

# Oil, power, and armies: Shifting realities in the Middle East

David Bensoussan

This presentation describes the new realities in the Middle East: The Arab spring aftermath, the new oil discoveries, the new anti-missile weapons and the diminishing influence of the USA in this region.

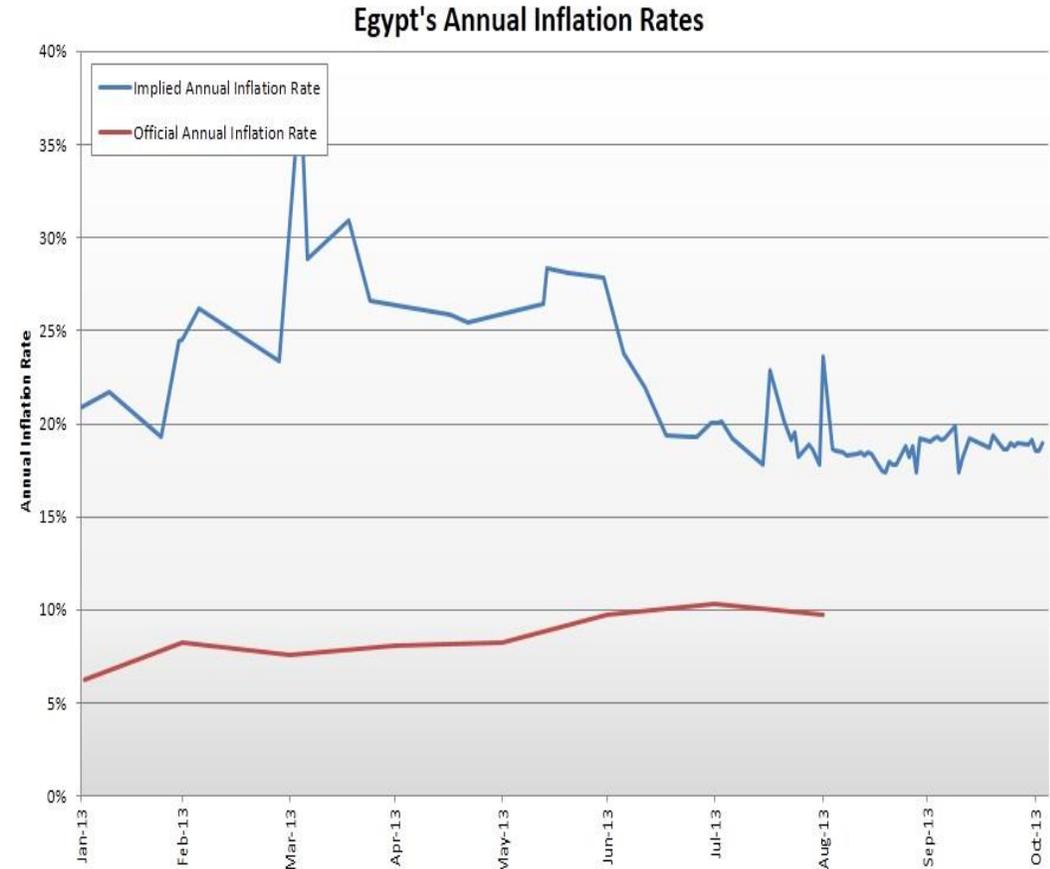
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# Egypt

- **The chaos of the Morsi era:** Public expenditures, Islamist constitution, and “brotherhoodization” of the public sector
- **Harsh economic realities:** 2,4 G\$ a month needed to maintain economic status quo; tourism decrease; instability
- **US alienated from the country:**
  - Obama’s loss of credibility regarding Egypt
  - From the defection of Mubarak
  - To the “Partial” suspension of US aid
- **Saudi Arabia and UAE step in:**
  - GDP, deficit and financing: Saudi and UAE \$ injection (12G\$)
  - The military regime went back to old methods targeting Muslim brothers.



Sources: *Ahram*, *Daily News Egypt*, *Federal Reserve Economic Database*, *International Monetary Fund (IMF)*, *Reuters* and calculations by Prof. Steve H. Hanke, *The Johns Hopkins University*.

Note: These annual inflation rates are implied from the movements in the black-market EGP/USD exchange rate.

# Erdogan's increasingly Islamist trajectory

- “ Elhamdulillah we are all charia-ists ” (Milliyet, 21 nov. 1994)
- “ Our reference guide is Islam. Our only objective is an Islamic state ” (December 6, 1997)
- “ The mosques are our barracks, the domes our helmets, the minarets our bayonets and the faithful our soldiers...” Poem recited in December 1997

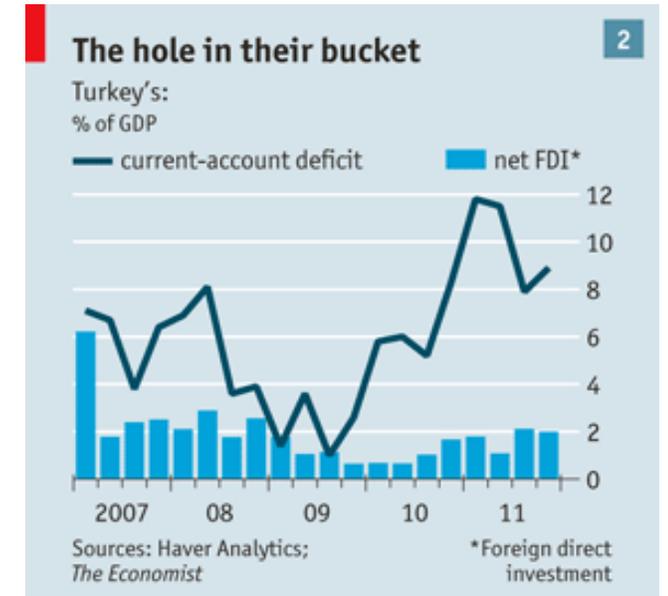
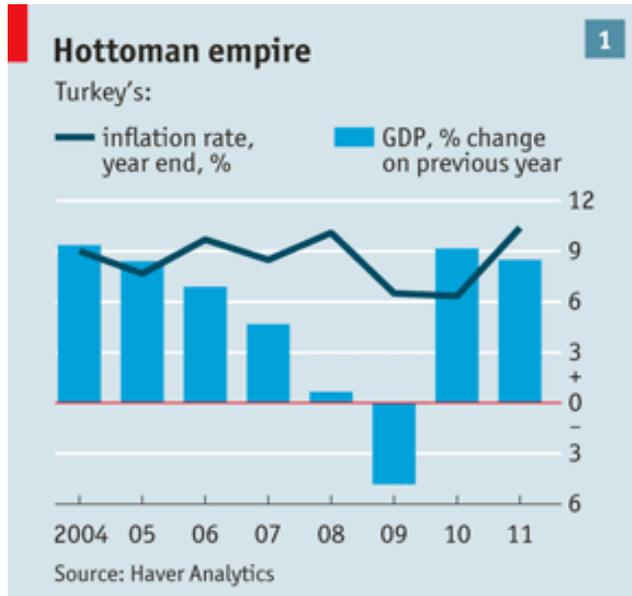
# Erdogan and the Jews

- As far back as 1974, he directed and played a leading role in a play entitled Maskomya, based on the evil global influence of Jews, Communists and Freemasons.
- As mayor of Istanbul in 1998, he stated, “Today the image of the Jews is no different from that of the Nazis”.
- In 2013, he blamed the Gezi Park environmental protest on the “interest rate lobby,” the “dual loyalists” and the “rootless cosmopolitans,” clear references to The Protocols of the Elders of Zion. His deputy explicitly attributed the blame for the riots on the Jewish Diaspora.
- In the same year, he also blamed Israel for the upheavals in Egypt, stating, “What is said about Egypt? That democracy is not about the box. Who was behind this? Israel is. We have evidence in our hands.”

# Erdogan and Israel

- « Hamas is not a terrorist group », April 6, 2006
- In Davos, to Shimon Peres: « When it comes to kill men, you are very strong, but I know how kids playing on the beach were assassinated »  
January 29, 2009
- « If Israel defends itself in future attacks of Hezbollah, Turkey will join Iran and Syria to fight the Jewish state. It will be the same if Israel touches Gaza », November 25, 2010
- « Israel must apologize for the Gaza-bound flotilla events first before we turn a page», June 2, 2010
- « No one can make a move against Iran from the Turkish soil and no one can defend Israel from this country's soil either. »-Turkish Foreign Minister *Ahmet Davutoglu*, October 8, 2011

# Turkey

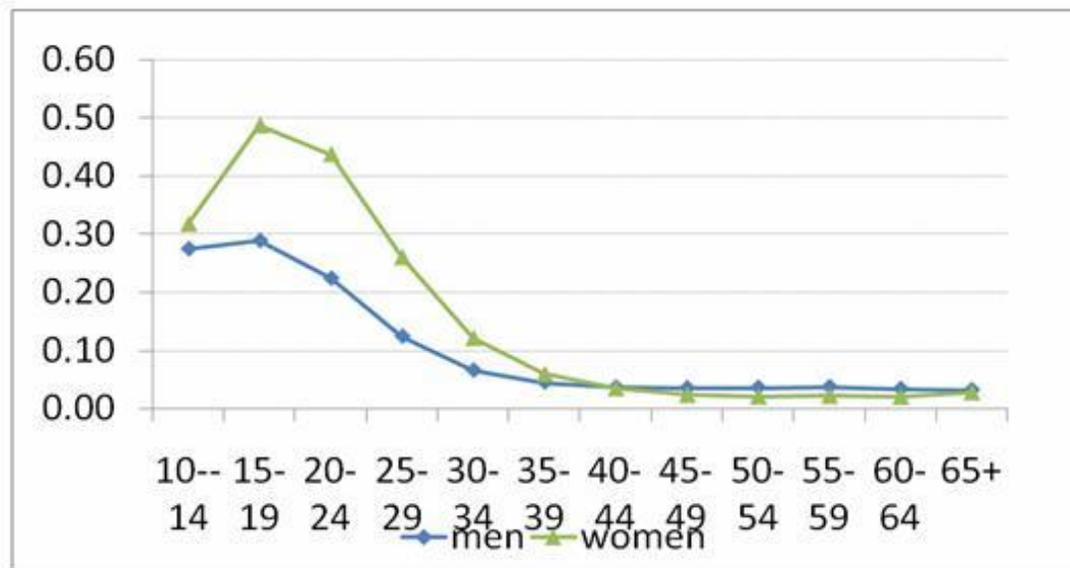


- More than 80 G\$ “short term” loans in 2008
- Journalists imprisoned.
- Turkey’s economy is slowing down
- Turkey desperately needs new markets to maintain its growth

# Iran

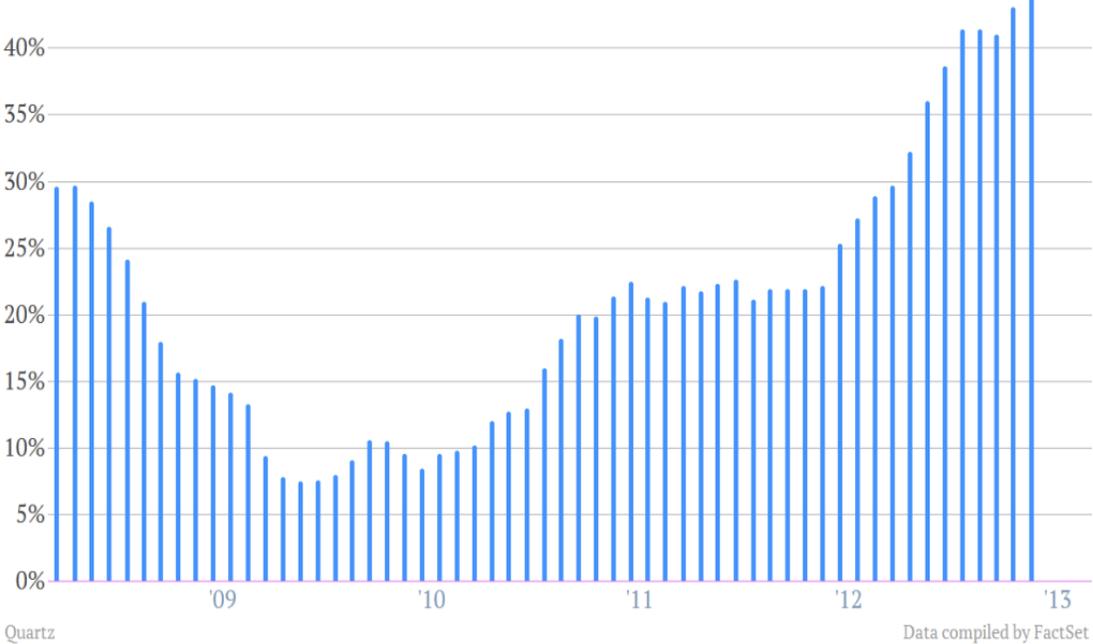
- **Iran's is extremely wealthy due to its oil and gas resources :**
  - Iran holds 9% of world oil reserves and 25% of gas reserves; governed by elected and non-elected institutions
- **Iran's leadership is rich and corrupt:**
  - Iran leadership controls (unsupervised) holdings (SETAD) worth 95 G\$. Iranian constitution (Art 49) provides for seizing illicit assets
  - from “criminals”.
- **The international sanctions are hurting:**
  - Costed Iran 100 G\$ so far. EU gradually joined the embargo (ban on nuclear related technology, freeze of assets, cargo inspections, oil imports);
  - The embargo is circumvented with sales of gold from Turkey; a critical shortfall in jobs has hit the young Iranians
- **The country has begun a slow shift away from extreme radicalism:**
  - Rouhani's photo-op at the UN;
  - “Death to America” explained to Western media

**Figure 7. Unemployment rates by age.**

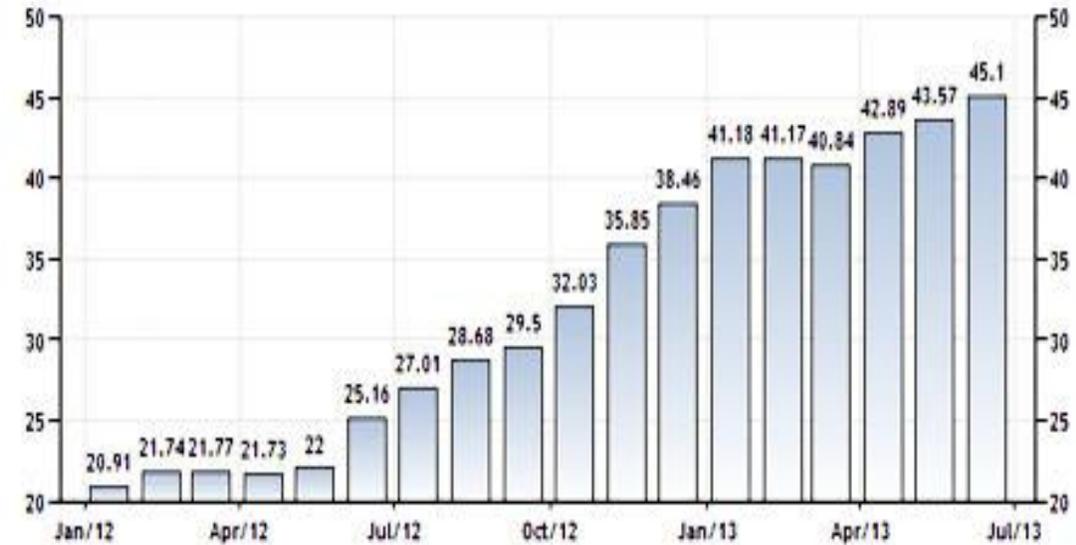


Source: Statistical Center of Iran, the 2006 Census of Population.

45% ■ Annualized change in Iranian consumer prices

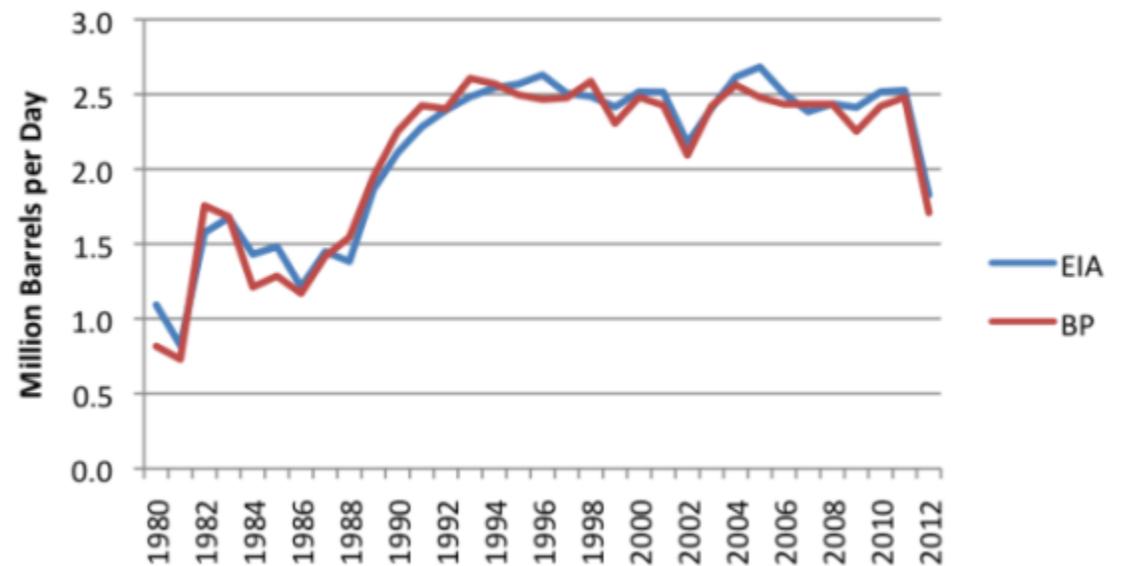


**IRAN INFLATION RATE**



SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL BANK OF IRAN

**Iranian Oil Exports**



# The Iranian nuclear program

- **Alarming activity:**
  - 2007 : 3,000 centrifuges capable of enriching uranium. Today: 19,000 centrifuges.
  - One to 3 years away of producing a nuclear bomb
- **Many facilities scattered through the country:**
  - Natanz and Fordow in Teheran: uranium enriched at 20%
  - Bouchehr: huge facility
  - Parchin: Huge construction not visited since 2005 (high explosive experimental site?).
- **Enriched uranium:**
  - So far, has 186,3 kg of enriched uranium; 240 kg needed for a bomb (according to AIEA)
- **Plutonium:**
  - Arak (different technology): will produce 9 kg plutonium per year in 2014
- **5+1 proposal to reduce sanctions:**
  - May 2012: stop enrichment at 20% and transfer stock abroad.
  - February 2013: keep part of the enriched uranium for research;
  - no Iranian response but convoluted counter-proposal: re-establish trust (6 months) then apply transparency.

# Key sanctions against Iran since 2006



**2006:** UN Resolution 1737 bans supply, sale or transfer of **materials that could be used for nuclear or ballistic weapons**. Entities and individuals' assets frozen. US: **Trade** between the two countries has been restricted since 1979.

**2007:** UN Resolution 1747 bans **Iran's arms exports, freezes assets and restricts travel** of more individuals engaged in nuclear activities.

**2008:** UN Resolution 1803 urges **vigilance when dealing with Iranian banks**. Introduces further asset freezes and travel bans. US : **banks** are further prevented from processing so-called "U-turn transfers" of money involving Iran.

**2010:** UN Resolution 1929 imposes further **restrictions on arms supply**, including tanks and helicopters. More individuals and firms added to sanctions list. US: Comprehensive Iran Sanctions, Accountability and Divestment Act targets **supply of fuel to Iran by non-US firms**. EU: Bans **technical assistance in oil sector. Restricts banks** and adds names to UN travel ban list.

**2011:** US tightens restrictions against foreign firms and **financial institutions trading in the fuel sector**. EU: **Assets of 243 Iranian entities and about 40 individuals are frozen**. More visa bans imposed.

**2012:** US : Further sanctions against the **oil sector and on banks** accused of doing business with Tehran. EU: Bans **Iran oil imports and freezes assets** of the Iranian Central Bank. Further asset freezes and travel bans follow.

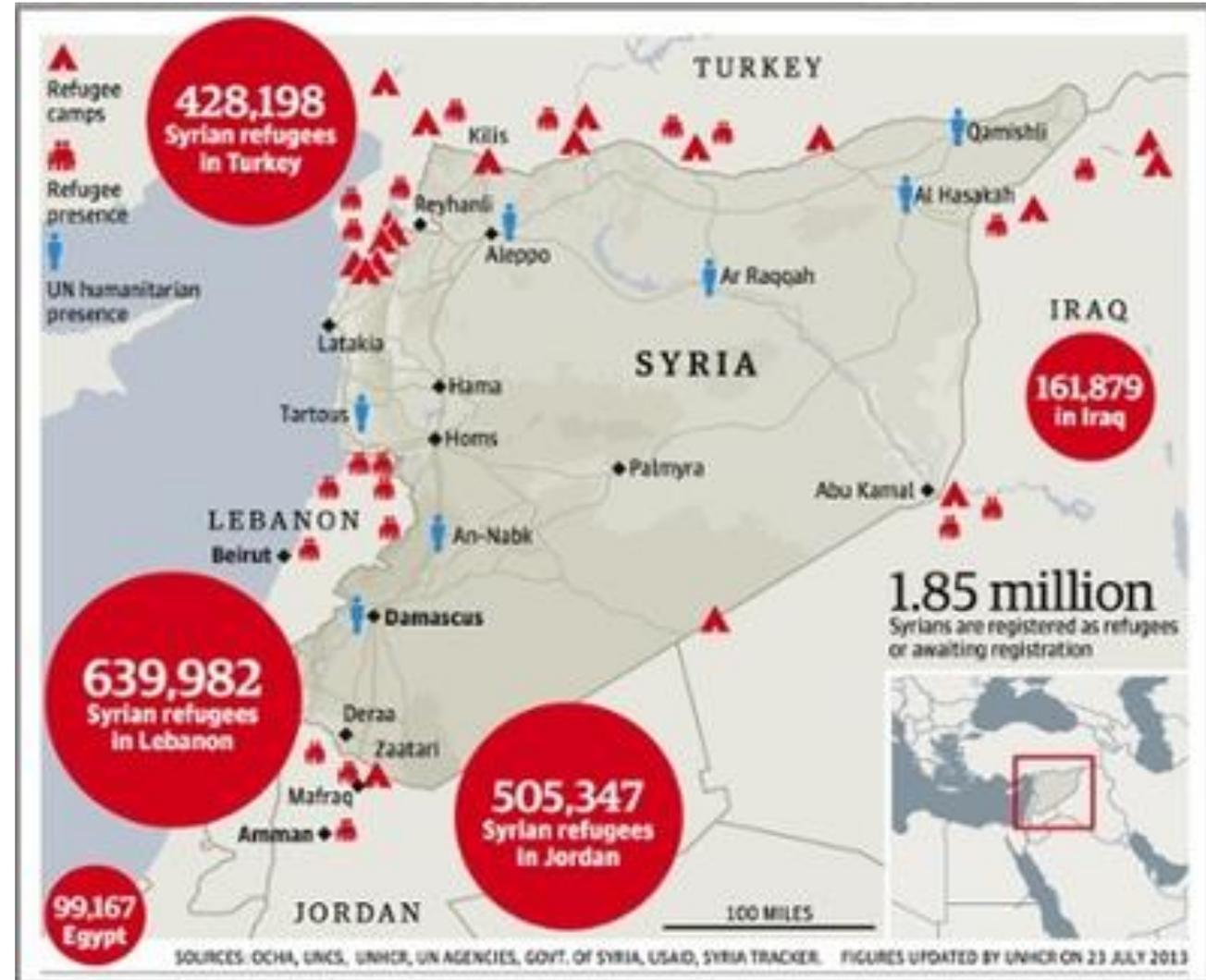
**2013:** US: New sanctions on Iran's **Rial currency and the automotive sector**.

# The 2013 November 23 accord between Iran & 5+1

- **The 6 month interim accord**
- No new centrifuges will be added - Enrichment limited at 5%. Neutralize the 20% already enriched uranium - Work will stop Arak reactor
- Expanded UN inspections
- 7 G\$ reduction of sanctions - 6 months window to re-evaluate the sanctions measures
- **The reactions**
- Netanyahu: historic mistake – The Korea precedent
- Saudi ambassador to the UK, Prince Abdel Aziz: All options are open. Do not understand the rush to reduce sanctions
- Rouhani: Our right to enrich is recognized; Kerry: It is not at all specified
- The struggle between conservatives and reformers in Iran might make the accord fail or succeed

# Syria today

- 123 000 casualties, 2 M refugees
- Today: GDP fell by 50%;
- Oil sales : 5% of what it was;
- Financing Syria in the past: 1967, 1973,  
    Taef accords, Gulf war, Iran.
- Today: Iranian, Russian and Chinese  
    credit 0.5G\$/y;
- Reserves fell from 17 to 4 G\$



# Syria

“The Sunnites excommunicate the Shiahhs, and both hate the Druse; all detest the Alawites; the Maronites do not love anybody but themselves, and are duly abhorred by all; the Greek Orthodox abominate the Greek Catholics and the Latins; all despise the Jews.” — Isabel Burton, early XX century

# Syria is the stage of proxy wars through big powers and regional powers

- The protagonists in the civil war (more than 100 000 casualties, 2 M refugees):
  - **Government forces** : Alaouites, Druzes, Christians, Sunni bourgeoisie, Hezbollah, financed by Iran and helped by Russia
  - **Free Syrian Army** (nationalists) financed by US and Saudi Arabia
  - **Moderate Islamists** (close to Moslem Brotherhood) financed by Qatar and Turkey and private donors from the Emirates
  - **Salafists** (want Islamic state) financed by Koweiti donors
  - **Djihadists** (Al-Qaeda, Jabhat-Al Nusra) : many radical foreigners (50% of the opposition?)
  - **Kurds**

# Israeli-Palestinian negotiations

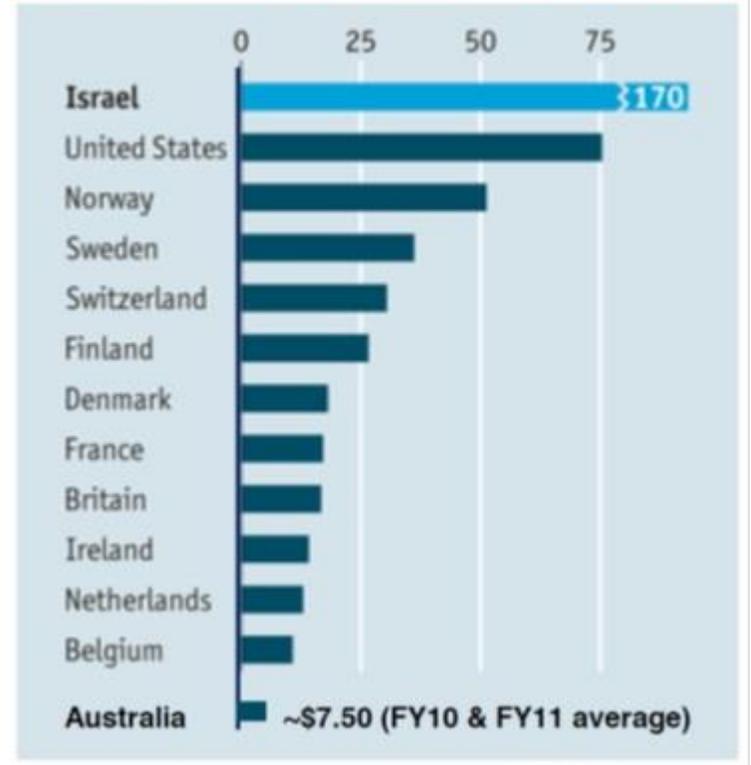
- Secondary with respect to the Iranian threat
- Continue until April 2014. Palestinian negotiating team resigned. Disagreement on the 1967 border as term of reference
- No illusion on the 2 state solutions
- 360 000 settlers in the West Bank
- 50% of infantry officers are religious
- Unlikely that solutions on Jerusalem and the temple Mount can be worked out

# Israel: a thriving economy



Israel became an OECD member in 2010

Figure 14 – VC per capita (2010 US \$)



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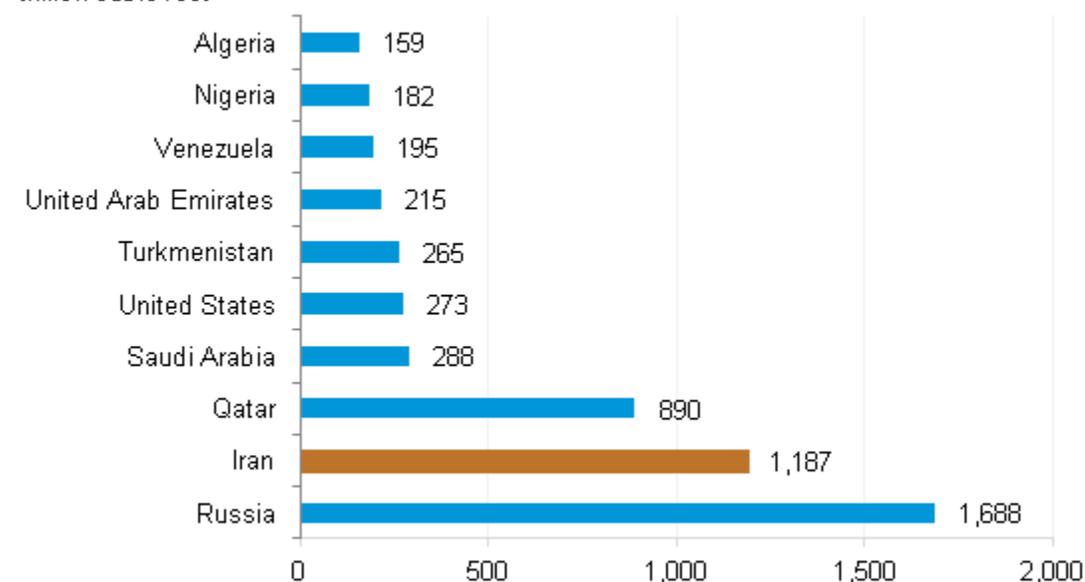
# Saudi Arabia and the Emirates

Country	Population (millions)	Oil sales (% export)	GDP (en M\$)	GDP/ capita (k\$)	Debt (% GDP)	Reserves (G \$)
Saudi Arabia	27	90	<b>906</b>	31,2	13	<b>630</b>
Koweït	2,6	90	<b>184</b>	70	7,5	<b>300</b>
UAE	4,6	85	<b>271</b>	49	15	<b>40</b>
Qatar	1,8	85	<b>173</b>	98	17	<b>32</b>
Bahreïn	1,2	70	<b>26</b>	23	15	<b>5</b>
Yemen & Aden	24	90	<b>57</b>	2,3	43	<b>6</b>
Oman	2,7	64	<b>90</b>	29	5	<b>14</b>
Iran	77	45	<b>548</b>	7,2	10	<b>70</b>

# Gas discoveries

## Largest proven reserve holders of natural gas, January 2013

trillion cubic feet



Source: Oil and Gas Journal

## RECENT NATURAL GAS DISCOVERIES IN ISRAEL

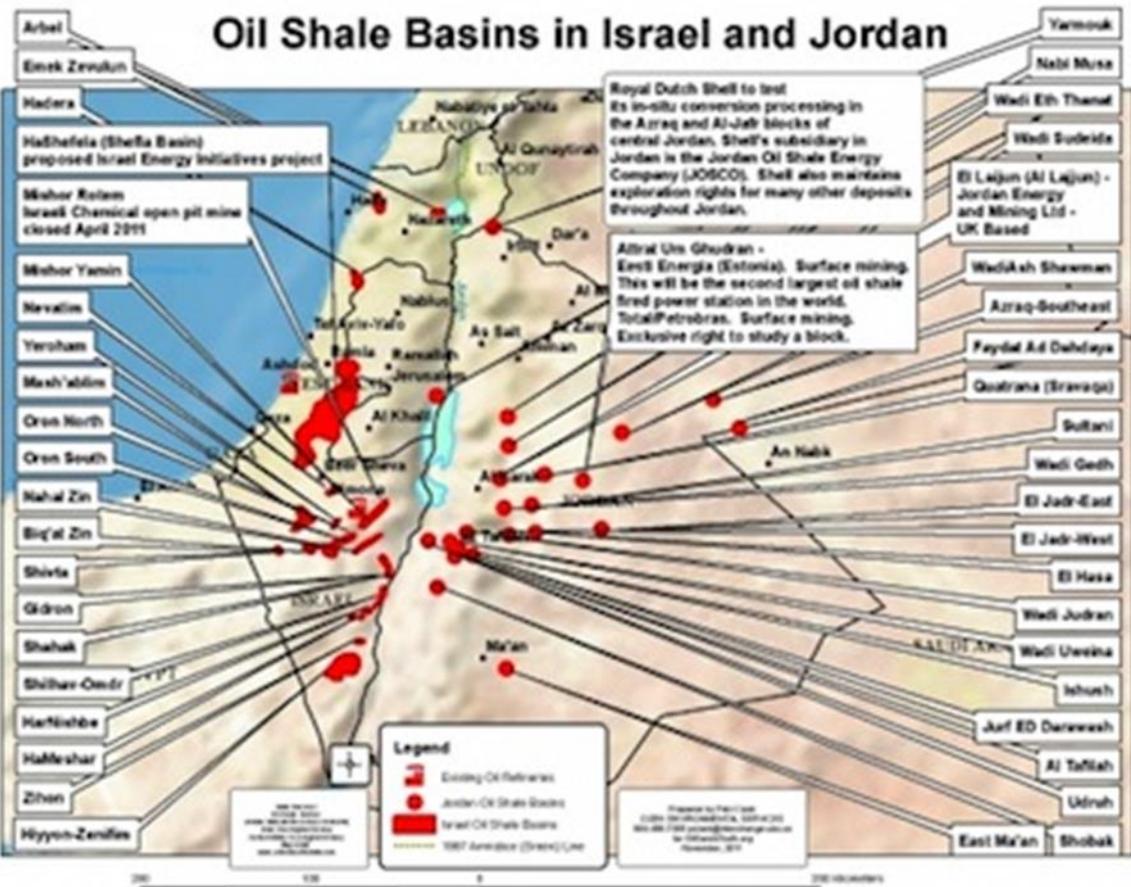
FIELD NAME	DISCOVERY DATE	ESTIMATED RESERVES*	FIRST VOLUME
Noa	1999	0.04	2012
Mari-B	2000	1.5	2004
Dalit	2009	0.5	2013
Tamar	2009	10	2013
Leviathan	2010	18	2016
Dolphin	2011	0.08	Unknown
Shimshon	2012	0.3	Unknown
Tanin	2012	1.2	Unknown
Karish	2013	1.8	Unknown

\*Trillion cubic feet

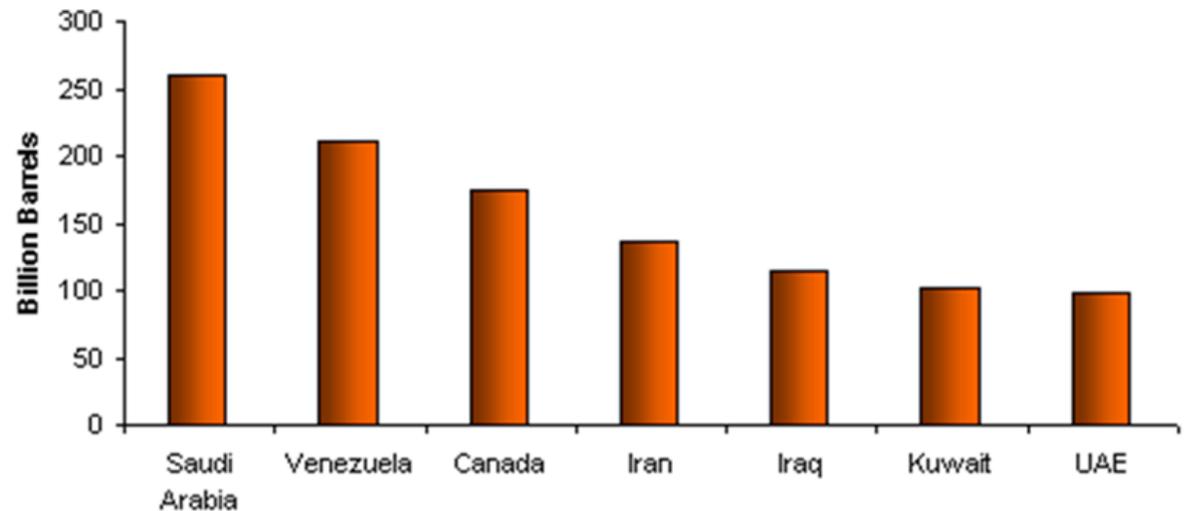
SOURCE: U.S. DEPARTMENT OF ENERGY

JONATHON RIVAIT / NATIONAL POST

# Potential turning point in the Levant



Top World Oil Reserves by Country  
January 1, 2011



Source: *Oil and Gas Journal*

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# Arm deals

- **The lasting impact of the Cold War**

- 1965-1989 : Arm sales were: Irak (93G\$), Saudi Arabia (62 G\$), Iran (51 G\$), Libya (46 G\$), Syria (46 G\$)
- After the first Gulf war: Russian arm sales fell by 90%.
- 2010: US arm sales total 66 G\$ in 2010 (75% of world arm sales): one of the aims: secure the flow of oil (22% of world needs, 36% of which are from Saudi Arabia).  
2010: Saudi Arabia (33 G\$), UAE (4,5 G\$)
- Iran and Syria are the main buyers of Russian arms, including Tor-1 (and S-300?).  
Russia and Iran own the majority of world gas deposits.

- **The emerging reality**

- New Turkish anti-aircraft deal with China (still in question)
- Huge Russian arm sales discussed with Egypt (including LR missiles).

# The missile threat & The anti missile technology in Israel

- **Missile threat increasingly contained**
  - **In Israel:** Iron Dome, Arrow program, Drone technology  
VS
  - **In Syria :** Several hundred of Scuds B, C and D (600 km), SS-21 short range ballistic missiles, P-800 Yakhont anti-ship missiles and Scean 5 ground-to-sea missiles
  - **Iran:** Shihab 3 (1300 km), Shahab 3 ER (2000 km) and some ICBM in development
  - **In Lebanon:** 50 to 80 000 missiles ( up to 250 km)
  - **Gaza :** Kassam (6-12 km), Katyusha (22 km), Fajr 3 (450 km), Fajr 5 (75 km)

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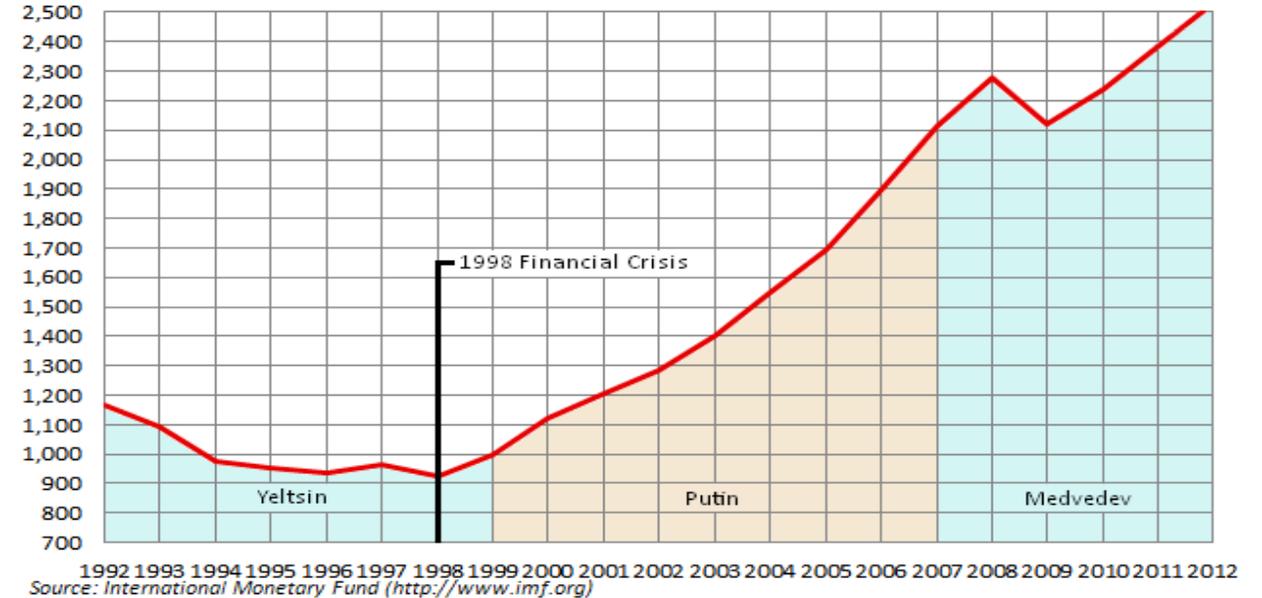
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# Russia

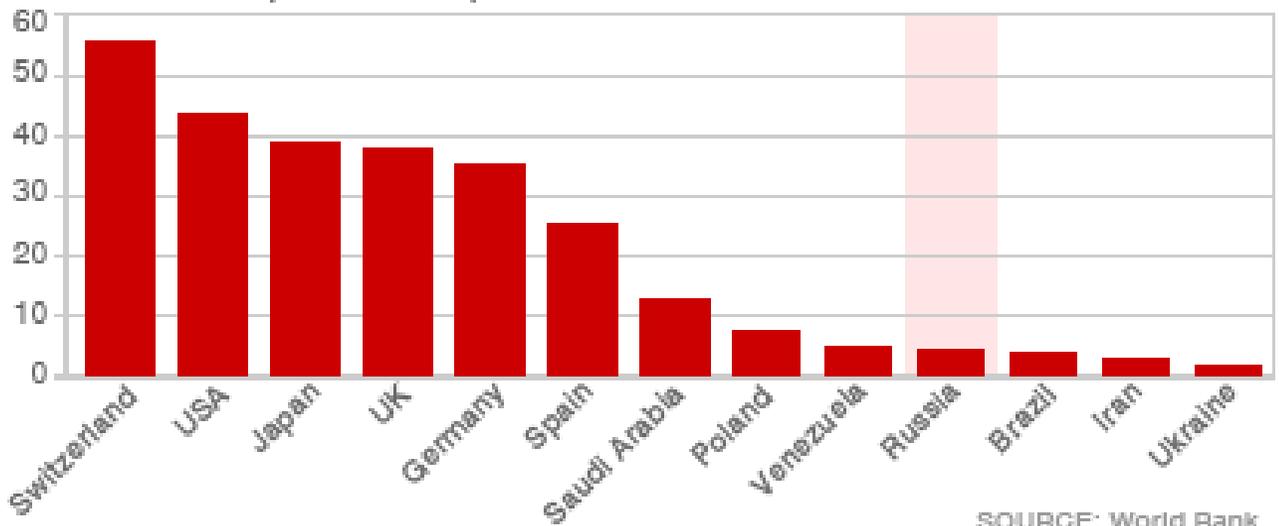
- Russia ousted from Egypt (after 1973) and from Irak (1991).
- The fall of the Berlin wall
- The EU extension to Eastern Europe
- The lost Libyan market
- Hanging on in Syria
- Courtship of the new Egyptian government. Saudi Arabia to finance 4 G\$ arm deal

**Russian GDP (PPP) Since Fall of Soviet Union**  
*Billions of International Dollars (2012)*



**RUSSIA'S WEALTH COMPARED WITH OTHER COUNTRIES**

Gross National Income per capita 2005  
Thousands US\$ (Atlas method)

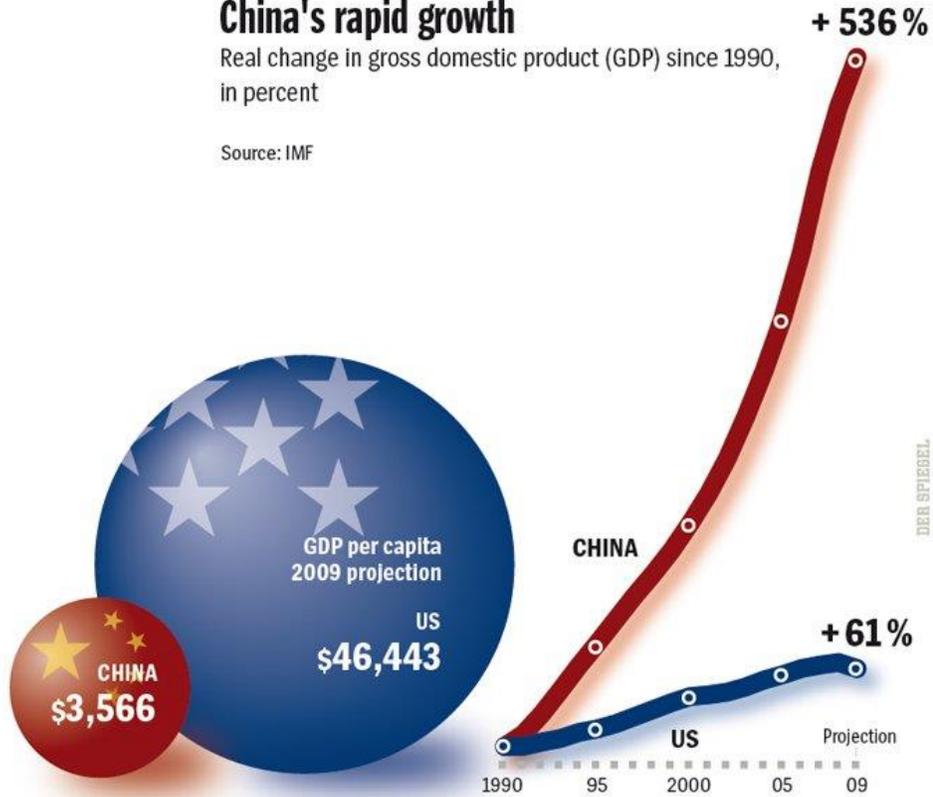


# China

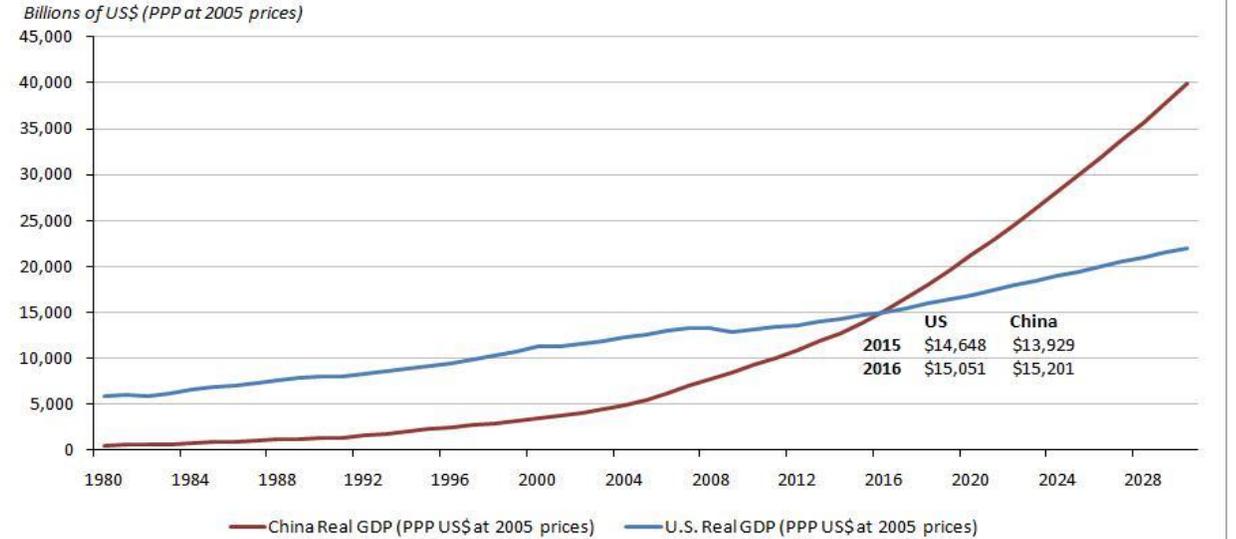
## China's rapid growth

Real change in gross domestic product (GDP) since 1990, in percent

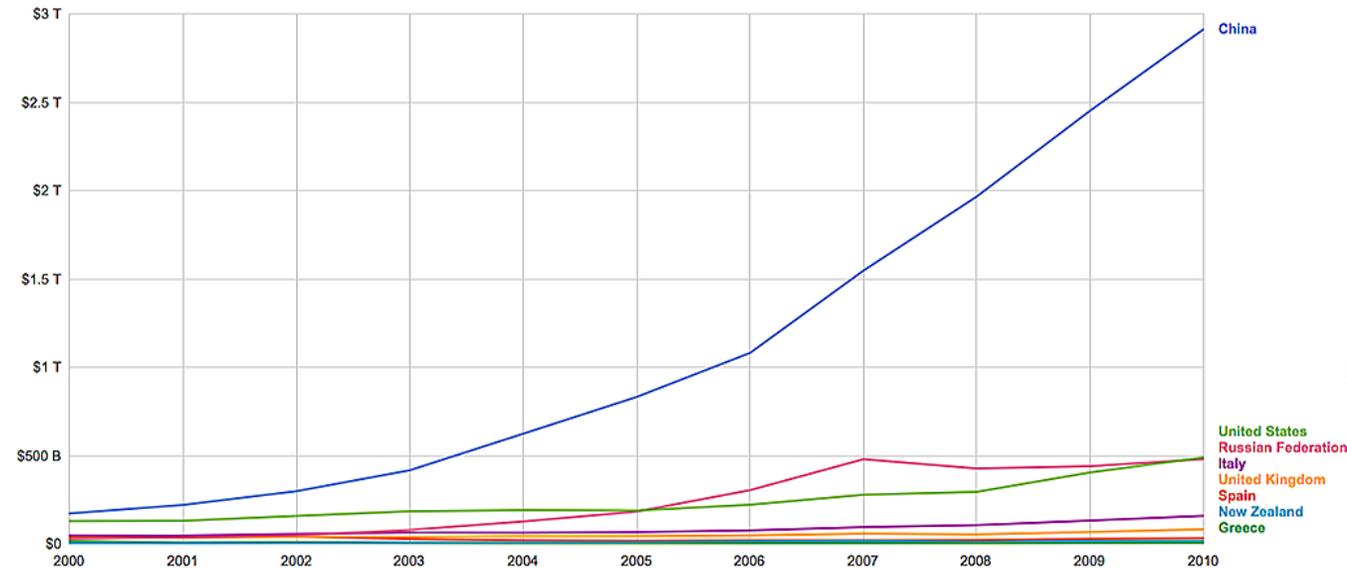
Source: IMF



## Real GDP, China and the U.S., 1980-2030



Source: Economist Intelligence Unit; calculated from GDP at constant market prices, rebased to 2005 constant prices and translated into US\$ using the LCU:\$ PPP exchange rate in 2005



# US is playing its hand poorly

- ... **with Russia:** Obama's cancellation of antimissile network in Poland. Russians "changed their mind" by re-evaluating the situation.
- ... **with Arab Countries:**
  - State department proposes to collaborate with moderate Islamists.
  - Partial suspension of US aid to Egypt: was there a coup or not ? Saudi Arabia and UAE offered 12 G\$ to Egypt
  - Obama asks Assad to leave, draws a red line in the sand, which was ignored by Assad
- ... **with Israel:**
  - Hilary Clinton established the 1967 lines "with agreed swaps" as one of the starting points for negotiations.
  - Netanyahu defied Obama's position and refused to freeze settlements in the West Bank.
  - Kerry: US consider the settlements in the West Bank are illegal
- ... **with Afghanistan:**
  - President Karzai: My trust in America is not good (November 26 2013)

Chas Freeman, former American ambassador to Saudi Arabia :  
"We have lost intellectual command and practical control  
of the many situations unfolding there"

# More on the US-Saudi rift

- **Saudis issues:**
  - Toppling Saddam Hussein allowed Iran to vastly increase its influence in Baghdad.
  - Rapprochement with Iran
  - US refused to help contain the Bahreini uprising
  - Slowness of Israeli Palestinian peace process
  - US attitude towards Mubarak , Morsi, Sisi
  - US U turn decision regarding the attack on Syria. Prince Saud to Kerry on November 4: “Reducing the Syrian crisis to merely destroying chemical weapons, won’t help put an end to one of the greatest humanitarian disasters in our times.”
  - The foreign minister cancelled his address to the United Nations General Assembly and turned down a seat on the Security Council.
- **US issues:**
  - Unhappy of the arming of the radicals by the Saudis
- **Today:**
  - Prince Turki in Washington: “US policy is a laughable charade, perfidy that allows Assad to continue the massacre of the Syrian people.”

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# Immediate implications

- **US alienating its allies**
  - Saudis mad at US as Iran tries to burry the hostilities with US
  - Israel
  - Egypt
- **Iran vying for regional power status**
  - Iran defends Syrian government while Turkey helps the rebels to oust the embattled Syrian president. It uses Shiite populations in the Middle East in order to destabilize Sunni countries (Syria, Lebanon, Bahrein...)
  - Strong penetration of the Iranian markets by China
  - 5+1 negotiations with Iran on the nuclear issue: a dangerous compromise
  - The accord of the 5+1 and Iran does not address the issue of human rights in Iran or the heavy destabilization of the Middle East by Iran (Syria, Hezbollah and Hamas)
  - The accord between the 5 + 1 and Iran could mean that Israel would have to deal with the Iranian threat by itself

# Immediate implications

- **Syria**
  - The elimination of chemical weapons from Syria does not halt the slaughter
- **Turkey evolving in a dangerous way**
  - Turkey bashes Egypt new government while Gulf nations send money to Egypt; Diplomatic relations with Egypt severed
  - NATO and Israel will have to reassess their relationship with Turkey after Erdogan, depending on Erdogan successors
- **Instability in the rest of the region**
  - Islamic revolution weakened in Libya and Tunisia; Irak is in turmoil
  - Superpowers trying to dominate ME and Asian markets
- **The peace process**
  - The continuing hate propaganda hampers the building of trust and the adoption of confidence measures towards the establishment of ME peace.

# Long term implications

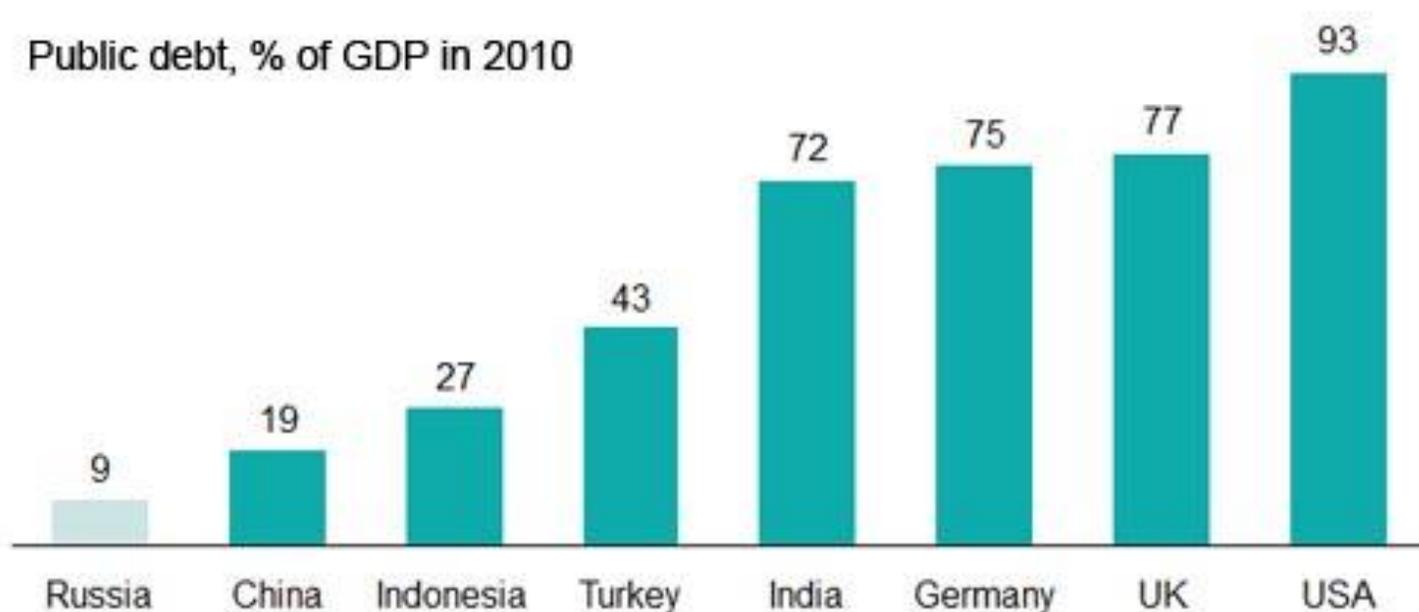
- **Surrounding countries are unstable**
  - **Syria:** back to the Sykes-Picot drawing board?
  - **Radical Islamist regimes** are failing
  - **Egypt:** long term military power
  - **Turkey:** the post Erdogan leadership will be crucial
  - **Iran:**
    - Continued tension between crawling democracy and conservative backlash
    - Danger of generalized nuclear proliferation if Iran gets the bomb
  - **The Gulf countries** will be for grab
- **No world power to lead the region to stability. From Pax Americana to Pax Sinica?**
  - US debt: Foreigners now hold approximately 5.6 trillion dollars of US debt (more than 17 trillion \$). The U.S. government will borrow about 4 trillion dollars this year. Is the US immune to an economic meltdown?
  - Emergence of China as a world power. US trade deficit with China: 320 G\$. China owns approximately 1.275 trillion dollars of US debt, Russia owns approximately 138 billion dollars of US debt.
- **Key relationships are defined through arm sales**
- **Oil wealth is at the tipping point where it wont be a predominately Arab Iranian asset**
- **Israel:** important to hold on until Leviathan is fully operational

# Future trends: From Pax Americana to Pax sinica?

Gross Domestic Product (nominal) [2006-2050] (in 2006 US\$ millions)<sup>[2]</sup>

Country	2006	2010	2015	2020	2025	2030	2035	2040	2045	2050
China	2,682,000	4,667,000	8,133,000	12,630,000	18,437,000	25,610,000	34,348,000	45,022,000	57,310,000	70,710,000
United States	13,245,000	14,535,000	16,194,000	17,978,000	20,087,000	22,817,000	26,097,000	29,823,000	33,904,000	38,514,000
India	909,000	1,256,000	1,900,000	2,848,000	4,316,000	6,683,000	10,514,000	16,510,000	25,278,000	37,668,000
Brazil	1,064,000	1,346,000	1,720,000	2,194,000	2,831,000	3,720,000	4,963,000	6,631,000	8,740,000	11,366,000
Mexico	851,000	1,009,000	1,327,000	1,742,000	2,303,000	3,068,000	4,102,000	5,471,000	7,204,000	9,340,000
Russia	982,000	1,371,000	1,900,000	2,554,000	3,341,000	4,265,000	5,265,000	6,320,000	7,420,000	8,580,000
Indonesia	350,000	419,000	562,000	752,000	1,033,000	1,479,000	2,192,000	3,286,000	4,846,000	7,010,000
Japan	4,336,000	4,604,000	4,861,000	5,224,000	5,570,000	5,814,000	5,886,000	6,042,000	6,300,000	6,677,000
United Kingdom	2,310								744,000	5,133,000
Germany	2,851								714,000	5,024,000
Nigeria	121,000								870,000	4,640,000
France	2,194								227,000	4,592,000
South Korea	887,000								562,000	4,083,000
Turkey	390,000								33,000	3,943,000
Vietnam	55,000								569,000	3,607,000
Canada	1,260								849,000	3,149,000
Philippines	117,000								40,000	3,010,000
Italy	1,809,000	1,914,000	2,072,000	2,224,000	2,326,000	2,391,000	2,444,000	2,559,000	2,737,000	2,950,000

Public debt, % of GDP in 2010



# Some reference websites

- Page 3: Al Ahram Daily news, July 8 2013
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- Page 9, [www.brookings.edu](http://www.brookings.edu), [www.tradeineconomics.com](http://www.tradeineconomics.com), Statistical Center for Iran,  
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- Page 13: [www.theguardian.com](http://www.theguardian.com)
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- Page 27: IMF, The economist
- Page 34: [fxstart.net](http://fxstart.net)