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# Middle East Brief

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## U.S. - Arab Economic Relations and the Obama Administration

Prof. Nader Habibi and Dr. Eckart Woertz

This Brief examines four developments that affect U.S.–Middle East economic relations and present important policy challenges to the Obama administration: China’s and India’s increasing energy interests in the Persian Gulf, which pose a challenge to the United States; the U.S. interest in the economic development of areas of the Middle East in which poverty and inequality lead to instability and political violence; the U.S. loss of market share to European and Asian countries as the Middle East’s purchasing power grows; and the Gulf Cooperation Council’s (GCC) emergence as the financial and economic center of the Middle East—and the concomitant need on the part of the United States to preserve its relations with the GCC.

### Growing competition for Middle East oil

The Middle East and North Africa (MENA)—Sudan included—accounts for more than 66% of the world’s proven global oil reserves, most of which are concentrated in the littoral states of the Persian Gulf.<sup>1</sup> In 2007, this area accounted for 36.7% of worldwide crude oil production.<sup>2</sup> As the oil and gas reserves in other regions of the world get depleted, the United States and other oil-consuming nations will become even more dependent on Middle East oil.

It is no wonder, therefore, that the security of the Middle East’s oil assets and their effective means of transportation (especially in the Gulf region) have remained prime preoccupations of U.S. Middle East policy ever since World War II. The United States’s approach to oil security in the Middle East has three important components.

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The publication of this Brief was co-sponsored by the Gulf Research Center in Dubai.

*The opinions and findings expressed in this essay are those of the authors exclusively, and do not reflect the official positions or policies of the Crown Center for Middle East Studies or Brandeis University.*

First, ever since 1971 the United States has maintained a strong naval presence in the Persian Gulf in order to protect oil shipping routes. Until the 1979 Islamic revolution and in accordance with the so-called “twin pillar policy,” it relied on Iran and Saudi Arabia as allies. After the 1979 revolution, as U.S.-Iranian relations turned hostile and the Iran-Iraq war broke out, the U.S. had to strengthen its own naval forces in the region.<sup>3</sup> Therefore, in the 1980s, it beefed up its naval presence in the Persian Gulf in order to contain both Iran and Iraq before becoming more directly involved in the region by stationing troops in the wake of the liberation of Kuwait in 1990-91.

The second component of U.S. oil policy in the region is close alliances with the oil monarchies of Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman. These six oil-exporting countries, which make up the GCC, rely on the U.S., and to a lesser extent on the UK and France, for their external defence and domestic security assistance.

The third component of U.S. oil policy is to maximize the participation of U.S. oil companies in the production, refining, and transportation of oil and gas products in the region. Western oil companies such as Halliburton, ExxonMobil, Texaco, and British Petroleum (BP)—with a large American ownership—are actively involved in exploration, production, and refining activities in GCC countries. In the past two decades, American oil firms have continued their involvement in the production and distribution of oil and gas in several MENA countries. This cooperation has mostly taken the form of service contracts for specific activities—whereas lucrative production-sharing agreements that allow international oil companies to show the oil reserves of a particular project on their balance sheets have been off-limits.

Some American oil firms have also participated in public-private joint ventures in partnership with national oil companies. The Bush administration actively promoted the participation of American oil firms in these public-private partnerships and encouraged GCC governments to accept foreign investment in their energy sectors.<sup>4</sup>

In recent years, the dominance of U.S. oil firms has been challenged by Chinese and, to a lesser extent, Indian firms. China’s rapid economic growth has led to a sharp increase in oil consumption, and it is now second to the U.S. in oil imports. As part of an aggressive strategy to acquire oil assets and develop long-term oil purchase contracts, the Chinese have created three large oil and gas companies: SINOPEC (China Petroleum & Chemicals Corporation), CNPC (China National Petroleum Corporation), and CNOOC (China National Offshore Oil Company). Since 2003 the Chinese government has encouraged these firms to expand their operations in oil-exporting countries worldwide. They have competed with American and European firms for oil and gas projects in the Middle East and Africa ever since. A similar pattern is emerging with respect to India and Indian oil firms, although they have had less success than Chinese firms.

The penetration of Chinese and Indian firms in the MENA energy markets not only takes away business opportunities that might otherwise have been awarded to American firms, but also diverts a larger share of Middle East oil exports to Asia. This is because the service contracts awarded to Chinese and Indian firms are often part of larger long-term oil and gas export contracts which sometimes involve reciprocal investment agreements. State-backed Chinese oil companies are in a better position than Western ones to overlook short-term commercial profitability in favor of long-term strategic considerations. In January 2006, King Abdullah of Saudi Arabia paid a formal visit to China, and oil sector cooperation was the main topic of bilateral negotiations. During this visit the two sides signed a “protocol on cooperation in the areas of petroleum, natural gas and mineral resources.”<sup>5</sup>

Energy cooperation between the GCC and Asia is expected to intensify in the coming years. In March 2007, SINOPEC signed an agreement with Aramco and ExxonMobil for a \$3.6 billion refinery project in Fujian province in Southern China. (Saudi Aramco is also

a 25% stakeholder in another SINOPEC refinery project in the Shandong province.) SINOPEC also won a major project in Saudi Arabia in 2004 for gas exploration in the Southeastern desert region known as the Empty Quarter (Rub al-khali): SINOPEC was awarded a 30,000-square-kilometer area for exploration after Western oil companies like ExxonMobil backed out of the tender because of commercial considerations. SINOPEC now owns 80% of Sino-Saudi Gas Limited (SSGL), a joint venture with Aramco. China also has a joint refining venture with Kuwait Petroleum Corporation (KPC) in China's Guangdong province and is engaged in exploration and maintenance activities in Oman.<sup>6</sup>

China poses another challenge to United States energy interests in the Middle East by investing in countries that are off-limits to Western energy firms because of international sanctions and political considerations. Whereas the U.S. has imposed sanctions on Sudan and Iran, for example, Chinese oil firms have aggressively penetrated these countries. China is the main provider of oil technology to Sudan, and in return it is the main importer of Sudanese crude oil. China National Petroleum Corporation (CNPC) has purchased several oil assets, including a controlling share (40%) in Sudan's Greater Nile Petroleum Operating Company (GNPOC), which owns significant oil reserves and produces approximately 300,000 barrels per day. Another major shareholder in GNPOC is the Indian oil firm ONGC, with a 25% share. Both China and India are expected to expand their energy cooperation with the Sudanese government despite international criticism.

More significantly, China and India have both invested in Iran's oil and natural gas sectors, though the progress of these projects has been affected by occasional United States diplomatic pressure on both countries. In October 2004, China and Iran signed a long-term 25-year agreement for the development of the Yadavaran oil and gas field in Southern Iran. The agreement is worth approximately \$100 billion dollars and requires the Chinese firm SINOPEC to construct a refinery and a liquefied natural gas (LNG) export facility near this field in return for buying 10 million tons of LNG per year for 25 years. (After initial doubts regarding whether the agreement would materialize, its prospects advanced as SINOPEC committed to investing \$2 billion in December 2007.) The Indian firm ONGC is also a minority stakeholder in this project.

China is also involved in the construction of a 240-mile oil pipeline for transport of crude from the Caspian Sea port of Neka to a refinery near Tehran. This pipeline will allow Iran to swap oil with Kazakhstan for export to China.<sup>7</sup> India is also negotiating for the construction of a pipeline for importing natural gas from Iran via Pakistan (nicknamed "the Peace Pipeline"). The success of these negotiations, however, is in doubt because of U.S. pressure on India and the fragility of Indo-Pakistan cooperation.

Overall, the policies that China and India are currently pursuing with respect to securing long-term energy supplies from the Middle East pose a challenge to U.S. oil and security interests

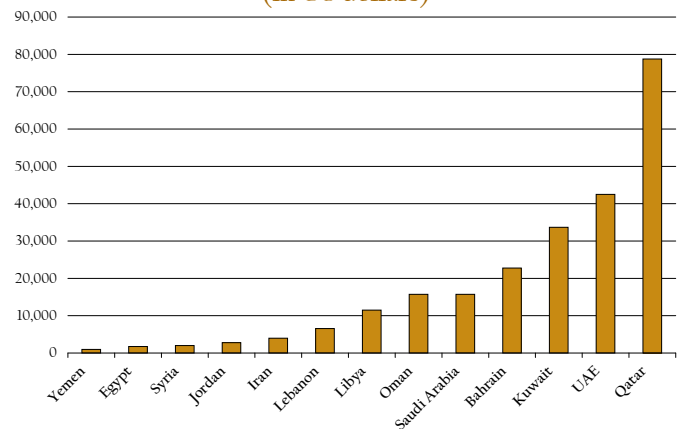
in the region.<sup>8</sup> In order to limit their energy investments in Iran and Sudan, the United States has offered several economic and political incentives to both China and India. At the same time, it has imposed trade restrictions on specific Chinese and Indian firms for violating U.S. sanctions. So far, however, this carrot-and-stick strategy has had mixed results. Neither China nor India is prepared to fully sever its energy ties with Iran. Instead, the two countries are using Iran as a bargaining chip in their diplomatic and economic relations with the United States.

The energy competition from China and India will also affect U.S. economic relations with friendly oil-exporting regimes in the region, such as the GCC countries—and U.S. oil companies may have to be more flexible in their dealings with these countries and offer more concessions in order to remain competitive. The Obama administration might also try to create more business and investment opportunities for American energy firms in the context of bilateral trade and investment agreements with the moderate oil-exporting countries—but to achieve this goal, the U.S. might have to offer other trade or diplomatic concessions.

## The promotion of growth and economic development in MENA countries

There is considerable disparity in both per capita income and economic development among Middle Eastern countries. Some oil-exporting countries, such as those in the GCC, enjoy living standards that are close to those in advanced industrial countries, while poverty and underdevelopment are still major concerns in many other countries, such as Egypt, Yemen, and Morocco. Furthermore, in some of the MENA countries that fall between these two extremes, there is considerable income inequality and uneven development. Overall, the region's human development report card shows some improvement in the past two decades, but the region as a whole still lags far behind the OECD nations.

Chart 1. Per Capita Income in Middle East Countries, 2007 (in US dollars)



Source: Data from IMF, *World Economic Outlook Database*, October 2008

In light of the sizable economic and geopolitical interests of the United States in the Middle East, it is in the American national

interest to promote economic growth and development in the less developed areas of Middle East for several reasons. First, poverty and underdevelopment create a breeding ground for the promotion of Islamic militancy and political violence, which is frequently directed toward the United States. Critics in Arab countries that maintain friendly relations with the United States often view the U.S. as the supporter of the ruling elite in their country and blame the U.S. for the economic shortcomings of their own governments.

Second, if properly channeled, the region's oil revenues are large enough to finance its much-needed sustainable development. In countries that have reformed their economic and financial institutions, the oil revenues are complemented by growing inflows of foreign investment. The MENA region also has an adequate young and semi-skilled labor force. Furthermore, as the experience of the GCC states in recent years has shown—exemplified in the recent immigration of thousands of educated Arab and Iranian professionals from Western countries to the United Arab Emirates—the region can even reverse the Arab world's pervasive brain drain.

Third, U.S. businesses will benefit from the economic growth and development of MENA countries. The United States enjoys a comparative advantage in sales of high-tech products such as airplanes, advanced computers, electronic devices, and—for better or for worse—advanced weapons systems. It is also a leading provider of oil technology and services, which are in high demand in many parts of the region. Even more significant for the United States is MENA's food deficit, which offers attractive export opportunities for U.S. agricultural products. The U.S. is one of the leading food exporters in the world, and as the MENA region—which has mostly stagnant agricultural production, due to scarcity of water and arable land—grows, demand for imported food products will increase.<sup>9</sup>

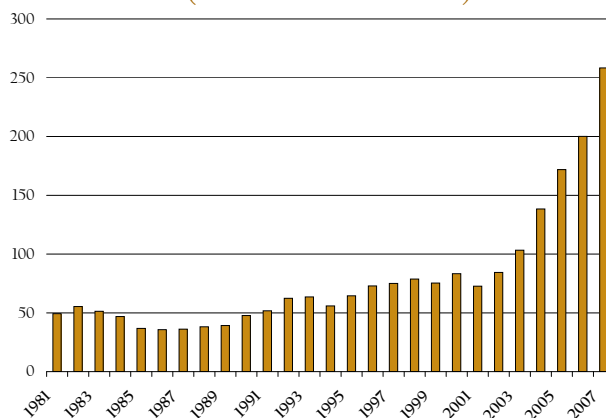
The United States must seek international cooperation, however, with respect to the promotion of sustainable growth in the Middle East. Unilateral initiatives will put a higher financial burden on the U.S. government—and in light of recent tensions between the U.S. and Arab countries over Iraq, are also less likely to gain acceptance inside the region. But if the U.S. does not take the lead, it is likely that Europe and China, which enjoy more goodwill in the region, will launch their own developmental assistance initiative for the region, causing a further reduction in U.S. influence.

The United States can also encourage the GCC countries to increase their investment in and financial assistance to low-income countries in the region. This can take the form of multilateral cooperation in private sector initiatives in which American firms partner with GCC firms in large-scale investment projects. A number of GCC real estate firms, such as Emaar (a Dubai-based real estate firm with worldwide operations), are already investing in several MENA countries, but partnership with American firms would enable investment in many more sectors, particularly those which require more advanced technologies.

## The US trade and investment relations with the region

High oil revenues and the strong economic growth of recent years have led to a sharp increase in the volume of imports by Middle Eastern countries. As demonstrated in Chart 2 below, imports by major Middle Eastern countries have increased by more than 200% during the period 1997-2007: from \$75.05 billion in 1997 to \$258.3 billion in 2007.<sup>10</sup>

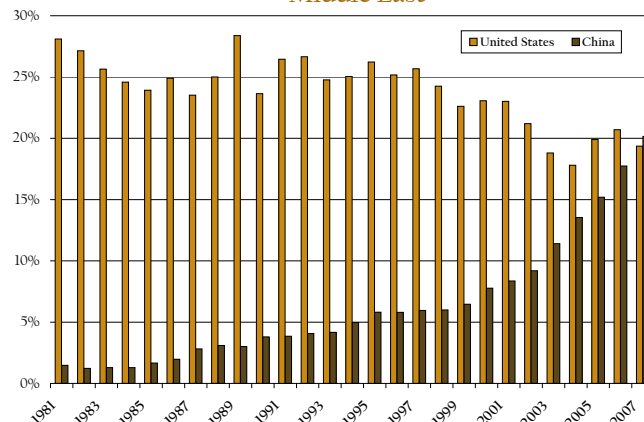
Chart 2. Volume of Merchandise Imports (in billions of US dollars)



Source: Aggregate value of imports for a select group of MENA countries that are listed in endnote 10.

U.S. exports to these MENA countries rose from \$19.4 billion in 2000 to \$50 billion in 2007. While these figures indicate positive growth, several other countries—China in particular—were able to increase their exports at a faster pace than the United States. China's exports rose by more than tenfold, from \$4.5 billion in 1997 to \$52 billion in 2007. As demonstrated in Chart 3, the U.S. share of the Middle East export market has declined from 1997 to 2007, while China's share has increased during that period. Starting from a small share of 5.9% in 1997, China was able to expand its share to 20.1% in 2007, which exceeded the U.S. share (by a small margin) for the first time. The European countries have also lost market share to China, but the magnitude of their market loss has been smaller than that sustained by the United States.<sup>11</sup>

Chart 3. U.S. vs. China: Shares of Total Exports to Middle East



Source: Shares calculated by authors based on IMF, *Direction of Trade Statistics*, August 2008.

High oil revenues and extensive investments in infrastructure, real estate, and manufacturing in some MENA countries point to strong growth in both economic activity and demand for imports over the next ten years.<sup>12</sup> But as the Middle East export market continues to grow, the U.S. will face strong competition from Asia and Europe, and the Obama administration will have to take steps to grow or at least preserve the U.S. share in this market. Improving the image of the United States in the region and fine-tuning U.S. trade policy toward MENA countries are two important steps that could be taken in this direction. With respect to the first, U.S.-Arab diplomatic relations have historically had an indirect impact on the U.S. share of the MENA export market. In the 1990s, when the U.S. was actively involved in the Oslo peace process, there was a noticeable improvement in the image of the United States in Arab countries, and the U.S. market share remained stable after a visible decline in the 1980s. As shown in Chart 3, the U.S. market share suffered another downward trend in 1999-2005 as the Middle East peace process gave way to the second Palestinian Intifada, the September 11 attacks on the United States, and the U.S. military involvement in Iraq and Afghanistan.<sup>13</sup> If the Obama administration makes progress with respect to the Arab-Israeli peace process and significantly reduces the U.S. military presence in Iraq, these policies are likely to have a positive impact on the volume of U.S. exports to the region.

The Bush administration tried to strengthen trade and investment ties with MENA countries by negotiating bilateral Free Trade Agreements (FTAs); it has already signed FTAs with Morocco, Israel, Jordan, Bahrain, and Oman. Currently negotiations are underway with several other MENA countries, including Egypt, Qatar, and the United Arab Emirates (UAE). The current U.S. trade agenda in the Middle East was formulated by the Bush administration in 2003 as a graduated path toward a comprehensive U.S.-Middle East FTA. According to this plan, the United States would first negotiate bilateral FTA agreements with individual Middle Eastern countries and over time consolidate these individual FTAs into an integrated regional FTA. Critics argue, however, that the separate FTAs that the United States is interested in undermine existing regional trade agreements among Arab countries. Tensions with Bahrain rose, for example, when Saudi Arabia became concerned that the U.S.-Bahrain FTA (which went into effect in August 2006) violated the GCC customs union, which called for a 5% tariff on imports from non-GCC countries.

In contrast with the United States, the European Union and China are negotiating *regional* FTAs with *groups* of Middle Eastern countries and encouraging inter-Arab economic integration. The EU has established the Euro-Mediterranean Partnership (EMP) to promote trade and economic cooperation with the MENA countries that surround the Mediterranean Sea. The EU has also been pursuing a free trade agreement with the GCC block for several years but strong disagreements on a number of issues have repeatedly delayed a final agreement and the talks have been suspended since December 2008.<sup>14</sup> The GCC-China negotiations began in 2004, and four rounds of talks have been completed so far.

The Arab countries seem to prefer collective free trade agreements with their major trade partners. As the Obama administration reviews the state of U.S. economic relations with the Middle East, it must decide whether to continue the current policy of independent trade negotiations or to switch to a collective FTA option with multicountry blocs, similar to the approach taken by the European Union and by China. Since Arab countries are gradually moving toward deeper regional or subregional economic integration, they might find it more difficult in any case to sign independent FTAs. By modifying its FTA program along these lines, the United States would demonstrate its goodwill toward the region and would in all likelihood, be able to sign trade agreements with larger groups of Arab countries.

## The growing financial and economic power of GCC countries

The economic ascent of GCC countries poses both opportunities and challenges for the United States. With a total resident population of less than 40 million, the six GCC countries already account for more than half of the MENA region's economic output. Over the past two decades the center of economic and financial power in MENA has shifted from larger economies such as Iran and Egypt to this small, economically potent group of Arab nations.<sup>15</sup>

The U.S. needs the Gulf to finance its deficit, and the Gulf has a large stake in the American economy on account of its investments in dollar-denominated assets. Furthermore, the current economic crisis is forcing the United States to introduce a deficit-financed economic stimulus plan which will require even more investment by GCC countries and China in U.S. government treasury bills and bonds. The U.S.'s high deficit, which allows the U.S. to maintain its large volume of imports, can put added downward pressure on the dollar, which is a matter of concern for the GCC countries, who hold over 60 percent of their foreign assets in dollars. The value of these foreign assets has decreased by an estimated 25 percent during the recent turmoil in global financial markets.

Consequently, GCC governments have no alternative but to prevent a dollar collapse in the short run because of their existing dollar assets. But a gradual divestment toward European and Asian assets might occur in the long run if they fear further weakness in the dollar. Since the Obama administration has already announced that it plans to finance a large economic stimulus plan in the next few months, it must engage in close consultations with its GCC and Asian creditors, who will be asked to purchase a portion of this additional debt.<sup>16</sup> Although stimulating the U.S. economy will remain the top economic priority of the new administration, it must also demonstrate a strong commitment to long-term price stability and to the strength of the dollar in order to reassure its international creditors and restore confidence in the U.S. economy. Given the magnitude of debt involved this will be a very difficult task, but it is absolutely essential. The U.S. economy will face

new hardships in the long run if the GCC countries and other international creditors lose faith in the stability of the dollar and reduce their investments in U.S. assets.

Additional problems could arise from dwindling current account surpluses in the GCC countries and China in the wake of recent declines in oil prices and Chinese manufacturing export revenues. The current account and fiscal surpluses of the GCC countries will be significantly reduced or will vanish altogether in 2009-10, according to the IMF and the Institute of International Finance (IIF).<sup>17</sup> Consequently, the GCC countries will not be able to spare the “hundreds of billions” of dollars that British prime minister Gordon Brown asked for the proposed IMF bailout fund during his November visit to GCC capitals, not to mention similar sums for U.S. bailout packages—even more so, because GCC countries need significant capital injections into their own local economies, which have been hit by the global financial crisis.<sup>18</sup> The possible decline of capital injections from Asia and GCC countries will make it more difficult for the United States to finance a stimulus package and force the U.S. to rely more on domestic borrowing and on monetization of debt by the Federal Reserve.

Another issue of interest in U.S.-GCC economic relations is U.S. policy toward foreign equity investments. As part of their long-term investment strategy, the GCC Sovereign Wealth Funds (SWFs) are allocating a larger share of their assets in equity investments, but some political and media circles in the United States have recently opposed large-scale investments that would offer a foreign investor substantive management power in large American firms. In 2005, for example, the United States prevented the China National Offshore Oil Company (CNOOC) from acquiring Unocal, although its bid was better than Chevron’s competing bid. This was followed by the strong political opposition to a Dubai-based firm’s interest in acquiring six port authorities in the United States in 2006.

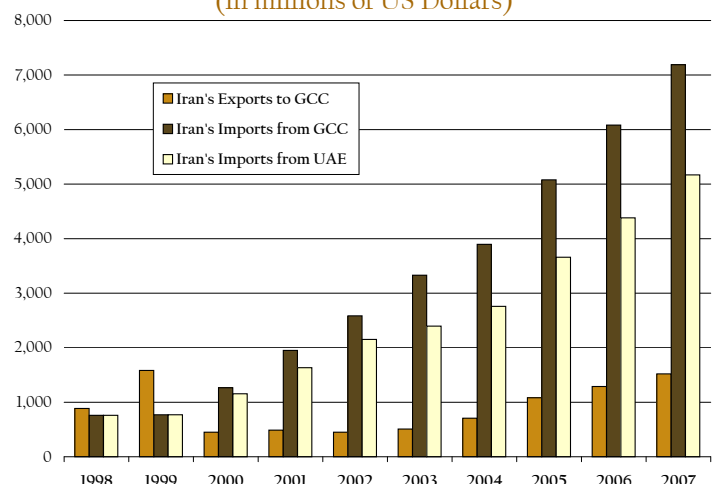
This sensitivity has diminished since 2007. Saudi petrochemical giant SABIC bought GE Plastics for \$11.6 billion, the Abu Dhabi Investment Authority (ADIA) bought 4.9 percent of Citigroup, and the Abu Dhabi Investment Council (ADIC) bought the Chrysler building, to mention just a few examples. As more and more American firms face financial difficulties in the current economic crisis, foreign investment is often an attractive alternative to bankruptcy and government bailouts. Yet the United States and other Western governments are still concerned about large-scale equity investments on the part of Asian and Arab SWFs. The main concern of Western governments is that since SWFs are government-owned, these investments will be used to serve political objectives and thereby harm the national interests of the host countries.

To address these concerns, in the spring of 2008 the International Monetary Fund formed a 26 member International Working Group of Sovereign Wealth Funds (IWG), comprising representatives of Investor governments and several international organizations, to come up with a set of recommendations and guidelines for SWFs, leading to 24 “Generally Accepted

Principles and Practices (GAPP),” known as the Santiago Principles.<sup>19</sup> It is important that the Obama administration support this process of international negotiation so that a set of universally accepted guidelines for SWF investments will be adopted by the international community. Such a step will facilitate larger GCC investments in U.S. firms and provide more liquidity to the U.S. economy.

Another issue of concern in U.S.-GCC relations is the U.S. demand for GCC participation in economic sanctions against Iran. Since 2007 the United States has put pressure on GCC governments and businesses to limit their trade and investment relations with Iran. In response to these pressures, some banks in Bahrain and the UAE have refused to support financial transactions with Iranian firms. In general the GCC countries tend to cooperate with U.S. demands on such issues, while being otherwise reluctant to take sides in the ongoing tensions between Iran and the United States. In recent years the volume of trade between Iran and GCC countries has enjoyed a rapid increase—and, as demonstrated in Chart 4, the GCC countries enjoy a considerable trade surplus vis-à-vis Iran. Cooperating with U.S. economic sanctions, therefore, will impose an economic cost on these countries.

**Chart 4. Merchandise trade between Iran and the GCC**  
(in millions of US Dollars)



Source: Data from IMF, *Direction of Trade Statistics*, June 2008.

The country that will be most impacted by U.S. pressures against trade with Iran is the UAE. After China (14.3%) and Germany (9.7%), the UAE is the third largest exporter to Iran, with a share of 9.2% of total UAE exports to Iran. In recent years the UAE has emerged as Iran’s window to the world, serving as a re-export center for many types of machinery and spare parts that Iran needs. Up to 300,000 Iranians live in the UAE, according to some estimates, and Iranians own 15 percent of the Dubai real estate market.

The U.S. has increasingly pushed the UAE to limit the trade flows and financial transactions that are so vital to the Iranian economy. The UAE has complied with these demands to some extent, but full compliance would be very costly for its economy: UAE exports to Iran were worth \$4.7 billion in 2007; exports to the U.S. only \$1.27 billion.<sup>20</sup> GCC countries also look to Iran to

overcome their looming natural gas shortage—and cooperation with U.S. sanctions would make it more difficult for them to develop their natural gas trade with Iran.

If the United States insists on broad GCC participation in the sanctions, it will have to offer some political and economic concessions to offset the above-mentioned costs that GCC countries will have to incur. From the GCC's point of view, an even better alternative would be an attempt by the United States to resolve its dispute with Iran through direct negotiations, allowing the GCC countries to remain neutral.

## Conclusions

In this Brief we have identified four issues that affect U.S.-Arab economic relations and must be taken into consideration by the U.S. administration as it sets a new course for the American Middle East policy. While oil will continue to dominate the U.S. strategic concerns about the region, the growing economic and financial power of some Middle Eastern countries also deserves some consideration. These countries are combining their large oil revenues with sound economic policy to achieve high economic growth rates and they are being actively courted by European and Asian countries who seek to expand their trade and investment relations with these nations. The United States also has an interest in promoting economic growth and higher standards of living in lower-income Middle Eastern countries. Poverty and inequality in countries like Egypt and Yemen often leads to the rise of militant movements and political violence which spreads throughout the region and is frequently targeted towards U.S. interests. Global competition for the Middle East export markets will be intense in the coming decade. The ability of the United States to succeed in this market will partially depend on the diplomatic and military dimensions of the U.S. Middle East policy, particularly its perceived role in the Middle East conflict.

## Endnotes

1 Source: *BP Statistical Review of World Energy*, June 2008. The latest reserve estimate data are as of December 2007.

2 [Data retrieved from the U.S. Energy Information Administration \(EIA\) website.](#)\*

3 The elevated American military commitment to the security of oil supplies in the Persian Gulf was also known as the Carter Doctrine. According to this doctrine, the United States will use military force if necessary to prevent any outside or regional power from dominating this region.

4 [U.S. Department of Energy, "National Energy Policy Report" \(2001\), Chapter 8, p. 6.](#)\*

5 ["Hu Jintao Holds Talks with Saudi Arabian King Abdullah," Ministry of Foreign Affairs of the People's Republic of China, January 23, 2006.](#)\*

6 In 2002, Oman awarded a small production maintenance contract to CNPC, which was able to increase the yield of the small oil well that it was responsible for from 2,000 to 12,000 b/d. This success encouraged the Omani government to award more contracts to Chinese firms. In August 2004 it awarded an exploration and output-sharing contract to SINOPEC for two land blocks in Southern regions of the country.

See [Eurasia Group, "China's Overseas Investments in Oil and Gas Production," Research Paper, October 16, 2006, p. 11.](#)\*

7 Michael T. Klare, *Rising Powers, Shrinking Planet* (New York: Metropolitan Books, 2008), p. 196.

8 In his 2008 book (above cited) the energy expert Michael Klare argues that the United States must work out a cooperative arrangement with China (and India) to manage the growing competition for energy resources in the Middle East and elsewhere. He further warns that in the absence of such cooperation, this competition could result in diplomatic tensions and a higher risk of conflicts over resources.

9 Eckart Woertz, Samir Pradhan, Nermina Biberovic, and Chan Jinzhong, "The Potential for GCC Agro Investments in Africa and Central Asia," *GRC Report* (The Gulf Research Center: September 2008).

10 These figures are based on the merchandise imports of 10 Arab countries: Bahrain, Egypt, Kuwait, Oman, Saudi Arabia, Tunisia, United Arab Emirates, Morocco, Jordan, and Qatar. Furthermore the data refers to these countries imports from seven major trade partners: the United States, the United Kingdom, France, Italy, Germany, Japan and China. Source of data: IMF, *Direction of Trade Statistics*, September 2008.

11 The European Union is the largest exporter of merchandise goods to the Middle East. Four European countries—the United Kingdom, France, Italy, and Germany—accounted for 58% of global merchandise exports to the ten MENA countries in our sample in 1999, but their share had declined to 49% by 2007.

12 This projection is based on the assumption that the current weakness in the price of crude oil is temporary and that higher prices will prevail by 2010.

13 For a detailed empirical analysis of political developments that have affected the U.S. market share in the Middle East, see [Nader Habibi, "U.S. Trade Relations with the Middle East, 1980–2002: Has the United States Lost Market Share to Europe because of its Middle East Policy?" \(paper presented at the 10th Annual Economic Research Forum Conference, Marrakech, Morocco, December 16–18, 2003\).](#)\*

14 The GCC-EU free trade negotiations officially began in 1988 but languished in the 1990s, as the stated precondition was a GCC customs union. Thus, negotiations only started in earnest after the GCC announced its intention to form such a union in 1999 and finally launched it in 2003. The suspension of negotiations at the end of December 2008 occurred amidst persisting debates about a human rights clause and technical issues and contradicted more confident statements about impending closure of the FTA in the months before, resumption of negotiations cannot be expected anytime soon.

15 Anoushiravan Ehteshami, *Globalization and Geopolitics in the Middle East* (London: Routledge, 2007), Chapter 6.

16 It is no surprise that then Treasury Secretary Henry Paulson had several high-profile meetings with the managers of leading Arab and Asian Sovereign Wealth Funds in 2008. In these meetings he persuaded them to invest in ailing U.S. financial firms.

17 International Monetary Fund, "Regional Economic Outlook: Middle East and Central Asia," October 2008; Institute of International Finance, "Regional Report: Gulf Cooperation Council Countries," December 3, 2008.

18 Eckart Woertz, "Impact of the US Financial Crisis on GCC Countries," *GRC Reports* (Gulf Research Center: October 2008).

19 For a detailed account of IWG and the Santiago Principles see: [International Working Group of Sovereign Wealth Funds, "Sovereign Wealth Funds, Generally Accepted Principles and Practices 'Santiago Principles,'" October 2008.](#)\*

20 IMF, *Direction of Trade Statistics*, December 2008.



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# Middle East Brief

## U.S. - Arab Economic Relations and the Obama Administration

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