The Return of Geo-Economics and the Emergence of Co-Prosperity Zones in the Middle East

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In the post–Arab Spring period, the Middle East was understood to be proceeding politically and strategically in accordance with two observed phenomena. First, intra-state conflicts and contradictions have become paramount: more dominant and bloodier than inter-state regional ones. The civil wars that proliferated in Syria, Iraq, Libya, and Yemen were the clearest examples of this change. In other countries, spiraling tensions have created conditions for outside intervention, as occurred in Bahrain, or led to the armed forces assuming control, as was the case in Egypt.1

The second circumstance is that states in the region, probably as a result of the aforementioned dynamics, became less effective as primary actors in regional relations. Non-state actors—the Muslim Brotherhood, Al-Qaeda, the Islamic State (IS), and Kurdish movements—instead became more important. Some of these actors even had their own particular ideas about the concept of a state, and one of them, in fact—IS—declared a “caliphate state” straddling the borders of Iraq and Syria. Even so, similar creeds and shared ideological extremism failed to prevent violence and bloodshed between Al-Qaeda and IS. Indeed, the theater of the Syrian civil war became crowded with organizations named with “Islamic” connotations.

With these developments as background, this Brief will argue that the Middle East has passed its bleakest moments since the Arab Spring and has moved toward greater stability. At the root of this change is the return of the nation-state and the relative decline of non-state actors, and the return of the
The Return of the State

Whether in the form of “de-escalation,” “deconfliction,” “restoration of stability,” or “ceasefire,” several of the post–Arab Spring civil wars in the Middle East have recently reversed direction. In virtually all cases, complex diplomatic processes were put in place involving both regional and international powers and players—especially Iran, Turkey, and Israel, as well as the U.S., Russia, and the UN. Simultaneously, non-state actors were being driven back: The Muslim Brotherhood lost its main base in Egypt, and Al-Qaeda was chased out of several states and ungoverned areas. And in 2018, IS suffered a serious defeat with the loss of its territorial base and the terminal decline of its “Islamic caliphate.”

These non-state actors have not been totally eliminated; they are still active in the region. Nevertheless, the state has recovered and begun to reassert itself. As Geoffrey Aronson noted, “Not only has Sykes-Picot survived in the Middle East, it has beaten back all challenges.” Thus, the U.S.-aided victory over IS in Iraq gave the Iraqi state the new vigor it needed to stifle the Kurds’ bid for independence. Similarly, with Russian assistance, Bashar al-Assad’s Syrian government has returned to the fore at home and abroad, and, for the first time, the U.S. and Russia agreed that Syria should survive as a unified state.

Meanwhile, non-Arab regional powers have increased the extent of their military intervention in the Arab region. Initially, Iran relied on local and cross-border Shia allies for this purpose, as was the case with the Popular Mobilization Units in Iraq, Hezbollah in Lebanon and Syria, and the Houthis in Yemen. Later, it also established its own direct presence on the ground, utilizing its Revolutionary Guards to create a military corridor across Iraq, Syria, and Lebanon, so as to border Israel. The purpose of this corridor is not only to allow Iran to play the role of defender of the Palestinian cause but also to create some leverage vis-à-vis the U.S. in order to compel it to change its stance toward Tehran and reverse its decision to abrogate the nuclear deal negotiated in 2015 (the JCPOA).¹

Turkey, for its part, began to divert some of its capabilities to fighting Kurdish forces abroad who were offering safe areas and supplies to the PKK, which Turkey regards as a terrorist organization. This Turkish intervention accelerated significantly after the defeat of IS, as evidenced by Turkey’s military offensive against “Afrin” in Syria¹ and by its rejection, in the context of natural gas discoveries in the Eastern Mediterranean, of the Egyptian-Cypriot maritime borders agreement—as well as by its attempts to forcefully prevent the Italian-based ENI oil and gas company from continuing with its exploration activities in that area.³

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* “Geo-politics” is understood here not only with reference to the role of geography in defining national interests but also as extending to the entire realist approach to interpreting international relations, wherein states are the primary actors.
The Return of Geo-politics

The Middle East has gradually returned to where it was before the Arab Spring, with political and geographical factors dominating the issue of security in the region. The Yemen civil war is no longer merely a domestic struggle, nor is it simply a Sunni-Shia conflict. Instead, it has become increasingly subject to Iranian influence and to that of the Saudi-led Arab coalition. After years of rejoicing over what befell the other countries in the region, Israel found itself facing an unfamiliar Syria. Other countries no longer view the Syrian civil war as being primarily about Al-Nusra Front, IS, or the Muslim Brotherhood. Instead, it is increasingly an arena for an Israeli-Iranian power competition, with Russia playing an active multi-purpose role.

Egypt has long had a different approach to the use of military force. For Cairo, the purpose of military force is to send clear signals, convey explicit security-related messages, and draw red lines. The Comprehensive Operation Sinai 2018 (COS 2018) was an opportunity to signal that Egypt was determined not only to eliminate the remnants of terrorist organizations in the Sinai but also to discourage any Turkish intervention against the Egyptian-Cypriot maritime borders agreement—an agreement grounded in international maritime law—or against the state of Cyprus. Thus, while acting to ensure maritime security for COS 2018, the Egyptian Navy also staged maneuvers in which surface-to-sea and sea-to-sea missiles were fired, precisely in order to deliver that message to whom in Ankara it might concern.

The crisis pitting Saudi Arabia, the UAE, Bahrain, and Egypt against Qatar, with Qatar being backed by Iran and Turkey, will take some time to play out. Clearly, however, it represents yet another geopolitical manifestation of conflicting national interests with respect to support for the Muslim Brotherhood and for funding specific armed groups. The wills of four major Arab states converged with the intention of acting in concert not only to defeat what they consider to be terrorism and those who support it but also to restore security and establish a regional security system capable of ensuring development and prosperity.

Geo-politics and Geo-economics

Following a political and legal confrontation in Egypt between the government and the opposition over handing back the two islands of Tiran and Sanafir to Riyadh, in June 2017, the Egyptian House of Representatives approved an agreement delineating the maritime boundaries between Egypt and Saudi Arabia. Based on the Law of the Sea, the agreement addressed not only the two islands but a vast area stretching from the Gulf of Aqaba in the north to the 22nd degree latitude in the south.

The huge economic potential on both shores of the Red Sea offers possibilities for the creation of what could be at one and the same time a vast maritime security zone and a vast mutual prosperity zone. Both “Saudi Vision 2030” and the “Egyptian Vision 2030” place great emphasis on the optimum economic utilization of the Red Sea area, inclusive of its waters, coastlines, and islands, embracing the tourism and mineral resources it offers as well as its potential to serve as a multidimensional bridge between the Arabian Peninsula and Egypt. In fact, Saudi Vision 2030 incorporates a dynamic perception of this bridge as a means to bolster the Saudi geostrategic position by extending it to the Eastern Mediterranean via the Suez Canal. Thus, the agreements signed during the Saudi monarch’s visit to Cairo in April 2016 included a $1.5 billion Sinai development project along with a plan to build a King Salman Mosque in Ras Sidr, on the eastern shore of the Gulf of Suez.

Egyptian Vision 2030 converges with that of Saudi Arabia in the Sinai. Egypt has set in motion an ambitious project far exceeding the currently existing Ahmed Hamdi Tunnel linking Suez city—and, by extension, the Nile Valley—to South Sinai; the Al-Salam Bridge linking the Nile Valley to North Sinai; and the SUMED project carrying Gulf oil from the Red Sea port of Ain Sokhna to the Mediterranean. The new project encompasses six tunnels beneath the Suez Canal that will facilitate the passage of people, goods, and cars, trains, and other forms of transport between the two banks of the Suez. By the end of 2018, four of these tunnels are to be in operation.

The Suez Canal Corridor is probably the largest development project in Egypt’s modern history. It is based on a triangle that has its tip at the ports of Port Said and Damietta in the north, while its base is demarcated by the Cairo–Ain Sokhna road where the new administrative capital will be located, in close proximity to the new Galala City and the Gulf of Suez. The eastern and western legs of the triangle are delineated by the Suez Canal and by the Damietta branch of the Nile.

Below this triangle, another development project is in progress, designed to link Upper Egypt with the Red Sea by means of a network of latitudinal roads lined with components of the “golden triangle” project that seeks to take advantage of the mineral resources in that area, not to mention the considerable tourist capacity around such
Red Sea towns as Hurghada, Safaga, Quseir, and Marsa Alam. To the south of these areas is the developmentally and economically virgin area of Halayeb and Shalateen.

The Red Sea Prosperity Area

The Saudi and Egyptian visions are complementary and provide an immense opportunity for cooperation and mutual success. Perhaps the natural starting point was to put into effect the agreements signed between Cairo and Riyadh in April 2016, as these agreements lay a cornerstone that will have political consequences as important as their economic ones. In fact, they promise to inject life into more than eighty-one islands situated in the Egyptian maritime economic zone as well as a similar number on the Saudi side. Because of such benefits, the Cairo-Saudi agreements could become a framework for consultation and deliberation between the two countries over a broad range of mutual interests and concerns.

One example of such a possible ramification might be a Saudi-Egyptian economic cooperation and prosperity zone in the Red Sea. Its aims would be multifold: to ensure the security of navigation in the Red Sea with respect to all types of threats; to develop ambitious joint development projects, starting with Tiran and Sanafir Islands which would become meeting points between the Egyptian and Saudi people by means of the envisioned King Salman Bridge; and to open a large window for long-term investment on the part of the UAE, Bahrain, Kuwait, and Oman and even, in the future, Qatar.

Another example is a Saudi project: the mega city “NEOM,” which crosses the national boundaries of Saudi Arabia to Egypt and Jordan. Possibilities for both Israel and the Palestinian Authority to get involved in economic development will be immense. The peace treaties between Israel and Egypt and, later, Israel and Jordan produced precedents for such cooperation: the Egyptian-Israeli gas pipelines and Jordanian-Israeli cooperation on water issues, as well as the Qualified Industrial Zones (QIZs) established between Israel and both countries. Another precedent is the SUMED oil pipeline (from Ain Sukhna on the Red Sea to the Dikhila on the Mediterranean)—owned by Egypt, Saudi Arabia, Kuwait, the UAE, and Qatar—which has proven to be a very successful example of economic cooperation.

The East Mediterranean Prosperity Area

Although the state-based system in the Middle East is still fragile, the revival of the state along with the return of geopolitics, wherein national interests are paramount, have combined to create additional opportunities for economic
cooperation. Thus, the experience in the Red Sea region is currently in the process of being replicated in another area, no less extensive than the Red Sea: namely, the Eastern Mediterranean. In that area as well, the key lies in a maritime border demarcation agreement, in this case between Egypt and Cyprus. The results were major natural gas discoveries in both Egypt's and Cyprus's economic waters, as well as an agreement under which Cyprus will send its gas to Egypt to be processed, liquefied, and exported. Then, in a related development, the Egyptian Delphinus gas company signed a ten-year $15 billion deal with the U.S.-based Noble and Delek companies and their Israeli partners, whereby Delphinus will receive the natural gas produced by the Israeli Tamar gas field through already existing pipes—again, in order to process, liquefy, and export.\(^9\)

The background to this spate of economic cooperation was the discovery during the past ten years of the natural gas fields known as “Aphrodite” (in Cyprus), “Tamar” and “Leviathan” (in Israel), and “Zohr” and, recently, “Nour”—the largest natural gas fields in Egypt. There is promise of similar fields in the territorial waters of Gaza and Lebanon. The total reserves of recoverable gas resources in the Eastern Mediterranean have been estimated to be 345 trillion cubic feet (or about 10,000 billion cubic meters).\(^12\) Thus, oil, gas, and pipelines now form a basis for mutual cooperation and benefit among the countries of the Eastern Mediterranean. Moreover, just as was the case in the Red Sea region, maritime border demarcation agreements, concluded in accordance with international law, have created legal realities that have transformed oil and gas from sources of conflict to sources of partnership in prosperity.

Fortunately, Egypt was prepared to play a central role in these interactions owing to its long history in petroleum transportation through the Suez Canal and the SUMED pipeline, which carries oil that originates in the Arab Gulf states from Ain Sokhna port to a terminal on the Mediterranean, from where it is shipped to Europe. In addition, Egypt now possesses two gas liquefaction plants—the Egyptian-Spanish Gas Company in Damietta and the Egyptian Natural Gas Liquefaction Company in Idku—and it already possesses the largest network of gas pipelines in the region, extending from Egypt to both Israel and Jordan. Egypt is also the largest market in the region for natural gas, whether for industry (most major Egyptian industries—petrochemical, steel and iron, fertilizers, aluminum, and construction materials—are heavy energy consumers) or for the more than 100 million people in the Egyptian market.

Because of such factors, Egypt is perfectly poised to serve as the link between the Red Sea region and the economic zone that is in the making in the Eastern Mediterranean. Perhaps the military campaign “Operation Sinai 2018,” which the Egyptian Armed Forces launched in the Sinai in order to break the back of terrorism, is the strategic component that makes the Sinai a crucial link in the relationship between the two seas.

**Challenges and Responses**

Given the terrible upheavals that the Middle East has endured since the 2003 U.S.-led invasion of Iraq and, even more so, since the onset in 2011 of the so-called Arab Spring—with Iraq, Syria, Libya, and Yemen all experiencing deadly civil wars—it is only natural that the hope-generating projects described in the previous sections will invite at least a measure of healthy skepticism. Such skepticism is supported by a number of developments and considerations.

For one thing, the projects described here will require considerable Saudi financing and a large measure of Saudi involvement, if not the personal commitment of the Kingdom’s Crown Prince, Mohammed bin Salman (MBS). Given the costs of the war in Yemen and of the conflict with Qatar; the yet-to-be-explained bizarre episode of the resignation of Lebanon’s Prime Minister, Saad Hariri, while visiting Riyadh; the dubious rationale offered for the tensions with Canada; and the recent gruesome murder of a prominent U.S.-based journalist, Jamal Khashoggi, in the Saudi Consulate in Istanbul—all developments with which MBS is assumed to be directly or indirectly associated—it is not surprising that questions about his judgment would raise doubts about his future ability to see these ambitious projects through.

Moreover, the magnitude of the critically important Saudi financing that will actually be provided will also depend on a number of other uncertain factors, primarily the price of oil and the future investment climate in Saudi Arabia. The latter seems to be tied to investors’ confidence in MBS’s ability to implement Saudi Arabia’s Vision 2030—confidence that has already been shaken not only by some of the aforementioned developments, but also by the unexpected difficulties that Saudi Arabia’s plans to finance parts of Vision 2030 by selling some of its holdings in Aramco have encountered.

Notwithstanding these serious challenges, however, it is important to remember that what is at stake here is the future of the reform trends in Saudi Arabia as well as in Egypt. The experience and lessons of the post–Arab Spring period that has turned countries into arenas of civil war and widespread destruction have produced a strong
determination to avoid a recurrence of such outcomes. Naturally, reforms as deep as those described here will face setbacks and will encounter a shortage of political maturity and experience. Yet despite the aforementioned setbacks, the Saudi reforms have moved in different directions that make them difficult to retract or reverse without the country paying a heavy geo-strategic price.

The reforms include an effort to expand the economy of Saudi Arabia—with its population of 32 million and its 2-million-square-kilometer territory that extends from the Persian Gulf to the Red Sea—far beyond oil. In addition to its vast oil reserves, its ability to increase production from 7 million to 12 million barrels per day, and its petrochemical industries and downstream services, Saudi Arabia has other resources that are still untapped, particularly in the eastern parts of the Kingdom.

The reforms also seek to transform Saudi Arabia from a near-theocracy into a nation-state by means of the rediscovery of its pre-Islamic history—a shift enthusiastically welcomed by the younger Saudi generation. Alongside this are efforts to release the social and economic energy of both the women and men of the country, a major element of modernization that should create opportunities that will motivate Saudi citizens to overcome these challenges.

A second challenge to the realization of the development projects and co-prosperity zones described above involves the fact that the economic rationale for at least one of the two grand zones is based on expectations that it will produce a dramatic increase in tourism. Yet as we have seen in the past, tourism is negatively affected by terror and threats of terror, and, in the last few years, Egypt’s tourism industry in particular has suffered serious setbacks as a result of violence. Moreover, Operation Sinai 2018, which the Egyptian Armed Forces launched to break the back of the terrorism threat, has yet to be perceived by the international tourism industry as sufficiently successful to reassure travelers.

While this concern is impossible to dismiss, it is noteworthy that the extent of tourism in Egypt in 2017 and thus far in 2018 justifies at least a measure of optimism. In 2017, Bloomberg assessed Egypt as having “shed its years of social and political unrest” and ranked it among its top twenty preferred travel destinations. Similarly, a recent report by the United Nations World Tourism Organization (UNWTO) ranked Egypt as one of the world’s fastest-growing tourist destinations, with the number of tourists visiting Egypt increasing from 5.2 million in 2016 to nearly 8.1 million in 2017. The first nine months of 2018 have witnessed an additional 40 percent increase in tourism in Egypt, leading to expectations that as many as 10 million tourists will be traveling to Egypt before the year’s end.

A third possible challenge may involve efforts by Turkey to act as a geopolitical rival of Egypt and Saudi Arabia by attempting to disrupt these potentially positive developments, especially in the energy realm. Indeed, we have already seen Turkey bursting in as self-declared defender of Northern Cyprus and refusing to recognize the Egyptian-Cypriot agreement. The Turkish position might be understood from both a geopolitical and an economic perspective. Turkey, too, is a country bordering the Eastern Mediterranean, and the natural gas generated from this area will compete with Russian natural gas that passes through Anatolia on its way to Europe. But the main objection raised by Turkey to the Egyptian-Cypriot agreement is its violation of the rights of Northern Cyprus. But Northern Cyprus is not an international reality so long as no country other than Turkey recognizes it as such.

Finally, various groups in Egypt and elsewhere in the Arab region have already expressed concern about the possible ramifications of the proposed projects for the Palestinian cause. But there is no reason to believe that the development projects presented here will negatively affect the Palestinians. Not only are there gas fields off the Palestinian coast in Gaza, but it is probably easier to draw Egyptian-Palestinian and Palestinian-Israeli borders at sea than on land. At the same time, an Israel assimilated into a region of mutual prosperity might be more flexible than an Israel in a region of permanent conflict, especially if that region includes not just Palestinians but also Lebanon and maybe, in the future, Syria as well.

Moreover, the new gas connection between Israel and Egypt is consolidating the 1979 Egyptian-Israeli peace agreement. On September 27, 2018, the operators of Israel’s Leviathan and Tamar gas fields, Noble Energy and Delek, along with their Egyptian partner, East Gas, signed agreements to acquire a 39 percent stake in pipeline operator East Mediterranean Gas (EMG). This paves the way for them to export natural gas to Egypt under a USD 15 billion agreement signed with Dolphinus Holdings. In the process, Egypt has settled arbitration disputes, and businessmen Sam Zell and Yosef Maiman, who won arbitration cases against Egypt, bought a 37 percent stake in EMG.

Conclusions

The second decade of the 21st century was not kind to the Middle East region. The Arab Spring has shaken the states...
of the region to the bones. What was initially seen as a peaceful search for change and progress was transformed, for the most part, into violent and bloody civil wars that produced destruction of cities and floods of refugees and displaced persons. Non-state actors from sectarian and religious organizations filled the stage, threatening disintegration and division.

As the decade comes to a close, however, the regional and international response to the Middle East’s horrors and tears has yielded the conviction that despite all their deficiencies, the states of the region continue to be indispensable and that their borders should not change and that intra-state conflicts and sectarian divisions should be resolved within these boundaries. The end result of this conclusion has been a slow but steady revival of broken states and an impulse toward reform in the states that survived the turmoil intact.

As the states of the Middle East have begun to recover, geo-politics has also returned to the region, reflecting many of pre-Arab Spring national interests and interactions. In turn, this is contributing to a sense of stability that also allows reforms to take shape. And as geo-politics has extended to geo-economics with the demarcation of maritime boundaries consistent with the UN Law of the Sea, promising Red Sea and Eastern Mediterranean common prosperity areas have begun to emerge as well.

Nevertheless, it is still too early to conclude that the Middle East has finally emerged from the convulsions of the last eight years. Ending the war in Yemen, resolving the troubles in Libya, bringing the civil war in Syria to an acceptable conclusion, and putting an end to violence in Iraq will continue to require the assertion of state power. But even as reconstruction in all its aspects is still to be realized, this Brief has shown that the worst times in the Middle East may be behind us.

Endnotes

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