Zionist redemption. This led to a concept and practice of citizenship that distinguished not only between Jews and Palestinians, but also between different groupings within the Jewish community: European vs. Middle Eastern, male vs. female, secular vs. religiously orthodox. This fragmented citizenship was held together by a largely intrusive but formally democratic state,

engaged in intensive mobilization of political and economic resources under centralized control of the state, the army and the Histadrut trade union.

Over time, economic development funded by externally-generated resources from the Jewish communities throughout the world (and US government aid) has weakened centralized economic control in favour of private business interests. This sectorial shift was seized upon by the young members of the political elite, who, especially through the Labor party, became champions of political and economic liberalization and of the integration of Israel's economy in the world market. Since Labor's return to power in 1992 drastic liberal reforms including privatization of state assets, health-care, education, electoral laws and human rights legislation have been instituted in key areas of the economy and society.

The social group which spearheaded these changes - upper middle class, third generation Jews of European origin - has also represented through the Peace Now movement the main opposition to the right-wing Likud's foreign and security policies. As a business elite, their support for the peace process is motivated by two main considerations: their interest in reducing the economic role of the state, their need to integrate into the international economy. Overall, the process of Israel's transformation from a special to a normal state is much more advanced than similar processes of change in other Middle Eastern countries.

The ingredients of a political crisis that could fundamentally alter the present regime are apparent in **Saudi Arabia**. The present leadership of the Saudi Kingdom seems unable to maintain the balance between the main political actors, now that disgruntled citizens and competing interests groups can no longer be appeased by state largesse as purse strings are drawn tighter and tighter. Political reforms adopted in 1992 by the ageing King Fahd established an appointed consultative Shura Council and new rules for the succession to the throne, but the room for political manoeuvre allowed by these measures has not been fully exploited. In particular, the issue of succession remains unclear and there is no guarantee that the throne after Fahd will pass to an upright royal personality (not tainted by corruption) and well connected to the emerging political actors.

In effect, the power of relative young technocrats among the Saudi elite seems enhanced by the increasing importance of the private sectors in the national economy. Many Saudi technocrats are liberal Islamists, sympathetic to the idea that Islamic law can be interpreted to further enlarge political participation and the rights of women and foreign workers, so as to strengthen

the social fabric and the country's economic performance. At present, however, their ability to influence the government is more limited than that of the so-called neo-Wahhabis, the dissident members of the religious establishment who started to openly criticize the royal family after foreign troops were called in during the Gulf war. Fearful of neo-Wahhabi critiques and of the disorders they may trigger (as in Buraida in late 1994), the government is giving in to their xenophobic, moralistic and anti-Shia demands, for instance by giving more power to the Motawa (an urban militia policing public morality), by delaying the implementation of the conciliatory measures agreed in 1993 with the Shia minority of the Eastern province, and by expelling irregular foreign workers by the thousands.

Present Saudi policies are not favourable to political liberalization in neighbouring countries either. Resentment against the Palestinians, Jordan and Israel has combined with financial austerity to keep the kingdom suspiciously distant from full support for the Arab-Israeli peace process. Yemen unity is openly opposed. Wealthy Saudis suspected of continued support for hard-line Islamism abroad are only seldom reined in by the government.

As elsewhere in the Arab world, political malaise in Saudi Arabia is magnified by economic austerity, which has led to a reduction in social entitlements and to previously unknown unemployment for the educated young. With more austerity to come when Iraqi oil eventually comes back onto the market in an unstable regional environment not sufficiently balanced by an often shortsighted foreign policy, the inability of the present Saudi leadership to strengthen national consensus may make the House of Saud unable to stand further domestic political pressure in the near future.

Despite the distinctness of its political system, the Islamic Republic of **Iran** is subject to domestic political pressures and challenges that are very similar to those facing its Arab neighbours. Blatant corruption and economic hardship have eroded revolutionary political legitimacy, high post-war popular expectations have not been met, and a fractious political leadership seem increasingly unable to conceive and implement adequate long-term policies. Since 1993, lower urban and rural classes increasingly hit by the effects of macroeconomic adjustments have often resorted to riots. Middle class requests are manifest in an increasingly vibrant cultural debate arguing, among other things, in favour of political pluralism and a withdrawal of the clergy from politics; this debate nevertheless remains hostage to the vagaries of the power struggles between radical and conservative clerics and is unable to influence policy making.

The immediate reason for the present uneasy political stalemate in Iran is the failure of the reformist program launched in 1990 by President Rafsanjani and his staff of technocrats. This program of economic reconstruction, rationalization and opening to the outside world represented a third course *vis-à-vis* those of the populist radicals and the conservative bourgeoisie, whose conflicting policies had stalled the country during the Khomeini era. But Rafsanjani's program has run up against increasing internal and international political contradictions and resistances that have undermined its potential benefits. Thus, the moderate technocrats have managed neither to redress Iran's political and economic unbalances nor to acquire an independent power base with respect to both the continuing influence of the radical clerics, entrenched in the state apparatus, and that of the conservative clerics, representing the interests of the traditional rural and urban middle class.

The absence of a mass-based and organized political opposition represented elsewhere by the Islamist movements makes the increasingly widespread political disaffection in Iran less likely to generate a reformist push or a revolutionary explosion. However, the apparent stalemate reached among the various factions of the political elite may lead to an increasingly piecemeal political management in the short term and increase the risks of future political instability and conflict.

Virtually all aspects of **Turkey**'s traditional geopolitical parameters have changed. Turkey no longer borders on Russia, and Russia - while still a rival - no longer poses the same threat. NATO no longer has the same importance to Turkey in strict security terms, although Turkey still values it as an institutional means of access to the European Union. Turkey now has political ties with the Balkans, the Caucasus and Central Asia that were unimaginable before. All of these regions are now developing a political life of their own as well as a growing set of complex geopolitical relations outside the area of the former Soviet Union, including Turkey. Not only has the international environment surrounding Turkey undergone sweeping changes, but the domestic environment has also evolved and changed in ways that affect how Turkey sees itself in the world.

The first change is in the growing democratization of Turkish society. Public opinion and the press have now become a significant factor in the formulation of Ankara's foreign policies. Turkish public opinion responded more quickly to the opening up of the Turkic republics in Azerbaijan and Central Asia than did the foreign ministry. The second change in Turkey's domestic situation is the growth of a market economy, which has made the business community in

Turkey an important new element in national thinking. This development was due in part to the powerful presence in the economic sector for over a decade of former president Turgut Özal, in part to Turkey's greater activism in the Arab world after the 1973 oil boom, and in part to the commercial opportunities that have opened up in the republics of the former Soviet Union, including Russia.

The third important change involves the growth of the Kurdish opposition movement in the southeast of the country. Over the past four years the Kurdish Workers Party (PKK) has stepped up its guerrilla activities in the country, sparking the massive growth of the Turkish military presence in the region. In general, ethnicity is a growing factor in Turkey: Turks whose parents or grandparents were originally from Bosnia, Albania, other parts of the Balkans, the Caucasus, Central Asia or the Arab world all discuss their backgrounds in what is potentially a healthy trend towards recognition of the richness of the Turkish social fabric. But it is important to recognize that a more negative trend, that of national chauvinism, could also emerge. In any case, Turkey is a much more important country today than it was in 1989: involved as it is in new regional relationships, it is hard to imagine the country not significantly participating in any process for regional cooperation in the Middle East.

CHAPTER THREE
THE ECONOMICS OF THE MIDDLE EAST REGION

1. General trends

Middle East economics have undergone important structural transformations over the past decade following the global trend towards market liberalization and more outward-oriented policies. These transformations have not, however, followed a regional integration strategy; rather they have been the result of national initiatives. This also explains why in some cases relevant differences between national experiences can be singled out. Both these differences and their potential for integration will be considered in this chapter. We will look at macroeconomic performance, trade specialization and comparative advantages, financial interrelations with the rest of the world and within the region. Finally we will consider the perspectives for the oil market and its role in the process of integration.

2. Macroeconomic performance and national policies

Explanations for the trend towards economic liberalization may be grouped into two main lines of analysis: the first emphasizes domestic social factors while the second puts the accent on the external financial constraint. But the explanation giving prominence to the social structure of developing countries (whereby state bureaucrats and the commercial bourgeoisie are supposed to share a strong interest in opening up the economy) is unsatisfactory unless it is coupled to the explanation emphasizing the external financial constraint.

As we shall see in more detail below, during the second half of the 1970s, massive capital inflows (and, in particular, huge official unrequited transfers) had a strong impact on the economic structure of the region, encouraging the expansion of the public sector. Given the large inflow of private and public unrequited transfers, the recourse to commercial loans was limited. Therefore, the 1982 international debt crisis did not have a deep impact on most non-oil producing countries in the region, except for Morocco which first rescheduled its foreign debt in 1983. An essential role in limiting financial pressures was long played by financial assistance from Arab oil producers and the Soviet Union.

After the 1986 oil price collapse, both private and official unrequited transfers declined, with a consequent increase in the recourse to commercial loans. State budgets were subsequently hurt by a simultaneous decrease in revenue (diminishing foreign grants) and a rise in expenditure (growing debt service). Macroeconomic adjustment was unavoidable, but the need for more radical changes rapidly emerged. Adjustment measures were therefore included in structural reform programmes.

Although this process was common to the entire region, it started in the Maghreb. Morocco was the first country to use IMF resources (structural adjustment started in 1983 and accelerated in 1985), followed by Tunisia (1986) and Algeria (1989). After the 1987 abortive attempt at IMF-supported structural reforms, Egypt relaunched structural adjustment in 1991. Jordan started its structural economic reforms in 1989 but the programme was interrupted by the regional crisis and was relaunched in 1992.

Different paths may be followed to implement structural economic changes. A simplified classification of structural adjustment programmes can be based on relations with the International Monetary Fund and, more generally, multilateral financial institutions. We shall define as multilateral a programme devised in cooperation with the IMF and the World Bank and (if necessary) supported by multilateral debt rescheduling. Conversely, a programme devised only at national level and often explicitly aimed at avoiding interferences from multilateral financial institutions shall be defined as national.

These two types of programme may mark different phases of structural adjustment, as in Algeria. The choice between multilateral and national programmes is dependent upon the stringency of the external financial constraint and the economic structure of the country. Opposition to multilateral programmes is particularly strong in countries where the economic system is largely built upon socialist criteria; these countries adopt multilateral programmes only when the external financial constraint rules out all other alternatives.

Over the last decade, multilateral programmes slowly spread throughout the region: two countries (Morocco and Tunisia) have already completed their multilateral programmes, reaching external convertibility; two other countries (Egypt and Jordan) are presently engaged in the implementation of multilateral programmes and they will shortly reach external convertibility. Finally, Algeria, one of the two countries that had rejected multilateral structural adjustment, recently launched an IMF-supported programme.

Although to a different degree, for all Middle Eastern countries

unemployment is a major policy challange. At the moment, well over 10 million people are unemployed in the Arab region. Growing unemployment is the result of the serious malfunctioning of labour markets as well as the lack of a vigorous strategy of growth and development. If the Arab countries were to keep pace with the current rates of population growth and annual additions to the labour force, they would need to create employment and income-generating opportunities for 4 million people each year. The prospects for increased immigration are limited in the near future, and remittances are likely to fall as a share of GAP in the receiving countries. The only solution for the currently unemployed and for the future labour market entrants lies with the resumption of economic growth. The efficient mobilisation of workers' remittances within an export-oriented growth strategy seems crucial in this respect, in order to maximize the export-employment linkages within the national economy.

The gradual loss of workers' remittances constitutes another major policy challenge. The current situation is not likely to be sustainable in the future given this anticipated decline in the second half of the nineties as a result of the combined impact of: (a) the slowing down of demand for unskilled Arab migrant workers; (b) the replacement of Arab labour with Asian labour in the intermediate occupations; and (c) the fall of demand for all grades of migrant Arab labour due to recession in the labour-importing countries.

In the face of these challenges, a growth strategy centred around export-oriented activities represents an unavoidable choice to compensate for the gradual loss of foreign currency remittances. Employment in the formal business sector is expected to provide a greater contribution to aggregate employment and employment growth in future years, with the dramatic showdown of growth in public sector employment and the saturation and overcrowding of the urban informal sector. The ability of the private business sector to absorb labour while transforming its structures towards tradables will crucially depend on growth impulses stemming from the demand side (domestic or foreign), as well as on the success of the stabilization programs.

Prospects for structural economic reforms in the region will largely be determined by the external financial constraint and the stage reached by economic reforms. The future relevance of the external financial constraint depends on the stock of external debt, but also on the stock of flight capital. The latter is of particular importance in the region in question, as it has the highest ratio of flight capital to GDP (about 100 per cent) in the world. Improved economic performances and policies can provide incentives for the repatriation

of flight capital, thus relaxing the external constraint. This trend is already evident in Egypt; however, these capital inflows have until now been directed to portfolio investments rather than to the productive sector.

The current state of the external financial constraint and structural economic reforms can be assessed by considering: a) the stock of flight capital; b) the stock of external debt; c) the market assessment of country risk (according to external debt quotations on the secondary market).

Progress in structural reforms and a viable debt position determine **Tunisia**'s very good performance, notwithstanding the limited prospects for flight capital repatriation (according to the residual method, Tunisia's stock of flight capital is estimated at $2.5-3 billion).

Morocco's strength (progress in structural reforms, favourable market assessment) are **Egypt**'s weaknesses but the latter's debt position is favourable (while Morocco's debt burden is still heavy) and prospects for flight capital repatriation are very good (Egypt's stock of flight capital is estimated at $70-80 billion).

Three other Middle Eastern countries (**Algeria, Jordan and Syria**) are currently unable to meet external obligations. However, Jordan's prospect for flight capital repatriation are very good and its debt overhang is decreasing. Algeria's relative strength lies in its limited debt burden, but progress in structural reforms and capital repatriation is modest. Syria's massive stock of flight capital (which is estimated at $25 billion) offers favourable prospects, which are, however, limited by its modest progress in structural reforms.

The reputation of **Turkey** in the international financial markets has worsened since 1993, when the rating of the Turkish bonds diminished and the currency suffered a strong devaluation. The situation forced the Government to implement a programme of structural reforms supported by the IMF, which is proceeding at a slow pace as far as privatization is concerned.

In March 1995, the EU and Turkey signed an agreement for a customs union that should come into force in January 1996. This agreement is of great importance for the Turkish economy since the EU accounts for one half of its foreign trade. But the increase in competition stemming for the customs union will impose the restructuring of some industries, while macroeconomic stabilization will be crucial.

The trade surpluses experienced by **Iran** since 1993 have resulted in an improvement of the financial situation of the country, whose external debt has decreased by $ 2 billion in the last two years. On the other hand, debt service is

still very high, about $ 4 billion in 1996 and $ 5 billion in 1996 and in 1995 the latest bout of currency instability was exacerbated by the US decision to tighten unilateral economic sanctions. Also, structural reforms are being implemented very slowly, hindering investment, both national and foreign.

In 1994 and 1995, the government of **Saudi Arabia** took some measures to reduce the public deficit, considered the country's main macroeconomic issue. They are not expected, however, to improve the state budget significantly. The fundamental problem is to redefine the role of the state in the economy, opening some sectors to private investment.

3. Resource endowments and comparative advantages

Turning to structural aspects of the economies of the region, the main features of the distribution of comparative advantages can be summarized as follows:
a) The **oil exporters** of the Middle East show no evidence of a change in their export specialization pattern, which is focused on raw energy supplies and oil refining.
b) The comparative advantage of **Maghreb** countries mainly reflects their natural resources endowment, such as natural gas and phosphates. But a growing specialization in oil refining and traditional manufactured goods can be observed in this region.
c) The structure of **Israel**'s comparative advantage is unique within the Middle East, making it the most advanced economy in the region. The long-standing specialization in traditional goods and chemicals has recently been complemented by development of a competitive position in technology-intensive sectors.
d) Oil and oil-related products account for a relevant share of exports in **Egypt and Jordan**.

As mentioned above, the current accounts of the majority of Middle East countries relying on oil trade have worsened as a result of the declining trend in oil prices. The past decade has, in fact, been characterized by a growing external constraint on the economies of the oil exporters, with growing financial concerns even for traditional net creditors, such as Saudi Arabia and Kuwait (mainly due to the aftermath of the Gulf crisis). But the oil export share has been declining since the eighties. Traditional goods (e.g. Egyptian cotton) represent another important export item. Two other significant and dynamic export sectors are

chemicals and metal products.

However, a different picture must be drawn for **the more diversified economies of the region**. Israel and, to some extent, Morocco and Tunisia, have recorded a remarkable accumulation of resources from foreign trade, significantly improving their current account balance (both in absolute terms and as a percentage of GDP).It is important to stress the strong differences between Algeria, a typical commodity exporter, and Morocco and Tunisia, which show a comparatively more diversified export mix.

Israel is the only country with both a positive export performance and an expanding spectrum of its comparative advantage (already well rooted in manufactures) to technology-intensive sectors such as machinery and electronic products. Israel's overall performance on the world market is primarily due to manufactures exports rather than commodity shipments. The largest export share is in traditional goods (textiles-clothing and footwear, but also diamonds), in which the country has gained just less than one percentage point of the world market over the last two decades. Another relatively important share, given the size of the country, is held in chemicals, including rubber and plastics (around 0.5 percent of world total in 1992).

Electrical and electronic systems and machinery have been the two best performing sectors since the seventies. Over the past decade the shares in these high technology industries doubled. It remains an open question as to what extent such a remarkable export performance is due to sales of dual-use products (i.e. systems suitable for both civilian and military use), which represent spillovers from considerable military R&D expenditure. If military expenditures are gradually reduced as the peace process is strengthened, the military-oriented component of the country's electronic and mechanical industry could be severely damaged failing an appropriate restructuring and reorientation.

There is also evidence of a gradual process of despecialization in agriculture and food exports, while a growing specialization took place in metal products between 1970 and 1985, followed by a decline in the early nineties. In order for such a restructuring process to succeed, Israel had to renegotiate trade agreements with the EU, its main export outlet, especially as concerning full association to the IV EU Framework Programme in R&D; competition for EU tenders in communication; citrus fruits exports; expansion of textile exports. Negotiations have been sucessfully carried out with the signing in July 1995 of a new cooperation agreement in the framework of the new Euro-Mediterranenan Partnership.

The **geography of trade** shows that between 1970 and 1992, the external trade of each sub-group of Middle East countries was oriented mainly towards the EU, which is the largest commercial partner of all groups. The highly dynamic East Asian economies have become increasingly important for both the oil exporters (more than one-third of their exports went to Far Eastern countries in 1992) and Israel (particularly since the mid-eighties). NAFTA is an important source of imports in the region, and in the case of Israel, it is also as important as the EU as a destination of exports. Intra-area trade flows have played only a minor role (also due to political distortions), with the exception of the oil exporters (whose intra-area exchanges have grown remarkably during the past decade) and a smaller trading group - namely, Egypt and Jordan (which ship one-fifth of their total exports within the region).

The main export destination of the oil producing countries is the Far East (36 percent at the beginning of the nineties), which is also the second largest source of imports. The weight of the EU as an export destination fell markedly during the seventies and eighties, while the countries of the Maghreb as a whole represent the EU's second trading sub-group in the region after the Gulf, as the EU is their main trading partner and accounts for about two-thirds of the area's exports and imports. As far as **Egypt** is concerned, up to the 70's its trade policy was largely oriented towards planned economies and developing countries. Consequently it was only at the beginning of the eighties that the EU became the country's main trading partner. As mentioned, East Asia is another important trading partner, recording an impressive rise in its prominence during the eighties, both as a market for exports and a source for imports. The Middle East and North Africa region is the second biggest market for exports. Thus, Egypt and Jordan are the countries with the largest commitment to an intra-area market. It is worth recalling here that these countries have also pursued successful macroeconomic adjustment programs.

Thus, concerning the composition of exports, a clear distinction can be made between commodity exporters (Gulf countries: Syria, Libya, Egypt and Jordan) and exporters of manufactured goods (Israel and - to a lesser extent - the Maghreb). On the import side, capital goods (machinery) and traditional products represent the main items for oil exporters and the Maghreb countries; Egypt and Jordan import mainly foodstuff, and Israel, an industrialized country, imports mainly traditional goods and electric and electronic equipment. The **export performances** (share of world exports) of the countries of the region - with the exception of Israel - were very modest over the last decade, when oil exports fell

from 10 percent of total world exports in 1980 to around 3 percent in 1992. A sectoral breakdown shows that oil exporting countries (but the same largely applies to Egypt and Jordan) have lost market shares on the (shrinking) oil market and that they have not developed any new production specialization since 1970. The Maghreb countries have performed comparatively better than oil exporters (even though their total share was halved during the eighties), losing less in the energy sector and gaining trade shares in manufactures (i.e. traditional goods).

4. Financial flows

The fundamental importance of capital flows for greater economic development of the Middle East as well as greater economic cooperation and integration within this region has long been recognized. An important flow of capital, while not a sufficient condition in and of itself, is yet a necessary condition for the process of industrialization and development of any country. A faster pace of economic development in Middle East countries could, in turn, be expected to further facilitate cooperation and integration among them in fields such as trade and industry.

During the seventies and early eighties, the major integrating factor in the Middle East was capital flows. As a consequence of the soaring oil prices in 1973-74 and again in 1978-79, the oil-exporting countries of the region (the largest of which are Iraq, Iran, Kuwait, Libya, Qatar, Saudi Arabia and the United Arab Emirates - UAE) significantly increased their financial aid to other Arab countries, a peak being reached in 1980. Countries with the largest oil surpluses were in fact the most generous: Saudi Arabia, Kuwait, Qatar and the UAE.

At the same time, the huge increase in revenues befalling the oil exporting countries allowed them to embark on ambitious development plans in the petroleum industry and other areas. As their limited populations could not provide sufficient manpower, there were large increases in the number of migrant workers, a significant part of which came from the other Arab countries. The remittances of these Arab migrant workers thus became the other major form of regional capital flows, even surpassing official aid flows in some cases. Other forms of capital flows were also present: joint ventures, private inter-Arab bank loans, direct and portfolio investments, as well as some commercial credits. However, official development assistance and immigrant remittances far dominated other flows.

Notwithstanding the large surpluses in the oil-exporting Arab countries, only a limited share of total oil revenues ended up in the Arab region during the oil boom period. But even this small share represented a significant portion of the receiving countries' GDP in the period from 1974 to 1981. Furthermore, the effects of these surpluses on economic development in both the poorer Arab countries as well as in the oil-producing countries themselves are rather ambiguous, that is, the industrialization programs financed by oil revenues have fallen short of expectations.

These results have been explained with reference to the rentier mentality of the Gulf countries in their investment decisions: expectations of easy profits and little attention to long-term investment projects. But another explanation of the limited amount of capital flows to Arab countries from Arab oil-producers during the years of high oil prices, takes into consideration the structural obstacles to greater investment in the Arab countries: as in other underdeveloped countries, the inadequacy of physical and institutional infrastructure has discouraged capital flows into the poorer Arab countries.

Total aid flows from the rest of world have been several times larger than those within the region. While bilateral aid from the Arab countries to the region declined during the eighties, that of the industrialized countries, particularly gross disbursements has followed an upward trend (at least in nominal terms) up to the present.

Multilateral aid, both from international institutions and from the EU, shows a general upward trend as well, with exceptions for specific years. This source of aid is many times larger than multilateral aid granted by the Arab agencies; aid granted by the EU alone has exceeded that of all Arab agencies for most of the period.

During the course of the eighties, several countries of the Middle East and North Africa became heavily indebted, both in absolute terms and in terms of their GAP. These countries include: Algeria, Egypt, Jordan, Morocco, Syria, Tunisia and Turkey. The list has lengthened in more recent years, as Iran's debt continued to increase, and Saudi Arabia joined the group of indebted countries after the 1990-91 Gulf war. Over half of this debt is bilateral and held with official creditors. The general trend in the region is toward increasing debt. While the region as a whole is not as seriously indebted as others, the situations of the single countries could cause further difficulties and require rescheduling. This represents a serious obstacle to the success of the liberalization programs, while their solution represents a major goal of the programs themselves.

Of all the above countries, Algeria has suffered the most onerous debt charge in recent years, with debt servicing representing nearly 75 percent of its revenues from oil and gas sales, its only exports and the main source of its revenue. Morocco, in comparison, has a ratio of debt service to total exports of about one-third that of Algeria. In fact, in December 1993 Algeria concluded an agreement with IMF to restructure its debts in order to reduce its charge. More recently a rescheduling agreement was signed with its official creditors, and new financing by the IMF, the World Bank and the EU was obtained.

Egypt's debt had reached over $50 billion by the end of the eighties, with debt servicing accounting for approximately one-third of total exports. A large share of this debt was related to military expenditures, particularly *vis-à-vis* the US.

Among the oil-exporting countries, Iraq has the most serious financial situation as a result of eight years of war with Iran, followed by the 1990-91 Gulf war. The financial situation of Kuwait is different. The country is not facing a financial crisis and government expenditure could continue to grow at the present rate without major policy changes for the next five to ten years. There is, however, a general consensus that corrective measures are needed to reduce government deficits (19% of GAP in 1993). Unlike Kuwait, on the eve of the Gulf war, Saudi Arabia had begun borrowing externally. By 1992, Saudi Arabia's total debt outstanding had almost quadrupled with respect to 1988. However, Saudi Arabia is a very wealthy country and the amount of its debt remains quite manageable with respect to its GAP and export earnings.

We may conclude that while none of the OPEC Arab countries is currently facing a dramatic financial situation, the persistent problems related to lower oil revenues and current deficits will force their governments to make delicate choices, including some related to aid to other countries in the region. As a consequence, the region as a whole will have to count mainly on other sources of funds to finance development programs.

5. Energy

After a decade of crisis and with the consequences on financial flows discussed above, oil still represents the single basic resource on which the region as a whole can count for a development strategy, despite the major decline in the volume of nominal oil revenues.

Weakness in oil prices in the early nineties (after the Gulf crisis) is to a

large extent linked to the fact that the oil which is cheapest to produce is not marketed through vertically integrated structures. Vertically integrated companies have developed alternative sources of crude, which are generally more expensive to produce. Equity production maximizing behaviour frequently results in a preference for acquiring the producing country's share of the crude produced by the vertically integrated companies. Thus, non-integrated producers have to compete hard to keep selling large quantities of crude.

The post-1986 strategic behaviour of producing countries resulted, from a macroeconomic point of view, in more stable prices of oil and, from a macroeconomic point of view, in the beginning of **a new process of integration in the oil industry**. The current challenge is therefore to reintegrate the oil industry. Producing countries are now moving in the right direction, that is, towards reintegration, as they are unable to withstand competition from non-OPEC oil. The attempts of OPEC producers to reintegrate have been accepted by consumer countries, as it is very unlikely that OPEC countries will be able to achieve a quasi-monopolistic position. Since 1992, some producing countries have been developing a reintegration policy, acquiring two million barrels per day of refining capacity in Europe, America and the Far East. If we add imports and processing in the refineries of third parties, the presence of these countries in consumer markets totals over three million barrels per day, about six per cent of world consumption, slightly above ten per cent in both Europe and the US.

The main obstacle to integration is the very high entry barrier to downstream oil. Refining and distribution networks already exist practically everywhere, and it may not be that easy to find other bankrupt companies like the ones bought in the past by Kuwaitis, Saudis or Libyans. Thus, a new process of integration is envisaged, in which strategic movements will have to take place in both directions: crude-short companies gaining access upstream, and national companies acquiring assets downstream. This could happen in the next 3 to 5 years of relatively low prices. In conclusion, the virtuous interaction between macro and micro stability efforts could be the leading theme for future worldwide stability of the oil market. Primary importance will be given to joint ventures between oil multinationals and producing countries' companies for development of low cost reserves and efficient and high quality products and services in consuming countries. However, given the relatively long time required for restructuring of the oil industry in order to stabilize oil revenues in the Arab oil producing countries, it is unlikely in the medium term that these countries will,

as in the past, provide the major engine of integration in the region.

Oil revenues and investment projections for the next decade are moderately optimistic. Expert's consensus forecast projects oil prices revenues up to the year 2005 in line with present and foreseeable market conditions characterized by competition and the goal of producers to keep their market share. In this view, the Middle East will increase its share both in quantitative terms, due to production increase, and in unitarity terms, due quality mix increase (light crude and gas). As a result, area revenues, presently, totalling about 100 mln US $, will reach 160 mln in 2000 and 250 in 2005.In particular, countries with highest growth potential are Saudi Arabia and the Gulf countries, which could account for the largest share of production increase in 2005. As far as investment projections are concerned, given as estimate of potential world investment in exploration worth 180 billion US $ per year in the next decade, it is feasible for Middle East and North Africa and Europe to attract a share between 25 and 30%, or 45-60 bilion US $. Given an estimate of about 2200 billion US $ for the GNP combined of the three regions, this means about 2-3 % of their GNP.

Obviously, in order to materialize such flow of resources, an appropriate policy should be implemented. **The experience of the European Energy Charter** which is now in its implementation stage toward Eastern Europe, seems to be particularly interesting for North Africa and Middle East countries. The basic idea of this treaty is to achieve a design of behavioural norms and rules between all member countries, which would guarantee substantial equality in treatment for companies and profitability for their investments based on market rules. If the idea of extending this cooperation agreement to Middle East is considered in the framework of the new Euro-mediterranean Partnership presently being launched, North-South regionalism between the European Union and the Middle East will be substantially reinforced. In fact, the relative mix of European Community imports between oil and gas will probably shift in favour of the latter, given future trends in EC energy demand. It is in this basis that ia virtuous scenario of stable market relationship could develop, where European Community additional gas requirements will be satisfied still in a competitive framework by new emerging suppliers, from the New East (Middle East, Russia and other Caucasian and transcaucasian Republics) as well as from North Africa. At the same time, oil requirements will continue to be predominantly satisfied by the Middle East. This scenario has two implications; first it will improve the environmental situation in Europe and, second it will also leave more oil available worldwide to satisfy the emerging needs of developing countries.

CHAPTER FOUR
SECURITY IN THE MIDDLE EAST

1. General Trends

An extension of the traditional, mainly military notion of security is particularly applicable to the Middle East, where multiple internal and external threats converge on young, fractured states, often identified with their regimes.

First, security for Middle East and North African countries must be conventionally considered in terms of **territorial integrity and sanctity of national borders**. Military balances and disputed territories are the principal measures of (in)security at this level.

The second dimension of Middle East security addresses the state's capacity to exert sovereignty and sovereign control over policy within its territory. This is a political dimension of national security and refers to **regime security and civil order**. In these terms regime security is the security of government against pressures from society. At this level, the main sources of insecurity are to be found in the political factors considered in chapter 2. In addition, this chapter will consider the especially intimate connection between conflict and population factors existing in the Middle East: ethnic composition; demography and migration flows.

The third dimension of Middle East security is the structural security of states. This dimension refers to the **sustainability of the resource base** in relation to the pressures and demands of the population: if population, in conjunction with prevailing technologies, skills, and social adaptation techniques, places too much pressure on resources in excess of the prevailing resource base or the capacity to meet pressures, then the security of the state will be threatened. The extent and degree of strain depend on the population/resource balances and on the other potentials for internal dislocation. Some essential components of structural security in the Middle East are addressed in chapters 2 and 3, while this chapter stresses the sources of insecurity deriving from problems connected with some specific resources: water, oil, environment.

2. The Military Balance

In the Middle East, military asymmetries are strong, much stronger than they were in the East-West setting. In addition to the asymmetries in force levels, the geographical vulnerabilities are also very different. The absence of depth, and the proximity of population centers to enemy forces, is a key concern for Israel, Lebanon, Jordan and the small Gulf states. Other countries, such as Egypt, Syria and Saudi Arabia can point to specific elements of their geography that pose acute vulnerabilities, such as the Nile River, the Golan Heights and the Strait of Hormuz.

Most Middle East countries are very exposed to attack both by accurate conventional munitions and by weapons of mass destruction. During the Gulf war, it took a few smart munitions to cripple Iraq's utility system. The infrastructure of the Gulf, in particular the oil facilities and the water supply, could be quickly destroyed by such weapons. The Israeli economy was temporarily paralysed by small numbers of rudimentary Iraqi Scud missiles. In most Middle Eastern countries, the government elites are concentrated in one, at most two, vulnerable cities.

The regional hegemon - Israel - enjoys technological superiority and an (undeclared) nuclear monopoly. At the same time it lacks strategic depth, is numerically inferior, has had to reckon with hostile coalitions of various kinds and has consequently developed a strategy based on military pre-emption. While Israel's military hegemony has been enhanced after the Gulf wars, the Arab-Israeli peace process has made the parties appear less threatening to each other. Israel is now willing to assume greater risks in order to achieve peace with its neighbours. The same goes for Palestinians and Arabs. However precarious the situation may have become in many other ways, the fear of surprise attack has been alleviated.

There has been a distinct tendency towards arms racing after every major war in the Middle East. The Gulf war of 1990-91 was no exception. But the upswing in the import of arms has been modest this time, tempered by low oil prices and financial constraints. Table 1 shows the imports of major conventional weapons in the 1988-94 period. The much emphasized increase in arms purchases after the Gulf war shows up in the 1993 figures, the largest total since 1988. Those in a position to buy are the oil-producing countries, essentially the members of the Gulf Cooperation Council and Iran, and those receiving US assistance, that is, Israel and Egypt. With $2 billion in Gulf war compensations,

Syria has also increased its imports somewhat.

Since the Gulf war, a divide has emerged in the Middle East between countries whose military security is directly or indirectly supported by Western countries through military assistance and arms transfers and the others. On the latter side of the divide are Libya, Iraq, Yemen, Sudan, and Iran. Jordan is once again on the "preferential" side: after its 1994 peace agreement with Israel, Jordan got most of its debt to the United States written off, and the US pledged to assist in modernizing its armed forces.

The military expenditure figures show more or less the same trends as arms imports. After a steady decline from 1983 to 1989 - at an average of 8 percent a year, driven largely by Saudi Arabian reductions - the Gulf war reversed this trend in 1990-92, mainly as a result of major Saudi and Kuwaiti increases. Widespread reductions in 1993 caused the overall Middle East trend to resume its decline. The size of armed forces have varied in synchronous fashion, but to a smaller extent.

The relative percentages of military expenditure as a part of GAP and the states' budgets are still high. In many countries there is a growing awareness of the economic impact of high military spending, and a corresponding interest in other, cheaper ways of providing security. The change in attitude is also related to the shift in threat perceptions from external to internal concerns noted in chapter 2. This is now influencing debates both in Arab countries and in Israel, and is pointing towards the need for conflict resolution.

In connection with the structural vulnerability of most Middle East countries, ballistic missiles are often singled out for special attention, because the accuracies of the Middle East inventories tend to be so low that without a weapon of mass destruction, they do not make military sense. The missile technology control regime (MTCR) tries to prevent transfers of missiles with a range above 300 km. But many population centers are much closer to the borders than that. Thus, the UN Security Council resolution 687 on the ceasefire with Iraq demands the elimination of all missiles with a range of over 150 km from Iraqi territory. Table 2 shows the inventories of surface-to-surface missiles in the Middle East.

In the absence of more effective arms control regimes, these inventories can only be expected to grow. They represent high value, time urgent targets that can cause great damage unless promptly destroyed. To reduce the incentives for surprise (pre-emptive) attack, particularly in times of crisis, these are the prime targets to be cut back upon.

The UN Security Council 687 cease-fire resolution explicitly links the disarmament of Iraq to the establishment of a zone free of weapons of mass destruction in the Middle East. When the disarmament provisions will be fully implemented in Iraq and the sanctions lifted, the time will have come to address the zonal proposition in a more ambitious manner.

Stabilizing the military balance in the Middle East requires concurrent progress along two tracks: the political track, presently mainly represented by the Arab-Israeli peace process; and the arms control track, presently represented by the regional application of global regimes (Non Proliferation Treaty; Chemical Weapons Convention, etc.) and by the multilateral talks on Arms Control and Regional Security (ACRS) in the framework of the peace process.

Confidence-building measures and multilateral institutions for collective security are also needed to form a web of connections between the two. Peace agreements are essential, but in isolation they permit the persistence of fears that unduly large military establishment could again become grave threats; this is especially true of Iran which is not part of the Middle East peace process. Arms control agreements are important, but unless flanked by other measures, they could co-exist with rhetorical antagonism and could even be mere covers for a renewal of hostilities. Taken together, these three tracks could reinforce and validate each other also in solving disputes across borders, or about boundaries and resources which have become more prominent recently.

3. Disputes over Boundaries and Resources

The Middle East region is currently facing an estimated nineteen land boundary disputes, seven maritime delimitation disputes, eleven resource access disputes and four communication access disputes. This is the bitter legacy of the artificial creation during the colonial period of most national boundaries in the Middle East. In the Appendix, **synopsis A summarizes the existing disputes**: their location, status and potential for conflict; in the synopsis disputes are defined as dormant when they have been settled on a juridical basis which is or can be challenged, settled when there is a now unchallenged juridical agreement regulating them, active when juridical settlement is lacking or in progress. The synopsis shows how all major actual or potential disputes involve non-Arab states confronting Arab states. Also, it will be noted that many disputes about boundaries and territories are in fact disputes about access to resources.

The most pressing resource problem in the Middle East concerns the

ownership, management and use of **scarce water**. In effect, over 50 percent of the population of the Middle East depends on either water from rivers that cross an international boundary before reaching them or upon desalinated water and water drawn from deep wells. Water scarcity is aggravated by climatic variations and agricultural degradation resulting from overgrazing, soil erosion, desertification, and over-irrigation; finally, water scarcity is increased by environmental degradation from oil exploitation, industrialization, population growth and increasing urbanization.

The Middle East has two principal sources of fresh water: the aquifers below the deserts, and the three major river systems of the Nile, the Jordan and the Tigris-Euphrates. But water from the aquifers is a nonrenewable resource and will last estimatedly for another 30-60 years only, the major river systems are all subject to severe ownership and use disputes between their respective riparians.

Water disputes and management are presently the object of negotiations in both the bilateral and multilateral tracks of the Middle East peace process. Besides the general political problems affecting the peace process, however, most Middle Eastern states seem too weak at present to cope efficiently with the disruption caused by environmental problems and especially water scarcity.

The other strategic resource that is source of disputes in the Middle East is obviously **oil**: as noted in synopsis A, many ongoing boundary disputes are in fact over the ownership or rights to joint exploitation of land or maritime oil fields. Another fundamental set of oil-related disputes concerns the transport of crude oil. Oil transit weighs heavily on Iraq's unabated search for a larger waterfront on the Gulf and the different routes prospected for the pipelines that are to transport oil from Caucasian and Central Asian oilfields are presently at the center of dramatic power struggles.

4. Population Factors (Ethnicity and Migration)

The Middle East is a region in which the very fabric of political contentions, conflict, and violence is shaped by population factors and by the movement of people. Central to both the politics and the economics – hence to the security of states – are the diversity of populations within national boundaries and the movement of populations across these same boundaries.

Ethnic fragmentation: With the broadest definition of "ethnicity" referring to contiguous or co-existing groups differing in race, religion, sect, language, culture or national origin, the Middle East is one of the more ethnically heterogeneous

areas in the world today. Even the Arab world, apparently the most cohesive part of the region, is characterized by marked ethnic diversity as shown in Table 3.

Ethnic diversity is a source of instability and conflict everywhere in the region, but particularly in a number of countries in which it reaches the level of fragmentation. We observe marked ethnic heterogeneities in nine Arab countries - Sudan, Lebanon, Iraq, Syria, Algeria, Morocco, Mauritania, Bahrain, and Yemen. In these nine countries, as much as 35 percent or more of the population differs from the Arab Muslim Sunni Caucasian majority in one or more of the four ethnic variables (language, religion, sect or race). In all nine countries, there has been some overt form of ethnic tension, while in four of them - Sudan, Iraq, Lebanon, and Yemen - such tensions have flared up in recent decades into an protracted armed conflict. The unity and territorial integrity of each has been seriously threatened. Also the three countries of the non-Arab Middle East - Iran, Turkey and Israel - are very ethnically heterogeneous. Turkey has been facing the political separatism and armed insurgency of its Kurdish minority for years and is now witnessing tensions between the secularized Alevi minority and the local Islamists. Iran's peripheral Sunni minorities (10 percent of population: Baluchis, Arabs, Turkomen and Kurds)) are increasingly restive to control from Tehran, while the activities of its Kurdish and Azeri minorities condition Iran's relations with its immediate neighbours. In Israel, besides well known problems with the Arab minority, domestic policies are in fact the result of the balance between the different ethnic components, namely between the Ashkenazi (Jews of European origin) and the others.

Ethnic diversity and especially ethnic fragmentation complicate the Middle East countries' security equation in many interrelated ways. They increase states' vulnerability to external factors: when a foreign power acts as the patron of a country's ethnic minority or when a local minority extends its activities or claims over a foreign territory. They deepen domestic political tensions with their demands for socio-economic equality and cultural diversity.

Although accounting for only 8 percent of the world population, the Arab Middle East has been the scene of some 25 percent of the world's armed conflicts since 1945. Most of these conflicts have been ethnically-based. Table 4 shows the balance of inter-state and inter-ethnic armed conflicts in the region in terms of human and material cost. Today, old grievances inherited from the colonial definition of national boundaries, and population displacement as the consequence of war are increasingly coupled to pressures for political liberalism, calling for fairer treatment for ethnic minorities.

Migration: There are different types of international population movements in and from the Middle East: migration for employment (legal and non-legal), displacements due to conflict, and migration for permanent settlement; all types generate implications for the different levels of security discussed above. Mobility of people across borders - for whatever reason - by definition shifts the population-resource-technology balance, as the skills of people influence prevailing levels of technology, and as size and other demographic factors affect patterns of resource utilization. In many cases, migration acts as a multiplier, aggravating existing patterns of hostilities and intensifying political disputes. In such instances the mere presence of foreign, migrant, or refugee populations provides the logic and rationale for the conflict. Invariably the social order will be disturbed, and social conditions after the movement of people may assume new dimensions.

The seventies and eighties were decades of remarkable population movements in the Middle East, with large-scale migration for employment across national borders. The early nineties witnessed new refugeeism in conjunction with added patterns of return migration. The phases, nature and size of economically motivated migration within the Middle East since 1948 are illustrated in Table 5, while the size of population movements due to inter-state and intra-state conflicts in the same period are shown in Table 4 mentioned above.

The sheer magnitude of the numbers involved testifies that the majority of Middle East people has been directly or indirectly involved in these huge migration flows, which have significantly shaped and are still shaping the political, economic and security landscape of the entire region. For instance: the orientation and spread of today's Islamism in North Africa can be attributed to the influx of Egyptian and Jordanian teachers in the sixties; the state apparatus of the oil-producing countries is staffed and shaped by guest workers; the returning migrants in labor exporting countries (such as Egypt and Jordan) are at the forefront of popular demands for political and economic liberalization. Moreover, management of migration flows, above all from North Africa, is the core concern of European Union policies towards the region.

CHAPTER FIVE
INTERNATIONAL INTERESTS AND POLICIES TOWARDS THE MIDDLE EAST

1. The United States

Within the reshuffling taking place in American foreign policy and national security priorities after the end of the Cold War, the MENA areas, particularly the Middle East and the Persian Gulf, still hold a prominent place. The US diplomacy is duly and effectively leading the negotiations between Israel and the Arab neighbouring countries, both on the bilateral and the multilateral side. Aid to Israel and Egypt has been maintained. The dual containment doctrine continues to be applied to Iran and Iraq and, despite the current administration's preference for non-military tools and the US's objective financial problems, the Clinton administration promoted a limited military intervention against Iraq in 1993. Unlike the Balkans, the US administration considers stability in the Middle East and Persian Gulf as a global interest worth its attention and direct intervention.

The global relevance of these two areas stems, above all, from the persistence of the longstanding US commitment to Israel's survival (by securing a peaceful cohabitation in the region) and to oil price stability. Another firm and major global issue concerns proliferation of weapons of mass destruction. Though proliferation goes beyond the MENA area, there is no doubt that this area plays a special and prominent role with respect to the future of anti-proliferation efforts and policies pursued by the US. Another reason for which the MENA region maintains a global meaning for the US is the political evolution in Central Asia and Caucasus. Caught between Russia and the MENA regions, Central Asia and the Caucasus may present the US with difficult trade-offs between stability in Russia and in the MENA regions and convey tensions in what remains of the global relationship between the US and the Soviet Union's heirs.

There is no doubt that solving the Arab-Israeli conflict, protecting oil sources, preventing proliferation, and avoiding that destabilization in Russia's Muslim neighbours negatively affects the political evolution in Moscow continue to be interests the US is pursuing as a consequence of the global character of its national security, but one can only wonder how and to what extent the implementation of these global interests will be influenced by the compelling economic limits on US power already recognized by the Clinton administration.

One also wonders whether US interest in the MENA area will survive the possible advent of a Republican administration predicating its foreign policy on the isolationist trends espoused by the present Republican majority in Congress.

In any case, the way in which the US is trying to retain its role as the sole superpower while reducing its burden will affect to the quality of its commitments in the MENA region, as persistent as they may be. In order to reduce burdens while remaining a superpower, the US began under the Clinton administration by betting on regionalism and devolution, both in a framework of enhanced multilateralism.

But the combination of multilateralism and devolution based on an expanded political and military role of the EU, Japan and the United Nations proved a failure, or so it has been perceived in the US after the events in Bosnia as well as in Somalia. After these failures, the administration's foreign policy is proceeding empirically, amidst oscillations and short-term adjustments. If burdens cannot be redistributed, the superpower will have to shoulder them itself, but if it is too indebted and too domestically weak to act, it will be compelled to further reduce its global commitments. Today, this tendency is already at work and can be described as an eroding continuity in the US global commitment towards the MENA area.

2. Western Europe

Unlike the US and Japan, Western European countries and their expanding European Union (EU) are geographically close and culturally intertwined with MENA areas; proximity makes the crucial difference. The EU shares oil concerns with Japan and the US and, because of its transAtlantic ties, tends to be more directly involved than Japan in US global concerns, but there is a range of important factors in the MENA regions which affects European security and interests only. The issues that singularize Western Europe's relations with the MENA regions are the imbalance of the economic relations between the MENA countries and the EU, the migration flows from the MENA to the EU and the cultural, political, and security problems associated with them.

As important as Japan and the US markets are for the MENA countries, they cannot compare with the overwhelming role played by the EU in MENA countries' trade (see Tables 6 and 7). In fact, the EU represents a share of about 65 percent of North Africa's total trade, a share of about 40 percent in the Levant's

and one of about 25 percent in that of the Persian Gulf (only Japan manages to compete with the EU in the Persian Gulf area, as it represents a share of about 18 percent in the Persian Gulf's total trade). But unlike the reciprocity that is growing between the US and Japan and their regional neighbours, the MENA regions are of very little trading value for the EU. In fact, for the EU (at Twelve) the Arab Maghreb Union area is only worth about 1.5 percent of its total trade, the Levant about 1 percent and the Persian Gulf area about 2 percent. The lack of North-South economic integration between the EU and the MENA regions is even more blatant if financial flows are taken into consideration: total private investments and official aid going from the EU to the MENA regions are less important for the EU than those going to Latin America, Asia and (for aid only) sub-Saharan Africa, and the EU total official flows to the MENA countries is half of that of the US.

Considering the overall relationship between trade and financial flows, it appears that the US and Japan have far more balanced economic relations with their respective regional partners in Asia and Latin America than the EU countries have with their MENA partners. Ironically, this imbalance persists after almost 25 years of Mediterranean economic cooperation and, all justifications notwithstanding, does not speak in favour of the quality of such cooperation. However, an effort is presently being made to establish conditions for developing a stronger and better balanced regional relationship between the EU and the MENA regions: in October 1994, the European Commission launched a new EU Mediterranean initiative labelled the "Euro-Mediterranean Partnership", based on aid, trade, and technical and political cooperation, and aimed at progressively establishing, with the support of EU financial aid, a free trade zone by the year 2010. The content and mechanisms of the technical and political cooperation in the European-Mediterranean partnership will be defined at a conference that will convene the foreign ministers of the countries concerned in November of 1995.

There are varying dimensions to European perceptions of movements of people across the Mediterranean sea. The most evident and important is the immigration of people for economic reasons. Immigrants now number in the millions with two important concentrations in France (from the Maghreb), and in Germany (from Turkey). The demographic increase in the Near East and the Maghreb, which is expected to equalize populations on the two sides of the Mediterranean Sea in the next few decades, is something of which European opinion is now largely aware and which intensifies even beyond reality the European perception of exposure to and possible threat of invasion by people

from regions south of Western Europe.

Governments and peoples also fear that new waves of refugees, after those generated by the war in the Lebanon and the Islamic revolution in Iran in the eighties and the current wars in the former Yugoslavia and problems in Albania could result from the spreading and mounting instability in the two arcs of crises which surround Europe on the east and the south. Cultural tensions or conflicts which might arise from the establishment of Islamic regimes in the MENA areas could bring about flows of refugees to Europe. Opinions differ as to the actual importance of these refugee flows, but there is nevertheless concern and much nervousness.

Whatever the extent of the future influx of peoples to Western Europe from the southern and eastern shores of the Mediterranean Sea, the not negligible numbers of legal and illegal residents tend to behave and perceive themselves increasingly as members of communities with an identity to be asserted or opposed to that of the host societies. Western European societies are providing varying responses to this challenge and showing different degrees of flexibility. All in all, Western Europe did not expect and is not ready to accept and manage such a cultural and human entanglement, even though it is largely irreversible. Indeed, a majority of Europeans hesitate to realize that this unexpected development cannot be reversed. As a consequence, both the governments and the EU have no agenda and continue to provide weak and irregular policy responses. The most serious risk being run by the Europeans is not that their policies tend to be restrictive and generally shortsighted, but that they are proving unable to introduce a clear-cut and common policy towards peoples relentlessly moving for different motives to Europe from Muslim countries.

It is this entanglement and Europe's inability to respond to it with determination that eventually makes Europe so shy and irresolute towards politico-social change in the Arab countries, particularly towards the rise of Islamism. Fears of terrorism are a legitimate - but not the most important - part of this European predicament. Another important factor is the deep uncertainty about how Europe should deal with diversity, an uncertainty reinforced by the broadly secular post-modernist trends prevailing in Western societies today. But the most important factor is that migration creates a North-South entanglement in Europe itself which does not allow for neutrality or detachment. Were the Mediterranean Arab-Muslim world felt to be more distant and distinct from Europe, decisions and evaluations with respect to the current political struggle between old nationalist regimes and Islamist movements in the MENA regions

could be guided by international realism only and would be less agonizing.

In conclusion, it is evident that there is little consistency between Western Europe's economic, political and security ties with the MENA countries and the requirements and opportunities deriving from its proximity to them. Overcoming these inconsistencies and generating a more balanced North-South regionalism will depend mainly on the evolution of European integration and on the future of trans-Atlantic ties with the US, but will be deeply influenced by political and economic developments in the MENA regions favouring regional cooperation.

3. Japan

Japan' relations with the MENA countries are characterized by geographical and political remoteness and are shaped almost entirely by the importance of oil imports from the region (about 77 percent of total) and the alliance with the US. Consequently, the Japanese government, within the framework of an overall low-profile foreign policy, has never felt the need to develop particularly engaging policies towards the MENA regions. Japan recognized the state of Israel and has based its position with respect to the Middle East conflict on the 1967 UN Resolution 242, but has avoided entering into details and becoming embroiled in regional politics.

Thus, Japan's diplomacy towards the Middle East has been designed to accommodate two sometimes conflicting political necessities - to maintain a good relationship with the United States on the one hand, and to avoid being targeted by the Arabs as a non-friendly nation, let alone a potential enemy, on the other. One can discern two different periods in Japanese Middle Eastern policy. The first period, ranging from 1973 through the mid-eighties, was prevailingly dominated by oil vulnerability, in which the dramatic transformation of Japan's productive structures brought about an equally dramatic reduction in oil imports (oil shares in total import were halved). In the subsequent period, Middle East policy has mostly been dictated by the strategic relation with the US and the necessity to counter American and European criticism about Japanese neo-mercantilism and the country's uncooperative role in the international economy. It is in this context that Japan started a new policy framing bilateral relations with the Middle Eastern countries in a sub-regional approach targeting the Gulf and Levant countries differently. In 1986, a program of expanded international transfers was launched and in June 1993 a further five-year program disbursing about US$ 120-125 undertaken. Japan also contributed US$ 13 billion and other important financial transfers during the 1990-91 Gulf war.

In 1993, Japan restored aid to Iran and accepted to reschedule its debt bilaterally; in spite of US pressures to the contrary, Japan - together with Western Europe - maintains that an effort must be made to avoid aggravating Iran's international isolation. Finally, Japan has recently agreed to send a small military unit to the Golan Heights, in the framework of its contribution to the peace process in the Near East region. Although significant, this last move is symbolic and, while Germany is beginning to move towards assuming some international

military responsibility, Japan is still far away from taking such a step. Its contribution to Middle East stability will continue to be economic and financial and to rely on the US with regard to security and foreign policy.

Although the tendency is one of continuity in Japan's interests and policies towards the MENA area, there are some signs of slow change and greater involvement also in the political sphere. Some Arab intellectuals and politicians are showing a growing interest, particularly in Egypt, towards Asian models and experiences of political development and regional economic cooperation, considered as a potentially viable alternative to the prevailing Western and namely American models. This interest could provide a basis also for an enlarged Japanese cultural role in the region.

4. Russia

There is no doubt that Russia is presently too weak and self-absorbed to be much more than a shadow of the former Soviet Union for much of the coming decade. Thus the situation is completely different from that of the past, when the Middle East was an important, though not vital, Soviet strategic theatre of military intervention.

Russia nevertheless maintains some of its relations with the Middle East countries, and retains some influence on them. In particular, it is active in the neighbouring Gulf region, where it is trying to support its natural economic interests, but is also suspected of carrying out policies which may lead to nuclear proliferation in Iran.

With the dissolution of the Soviet Union, Russia's strategic role in the old Middle East region has been dwarfed, while that of the US is increasing. But Russia is finding new and more precise national and vital interests in the post-Cold War Middle East, that is, the area which in strategic terms now includes the Caucasus and Central Asia and which forms an important part of Russia's security belt or "near abroad". Besides the military intervention in Chechnya, Russia has played a very skilful game from 1992-95 in reasserting its voice in these states using some fairly rough political tactics - sometimes including not-so-hidden support for separatist ethnic groups (in Georgia), support to military forces (in Armenia and Azerbaijan), fomenting a coup against nationalist leader Elchibey and attempted coups against his successor Haydar Aliev. In this situation, the strategic relevance of possible Gulf and Middle Eastern crises increases for both the US and Russia (and, therefore, for the world).

The leaderships of the newly independent Caucasian and Central Asian republics seem willing to consolidate their countries' independence by preserving strong links with the Russia Federation within the CIS (Commonwealth of Independent States). However, the current state of warfare in Tajikistan testifies to an Islamist opposition to this political course. Moreover, there is a widely shared feeling in the Middle East, even by non-Islamist opinion, that independence in the new Central Asian republics has to be attained outside of Russian influence. Public and government reactions in the MENA region to events affecting the Muslim population in Chechnya have also shown that the Russian "near abroad" is regarded by MENA countries as part of their world and that events there have an impact on their security perceptions (not unlike Bosnia).

At the same time, Turkey and Pakistan, normally considered relatively marginal to the Middle East balance of power, are playing a greater strategic role in the evolution of the Caucasus and Central Asia. Turkey does not have anywhere near the same resources or abilities to play the Caucasian game as an equal to Russia. Nor does it wish to directly challenge Russia in this way. While Turkey has immense sympathies for the welfare and aspirations of the Chechens (of whom there is a sizeable community in Turkey), Ankara also fears that if it supports any ethnic separatism among the peoples of Russia, Moscow could in turn support separatist aspirations among Turkey's Kurds - and indeed Moscow has made it quite clear that it could play that card by tolerating public PKK conferences in Moscow.

The Caucasus has also gained importance for Russia as the center of new "pipeline geopolitics". With the discovery of major new oil and gas finds in Central Asia and the Caspian Sea area, Azerbaijan in particular has become the nexus of new oil politics: what territory will the new oil and gas pipelines traverse? Russia seeks to maintain a monopoly of these lines by having them pass through Russian territory; alternatives include transiting Iran and Turkey, or parts of the Caucasus and Turkey. Russia has taken a hard line on the development of Caspian oil and possible pipeline routes that place it to some extent in collision with Turkish and Iranian interests.

Russia rivals Turkey not only in the Caucasus but also in Central Asia. But Russia obviously has far more strength at present for exerting or even imposing its influence in Central Asia. The republics need financial and economic ties with Russia as their own economies are not yet able to compete on the international market, except in the sale of energy and perhaps a few minerals such as gold. The largely neo-communist leaderships throughout the area (Kyrghyzstan's Askar

Akaev being a significant exception) also have a predisposition to deal with Moscow, since Moscow tacitly - and often more than tacitly - accepts the current leaderships and supports them. While almost none of these leaderships will accept dictates from Moscow, they are all more comfortable in the political environment of the ex-Soviet Union (or the CIS) than they would be in a more open and democratic Western order.

Yet over time, the present leaderships of the Central Asian republics are likely to be challenged by more nationalist leaders who wish to distance themselves further from Moscow's influence. Over time too, the intercourse between the Central Asian republics and the outside world will grow - with China, East Asia, India, Pakistan, Iran, Turkey, Western Europe, the Arab world, and the US - proportionately reducing the Russian share of economic ties. Russia may even remain the dominant trading partner, but much of this will depend on how attractive it is as an economy and as a trading partner - and there is still much doubt about that.

As a result of old ties (as with the Soviet trained part of the military elites in the Arab countries), economic interests, the remaining global value of its foreign policy, and the need to control its Muslim periphery, Russia remains an important player in the Middle East. However, its interests there are now more confined and nationalistic, and its present and foreseeable role in the region is more that of an internal competitor than of an external balancer.

CHAPTER SIX
EMERGING TRENDS

1. Economics

Given the current situation and the still uncertain peace prospects, two factors dominate regional economics: i) the uneven development of adjustment programmes undertaken at the national level; ii) different trends towards regional cooperation in trade.

Therefore, at the heart of the economic debate in the Arab region today there is the advisability of regional and sub-regional arrangements involving Israel in a post-peace settlement era, notably a Middle Eastern Free Trade Area (FTA). In the Middle East context, the challenge lies in how to handle contradictions and how to shape potential regional arrangements so as to be supportive of a sustainable peace process, consistent with the full respect of the free will and aspirations of the peoples of the region. Various documents and studies have emphasized the formation of Free Trade Area in the Arab East.

As has been clearly established at both the theoretical and empirical levels, static gains from closer regional cooperation and integration are secondary to the dynamic ones, so that gains from integration should be expected only over the medium to long run. On the other hand, the dominant impulse for many Arab countries would be to compete on world markets in order to attract capital and modern technology rather than to derive benefits from free trade. In this perspective, if the Arab countries do not reinforce their economies before the integration process starts, foreign investment could act as a powerful instrument in reinforcing the "hegemonic dominance" of Israel within the proposed FTA.

On the other hand, the trade potential between Israel and the Arab countries is limited by a number of factors. First, the basic economic characteristics of Israel and the Arab countries are dramatically different. GAP and per capita income are 10-20 times higher in Israel, therefore only limited demand could materialize in the Arab countries for Israeli goods. Secondly, there is a limited similarity between the Arab countries' export and Israel's import structures. Thirdly, in the short and medium term it is likely that uncertainties concerning the peace process will impede the development of trade relationships.

Assessments of the trade potential between Israel and the Arab countries vary from $0.5 to $3 billion, which includes oil. Trade with Arab countries is

expected to be 2-13% of Israel's exports. Even the most optimistic approach does not predict a dramatic change in the composition of Israeli exports. Alternately, growth of exports from the Arab countries to Israel is expected to be more significant. An analysis of the trade potential between the Arab countries and Israel suggest that exports from the latter to the former may be 10-20 percent of their total exports. Egypt serves as an example of this possibility. Whereas Israel export 0.2 percent of its total exports to Egypt, its imports account for 6 percent of Egypt's total exports.

The different cultural, political and economic backgrounds of each of the Arab countries result in major differences concerning their trade potential with Israel. The Israeli-Palestinian trade relationship is likely to continue to be characterized by dependency, with manpower as the major export item from the West Bank and Gaza, and goods from Israel. The trade potential between Israel and Jordan is low; this is both because the Israeli demand for Jordanian products is limited as a result of competition with local products and because the Jordanian markets for Israeli products are extremely small. Trade relations with Egypt are likely to expand in the future, particularly because the continuing peace process will enable an expansion of oil imports by Israel. In addition, imports of natural gas are likely to grow. The Gulf countries are expected to increase trade relations with Israel, despite the potential competition between the Gulf countries and Egypt, since main exports will probably include oil, oil products and natural gas. Imports from Israel to the Gulf countries are expected to include mainly high-tech products and medicine.

Regional economic cooperation could be more beneficial in areas other than trade. In the longer term, an effective solution to the unemployment problem will have to be conceived within the framework of regional cooperation. Also, as macroeconomic stability must be obtained to reap the benefits of integration, an improvement in policy coherence and coordination among countries of the region is required. These coordination and policy coherence efforts should be aimed at controlling and harmonising debt and deficit levels by adopting broadly-agreed fiscal rules. Gains from macro policy coordination could pave the way for much closer cooperation and integration in investment and growth policies.

Then, there are administrative, efficiency and transaction cost savings to be considered. Furthermore, where scale economies arise in the provision of goods and services, as in the case of infrastructures, substantial gains can be expected from regional co-operation. Even more so since such gains can only be procured by regional, as opposed to 'global' co-operation. Cases in point can be found in

the area of telecommunications, water supply, and energy.

Given the benefits of regional cooperation, it remains to be assessed the crucial issue of what form this regional integration should assume in the area. In this regard it seems more convenient to opt in favour of limited regional arrangements, or 'ad hoc co-operation', rather than to multipurpose arrangements centred on a continuing institutional basis. The main reason why is the possibility of an effective management of the distribution of benefits and costs associated with regional agreements, and especially with those related to infrastructures. Western aid will play a very important role in the initial phase of regional cooperation in the Middle East. One major reason is the fact that the nature of the transition process toward new sources of accumulation and growth will be characterised by high initial costs and deferred benefits, thus requiring effective transitional device.

As a result of the factors considered so far, it emerges that a long period of confidence-building is required to eliminate the roots of decades of intense conflict, rather than envisaging a fast transition to regional integration. A gradual and cautious approach to regional economic cooperation in the Middle East is likely to yield more tangible and irreversible results, and would ultimately enhance the process of development, democracy and stability in the region. Because of the fears of years of dominance by Israel under any FTA, there is an urgent need for schemes involving a greater degree of economic cooperation and integration among subgroups of Middle Eastern countries along with to region-wide integration schemes including Israel. Such an approach would lead to a deepening of economic relations and harmonization of macroeconomic policies among Arab countries. There is no reason to believe that past failures in the field of inter-Arab economic cooperation and integration must predetermine the failure of future attempts in this respect.

2. Politics

Two political factors dominate Middle East politics today: the pressures for political reform that are shaking the majority of governments and political systems in the region, and the effects of the Arab-Israeli peace process in the shaping a new Middle East regional system.

The evidence of a widespread political malaise in the Middle East is striking. Even compared to the rest of the developing world, the Middle East presents a dramatic picture of rapidly growing popular demands, and political

systems and elites increasingly unable to meet them. Living conditions for the lower and middle classes are not improving, and, given the rates of urbanization, the marked deterioration in public services will only accelerate. Abuses of government power - corruption and nepotism, torture and mistreatment of prisoners - are increasingly common complaints, and government ineptitude, unresponsiveness and inefficiency fuel anger and frustration.

The Islamist movements have been most vehement in calling for change, but articulate secular voices of political reform are growing in volume as well. If it is fair to anticipate that the pressures for reform, if left unattended, are only likely to grow, then the central question becomes: can the present regimes avoid reform? The logic of political survival points clearly to renovation not to business as usual.

As pointed out in chapter 2, since the mid-seventies the general evolution of socio-economic and political factors in the region has converged in creating pressures for more liberal and participatory political systems. Regional governments have responded to these pressures with a set of political reforms introducing measures of relative democratization which are different in content and pace in each country. These reform efforts have suffered severe setbacks in several countries (most noticeably Iran, Turkey, Algeria and Egypt), but have also created a demonstration effect and reflect a process of socio-cultural modernization that can be temporarily frozen, not stopped. The prevailing direction of political change in the Middle East is towards more liberal and participatory political systems.

Obviously, Western style democracy is not the necessary outcome of political reform in the Middle East, but democracy, although variously interpreted by the different political currents, is definitely at the center of the unfolding political debates and struggles. In any case, political liberalism will act as an integrative factor in the Middle East only if a new cultural synthesis develop between Western style democratic principles and practices, on the one hand, and local political ideologies and practices on the other. Political reform will not, however, simply 'happen'; it must coincide with the creation of new patterns of political alliance both within states and between them. This requires a gradual process of change, not a rapid one.

Civilian governments pursuing reform logically tend to promote regional cooperation in order to reduce the engorgement of their security establishments, but this is a risky business unless there is a prevailingly supportive environment. The prospect of reform in a neighbouring state may well prompt active efforts to

impede or reverse the reform by its authoritarian neighbours. The role played by Saudi Arabia in the recent Yemen crisis is instructive in this regard. As noted in the section on economics above, there is in fact a two-way link between the prospects for successful domestic political reform and the prospects for regional cooperation.

Middle Eastern political attitudes are still very divided with respect to regional cooperation and, more in general, the nature of the new regional system that will emerge as a result of the combined effects of the end of the Cold War, the Gulf war and the Arab-Israeli peace process. Opinions are roughly divided into two camps: on the one hand, the "exclusivists", who believe that international and regional politics will continue to be determined by the balance of power; on the other hand, the "inclusivists", who believe that future lies in interdependence.

These two different worldviews cut across political tendencies and national origins and translate into basically diverging attitudes towards the Arab-Israeli peace process and the future shape of the regional system. The "exclusivists" could oppose the peace process - as do the Israeli right, Iran and the Islamists regionwide - but could also support it, to the extent that they believe it can reinforce the power constellation to which they belong -as is the case with Arab and Israeli nationalists of various shades. In any case, the "exclusivists" believe that the new regional system will be dominated by the most powerful hegemon(s) that will only emerge by mastering competitive economic and military power. Arab exclusivists claim that regional cooperation would bring about Israeli hegemony, Israeli exclusivists believe that their country's security cannot be entrusted to just anybody.

Instead, the "inclusivists" in the Middle East as elsewhere in the world believe that welfare is more important than warfare and weigh the balance of benefits that regional cooperation could bring about against the balance of power. They point out that increasing inter-societal interconnectedness is becoming more characteristic of the emerging global village than impenetrable state sovereignty. First of all because such a global village is inhabited by actors other than states, and, secondly, because those actors are concerned about issues other than those of traditional high politics. The interdependence model as a blueprint for Middle East regional system is most vocally advocated by prominent Israeli analysts and decision-makers (for example in Shimon Peres's book *The New Middle East*), but has its champions among Arab analysts and policy-makers as well.

The very existence of these two extreme trends of opinion with regard to

the chances of the peace process and the emergence of a more peaceful and cooperative Middle East points to the need for a more gradual path to regional cooperation that would reassure the exclusivists and mitigate the expectations of the inclusivists. Graduality would also provide a better link between the evolution of the peace process and the other processes of political change unfolding in the region: the processes of political and economic reform taking place at the national level, the establishment of new patterns in international integration in the Middle East, namely through North-South regionalism with the European Union and the stabilization of the regional strategic balance (especially in the Gulf).

A final consideration concerns the coexistence in political trends of trans-regional patterns with distinct sub-regional differentiations. With regard to each of the four key political variables detected - political liberalization, Islamism, the shaping of a new regional system and relations with the West - common problems and attitudes are manifest regionwide and yet take a different shape in each of the four sub-regions of which the Middle East is composed: North Africa, the Levant, the Northern Tier (Turkey-Iran-Caucasus and Central Asia) and the Gulf.

3. Security

At the global level, a new post-Cold War Western strategy concentrating on deterrence and crisis management is developing amidst many uncertainties. Today, the US is the only actor that theoretically can master these tasks at the global level, yet it seems unable or unwilling to formulate a global stability and security strategy for the "new world order" and to form stable international coalitions to that end. Thus, the new situation is characterized by growing risks of weakening of deterrence. On one side, there is the proliferation of arms of mass destruction and of medium-range delivery vehicles. On the other side, repeated failures of crisis management attempts will inevitably curtail the credibility of the American and Russian nuclear capabilities to guarantee strategic stability and global security. The continuation of such a trend would confront the nuclear superpowers with the difficult dilemma of choosing between a breakdown of deterrence or its (possibly traumatic) confirmation. Such a confirmation will be all the more violent and difficult as the failures of crisis management multiply.

In this global context, the Middle East has lost its strategic importance as a crucial location in the East-West confrontation. Yet, the international community can still identify a number of reasons for continued involvement in this region:

-the constant vital importance of energy supplies (oil and gas);
-the threats from terrorism (low-level violence),
-the unlikely (in the short term) possibility of high-lethality conflicts and ongoing proliferation of weapons of mass destruction;
- the control of migration flows, especially towards Western Europe;
-the long-term check (and eventual containment) of Russian power.

These interests do not necessarily require a continuous Western military presence, unless a major crisis threatening vital interests should arise. And even then, various international alliances with local actors could secure these Western strategic interests.

Any integration process, however, will have to deal with a complex pattern of fragmentation in the Middle East region, based mainly on the weakness of local governments. Their priorities are more domestic (inward-looking) than international, as detailed in chapters 2 and 3. Their international alliances and regional policies aim at strengthening their own stability and permanence in power. This is a kind of defensive nationalism that can lead to new instabilities, especially as it is coupled to the security threats described in chapter 4 (military asymmetries, disputes over territories and resources, ethnic fragmentation and mass movements of people).

At present the regional security balance is centred on the United States and based on the overwhelming US military presence in the Gulf, the American guarantee of Israeli security, the ongoing peace process in Palestine, Russian weakness and the interest of the most powerful "peripheral" states (Turkey and Pakistan) to maintain good relations with the US.

Among the most evident limits of the present security model are the following:

- excessive reliance on military force;
- almost exclusive dependence on the commitment of the American government alone;
- no serious social-political project (no long-term perspectives to reinforce local autonomy and self-reliance) to deal with economic and social domestic crises;
- strong religious and political opposition and relatively weak governments;
- exclusion or marginalization of "pariah" states (Iran, Iraq, Libya, Sudan);
- high economic costs to be shouldered by financially overstretched powers (US and Gulf Cooperation Council countries).

- identification with the defence and survival of the present Arab regimes, which counters political liberalization.

In the medium term these limits may make this model unable to balance regional conflictualities and protect Western interests in the Middle East. The stability of this model may be increased by:

- giving higher priority to social-economic and cultural factors,
- devising a strategy to redeem "pariah" countries,
- increasing the importance of regional mechanisms for conflict reduction and crisis control,
- multilateralizing the present "central" American role (sharing burdens and responsibilities),
- accepting an higher degree of cultural diversity, provided that the democratization process will continue.

4. International Relations

With the end of the Cold War, the imperative necessity of giving priority to global stability in international relations is fading away. Tendencies towards both economic and political regionalism are increasing. At the same time, nations are reacquiring a degree of freedom in their international actions. Even Western nations, linked as they are by the effective network of multilateral institutions created after the Second World War, are affected by an important trend towards re-nationalization of their foreign and security policies.

Over the past decade, fundamental changes in terms of increasing globalisation of economic activity and increasing regional integration, have also affected the world economy. The international competitive environment in the rest of the decade will be shaped by the interaction of these two main forces, which in turn will have a huge impact on most developing countries.

Whilst one could share the view that regionalisation and globalisation are not necessarily antithetical or antagonistic forces, one can hardly count on mere

market forces and/or unavoidable technical change at industry level to transform them into fully compatible and mutually reinforcing trends. A positive interaction among the two (regionalism and globalism) will depend mostly on how 'open' to the outside regions will be able to remain in the short-medium run. Institutions, regimes and cooperative strategies become important for the achievement of this result.

But economic relations between great geo-economic regions are currently characterised by fundamental imbalances. Increasing divergence, mutual recrimination and growing protectionism may derive from the maintenance of such imbalances. Under these conditions regionalism may undermine globalism. A higher propensity to cooperate is needed to revitalise an open and globally oriented international system. This greatly concerns all three major regions, but developing countries and areas are also involved, since the conflicting world economy scenario is bound to penalise their growth potential severely.

In political terms, too, the main post-Cold War tendencies - globalism, regionalism and re-nationalization - are not necessarily consistent: re-nationalization can weaken existing regional institutions and even prevent new ones from emerging; on the other hand, regionalism and re-nationalization may be mutually reinforcing, though not necessarily in a cooperative rather than conflictive direction. In a less internationalist and multilateral, yet still cooperative world, these two tendencies can coalesce as the platform for a sound division of labour among nations. But, if re-nationalization degenerates into isolationism or conflict, let alone chauvinist competition, regionalism may easily become an instrument of hegemony by local powers intended to reinforce the latter against rivals.

In the current transition, re-nationalization is a kind of competitive relationship which tends to preserve a fair character and does not necessarily detract from international cooperation and peaceful relations. On the other hand, regionalism is being construed as a factor intended to increase international cooperation and stability by strengthening its local components and giving more flexibility to the whole international system. Multilateralism and universalism are not ruled out. Multilateralism, for example, was an important ingredient of the early foreign policy formulations of the Clinton administration. As a matter of fact, the architects of the emerging post-Cold War world tend to use multilateralism and universalism in combination with important elements of bilateralism, particularism and even unilateralism, according to an eclectic approach basically directed away from the classical design which used to prevail after the Second

World War.

Regionalism is both a growing tendency and an important aspiration in the Middle East area, as is attested to not only by the fact that the Arab-Israeli negotiations are associated to a large extent to the creation of a form of regional economic cooperation, but also by the launching of fresh local initiatives - albeit at the region's fringes - such as the Black Sea and Caspian Sea schemes of regional cooperation. In order for regional initiatives in the Middle East to be effective, cohesion and a working North-South regionalism are needed from Western nations and their groupings, among which the European Union should have a prominent role. The world emerging after the end of the Cold War is definitely asking for more regional responsibility to be taken on by Western nations. As detailed in chapter 5, the main Western nations - the US, Western Europe and Japan - have substantial interests and a high degree of involvement in the Middle East, but these interests and involvements have not to date translated into a clear, coherent and cooperative division of labour in supporting and orienting a positive evolution of the three main processes that will make regional integration possible in the Middle East, namely: the processes of political and economic reform taking place at the national level, the establishment of a new partnership with the European Union and the stabilization of the regional strategic balance.

CHAPTER SEVEN
SCENARIOS AND OPTIONS FOR THE FUTURE

1. The Starting Map

Cross analysis of the political, economic and strategic features of the Middle East today reveals that the entire region is in the midst of deep and interlocking trends of change:

- in domestic politics, where increasing popular pressures for enlarged participation and state efficiency are led by opposition forces divided between liberalism and religious autocracy.
- in domestic economics, where the need to adapt to international competitiveness is being met with structural adjustments and new export-led strategy of growth.
- in regional security, where the looming end of the Arab-Israeli conflict and the unsettled strategic balance unleash the potential for new inter- and intra-state conflicts.
- in international relations, where the end of the Cold War has diminished the region's strategic relevance and the new global trends towards regionalism have not yet provided a new form of integration of the Middle East into the international system.

Individual countries are trying to cope with the effects of these changes, but only few seem to be succeeding in these multiple transformations. Among those better equipped to succeed, Israel obviously stands out, followed, although at some distance, by Morocco and, at the opposite end of the region, Turkey. For all the remaining countries, successful transformation and many cases survival depends on the existence of a more or less cooperative regional and international environment.

It is for this reason that the evolution of the future of the Middle East is analyzed along two main parameters: alternative scenarios for regional cooperation and the international incentives needed to support it.

2. Scenarios for the Future: Cooperation or Conflict

It is challenging to have to think now about the aftermath of such a multifaceted

transition, the overall results of which depend on so many regional and international factors. The way this difficult task is approached here is by developing scenarios which project into the future alternative courses for the evolution of trends which are already at work in the Middle East and in the international system. The requirements for each scenario to prevail are then described and the likely impact of the scenario assessed. The starting points for scenario building are:

- trends inside the region favouring regional cooperation are currently roughly balanced by trends pushing towards fragmentation and conflict along national lines;
- an inclination toward one of these two tendencies will be decided by short and medium term developments (from next year to the year 2000);
- there is now a critical amount of international interest, namely through the current US-led Middle East peace process and EU Partnership initiative, in supporting regional and international integration of the Middle East. These efforts cannot be sustained and increased in the long term unless regional cooperation is started soon.

We consider three cooperation scenarios: rapid integration, gradual cooperation, nationally-driven cooperation. Rapid integration implies a"shock therapy" approach in which all actors involved are willing to commit themselves from the beginning to the implementation of integration and liberalization policies, even if it may carry severe economic and political costs in the short term. Gradual cooperation implies a step-wise implementation of policies allowing for the spreading out over time of both the costs and the benefits of the integration process. Nationally-driven cooperation implies the implementation of national cooperation policies that are limited in scope and possibly involving only a limited number of countries.

The three scenarios mentioned above may be ranked according to the benefits and costs of integration which they entail. The probability of success that can be attached to each of them depends on the intensity of three factors affecting the process of international cooperation:

a) "hegemonic support" by a major non-regional actor, which is to some extent the US but, more importantly, the European Union (EU);

b) the "willingness to adjust" of individual Middle East countries, that is, their willingness to change policy preferences and undergo the necessary adjustment costs, at least in the medium term;

c) the strength and diffusion of "regional (and sub-regional) institutions", as

they facilitate communication and exchange both within the area of jurisdiction and with the outside.

The intensity of these factors determines the extension and robustness of the political coalition that fosters the process of cooperation and supports its implementation. In what follows we will consider in more detail each of the three cooperation scenarios, as well as two scenarios of regional conflict that may materialize if the requirements for any of the cooperative scenarios are not met.

Regional cooperation

The strongest elements favouring the slow development of all the ingredients for regional cooperation in the Middle East are the convergence to this end of the interests of:

- the most dynamic social sectors: everywhere in the region economic developments in the last few decades have led to the emergence of a private sector that has a strong interest in reducing the role of the state in the national economies and integrating them in the world market. Both those developments are favoured, in both the short and the long term, by regional cooperation. Individuals and parties favouring political liberalism domestically share these same goals.
- the ruling governments: regardless of their nature, most of them are financially stricken and share an interest in bolstering the resources at their disposal through 'peace dividends' and renewed economic growth.
- the international partners: as regional cooperation equates with increased political stability and economic development, all international partners have a strong interest in supporting it.

These general factors work in favour of an evolution from the present peace process to regional cooperation. However, regional cooperation in the Middle East may still take different courses that will have very different impacts.

1. Rapid Integration

Long-term features:

The Israeli economy becomes strongly integrated with the Arab countries and Turkey, providing both a market for consumer goods and a source of technology transfers. The Levant countries act as a power-house, but the growth rate of the

region as a whole benefits rapidly from increasing returns to scale in spite of some agglomeration and disparity problems. Pro-Western Arab regimes remain in power while steadily liberalizing national systems. The regional countries outside the present peace process are gradually co-opted into multilateral regional institutions. Israel emerges as an economic and military hegemon, but shared political outlook and economic benefits make this acceptable to other regional powers. The US and the EU cooperate fully in supporting rapid integration. Employment and migration pressures are reduced by more open trade policies and industrial restructuring in both the Middle East and the EU.

Short-term requirements:
An end to the Arab boycott; bilateral agreements between Israel, the Levant and the Gulf countries; a fair settlement of Israeli-Palestinian relations; democratic consolidation of present Arab regimes; total containment or annulling of the spoiling efforts from rejectionist countries; stable and sustainable oil prices; substantial progress in common EU foreign and defence policies; continuation of the present level of US commitments towards the Middle East. More active and open policies of the EU towards trade integration, financial assistance and labour migrations.

Effects:
This scenario is presently being accorded priority, mainly through the Middle East peace process. It is highly improbable, however, that the requirements for this scenario can be satisfied in the short or even the medium term. Lacking them, pursuit of rapid integration could have serious negative economic and political effects within the region and could collapse rapidly towards either the still positive scenario of nationally-led cooperation, or to the negative fragmentation scenario. Even if supported by proper conditions, in the medium term the rapid integration 'shock therapy' would intensify dualities and an unequal income distribution within and between countries and would require a cession of national sovereignty that few governments are able to implement; politically, it would confirm widespread fears of Israeli regional dominance, widening the gap between the 'peace' and 'rejectionist' camps within and between countries and further polarizing the divides between liberals, nationalists and Islamists.

2. Gradual cooperation

Long-term features:
North-South and sub-regional schemes of political and economic cooperation strengthen individual economies and enable them to negotiate with each other on relatively equal terms. Trans-regional economic cooperation develops from small symbolic projects into regionwide infrastructures and institutions. Development of human capital and rehabilitation of the most impoverished countries are given priority. Political reform is encouraged, but its form and pace is left to the individual countries. Common principles for economic and political cooperation are adopted and intense bridging efforts are made to co-opt countries that cannot initially subscribe to them.

Short-term requirements:
An end to the Arab boycott parallel to final settlement of Palestinian independence; deepening of current negotiations in the multilateral track of the Middle East peace process; principles for abandonment of economic protectionism negotiated multilaterally in the framework of the Euro-Mediterranean Partnership; revitalization of Arab cooperation schemes (Arab Maghreb Union, Gulf Cooperation Council, Arab League) together with the declaration for a Council of the Levant (between Israel, Palestine, Jordan and Egypt); phased agenda for the end of US dual containment policies towards Iraq and Iran.

Effects:
A gradual and more cautious approach to regional economic cooperation in the Middle East is likely to yield more tangible and irreversible results. Schemes involving a deepening of economic relations and harmonization of macroeconomic policies among more homogeneous and proximate sub-groups and among Arab countries would reduce fears and costs of economic dominance by Israel under any Free Trade Agreement. Such an approach would also allow time for a parallel maturation of the prerequisites for regional cooperation, apart from acceptance of Israel participation: the processes of political and economic reform taking place at the national level, the establishment of new patterns of international integration in the Middle East, namely through North-South regionalism with the European Union and the stabilization of the regional strategic balance (especially in the Gulf).

3. Nationally-driven cooperation

Long-term features:
Individual Middle East countries that successfully manage economic and political transformation (e.g. Israel, Morocco, Turkey, Egypt, Saudi Arabia, Iran) are strongly supported bilaterally by Western countries and act as local leaders with respect to their immediate neighbours while pursuing a loose but stable policy of economic integration and political non-interference among themselves.

Short-term requirements:
The peace process is concluded, but its settlement of the Palestinian question leaves the Arabs substantially unsatisfied; the Euro-Mediterranean Partnership fails to develop beyond new bilateralism; global commitments in US foreign policy are further reduced; the economic and political development of a few regional countries is steered by a dynamic leadership and bilateral arrangements; one of the major Arab countries (hopefully Egypt) begins to satisfy the conditions to join the currently too restricted group of 'Middle Eastern dragons'.

Effects:
This scenario is predicated on the incentives to cooperate for the success of the national strategies of a few Middle Eastern countries. It could provide regional countries and their external partners with more pragmatic and flexible options than the two preceding scenarios. However, given the high interrelation of political, economic and security factors regionwide, this is a highly unstable scenario which could easily collapse into one of the conflict scenarios below, as it can ensure only a minimal degree of stability in parts of the region. This scenario could nevertheless prevail by default if the requirements for the first two scenarios are not met.

Regional Conflict

The strongest elements favouring renewed conflictuality in the Middle East are well known:
- large asymmetries in human and natural resources;
- proliferation of highly lethal conventional and unconventional armaments; - many inter- and intra-state disputes;
- deep ideological divides;

- political and economic underdevelopment;
- a high degree of penetration of outside powers.

These traditional sources of conflict have taken new forms in recent years:
- Israel's military superiority has been enhanced by the defeat of Iraq and the disappearance of the Soviet Union;
- the emergence of radical Islamist movements whose political discourse and practice is deeply adverse to Western culture and interests;
- pressures for political change that run contrary to local and Western governments' preference for status quo stability;
- the development of Israeli-Arab negotiations that have divided the region into a 'peace camp' and a 'rejectionist camp';
-a one-sided option for international alignment and patronage under US dominance;

Chances for renewed conflictuality are therefore high, and possibly higher than those for peaceful development of the current multiple transition challenges. Only certain major conflicts would be able to alter the regional landscape substantially, however, while minor ones can (and will inevitably) coexist with even the most positive of the cooperative scenarios. The following scenarios deal only with the first type of conflict.

1. Fragmentation

Features:
The peace process ends unsatisfactorily for the Arabs and Israel regional integration remains marginal. One or more of the countries presently best equipped for economic and political liberalization, export-oriented growth and international integration fails in one or more of these processes because of a breakdown of internal consensus and/or a renewal of local conflict. Cooperative management of security and development is lacking. The Western countries and Russia each cultivate their regional allies.

Effects:
The scenario of fragmentation would involve a high frequency of low-scale conflicts; temporary coalitions, Israeli military superiority and direct foreign power intervention (especially in the Gulf) would generally prevent their escalation. The deterioration of conditions in the region would have multiple negative effects in

neighbouring countries and the world at large. Fragmentation could favour the dissolution of the most unstable regional states (Iraq, Iran, Algeria, Sudan) and the annexation of the weakest ones. Failure of economic development would increase labour migration pressures within the region and towards the EU and increase tendencies towards EU isolationism and protectionism.

2. Confrontation

Features:
In addition to the features of the preceding scenario, this scenario entails different, possibly interrelated, forms of acute conflict:
- flaring up of a military conflict between Israel and one of the regional countries as a result of deliberate aggression or failure of deterrence;
- Russia entering in direct conflict with one of the Northern Tier countries (Turkey, Iran);
- Islamist or Islamist-dominated regimes take power in short sequence in a number of regional countries (e.g. Algeria, Egypt, Saudi Arabia) and form an anti-Israeli and anti-Western coalition.

Effects:
The result of any of these events (or of a combination of them) would be the threat or actual deflagration of a major military conflict, likely to involve use of unconventional armaments and environmental terrorism, huge flows of refugees within the region and to Western Europe, substantial disruptions in oil production and prices. The regional and international impact of this scenario is potentially devastating. Its prevalence is predicated on the uncontrolled escalation of crisis factors that are improperly managed because of the lack of conditions permitting the preceding scenarios.

3. Policy Options

On the basis of the analysis developed throughout the research and summarized in this report and in the light of the scenarios above, it becomes evident that the best course for the future of the Middle East countries in a setting of global interdependence is the prevalence and consolidation of gradual regional cooperation.

In order to succeed, regional cooperation in the Middle East must therefore

satisfy the following conditions:

- *graduality*: this would allow the needed economic, political and cultural pre-conditions to mature. Rapid integration, on the other hand, even if economically possible, would intensify dualities and unequal income distribution within and between countries and require a cession of national sovereignty that few governments are ready and able to implement at this stage; politically, it would confirm widespread fears of Israeli regional dominance, widening the gap between the 'peace' and the 'rejectionist' camps within and between countries and further polarize the divide between liberals, nationalists and Islamists.

- *sub-regionalism and multilateralism*: in addition and in connection to regionwide schemes, economic and political cooperation must be deepened at the sub-regional level between more homogeneous and proximate sub-groups and among Arab countries; this entails the creation, revitalization, enlargement and interlocking of regional institutions.

- *comprehensiveness and flexibility*: this must be guaranteed in regional and North-South cooperation, both in content (economic, political and security) and in geographical scope;

- *synergy between local and North-South regionalism*: this entails the consolidation of the Euro-Mediterranean Partnership and a cooperative division of labour between the EU and the US to this end; it also requires a gradual evolution from the present regional security model, centered around US guarantees to Israel and the Arab Gulf states, to sub-regional and regionwide arrangements for collective security; a cooperative effort between the US, the EU and Japan to channel financial investments in support of a common design for regional development and cooperation.

- *willingness to adjust*: individual national actors involved in Middle East cooperation must be willing to change policy preferences and undergo the necessary adjustment costs, at least in the medium run. Willingness depends to a high degree on the political legitimacy of incumbent governments and is subject to the contradictory effects of expectation and demonstration of benefits. In the present Middle East and international context, both of these factors point to the need for graduality.

Most of the foregoing policy options are presently supported by the ongoing Middle East peace process. This confirms its fundamental role in favour of the integration of the Middle East in the new international system. However, some of the necessary policy options are not fully supported by the peace process and needs to be complemented either as an expansion of the process or through new initiatives. In particular, the policies that need to be consolidated are: graduality, sub-regionalism, revitalization of regional institutions, Western Europe's ability to support regionalism in the Middle East and the multilateralization of security guarantees, cooptation of Iran and Iraq into regional cooperation schemes, greater acceptance for cultural diversity.

TABLES

Table 1. Imports of major conventional weapons, 1988-94

Country	1988	1989	1990	1991	1992	1993	1994
Saudi Arabia	2007	1916	2459	1331	1073	2534	1602
Egypt	459	214	755	1234	1263	1367	1370
Iran	648	402	776	175	283	1193	780
Israel	577	200	29	1373	1097	585	557
Kuwait	132	61	282	616	953	622	80
UAE	35	798	936	127	172	465	389
Syria	1421	395	28	138	341	188	194
Morocco	167	218	111	89	26	147	181
Yemen	0	0	0	0	0	0	201
Oman	127	126	78	0	10	60	44
Bahrain	184	85	402	50	64	26	8
Qatar	163	65	34	37	53	16	16
Algeria	241	597	384	561	38	20	20
Lebanon	36	26	0	0	0	0	22
Tunisia	15	40	0	0	15	0	0
Iraq	2669	1342	507	0	0	0	0
Libya	44	589	0	0	0	0	0
Jordan	244	99	10	0	0	0	0
Mauritania	0	0	0	0	0	0	0
Total	**9169**	**7174**	**6792**	**5730**	**5386**	**7223**	**5465**

Figures are trend-indicator values expressed in US$ mil., at constant (1990) prices.
Totals are rounded.

Source: US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers 1993-1994.

Table 2. Surface-to-Surface Missile Launchers in the Middle East

Country	Launchers
Egypt	9 Scud B Launchers, Saqr 80
Iran	6+ Scud B/-C, 20 CSS-8 Launchers
Israel	20 Lance, Jericho 1 & 2
Libya	80 Scud B Launchers
Saudi Arabia	8 - 12 CSS-2 Launchers (30-50 missiles)
Syria	20 Scud B/-C Launchers, 18 SS-21
UAE	6 Scud B Launchers
Yemen	12 SS-21, 6 Scud B Launchers

Note:

- Jericho 1 has an estimated range of 450 km with a 500 kg payload, and Jericho 2 a range of 800 km with a 500 kg payload.

- Lance has a range of 75 km with a 225 kg payload.

- SS-21 Scarab has a range of 80 km.

- SS-1 Scub B has a range of 280 km with a payload of 800-1000 kg, and SS-1 Scud C, a range of 500 km with a 700 kg payload.

- The Chinese CSS-8 is considered to have a range of 150 km with a 190 kg warhead.

- Saqr 80, with a range of 80 kg when carrying a 200 kg payload has been undergoing trials using Frog-7 launchers.

- The North Korean Nodong missile, still under development, on order by countries in the Middle East, has an estimated range of 960-1000 km.

Source: Military Balance 1994-1995, International Institute for Strategic Studies, London, October 1994.

Table 3. Major Ethnic Divides of the Arab World in the Early 1990s

Ethnic Divide	Population Size (in millions)	Percentage Population	Countries of concentration
1. The majority (Arabic speaking, Muslim, Sunnis, Caucasians)	190.0	80.0	In all Arab countries except Lebanon, Iraq and Bahrain
2. Lingo-cultural minorities (non-Arab)	32.3	13.7	Morocco, Sudan, Algeria, Iraq
3. Religious minorities (non-Muslims)	17.9	7.6	Sudan, Egypt, Lebanon, occupied Palestine
4. Islamic minorities (non-Sunnis)	20.8	8.8	Iraq, Lebanon, Syria, the Gulf
5. Racial minorities (non-Semitic/Hamitic Caucasians)	8.7*	3.7	Sudan

* Also included in Divides 2 and 3, above

Source: S. Ibrahim for IAI-NIRA Middle East Project

Table 4. The Cost of Armed Conflicts in the Middle East and North Africa (MENA) Region: 1948-1993

Type of Conflict	Period	No. of Casualties	Estimated Cost in billions of US (1991 value)	Estimated Population Displacement
A) Inter-State Conflict Arab-Israeli conflict	1948-1990	200,000	300.0	3,000,000
Iraq-Iran	1980-1988	600,000	300.0	1,000,000
Gulf War	1990-1991	120,000	650.0	1,000,000
Other Inter-State conflicts	1945-1991	20,000	50.0	1,000,000
Sub-Total		**940,000**	**1,300.0**	**6,000,000**
B) Intra-State Conflicts				
Sudan	1956-1991	900,000	30.0	4,500,000
Iraq	1960-1991	400,000	30.0	1,200,000
Lebanon	1958-1990	180,000	50.0	1,000,000
Yemen	1962-1972	100,000	5.0	500,000
Syria	1975-1985	30,000	0.5	150,000
Morocco (Sahara)	1976-1991	20,000	3.0	100,000
S. Yemen	1986-1987	10,000	0.2	50,000
Somalia	1989-1991	20,000	0.3	200,000
Other Intra-State conflicts	1945-1991	30,000	1.0	300,000
Sub-Total		**1,690,000**	**120.0**	**8,000,000**
Grand Total				
(All Armed Conflicts)		**2,630,000**	**1420.0**	**14,000,000**

Source: S. Ibrahim for IAI-NIRA Middle East Project

Table 5 . The Six Phases of Middle East Labor Migration

Phase	Time Frame	of:	to:	Numbers	Type of Regulation	Role of State
I.	to 1973	Egyptian and Jordanian teachers & administrators. Algerians. Yemenis. Sudanese.	All points in Arab world. France. Saudi Arabia. Egypt.	circa 1970 - 880,000[1]	Individual initiative. State-to state missions.	Direct regulation by both sending and receiving countries. Minor individual migration.
II.	1973 & period immediately following	Workers from oil-poor Arab nations. Some Indians and Pakistanis.	Services, construction, administration to Gulf countries and Libya.	1975 - 1,800,000[2]	Relaxation on restrictions from labor exporters because of perceived benefits of remittances.	Arab migration largely individual or project-specific.
III.	Late 1970s	Workers from oil-poor Arab nations. Indians, Pakistanis, and Bangladeshis.	Oil-rich and Gulf countries. Many labor markets of Arab Middle East.	Late 1970s - 2,100,000[3] to 2,500,000[3]	Government agencies set up by Asian labor exporters to regulate their workers. Receiving countries not allowing integration of labor.	Arab sending governments encouraged and even competed against other labor exporters. Asian states played direct role in regulating the outflow of their workers.
IV.	1980-1982	Chinese, Taiwanese, Indonesian, South Korean, Filipino and Thai workers. Selected Asians.	Most labor-importing countries of the Middle East. Egypt.	Early 1980s- 3,500,000[4] to 4,650,000	The receiving communities assumed direct responsibility for managing the flow. "Package deals" and bilateral arrangements.	State-to-state interactions ensued.
V.	1983-1990	Highly skilled workers rather than unskilled manual workers.	Most labor importers.	Only select estimates for Gulf.[5]	Labor importers beginning to cut back on labor. Attempts to train local nationals.	Labor importers playing a more regulatory role.
VI.	1991 and beyond	Asian workers and to a lesser extent Arab workers abroad. Refugees due to interstate and civil wars.	Their respective home countries (return flow), points of transition, and alternative destinations.	The returnees due to market adjustments are variously estimated.[5] Refugees due to violence are estimated at 5.5 million.	Labor contracts not being renewed. Expulsions and cutbacks in staffing needs. Forceful expulsion .	Labor importers playing increasingly regulatory role.[6] Labor exporters search for alternative destinations.

1. Farrag (1975)
2. Birks and Sinclair (1978)
3. Pennisi (1981)
4. Choucri and Brecke (1983)
5. An Illustration of the magnitude of the return flow is the currently held view that the population of expatriate workers in the U.A.E. has declined by 200,000 (from 1,000,000 to 800,00).
6. As an example of increased regulations in the U.A.E., all expatriates must now be fingerprinted (Keesing Contemporary Archives, 1985)

Source: Nazli Choucri for IAI-NIRA Middle East Project

Table 6. Main non-industrialized areas: shares in the total trade of the EU, US and Japan (1991-93)

	EU[1]			USA			JAPAN		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
Arab Maghreb Union[2]	1.52	1.42	1.50	2.22	0.34	0.34	0.21	0.19	0.17
Libya	*0.46*	*0.39*	*0.40*	--	--	--	*0.02*	*0.02*	*0.02*
Levant[3]	0.89	0.91	1.09	1.19	1.24	1.26	0.43	0.57	0.55
Israel	*0.46*	*0.43*	*0.52*	*0.79*	*0.79*	*0.83*	*0.25*	*0.29*	*0.29*
Persian Gulf[4]	1.88	1.91	1.95	2.59	2.45	2.14	6.59	7.07	6.04
Iran	*0.59*	*0.59*	*0.51*	*0.08*	*0.07*	*0.05*	*0.91*	*0.91*	*0.64*
Turkey	0.64	0.64	0.82	0.37	0.39	0.44	0.19	0.18	0.24
Sub-Saharian Africa[5]	1.97	1.90	1.86	0.03	1.80	1.66	1.28	1.41	1.67
Asia	5.43	5.73	7.10	18.92	20.02	20.90	31.19	33.82	36.55
Latin America	2.24	2.22	2.45	13.87	14.76	14.63	3.72	4.06	3.97
European East[6]	3.51	3.08	4.09	0.84	0.82	0.94	1.27	0.84	0.76

Source: R. Aliboni for IAI-NIRA Middle East Project

notes

(1) Twelve

(2) Algeria, Libya, Mauritania, Morocco, Tunisia (Arab Maghreb Union)

(3) Egypt, Jordan, Israel, Lebanon, Syria

(4) Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

(5) Africa except Arab Maghreb Union and Egypt

(6) Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russian Federation, Slovak Republic, Ukraine, former Yugoslavia (Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Slovenia); Albania not available

Table 7. EU, US and Japan: shares in the total trade of main non-industrialized areas (1991-93)

	EU[1]			USA			JAPAN		
	1991	**1992**	**1993**	**1991**	**1992**	**1993**	**1991**	**1992**	**1993**
Arab Maghreb Union[2]	65.61	65.61	68.36	5.13	5.80	5.41	3.99	4.58	3.89
Libya	*77.19*	*74.05*	*76.06*	*0.42*	--	--	*1.08*	*1.09*	*1.28*
Levant[3]	38.06	38.44	40.37	10.69	11.51	12.96	3.18	4.35	4.53
Israel	*42.14*	*42.52*	*41.06*	*23.55*	*22.19*	*23.14*	*5.08*	*5.26*	*5.15*
Persian Gulf[4]	25.68	26.48	25.36	11.88	11.68	11.35	17.08	18.66	17.37
Iran	*44.78*	*46.74*	*43.98*	*2.15*	*2.14*	*2.22*	*13.87*	*13.76*	*12.51*
Turkey	46.41	41.91	57.77	9.02	8.27	9.90	3.75	3.14	4.14
Sub-Saharian Africa[5]	41.36	41.06	35.30	11.49	12.25	12.56	6.14	5.96	6.98
Asia	14.36	14.05	13.93	17.44	17.31	17.55	17.63	16.73	17.35
Latin America	22.88	21.43	17.90	37.70	38.09	42.69	5.83	5.71	5.54
European East[6]	33.17	47.57	48.45	7.92	8.72	8.00	1.22	0.92	1.18

Source: R. Aliboni for IAI-NIRA Middle East Project

notes
see tab. 6

APPENDIX

Synopsis A. Disputes over Boundaries and Resources in the Middle East (1995)

Synopsis B. Middle East Institutions for Regional Cooperation

Synopsis C. North/South Cooperation Initiatives in the Middle East

Synopsis A: Disputes over Boundaries and Resources in the Middle East (1995)

countries	type	area	resources involved	instruments	juridical status	conflict potential	observations
THE GULF							
Iran vs Iraq	land boundary	Zayn al-Qaws; Safi Sa'd; Meimak	oil fields	Algiers Accord (6 Mar. 1975) Protocol for the rede-marcation of the land frontier (13/6/1975) Husein-Rafsanjani correspondence (Apr.- Aug. 1990)	dormant	benign	The discovery of new oil fields close to the boundary has exacerbated the potential for dispute.
Iran vs Iraq	waterway boundary	Shatt al-Arab	access to Gulf; oil fields	Algiers Accord (6/3/1975) Husein-Rafsanjani correspondence (Apr.-Aug. 1990)	dormant	disruptive	
Iran vs UAE	sovereignty	Abu Musa; Greater Tunb, Lesser Tunb Islands	access to Gulf; oil fields	The Sharjah-Iran memorandum of Un-derstanding on Abu Musa (29 Nov. 1971)	dormant	benign	
Iraq vs Kuwait	land and waterway boundaries	entire borderline	access to Gulf; oil fields	UN Resolution 833 (27 May1993) Iraqi Revolutionary Command Council Decree (10 Nov. 1994)	dormant	disruptive	In 1994 Iraq ac-cepted unconditio-naly the UN deli-mitation (possibly taken without a proper mandate)

DISPUTES OVER BOUNDARIES AND RESOURCES IN THE MIDDLE EAST 1995

Iraq vs Saudi Arabia	land boundary	entire borderline	____	Saudi-Iraqi Treaty (2 July1975) Saudi-Iraqi border Treaty (26 Dec.1981)	dormant	benign	
Saudi Arabia vs Kuwait	sovereignty	Umm al-Maradim and Qaru Islands	____	Uqair Protocol (Dec. 1992) Saudi-Kuwaiti agreements to partition the Neutral Zone and institute a new land boundary (1965 and 1969)	dormant	benign	
Saudi Arabia vs Qatar	land boundary	entire borderline	____	Saudi-Qatar boundary agreement (4 Dec.1965) Saudi-Qatari-Egyptian joint statement (29 Dec.1992)	dormant	benign	
Saudi Arabia vs Yemen	land boundary	entire borderline	oil fields	eastern boundary: Britain's unilateral Declaration of northern frontier for Aden Protectorate (Aug. 1955) western boundary: Treaty of Islamic Friendship and	dormant	benign	Remaining problems with western boundary are less serious than those with eastern frontier. After the 1995 understanding a trade-off between the two questions

				Brotherhood (Taif Treaty) (May 1934) entire borderline:Saudi/Yemeni Memorandum of Understanding (26 Feb.1995)			could be in the making.
Bahrain vs Qatar	sovereignty; maritime boundary	Hawar Islands; the Dibal and Jarada shoals; Zubara	oil fields	Britain's award of the Hawar group to Bahrain (1939) ICJ ruling of 15 Feb. 1995: confirmation by ICJ that it possesses jurisdiction to treat Bahrain-Qatar disputes.	active	benign	
Iran vs Qatar	transborder resources	North Dome gasfield	oil fields	____	unsettled	benign	In 1990 Iran and Qatar began to consult on the respective development plans for the North Dome gasfield. Consultations continue.
THE NORTH							
Turkey vs Iraq	transborder resources	Tigris-Euphrates system ; pipeline route	access to water; transit pipeline	Turkish-Iraq Protocol (annex to the Treaty of Friendship and Good Neighbourly Relations) (29 Mar.1946)	unsettled	disruptive	____
Turkey vs Syria	sovereignty	the Hatay; Alexandretta	_____	Franco-Turkish Treaty (23 June 1839)	dormant	benign	

				Al-Said's Compromise Deal (Mar. 1946)			
Turkey vs Syria	transborder resources	Tigris- Euphrates system	access to water	Franco-Turkish Agreement (20 Oct. 1921) Angora convention dealing with friendship and good neighbourly relations between Turkey and Syria under the French mandate (30/5/1926) Franco-Turkish Protocol (3 May 1930)	unsettled	disruptive	
NORTH AFRICA							
Morocco vs Algeria	land boundary	entire borderline	----	Agreement relating to the delimitation of the state frontier between the Kingdom of Morocco and the Democratic People's Republic of Algeria (15 June 1972)	dormant	benign	
Morocco vs Polisario	sovereignty	Western Sahara	_____	Tripartite agreement between Spain, Morocco and Mauritania (26 Nov. 1975) UN Security Council	active	disruptive	If the Polisario Front or the Government of Morocco should not accept the referendum result, Algeria may

				Resolution 690 (1991) (17/5/1991)			support the Polisario Front and war between Algeria and Morocco could result.
Morocco vs Spain	sovereignty	Ceuta, Melilla, Peñon de Alhucemas, Peñon de Gomez and the Chaffarine Islands.	_____	only administrative arrangements	dormant	benign	Morocco has warned that the 5 enclaves must be returned when Spain regains control of Gibraltar.
Libya vs Chad	sovereignty	Aozou strip	____	Mussolini-Laval Treaty (1935) Franco-Libyan Treaty of Friendship (10 Aug. 1955) ICJ decision (4 Feb. 1994) Libya-Chad boundary agreement, confirming the ICJ's ruling (May 1994)	dormant	benign	
Libya vs Algeria	land boundary	boundary from Ghat to the tripoint with Niger	_____	Franco-Libyan Treaty of Friendship (19 Aug. 1995)	dormant	disruptive	An Islamist government in Algeria could seek to provoke confrontation with the Qaddafi regime using this dispute as an excuse.

Egypt vs Sudan	land boundary	Halaib Triangle	-----	British-Egyptian agreement for the future administration of the Sudan (19 Jan. 1899) Egyptian arrêté relating to the regions of the nomads of Egypt and the Sudan (4 Nov. 1902)	active	disruptive
THE LEVANT						
Israel vs Palestine	land boundary sovereignty	The Green Line (Israel West Bank); settlements (Gaza Strip and West Bank); Jerusalem	------	UN Securiy Council Resolutions: 242 (1967) 338 (1967) 425 (1982) The Oslo Accord (13 Sep. 1993) The Cairo agreement (4 May 1994)	active	acute
Israel vs Jordan	land boundary maritime boundary	entire borderline	strategic depth; water	Mandate definition for boundary (Sep. 1922) Israeli-Jordanian peace treaty (26 Oct. 1994)	active	benign

Israel vs Syria	sovereignty	Golan Heights	strategic depth; water	Anglo-French agreement (23 Dec.1920) Anglo-French boundary demarcation agreement (3 Dec. 992)	unsettled	acute	
Israel vs Lebanon	land boundary	Southern Lebanon	strategic depth; water	Anglo-French agreement (23 Dec. 1920) Anglo-French boundary demarcation agreement (3 Feb. 1992)	unsettled	acute	
THE HORN OF AFRICA							
Somalia vs Ethiopia	sovereignty	Ogaden region	-----	British Somaliland-Ethiopia demarcation agreement (1897) Italian-Somaliland-Ethiopia Treaty (1908) Somalia-Ethiopia Non-Aggression Pact (April 1988)	dormant	benign	Once Somalia is restored to order, claims to the Ogaden may be resussitated as a means of cementing national unity
Somalia vs Djibouti	sovereignty	region inhabited by the Somali origin Iassa tribe	-----	Anglo-French exchange of notes (2 Feb.1988)	dormant	benign	

				Abyssinian-French Convention (20 Mar. 1897)			
Ethiopia vs Eritrea	sovereignty	Eritrea	-----	Treaties between Great Britain and Ethiopia and between Great Britain, Italy, and Ethiopia relative to the frontiers between the Sudan, Ethiopia and Eritrea (15 May 1902)	dormant	benign	
Somalia vs Somaliland	sovereignty	British Somaliland	-----	Great Britain/Ethiopia Treaty (14May1897) Agreement of the Commission appointed to demarcate the boundary between the Empire of Ethiopia and the British Protectorate on the Somali coast (28 Mar. 1935)	unsettled	disruptive	Once Somalia is restored to order its governement will attempt to recover control on this region

Source: G. Joffe for IAI-NIRA Middle East Project

Synopsis B: Middle East Institutions for Regional Cooperation

	Union du Maghreb Arabe (UMA)	Gulf Cooperation Council (GCC)	Economic Cooperation Organization (ECO)	Caspian Sea Cooperation Organization	Black Sea Economic Cooperation	Arab League
scope: pan-Arab						X
Maghreb	X					
Gulf		X				
Northern Tier			X	X	X	
competence						
politics	X	X				X
economics	X	X	X	X	X	X
security	X	X				X
creation	1989	1981	(1985) 1992	1992	1992	1945
recent activity	1994	1995	1995	—	1993	1995
membership	Morocco, Mauritania, Algeria, Tunisia, Libya	Saudi Arabia, Kuwait, Bahrein, Oman, Qatar, UAE	Iran, Pakistan and Turkey, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan Uzbekistan	Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan	Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and the Ukraine	21 Arab states and PLO

Source: L. Guazzone for IAI-NIRA Middle East Project

Synopsis C: North/South Cooperation Initiatives in the Middle East

	5 + 5	Mediterranean Forum	Euro-Arab Dialogue	EC-Mediterranean Policy	Euro-Med Partnership	WEU Dialogue	NATO Dialogue	Osce	Cscm	MENA Economic Summit	ME Peace Process
scope: subregional	X	X									
euro-med.			X	X	X	X					
EU+US							X	X	X		
international										X	X
membership: mainly NA	X	X				X	X	X			
mainly ME										X	X
including: GCC			X	(X)	(X)					X	X
Israel		(X)		X	X		X	X		X	X
competences: political cooperation	X	X	X	(X)	X	X	X	X	X	(X)	X
security cooperation	(X)	(X)			(X)	(X)	(X)	(X)	(X)		X
economic cooperation	(X)	(X)	X	X	X				X	X	X
Activity (recent)	1990 (1991)	1994 (1995)	1973 (1990)	1972 (1995)	1994 (1995)	1992 (1995)	1994 (1995)	1975 (1994)	1990 (1992)	1994 (1995)	1991 (1995)

Source: L. Guazzone for IAI-NIRA Middle East Project

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