



ECONOMICS IN THE MIDDLE EAST

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INDEX OF CONTENTS

Foreword by Ahmad Kamal	01
Islamic Banking by Waleed Al-Shahari	03
Zakat and Waqf by Baya Bensmail	21
Wars in the Middle East by Shihana Mohamed	29
Water Wars by Fabrizio Trezza	49
The Impact of Migration by Haig Kupelian	61
The Oil Economy by Ahmed Al-Muharraqi	73
The Arab-Israel Conflict by Jose Mendoza	83
Saudi Arabian Development Assistance by Majid Al-Harbi	97
The Economy of Iran by Seddiq Rasuli	107
The Economy of Yemen by Mohamed Al-Shatri	117
Oil in Sudan by Arnaud Huannou	129
The Maghreb by Abdullah Al-Araimi	147
Violent Non-State Actors by Eve Burnett	157

FOREWORD

This is the third and last book of the trilogy of research papers attempting to analyze the complexity of different aspects of the Middle East, this time concentrating on the economic aspects of the region, and the impact of these economic factors internally and externally.

While the general impression is that the entire economy of the region is dominated by oil alone, what emerges from these papers is its interplay with other determinants, like cultural constraints, war economics, water resources, migration flows, and a host of other financial factors.

Be as it may, the fact remains that the resultant outputs from the Middle East, whether in terms of oil exports or financial resources, as well as the dangers of frustrations and terrorist acts, have deeply impacted the politics and economics of the world as a whole. Much of the volatility that we see in all regions may in a way be traced back to the situation in the Middle East. It is therefore essential to understand this region better, in all its political and economic and cultural aspects.

A deliberate effort has thus been made here to identify and explain some cultural factors like the principles of Islamic Banking, and Zakat, and Waqf, which are particularly important in the Middle East. The depth and relevance of these is not normally known outside the region, and yet they are part of the very ethos of the people, and the inter-relationships between them.

Among the problems that we have continually had to face during the preparation of this set of books has been the geographical parameters of what is known as the Middle East. Does the geographic term coincide with Arab linguistic ethnicity? Does it then include the Arab states of North Africa all the way to Mauretania? Does it include the Arab states of the Horn of Africa and beyond all the way into Central Africa? Does it include the non-Arab states of Turkey and Iran? We could find no definitive answers to these questions, and as a result, we have just assumed that all views are to be incorporated liberally and expansively.

Part of that difficulty in defining the Middle East also results from the arbitrary manner in which we have divided the world into separate continents. While that may be useful in the study of geography, in actual fact, the human species is far more united in its origins, in its linguistic inter-linkages, in its religious commonalities, and in the global problems that it faces as a single entity. It is unity even in its diversity, and it behooves upon us all to exercise tolerance towards other regions and cultures in the interests of a peaceful and inter-dependent world.

Hopefully, this third and final set of papers will thus help readers in a better understanding of what makes this Middle East tick in our global world.

ISLAMIC BANKING

INTRODUCTION

Due to the borderless nature of the global economy, the economic downturn in the United States has created a systemic shock that has been transmitted to the economies around the world. So, the crisis has inflicted heavy damage on markets and institutions at the core of the global financial system. While many believe that the "worst is not over", continuous deliberations are ongoing to diagnose the root of the crisis and find solutions to the current problems that the global economy is facing. Just like the cases of previous crises, once the crisis sets in, continuous efforts are undertaken to improve and strengthen the current financial infrastructure so as to avoid such crisis from happening again in the future.

This crisis of 2008 is unprecedented in its nature. Even the well-established and what are considered "too big to fail" financial institutions are being badly affected by the.

As against that, the Islamic banking and financial institutions throughout the world are somewhat "sheltered" from the global financial shocks. Despite the slow down, the top ten Islamic banks continued to show encouraging performance by recording an average annual growth of around 30 percent for 2008.

Islamic finance started as a small cottage industry in some Arab countries in the late 1970s. It distinguishes itself from conventional finance in its ostensible compliance with principles of Islamic law, or Sharia.¹ Its growth has been accelerating ever since, in terms of the number of countries in which it operates, as well as the areas of finance in which it has ventured. However, reliable data is not available on Islamic finance at the country, regional or global levels. In recent years, the industry has attracted a number of western multinational financial institutions, such as Citigroup and HSBC, which started offering Islamic financial products in some Arab countries (notably Bahrain and the United Arab Emirates), and to a lesser extent in the Western world (including the U.S., where HSBC offers various Islamic financial products in New York, including home financing, checking accounts, etc.). A number of Islamic financial products also involve the acquisition of assets (e.g., real estate, small corporations, etc.) in the West (including the U.S.) in "Islamically structured" financing deals.

Islamic finance relies crucially on three sets of individuals with complementary skills: (i) financial professionals who are familiar with conventional financial products, as well as the demand for "Islamic" analogies of those products within various Muslim communities around the world, (ii) Islamic jurists (fuqha, or experts on classical jurisprudence developed mainly between the 8th and 14th Centuries), who help Islamic financial providers to find precedent financial procedures in classical writings, upon which contemporary analogues of conventional financial products can be built, and (iii) lawyers who assist both

¹ Sharia literally means "the way" and is the Arabic term for Islamic Law as a way of life, comparable to the Hebrew Halachah). Fiqh, commonly translated as jurisprudence, is the interpretation of Sharia for specific circumstances by specialized fuqha, or jurists.

groups in structuring Islamic analogue financial products, while ensuring their compliance with all applicable and relevant legal and regulatory constraints. Due to the industry's small size, a limited number of key players in each of those three categories have emerged as clear leaders.

Currently, Islamic finance represents a small but growing segment of the global finance industry. Estimates vary on the total size of assets held internationally under Islamic finance, ranging upwards from \$800 billion and with growth rates of 10% to 15% annually over the past ten years.² The global market for Islamic bonds, known as "sukuk",³ is estimated to be \$70 billion currently and is projected to reach \$100 billion by 2010.⁴ Global issuance of sukuk has increased more than five-fold from 2004 to 2007.⁵

In some countries, such as Iran and Pakistan, Islamic banks are the only mainstream financial institutions. In others, Sharia-compliant financing (SCF) exists alongside conventional banking.⁶ The Persian Gulf region and Southeast Asia, led by Malaysia, historically have been the major centers for SCF. For oil producers in the Gulf region, Islamic finance may offer investment opportunities for their growing revenues from oil exports. There also has been a growing awareness of and demand for Islamic finance options by Muslim consumers. In recent years, SCF has expanded into Africa, particularly Sudan.⁷

In some countries, such as Libya and Morocco, Islamic banks are considered by some to be tied to Islamic political parties and consequently have been refused licenses. Other countries, including Jordan, Tunisia, and the Sudan, have been receptive to Islamic finance, viewing Islamic financial products as an opportunity for creating capital and fostering economic development.⁸

Islamic finance is growing in Europe and North America, areas in which Muslims are in the minority. In August 2004, the United Kingdom's Financial Services Authority (FSA) approved a banking license for the Islamic Bank of Britain (IBB), the country's first Islamic bank. The IBB would serve the consumer market with Sharia-compliant products.⁹ In March 2006, the FSA licensed the European Islamic Investment Bank as the United Kingdom's first independent bank for Sharia-compliant investments.

LOAN ALTERNATIVES

The juristic-based understanding of forbidden "riba" (usury) suggested that Islamic finance has to be "asset-based", in the sense that one cannot collect or pay interest on rented money, as one does in conventional banking. Therefore, the

² David Oakley, Shannon Bond, Cynthia O'Murchu, and Celve Jones, "Islamic Finance Explained," *Financial Times*, May 30, 2008.

³ Islamic bonds are constructed as profit-sharing or rental agreements that are tied to physical assets.

⁴ Standard & Poor's, "Islamic Finance Outlook 2008."

⁵ Andreas Jobst, Peter Kunzel, Paul Mills, and Amadou Sy, "Islamic Bond Issuance - What Sovereign Debt Managers Need to Know," IMF Discussion Paper, PDP/08/3, July 2008.

⁶ Shirley Chiu, Robin Newberger, and Anna Paulson, "Islamic Finance in the United States" Society, September/October 2005.

⁷ Vikram Modi, "Writing the Rules: The Need for Standardized Regulation of Islamic Finance," *Harvard International Review*, Spring 2007.

⁸ *ibid.*

⁹ Standard & Poor's, "Islamic Finance Outlook 2008."

easiest transactions to Islamize banking were secured lending operations, e.g., to finance the purchase of real estate, vehicles, business equipment, etc. Three main tools are utilized for this type of retail financing:

a. Murabaha, or buy-sell-back arrangements

Under this transaction, the bank obtains a promise that its customer will purchase the property on credit at an agreed-upon mark-up (interest alternative), then proceeds to buy the property and subsequently sell it to the customer. These are analogous to the Federal Reserve's use of "matched-sale purchases." Depending on the jurisdiction and the object of financing, this may or may not impose additional sales taxes, license fees, etc. In the U.K., a recent regulatory ruling allowed Islamic financiers (HSBC) to practice double-sale financing without being subject to double-duty taxation.

In 1999, at the request of United Bank of Kuwait (UBK), which at the time offered an Islamic home financing program in the U.S. (called Manzil USA, the program was terminated shortly thereafter), the Office of the Comptroller of the Currency issued an interpretive letter declaring Murabaha financing to be "functionally equivalent to or a natural outgrowth of secured real estate lending and inventory and equipment financing, activities that are part of the business of banking".¹⁰ The markup in Murabaha financing is benchmarked (i.e., made to track) conventional interest rates.

b. Ijara or Musharaka Mutanaqisa or lease-to-purchase arrangements

A typical structure requires the bank to create a special purpose vehicle (SPV) to purchase and hold title to the financed property. The SPV then leases the property to the customer, who makes monthly payments that are part-rent and part-principal. Rents are calculated based on market interest rates, allowing monthly payments to follow a conventional amortization table. The juristic justification of this practice is that principal parts of monthly payments increase the customer's ownership in the property, and allow him to pay less rent (on the part ostensibly owned by the bank through the SPV) over time, thus replicating a conventional amortization table.

Again, at the request of UBK, the Office of the Comptroller of the Currency examined the typical structure of Islamic lease-to-own (Ijara) transactions, and reasoned as follows:¹¹ *"Today, banks structure leases so that they are equivalent to lending secured by private property ... a lease that has the economic attributes of a loan is within the business of banking... Here it is clear that UBK's net lease is functionally equivalent to a financing transaction in which the Branch occupies the position of a secured lender"*. An added advantage to lease financing is that Islamic jurists allow the SPV to issue certificates securitizing the lease (ostensibly, the certificates represent ownership of the underlying asset, and thus allow their holders to collect rent).

In recent years, this has given rise to a booming securitization industry in Islamic Finance, as we shall discuss within the context of bond-alternatives. Here in the U.S., both Fannie Mae and Freddie Mac have purchased and

¹⁰ Available on the OCC website at: <http://www.occ.treas.gov/interp/nov99/int867.pdf>.

¹¹ See <http://www.occ.treas.gov/interp/dec97/int806.pdf>.

guaranteed Ijara-based mortgages, subject to their note requirements (which required overcoming some legal and juristic hurdles). Those Islamic mortgage-backed securities are currently being marketed as fixed-income investment alternatives for Muslims.

c. *Musharaka and Mudaraba*.¹²

Various forms of partnership can be direct financing methods. In the early days of Islamic banking and finance, those forms were commonly grouped under the banner “profit and loss sharing”, to be contrasted with the above listed debt-based forms of financing. It was assumed by some that the profit and loss sharing methods were somehow more ideal from an Islamic point of view. The fact that most Islamic banking practice concentrated on credit sales and leases was thus often lamented as re-labeling of the forbidden interest. As we have already seen, if the Islamic banks and financial institutions are careful to abide by the rules of Sharia, there is no reason to think that credit sales are any “less Islamic” than a silent partnership (*mudaraba*) or full partnership (*musharaka*).¹³ There are a number of rules in Sharia regarding the language of the various partnership contracts, the rights and obligations of various parties, and the sharing rules for profits and losses. Most of the users of such partnership contracts will require the services of legal experts in any case, and therefore should also consult Islamic legal experts on the legitimacy of any specific contract. Therefore, there is no need to spend much time on those general contracts.

However, one model of financing which has been used in North America is based on a form of *musharaka*, where the financing agency and the customer share the ownership of real estate. This contract is known by many names; most prominent among them is the name *musharaka mutanaqisah* (diminishing partnership). In contrast to the leasing model, where ownership of the financed item remains with the lessor for the entire lease period, ownership in a diminishing partnership is explicitly shared between the customer and the Islamic financial institution (legally, what is established is an Islamic *sharikat al-milk*). The periodic payments of the customer in this model contain two parts: (i) a rental payment for the part of the property owned by the Islamic financial institution, and (ii) a buy-out of part of that ownership. Over time, the portion of the asset which is owned by the customer increases, until he owns the entire asset and needs to pay no more

¹² <http://www.ruf.rice.edu/~elgamel/files/primer.pdf>

¹³ Still, respected jurists as well as many Islamic economists, while admitting the permissibility of debt-based financing, continue to echo such sentiments. For instance, M. Taqi Usmani (1998, pp.239-240) states: “The ideal instrument of financing according to the Sharia is *Musharakah* where the profits and losses both are shared by both the parties according to equitable proportions”. This opinion is not based on any solid juristic or religious evidence, but rather based on the jurist’s economic reasoning (*ibid*): “*Musharakah* provides better opportunities for the depositors to share actual profits earned by the business which in normal cases may be much higher than the rate of interest. Since the profits cannot be determined unless the relevant commodities are completely sold, the profits paid to depositors cannot be added to the cost of production, therefore, unlike the interest-based system the amount paid to depositors cannot be claimed back through increase in the prices”. It is important for the sophisticated reader to distinguish between the jurists’ opinions which are based on solid religious grounds, and those based on inadequate economic reasoning.

rent. At that time, the contract is terminated. Examining the periodic payments, the customer will find that they look very much like a conventional mortgage schedule. Early-on, a large portion of the payment is “rent” (corresponding to “interest payment” in conventional mortgage), and a small part is “buy-out” (corresponding to the “principal payment” in a conventional mortgage). As time progresses, the first component gets smaller, and the latter component gets bigger, until the rent becomes zero when the customer owns 100% of the asset. Given this one to one correspondence between the two components of the payments, it is again trivial to calculate the equivalent interest rate which would make the conventional mortgage payments identical with the diminishing partnership payments.

Again, this should not be cause for concern, as long as the partnership contract is written in full accordance with the rules of Sharia.¹⁴ For instance, there is a fundamental difference between a mortgage company which holds a lien on a financed house, and the actual joint ownership of the house between the client and the Islamic financial institution. There are a variety of issues which such institutions need to resolve to operate in compliance with Sharia as well as government regulations, and the intelligent Muslim customer is again encouraged to ensure that both sets of regulations are met. As for the correspondence of the “rental” portion of payments to what would be an interest payment on the principal balance in a conventional mortgage, this should afford the intelligent Muslim customer an opportunity to ensure that he is not being charged excessively relative to the conventional market. As far as compliance with the Islamic Sharia is concerned, the form of the contract is what matters. To keep the Islamic financial industry from reaping excessive profits at the expense of devout Muslims with few alternative sources of financing, this comparison to conventional market trends is very valuable.

CORPORATE AND GOVERNMENT BOND ALTERNATIVES

In its early stages of development in the 1980s and 90s, a number of bond alternatives were tried with very limited success. Some were based on profit and loss sharing (e.g., in Sudan and Pakistan), while others guaranteed the principal but did not guarantee a fixed rate of return (e.g., in Malaysia). Once the securitization of leases (discussed in the previous section) became fully understood, a significant number of corporate and government bonds were structured as lease-backed securities (under the Arabic name Sukuk al-Ijara).¹⁵ In 2004, the largest issuance was by the Department of Civil Aviation of the United Arab Emirates for \$750 million. The second largest was by the Bahrain Monetary Agency for \$250 million. The latter was led by Citigroup, with heavy involvement of the Norton Rose law firm to structure the deal. A third interesting government issuance was by the German Federal State of Saxony-Anhalt for €100 million, which is heavily marketed in the Arab countries of the GCC as the first western-government issued Islamic bond.

The two largest corporate Islamic bond issuances in the first half of 2004 were those of the National Central Cooling Company (of U.A.E.) for \$100 million

¹⁴ For a partial list and general discussion, see M. Taqi Usmani (1998, pp. 31-92)

¹⁵ Sukuk is the plural of sakk, an Arabic precursor of cheque, meaning certificate of debt or bond

and Hanco Rent a Car in Saudi Arabia for \$26.13 million. Corporate bond issuances in the early part of 2006 totaled \$10.2 billion, the most notable being the Dubai Ports issuance of the largest sukuk to date, a 2 year convertible \$3.5 billion bond (profit and loss sharing).¹⁶ In 2005, an estimated \$11.4 billion in corporate sukuks were issued, up from \$5.5 billion and \$4.6 billion in 2004 and 2003 respectively. Sovereign issuances in 2006 total \$2.7 billion thus far, up from \$706 million in 2005, \$1.5 million in 2004 and \$1.2 million in 2003.¹⁷ An additional \$6.7 billion in sovereigns is slated to be issued for the remainder of 2006.¹⁸

A number of those issuances were made by SPVs, which buy some properties from the respective governments or corporations using bond-sale proceeds, and then lease the properties back, passing principal and interest back to bond-holders in the form of rent. A number of different U.S. and European investment banks are involved in the securitization process (e.g., Citigroup for the Bahraini and German state bonds, Credit Suisse First Boston for the UAE cooling company, and Barclays Bank with tDubai Islamic Bank for the Dubai Ports Co.).

Lease-backed bonds are long-term securities, for which underlying physical assets allow secondary markets to exist. Shorter-term (Treasury bill-like) bonds are also issued on occasion by governments of countries with significant Islamic banking operations (e.g., Bahrain). Those are typically based on forward sales of some commodities, using the Arabic name “salam”, and adhering to the classical juristic ruling that price must be paid in full at the inception of a salam-sale. By utilizing what is called a “parallel salam”, the bond-issue can match a forward-purchase with a purchase-sale for the same commodities and the same delivery date, but initiated at different times.

Thus, corn deliverable in six months can be sold forward today for \$1 million, and then bought forward in three months (using a separate contract with a different counterparty) for \$1.01 million. While residual credit, commodity and delivery risks may exist in this structure, issuers typically guarantee the contract so that the bond buyers would – in our example– be guaranteed 1% in 3 months. Since the underlying assets for this type of bond are debts, Islamic jurists ruled that they cannot be traded on secondary markets, except at face value, which defeats the purpose.

Thus, they were originally envisioned as vehicles primarily for Islamic banks to hold to maturity. Recently, however, Bahrain has introduced some innovative “repo” (repurchase) facilities, to allow Islamic banks to use those bills more effectively for liquidity management.

INVESTMENT VEHICLE ALTERNATIVES

For investment in corporate equity, it was easy to see why Islamic investors should shy away from companies that produced products that are forbidden to Muslims (e.g., beer, pork products, etc.), as well as some others that

¹⁶ Managed by Dubai Islamic Bank and Barclays Bank. Details about the sukuk structure, and thus about potential risk structure differences from conventional bonds, are not available.

¹⁷ Sovereigns include government-owned institutions, utilities, etc.

¹⁸ Source: ISI Emerging Markets' Islamic Finance Information Service (IFIS). Data as of May 2006.

Islamic jurists decided to forbid (e.g., weapons producers, cutting-edge genetic research, etc.).

The issue of interest was much more difficult: Most companies either have excess liquidity – in which case they earn interest, or use leverage – in which case they pay interest. Islamic jurists decided to invoke the rule of necessity (the universe of equity securities to choose from would be too small if they exclude all companies that either pay or receive interest. They decided to impose three financial screens: Firstly, to exclude companies for which accounts receivables constituted a major share of their assets; secondly, to exclude companies that had too much debt; and thirdly, to exclude companies that received too much interest.

After experimentation with different cutoff marks for financial ratios, the set of rules selected by the Dow Jones Islamic indices became globally accepted: (i) exclude companies whose receivables accounted for more than 45% of assets; and (ii) exclude companies whose debt to moving average of market capitalization exceeded 33%. Many add a third rule related to the first, namely, (iii) exclude companies whose interest income exceeded 5% (or, for some, 10%) of total income. Dow Jones, and later Financial Times, launched their Islamic indices in the late 1990s, and continue to add various other Islamic indices paralleling their other conventional indices, with the smaller universe of equity securities.

Mutual fund companies either mimic their screening rules, or obtain licenses from one of the indices, which they use as a benchmark. These types of mutual funds are usually dubbed “Islamic” or “Sharia-compliant.” While sales of mutual funds in general have done well in Saudi Arabia and GCC markets, Islamic mutual funds seem to have only a limited marketing advantage over conventional ones.

In one study done by National Commercial Bank in Saudi Arabia, investors indicated that all other things equal, they would prefer an “Islamic” fund to a conventional one. However, if other things are not equal, they would prefer a conventional fund with better returns, or offered by a more reputable provider, to ones that are “Islamic” but inferior along those dimensions. Consequently, the total funds under management by Islamic mutual funds have – to date – fallen substantially short of initial expectations.

On the other hand, growing unanimity over the general screens used by Islamic mutual funds has enabled Islamic private equity and investment banking boutiques to thrive. Those institutions typically collect investor funds in GCC countries (investors from Saudi Arabia, Kuwait, and U.A.E being primary sources of funds).

Through local subsidiaries or partners in the west (U.S.A. and U.K. being primary destinations for investment funds), collected funds are used to acquire real estate and small companies that pass the above mentioned screens, or whose debt can be restructured to pass them (oftentimes through lease based leveraged buy-outs, a popular western mergers and acquisitions tool of the 1980s and 1990s. There are 134 registered equity funds, six hybrid funds, six sukuk funds, two Takaful funds (insurance), five leasing funds and eight real estate funds.¹⁹

¹⁹ As of February 2006. www.failaka.com.

INSURANCE ALTERNATIVES

The vast majority of Islamic jurists declared the use of, and investment in, insurance companies to be impermissible under Islamic jurisprudence. This prohibition is based on two considerations: the first consideration is that “safety” or “insurance” is not itself viewed as an object of sale in classical Islamic jurisprudence. Thus, Islamic jurists argued, the insured-insurer relationship is viewed to be one akin to gambling, wherein the insured as buyer pays periodic premia as price, but may or may not receive the object of sale (compensation in case of loss), depending on chance.

The second consideration that prompted Islamic jurists to forbid insurance is the fact that insurance companies tend to concentrate their assets in interest-based instruments such as government bonds and mortgage-backed securities. The alternative they proposed is marketed under the Arabic name “Takaful”, which has recently begun making inroads in Islamic countries, after years of slow growth. The main idea behind Takaful is similar to mutual insurance, wherein there is no commutative financial contract that allows one to interpret premium payments as prices and insurance claim fulfillment as an object of sale. Rather, policy holders are viewed as contributors to a pool of money, which they agree voluntarily to share in cases of loss to any of them. Early Takaful companies were in fact structured as stock insurance companies, but the language of “voluntary contribution” to insurance claimants was used to argue that the contract was not a commutative one. Inroads have recently been made by Bank Al-Jazira of Saudi Arabia by modifying its insurance to better approximate western-style mutual insurance, and the model appears to be boosting its underwriting success. Regardless of structure, both types of Takaful companies do not invest in conventional government bonds and fixed income securities.

However, as seen elsewhere in this section, Islamized analogues of those securities have become increasingly available in recent years, further contributing to the industry’s growth. Despite the industry’s growth, it has not yet reached a critical size that would support the equivalent of re-insurance, or “re- Takaful”, companies to emerge. Consequently, Islamic jurists have invoked the rule of necessity to allow Takaful companies to sell their risks to conventional re-insurance companies, with the provision that they should work to develop a re-Takaful company as soon as possible.

BANK DEPOSITS AND FIXED INCOME SECURITY ALTERNATIVES

In the Islamic world, Islamic banks can only accept fiduciary deposits, for which they cannot pay interest, since interest would be considered *riba*/usury once the principal is guaranteed. On the other hand, they are allowed to accept “investment account” funds, which they may invest on behalf of the account holders, and share profits and losses thereof. This clearly gives rise to a moral hazard problem, and a regulatory issue regarding protection of investment account holders who are neither protected as creditors (first claimants), nor as stock-holders with representation on boards of directors. Attempts by significant juristic bodies to justify interest-bearing bank deposits have been strongly rejected by most

Islamic jurists, especially the ones to whom Islamic bank customers look for guidance.²⁰

In the U.S., a number of attempts took place in the U.S. to license an Islamic bank, a number of conventional banks are offering Islamic financing products, and working towards offering FDIC insured variable-interest (tied to rate of return on portfolio of Islamic mortgage, auto-financing, etc.) NOW, money market, and other types of bank accounts. Interpretation of such services as “deposits” is controversial, and their appeal to target clientele is uncertain. In particular, and in analogy to the limited appeal of Islamic mutual funds, it may be the case that potential Islamic bank customers who are sufficiently sophisticated to accept deposit insurance will also be sufficiently sophisticated to seek the best combinations of returns and offering institution-size. On the other hand, the novelty of “Islamic banking” availability, coupled with the possibility of obtaining FDIC insurance of the principal, may prove to be sufficiently attractive for a group of Muslims who have so-far shied away from depositing their funds in savings or money market accounts, as well as others who have such accounts but prefer to buy the “Islamic” brand-name.²¹

In the meantime, as we have shown, market-based fixed-income alternatives have been available for quite some time based on securitization. Thus, Islamic finance clients can buy Islamic mortgage based securities, or invest directly in pools of securitized fixed-return Islamic financial products. In this regard, while securitized Murabaha (cost-plus credit sale receivable) portfolios are deemed non-tradable except on face value, Islamic jurists have allowed trading mixed portfolios of sale-based and lease-based receivables, provided that the latter constitute at least 51%. If the market for Islamic-finance assets continues to grow, the ability to offer all types of fixed-income instruments, including bank savings accounts, should become more common in the West. It may take time for Middle-Eastern and Asian clients to accept this notion, given the vigor with which they have constantly argued against interest-based transactions as the forbidden Riba.

GEOGRAPHIC DISTRIBUTION OF ISLAMIC FINANCE

Intensive efforts have been spent in recent years to harmonize Islamic financial practices, from creating accounting standards for Islamic financial products (through the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI), to integration of those standards with global corporate and risk management standards (i.e., Basel Accords I and II) through the recently created Islamic Financial Services Board (IFSB). Those efforts are motivated by two objectives: (1) to create a worldwide network of financial markets, including the offshore markets in Labuan (off the Malaysian coast), Bahrain, and Dubai, thus enhancing depth and liquidity of markets for industry securities; and (2) to integrate

²⁰ See El-Gamal, Mahmoud “Interest and the Paradox of Contemporary Islamic Law and Finance”, *Fordham International Law Review*, December 2003.

²¹ For instance, a small market exists for “Halal (permissible) meat”, analogous to Kosher products, based on specific slaughter and processing procedures. Those products appeal to customers who otherwise would only consume vegetarian products, as well as others who would buy regular meat products but prefer to buy “Halal” meat.

the industry more effectively with the international financial system. However, country and region-specific features have not faded away.

Gulf Cooperation Council (GCC) Countries

Not surprisingly, the rise of Islamic finance in the late 1970s coincided with the two oil shocks of that decade, which created an immense amount of wealth. The earliest private Islamic banks of the modern era were Dubai Islamic Bank, Faisal Islamic Bank Egypt, and Faisal Islamic Bank Sudan, the latter two being sponsored by Prince Muhammad Al-Faisal, son of the late King Faisal of Saudi Arabia. Other early entrants in the industry were the various financial arms of Saudi Sheikh Saleh Kamel's Dallah Al-Baraka groups, and Kuwait Finance House, among others. In its early stages, most governments in the GCC region, and the Arab world more generally, were either hostile to, or at best ambivalent about, Islamic finance. Indeed, to most people's surprise, the latest country to allow Islamic banking in the region is Saudi Arabia, where the Saudi Arabian Monetary Authority has always been concerned about and averse to introducing non-standard banking practices.

However, demand for financial products allowed a number of local and western financial practitioners to create a small industry, using investment funds from the Gulf region, especially Saudi Arabia. Over the past decade, Bahrain has pursued Islamic finance as a significant niche that could allow it to build on its strong banking sector, perhaps to become a regional financial center. Local investment banking talent also emerged in Bahrain (e.g., First Islamic Investment Bank) and Kuwait (e.g., The International Investor) to capitalize on the growing industry, which had earlier centered in London and Geneva. Not to be outmaneuvered, a number of multinational financial institutions (e.g., Citigroup, HSBC, and UBS) setup Islamic financial arms in the region (mainly in Bahrain and U.A.E.) to cater to commercial as well as investment banking needs within the Islamic finance niche. Islamic finance arms of multinational banks, with their superior resources, later helped indigenous Islamic finance companies to establish the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and most recently initiate the drive to get Central Banks, as well as the IMF and World Bank, to establish the Islamic Financial Services Board in Kuala Lumpur, Malaysia. We have already seen the primary role played by multinational investment banks in the most recent wave of Islamic bond issuances, both by sovereign states in the region (Bahrain and Qatar), as well as corporations.

Southeast, South and Central Asia

Malaysia developed one of the earliest mature Islamic finance markets in the mid-1980s. Initiatives to integrate ethnic Malays in the country's formal financial sector culminated in converting a pilgrimage savings plan into a full-fledged Islamic bank: Bank Islam Malaysia Berhad. Over the next two decades, conventional Malaysian banks were allowed to offer Islamic financial products through "Islamic windows". Malaysia's central bank, Bank Negara, began supervision of Islamic banking practices at its inception. Special bonds called Government Investment Certificates were issued to facilitate open market and inter-bank operations. Those bonds guaranteed the principal, but gave interest only as an unanticipated gift based on profitability of government investments.

Malaysian Islamic money markets were successful early on, and attracted some investment capital from GCC investors eager to invest some of their capital in Islamic countries.

However, as advanced as the Malaysian Islamic financial sector was relative to its Arab counterparts, it suffered a fundamental drawback. Much of the development of that sector relied on a juristic opinion held by Malaysian Islamic jurists, who allowed trading debts and pure-debt instruments. That allowed Malaysia to evolve a highly efficient parallel Islamic financial system.

However, Islamic jurists of other regions did not approve of this debt-trading practice. As the Arab market grew, and Malaysia feared that Bahrain would replace London as the sole center of global Islamic finance, Malaysians strove to harmonize their Islamic financial markets with Islamic financial practices elsewhere in the world. To emphasize its leading role in this industry, the Malaysian central bank led the creation of the Islamic Financial Services Board, which is now housed in Kuala Lumpur and relies on Malaysian contributions for running expenses. In the meantime, Malaysians continue to allow more innovation for their own domestic Islamic financial market, allowing conventional futures trading, debt trading, etc., and recently creating a deposit insurance mechanism for Islamic banking.

Other countries in Southeast Asia, e.g., Indonesia, Singapore, etc. have relatively small Islamic financial sectors, which are likely to evolve as a hybrid between the Malaysian and the more conservative Arab and Pakistani models.

Pakistan is another interesting case to consider. General Zia-ul-Haq, in his many efforts to use Islamic fervor for his regime's legitimacy, declared full-fledged Islamization of the financial sector in the 1980s. However, bankers merely continued their conventional banking practices, replacing the term "profit" with "interest". The Pakistani Sharia Appellate Court repeatedly issued ultimatum orders to Islamize the system for real at various dates, but that proved impossible.

A new Islamic banking initiative was started in 2004: there are four Islamic banks, two are in the pipeline and 15 conventional banks have Islamic branches. The State Bank of Pakistan (the Central Bank) appointed its own 5-member Sharia board (Islamic juristic authority) composed of an Islamic jurist, accountant, lawyer, banker, and central bank representative and has posted a list of permissible Islamic banking contract forms on its website. This may be a prelude to more general imposition of Islamic banking practices in Pakistan.

Iran also declared the Islamization of its banking sector shortly after the Islamic revolution. However, since most banks were either national or nationalized, interest payments between those banks were seen to cancel out in the consolidated balance sheet, and were therefore permitted. For dealings with the public, some banks did not guarantee interest rates, but in practice paid rates equal to the interest rates determined elsewhere in the system. Hence, Iranian banking has not changed significantly before and after the revolution.

Finally, a small number of boutique Islamic financial shops started in the various "stans" (especially Kazakhstan) in recent years, but there are no signs of an Islamic financial industry evolving in central Asia at this time.

Arab World excluding GCC

As previously noted, Faisal Islamic Banks in Egypt and Sudan were among the very first Islamic banks. Faisal Islamic Bank Egypt was established by special decree, and Islamic banking in Egypt remains extremely limited, although some state banks are allowed to offer Islamic transactions to fulfill the market demand. Official and public perceptions of Islamic banking in Egypt were severely damaged in the aftermath of massive failures of Islamist “fund mobilization companies” that apparently attracted remittances of many Egyptians working in GCC countries, ostensibly to invest in trading real assets, but in fact constituted pyramid schemes.

In contrast, Sudan Islamized its entire banking sector. A very conservative (and hence relatively inefficient) version of Islamic finance is followed in Sudan, for instance with government bonds based on profit-and-loss sharing partnerships.

There are indications currently that banks in the Southern part of Sudan will be allowed to operate conventionally or Islamically as they please, while banks in the north will remain purely Islamic.

Elsewhere in the Arab and Islamic world, a number of GCC-based banks have had Islamic operations for a number of years. The general rise in Islamic sentiments in the region is accompanied with high levels of adherence to classical law in all matters ranging from dress-codes to finance.

Consequently, countries that originally resisted Islamic banking are currently inviting it to satisfy their nascent demand. Recently, for instance, Lebanon increased substantially its Islamic banking profile with Saudi-based Al-Baraka, and Syria licensed its first Islamic bank, which is jointly Qatar-Syrian owned. One can expect private Islamic finance to continue to grow substantially all around the Arab and Islamic world. Depending on political environment, some governments may even opt for Islamization of some state-owned banks as a measure to limit capital flight and appease Islamist elements within their borders.

North America and Western Europe

Islamic finance has arisen in the West primarily as a result of the popularity of U.S., and to a lesser extent U.K. and German, financial assets among GCC investors, who are the primary financiers of Islamic finance. Whether we consider Islamic mutual funds that select among stocks on the NYSE and NASDAQ, commercial real estate investment, or acquisition target corporations, those investors favor the legal transparency and lower risk associated with mature western markets.

These investment preferences did not change after September 11, 2001. However, a combination of fear of asset-freezing dragnets and public image consciousness about being heavily invested in the West prompted indigenous and multinational Islamic finance providers to restructure transactions in a manner that gives those investors indirect investment access to those markets.

For the past three decades, Islamic finance practitioners have also attempted to tap the relatively educated and professional Muslim populations in the west (again, primarily the U.S. and U.K.).

Arab banks have tried repeatedly, with mixed success, to engage in home and auto financing in the U.S. and U.K. (Al-Baraka was one of the earliest, United

Bank of Kuwait coming later and utilizing some of its models). Most recently, Islamic Bank of Britain, Plc. (in part pioneered by Abu Dhabi Islamic Bank) was licensed in the U.K. in August, 2004. Western home-grown boutique financial institutions, structured as co-ops, savings and loans, and investment companies, also started in the late 1970s and 1980s, but remained very small in size.

Recently, the securitization successes through participation of Fannie Mae and Freddie Mac have allowed the market for Islamic home financing to grow significantly in the U.S., with some providers seeking to sell hundreds of millions worth of GSE-guaranteed mortgage backed securities in GCC countries, as cheaper alternatives to investment banking and boutique private equity financial instruments. Participants in this industry, home-grown and foreign, have recently had a number of regulatory successes, including the above cited OCC letters, and potential FDIC approval of various depositary products in the U.S., as well as licensing of the first full-fledged Islamic bank and elimination of double-duty taxation for HSBC Islamic home financing in U.K. Islamic finance is likely to continue to grow in the U.S. and western Europe, but not to the extent expected by market participants who hope that a significant proportion of Muslims in those countries will participate in this industry.

For instance, while Islamic mutual funds are widely accessible, they have only attracted a very small percentage of savings of Muslims in those countries. The market-size for Islamic mutual funds was over-estimated, and market-sizes for other Islamic financial products – estimates of which prompted many recent developments in legal and regulatory infrastructures – may very well be likewise over-estimated.

CRITICAL ANALYSIS OF RISK TAKING BY BANKS²²

There are several types of risks. The most relevant risk is the market risk including price risk i.e. the risk that the goods will not be sold or will be sold at lower prices which may or may not cover costs. This risk is only borne by the seller when the goods are ‘held for trade’. In ‘Murabiha’ and ‘Diminishing Musharikah’, operational risk is not taken by the bank. The only risk taken is against ‘destruction of property’, the occurrence of which is highly unlikely and this is also transferred to the insurance company. Had the tenancy and sale contract not been made dependent, the bank would have had to bear the market risk which the bank cleverly avoids by making both contracts dependent and locking the price at the outset.

Critical Analysis of Murabaha²³

It is referred to as “cost + profit” transaction which is not true. It is a “cost + financing” transaction. It involves a loan and a deferred sale. Considering it equivalent to the spot sale is not true. Even the eminent scholar Mufti Taqi Usmani when analyzing it in his book “Islam Aur Jadid Maishat-o-Tijarat” accepts the fact that it is a loan transaction and further states that ‘compensation on deferred payment to the seller is allowed’. With all due respect, this compensation is nothing but interest.

²² <http://www.accountancy.com.pk/articles.asp?id=178>

²³ *ibid*

For example if a person needs a machine worth Rs.1,000. The bank appoints the person as an agent to buy it and pays the amount (Rs. 1,000) and simultaneously sells it to the person at a profit. The bank makes sure that it gets the required profit by locking the price at the outset and avoids taking any market related risk. This is not equivalent to a spot sale because if the person had Rs.1,000, he would never have come to the bank. The transaction is the same as taking a loan of Rs.1,000 from the bank, using it for some purpose for a particular time period and then repaying the bank an amount greater than Rs.1,000.

*Critical Analysis of Mudaraba*²⁴

So Mudaraba as a mode of financing was prevalent. Since Mudaraba financing did not contradict with the values of Islam, people even after the beginning of revelation were allowed to enter into Mudaraba financing.

Secondly, in the example of Prophet Muhammad, He entered into the contract as Mudarib (Businessman, Fund Manager or Asset Manager). So the flow of money is from a rich financial entity to a business entity in need of finance. In the case of currently practiced Islamic banking, the flow of funds is from the small pool of investors to a large financial entity. That large financial entity cannot invest the funds in instruments other than the financial instruments. Therefore, it has no productive effect on the economy and no employment and self-employment generation takes place. Mudarib is a person in need of finance, bank as a reservoir of money acting as Mudarib is a senseless arrangement.

Thirdly, Muslim jurists have formulated certain rules regarding Mudaraba financing that are now considered as 'Islamic rules of Mudaraba financing.' This is not the right place to highlight the problems this practice has created over the centuries. However, it must be emphasized that anything which does not contradict with any of the Islamic laws is permissible. The work of Muslim jurists can only serve as guidelines and should be open for debate and can never ever become a law which cannot be modified.

Fourthly, it is argued that profit and loss sharing is the only alternative of interest. The work of Javed Ahmed Ghamidi on 'Islamic Economic Framework' has argued that profit and loss sharing is not the only alternative of interest. He argues that an investor can opt to become a partner only in profits. This is a common practice in limited liability partnership of professionals like lawyers and doctors where the other partners do not make good of any loss if the loss was solely caused by the actions of a particular partner.

This arrangement of partnering only in profits is very different from interest. An investor investing to earn interest gets the fixed amount irrespective of profit or loss of the borrowing entity. When a partner in a Mudaraba contract opts for partnering only in profits, he will only get a profit if the borrower gets a profit. Therefore, this does not result in any exploitation of the borrower and does not contradict with any of the Islamic laws.

Moreover, in the conventional Mudaraba arrangement, Mudarib (fund manager) bears no loss while he is the only reason of loss. The Rab-ul-maal (investor) is not allowed to interfere in the affairs of the business. When a loss

²⁴ <http://www.accountancy.com.pk/articles.asp?id=178>

occurs, the Mudarib acts like an employee of the business and when the profit occurs, he shares in the profit as if he was the only reason behind the profits.

The current Islamic modes of financing are no different than conventional system. Nothing can be charged on consumables including money but rent can be charged on tangibles like property or any asset. The technique is to convert the money into asset and then sell the asset on a profit or give the asset on rental basis to earn profit. This article has highlighted the defects of these instruments.

CONCLUSION

Islamic finance is an industry which in many ways tries to “reinvent the wheel”, producing successive approximations of western financial practices. However, it is an industry that is likely to survive in the medium term, due to continued existence of customers who value Islamic jurist approval of its modes of operation. To the extent that Islamism in all its forms is on the rise, the industry is likely to continue to grow, but I believe its growth prospects are limited. However, its absolute size (though not known accurately) has already reached levels that require monitoring the sector, and ensuring the development of appropriate prudential regulations therein as well as harmonious development within the international financial system.

We close with a list of the most important pros and cons of Islamic finance in the short to medium-term. Islamic finance may have already succeeded in integrating some part of the global Muslim population (those who had decided not to deal with conventional finance) in the formal international financial system. In the process, Islamic jurists were forced to analyze classical Islamic jurisprudence in light of contemporary legal, regulatory, economic and financial systems. This gave rise to a continuing process of growth in Islamic jurisprudence, which ultimately may further produce an efficient integration of Muslims who had previously shunned the conventional financial sector.

Moreover, recall that the primary market for Islamic finance is in developing countries – which may have formally borrowed modern legal, regulatory, and financial standards from advanced countries, but fall significantly short of those standards in practice. In this regard, one may recall that provisions in laws of contracts under classical Islamic jurisprudence were, in essence, prudential regulations of that time. To the extent that those provisions are respected in Islamic financial practice (which is not necessarily the case), Islamic finance may in fact be a catalyst for improving financial practices in those countries.

For instance, the focus on secured rather than unsecured lending (albeit being abandoned with the growth of Tawarruq financing), coupled with proper marking-to-market of asset values, can improve collateralization practices that have been non-existent or poorly implemented in some majority-Muslim countries, leading to catastrophic bad loan volumes that threaten their banking systems.

On the other hand, one cannot but conclude that the *modus operandi* of Islamic finance, including the evolving opinions of its professional Islamic jurists, is a prolonged reinvention of the financial wheel. One needs only to observe the evolution of standards from original practices of Murabaha, to more advanced Murabaha with agency provisions, and finally Tawarruq practices, to notice how

competition and better understanding of banking practices brings Islamic financial practice closer to its conventional counterpart.

However, the industry's survival to-date has relied on its captive market of pious Muslims, who may abandon it if full convergence is obtained. Moreover, just as some manufacturers may delay the introduction of their latest products to smooth demand over time, Islamic financial providers prefer to introduce "innovations" (better approximations of conventional financial practice) gradually, to extract the most rents, and gently prepare their clientele.

This implies that some level of inefficiency is intrinsic to this industry, taking the forms of transactions costs, additional legal costs, and fees for Islamic jurists. Moreover, the industry by its very nature has a longer lag in "chasing past returns."²⁵ However, due to catering to a captive clientele, the industry has been able to survive and continue its growth despite this continued inefficiency.

With time, competition is likely to reduce inefficiency in the industry (though it cannot be eliminated if the industry were to maintain its Islamic character). To attain higher levels of efficiency, Islamic jurists will have to continue their process of understanding modern financial practices, and developing an Islamic jurisprudence that is appropriate for today's legal, regulatory, and financial realities. In this regard, while some developments facilitate Islamic finance (e.g., the English elimination of double duty taxation on HSBC Islamic financial structures involving double-sale for financing purposes), one should not encourage regulatory adjustments to accommodate Islamic financial practices.

The current crisis seems to highlight the weaknesses of the conventional banking and finance philosophy on which the global financial system is built upon. The conventional system allows multiple debt creation on a particular asset without a real underlying transaction made possible by credit default swap. Quite the contrary, Islamic finance requires that financial dealings must be backed by real assets and be in line with the Islamic law, Sharia.

Generally, the principles upon which Islamic banking system is built on ensure the element of certainty and stability in financial dealings. In particular, the requirements that the financial dealings must be free from Riba (interest), Gharar (uncertainty), and Maysir (gambling) ensure that the elements of exploitation and excessive speculation are avoided. To ensure fairness and justice, financial dealings in the Islamic context must observe the concept of Iwad (equal counter-value, which comprises of work effort, risk assumption, and product liability)²⁶.

²⁵ For instance, Islamic REITs are currently very popular (June 2004), when REITs were in fact a very good investment in 2001-2. Similarly, a number of new "Islamic Hedge Funds" are beginning to reach the market now, again years after the optimal performance of conventional hedge funds. This chasing of past returns has proved taxing in the past. For instance, the Dow Jones Islamic Index (DJII) debt ratio screen was originally set for debt to assets. In the middle of the tech bubble in the late 1990s, jurists changed the 33% cutoff for debts to assets into one for debts to market capitalization (just as market capitalization was soaring). That allowed DJII-licensed mutual funds to make spectacular returns for a very short period of time, by being NASDAQ heavy. Once technology sector stocks crashed, many of the stocks had to be excluded from the DJII universe because their market capitalizations had fallen too low (i.e., they bought high and sold low), disallowing investors to benefit from the partial recovery that ensued.

²⁶ The Sources of Islamic Economics, IslamReligion.com

There are various supervisory authorities that are committed to oversee the overall compliancy of the financial instruments offered by the Islamic financial institutions, such as the Sharia supervisory board, as well as national regulatory authorities²⁷. More importantly, financial dealings in Islamic banking and finance are guided by the ultimate objective of achieving the ideals of equitable justice where priority is given to equity-based financing rather than debt-based financing.

The conventional financial system which focuses largely on debt-based financing has resulted in concentration of wealth circulated largely among the deemed credit-worthy corporations and individuals. In the Islamic economy, priority should be given to transactions that can benefit the society at large, rather than just the already wealthy corporations, so that wealth can be more widely circulated.

As such, the concept of equity-based financing along with its profit-sharing element is again another built-in stability aspect of the Islamic financial system. The joint-venture nature in most equity based financing such as Musharakah (equal sharing) requires active participation from both the financier and the borrower to achieve the best outcome of a business venture.

Equity-based financing distributes risk and liability to both the lenders and borrowers so as to justify the return to both sides of the transacting parties. In the end, this would influence the allocation of wealth and resources in the economy. While conventional banks worldwide are nursing losses of more than \$400 billion from the credit crisis, Islamic banks are virtually unscathed.

"We believe Islamic finance has become a recognized and a specific segment of finance on its own with still-bright growth prospects," said Standard & Poor's credit analyst Mohamed Damak. "We think Islamic finance is set to make further inroads in developed Western markets while Southeast Asian countries will likely fuel the Islamic finance advance in Asia in 2010."

Assets of the top 500 Islamic banks expanded 28.6 % to total \$822 billion in 2009, compared with \$639 billion in 2008, according to publicly available information.

Surprisingly, Islamic banks, such as Al-Rajhi Bank of Saudi Arabia, Kuwait Finance House, Dubai Islamic Bank and Maybank Islamic, grow steadily during the crisis. Because of Islamic banking's merits and virtues, the demand for its products expanded not only in the Islamic countries, but also in the western countries, such as the United States and the United Kingdom.

In the light of the current crisis, it is expected that there will be a large scale re-evaluation of the guiding principles of financial transactions globally. The Islamic economics model in general, and Islamic banking and finance in particular, are viable options as the search for more stable and safer global financial infrastructure continues.

²⁷ Islamic Finance: A Growing Industry "The Proliferation of Interest-free Finance" by Dr. Salina Hj. Kassim and Dr. M. Shabri Abd. Majid International Islamic University – Malaysia
Read more: http://www.islamonline.net/servlet/Satellite?c=Article_C&pagename=Zone-English-Muslim_Affairs%2FMAELayout&cid=1234631361330#ixzz0j7zp2WpM

The global credit crisis presents the \$1 trillion Islamic finance industry with an opportunity to expand its appeal beyond Muslim investors, as a haven from speculative excess. Already, Islamic financial institutions have made in-roads in many western countries such as the United States and the United Kingdom.

In fact, in these countries, the attention towards interest-free financial products, particularly for long-term financing such as home financing, has been there since the mid-1980s.

The demand for interest-free home financing product has led to the establishment of several Islamic financial institutions in the United States such as the MSI Financial Services Corporation which was established in 1985 in Texas, the American Finance House - LaRiba (1986) in California, and University Islamic Financial Corporation (2005) in Ann Arbor, Michigan.

In addition, there are many Islamic banks outside the United States, like al-Ansar Co-operative Housing Corporation Ltd (1981) in Toronto, Canada, Islamic Bank of Britain (2004) and European Islamic Investment Bank (2005) in the United Kingdom, Faisal Private Bank (2006) in Switzerland, and many more throughout the world.

Apart from these full-fledged Islamic financial institutions, an increasing number of conventional financial institutions offer Sharia compliant financial products and services such UBS Switzerland, Citibank, Deutsche Bank, and BNP Paribas Bank.

In the aftermath of the sub-prime crisis, it is most likely that the demand for Islamic banking products and services to increase.

Moreover, the number of the Islamic financial institutions offering more innovative products and services is most likely to increase, the Asian Development Bank estimates that Islamic assets globally have a combined value of about \$1 trillion, with annual growth of 10 percent to 15 percent a year by 2010.

Despite this, it is important to highlight that even though the ideals of Islamic banking and finance lead to countless merits and virtues, the actual implementation and practices by the financial institutions is a whole different issue. Thus, it would be beneficial that the Islamic financial institutions could learn from the current crisis that the expansion driven by stiff competition without being guided by the ideals proposed by Sharia and the true objectives of the Islamic economy could be devastating.

ZAKAT AND WAQF

INTRODUCTION

There has been reluctance to rely on culture as a possible determinant of economic phenomena or an explanation of economic and trade patterns in any given society. This stems from the very notion of culture which is broad and because the channels through which it can enter economic discourse are vague. Nevertheless, it is difficult to dispute that the economic influence of culture has a profound impact on economic outcomes and performance, especially in the context of Middle East, where culture, religion and economy are embedded in the social structure. The important role of religion in the economy arises partly from the history of the region, as historically, both religion and tradition went hand-in-hand to form the economic systems.

In the 14th Century, the renowned Muslim sociologist, Ibn Khaldun, had demonstrated in his masterpiece, the “Muqaddimah”, the influence of the way of life and methods of production on the evolution of social groups. He stated: “The differences which are seen between the generations in their behavior are only the expression of the differences which separate them in their economic way of life”. Adam Smith also argued in *Wealth of Nations*, “that participation in religious sects could potentially convey economic advantages to adherents establishing trust in intra-group transactions, again reducing uncertainty and improving efficiency, especially where civil remedies for failure to uphold contracts were weak”.²⁸

Such a remarkable thesis was thus sure to exist in the Middle East, where culture manifests itself so deeply in the economic structure and trade patterns of the region. We should first look at Islam, as a way of life based on an elaborate set of codes and practices and a myriad of socio economic institutional arrangements, which are ordained for the common good of the society. The Islamic economy is a welfare economy, where the economic pursuits of individuals through private initiatives have to conform to ethical codes, which ensure that activity of no single individual is consciously at the expense of others. Islam furthers a system of equitable redistribution of income and wealth, enforced through moral obligations and measures.

The culture of giving is rooted in Middle Eastern societies in the form of Zakat (obligatory charity), Sadaqah (voluntary charity) and Waqf (public endowment) that continue to the present day. The mechanisms established through these mechanisms had an economic impact on the lives of the population, and particularly for the most vulnerable. They also led to the expansion of the educational and health-care systems. The current wealth produced by the rise in petrol prices and greater investments in the region, has now produced an even larger new generation of philanthropists devoting their resources for the greater public welfare.

The aim of this paper is to focus on the manner in which Islam influences all business dealings and way of life in the Middle East, and how the philanthropic

²⁸ Chiara Segrado - Progetto :“Islamic microfinance and socially responsible investments”, Torino University, August 2005.

dimensions of “Zakat” and “Waqf” stimulate the economics of the region and reinforce humanitarian action. It will attempt also to explore ways and means to consider the use of “Zakat” and “Waqf” as important tools in the eradication of poverty and in reinforcing humanitarian relief actions over the world aimed at achieving the Millennium Development Goals (MDGs).

KEY CONCEPTS AND VALUES

Importance of Religion as a Way of Life

Religions have special significance in view of the history of the region. Though all three great monotheistic religions (Judaism, Christianity, and Islam) find their roots in the Middle East, Islam is predominant in the Middle East, North Africa, and large part of Asia today. In Arabic,

In the Middle East, Muslims have placed their religion at the center of their life and their community. Contrary to the separation of Church and State in many Western countries, Islam is a way of life which governs politics and all moral values. Islam influences not only religious practice, but also the social and cultural lives of its followers. The “Quran” contains instructions on all aspects of life, from food habits, to the roles of women, and matters of inheritance, etc.

The primary aim of life for humans as described by Islam is to achieve happiness or “falah” (ultimate success). In the mold of Aristotelian ethics, one of the most prominent scholars of Islam, Al-Ghazali, mentions four means to achieve this ultimate success: goods of the soul, goods of the body, external goods and divine grace. The emphasis is placed on ethics and expected social behavior such as generosity, respect and solidarity on an individual and community basis.

Principles of the Islamic Economy

The Islamic code of life constitutes the basis of Islamic economic objectives and principles. The Quran guides all important aspects of the Islamic economic system, including matters relating to production, consumption, distribution, or the financial system. Islamic economics reconciles between matter and spirit, through a direct connection between economics and ethics.

Islam teaches the consumer to have a balanced approach toward spending, always maintaining a balance between personal needs and those of society, and also between the provisions of this world and those of the life to come.

Wealth in Islam

Wealth in Islam consists of two elements; physical and spiritual. The first dimension depicts material possessions like property and assets, known as “Maal”.²⁹ The latter indicates the spiritual dimension, such as knowledge and virtue that reside in the soul. All physical wealth in Islam has a share that is dedicated to God by paying Zakat to the needy. At the same time Islam does not reject profits or trade and does not aim to remove all differences in income and wealth. Establishing the Quranic perspective of economic justice and providing general well being for all members of the society requires a focus on three critical economic factors such as earning an Halal (legal) income; ensuring an equitable distribution

²⁹ Allah Yulyadi Arnakim :” An Islamic concept of wealth” http://islamic-orld.net/economics/conceptof_wealth.htm

of wealth; and creating an economic safety net to assure the needs of those who cannot afford the basic necessities of life.

The Quran also highlights key business principles that Muslims are obliged to follow. These guidelines include honesty and truthfulness; keeping your word; being humble; using mutual consultation in business affairs; not dealing in fraud or bribery; and dealing always in a just manner.

Dignity and respect are key elements in Arab culture and saving face, through the use of compromise, patience and self-control is an approach by which these qualities are preserved. Arab culture utilizes the concept of face saving to solve conflicts and avoid embarrassing or discomforting others.

Middle Eastern culture places more value on someone's word than on anything in writing. This is a region where a man's word is his honor and to break it would have serious consequences. In traditional Arab cultures a handshake or spoken word are seen as more legally binding than a signed contract.³⁰

However, this concept of the handshake does not conform to the Quranic principles of contracts. For any form of transaction with partners, suppliers or clients, the importance of putting contractual obligations in writing is specifically emphasized in the Quran: "O you who believe when you deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing".

Personal Relationships

Personal relationships form the basis of social (and business) interaction in the Middle East. People prefer to do business with known or familiar persons. Personal relationships are highly valued. People take a sincere interest in others and spend a lot of time getting to know each other. An emphasis is placed on networking so it is essential to develop relationships personally and professionally before doing business with counterparts in the Middle East.

Hospitality

Many people in the Middle East take great pride in showing hospitality. Hospitality and dignity are deeply rooted in tradition and closely linked to honor and reputation. Open displays of generosity and welcoming behavior are essential qualities for measuring a person's good reputation and character. When offered such hospitality, whether in a business or social setting, it is important to accept it to maintain the host's sense of honor.

The Philanthropic Dimension

The idea of giving is deeply rooted in tradition and closely linked to the Arab concept of "Takaful" or social solidarity. The institution of "Zakat", as a spiritual obligation, is the cornerstone of the Islamic economic system. The Quran emphasizes "Zakat" as a critical component of socio-economic justice. The act of giving money or helping someone is a fundamental pillar of Islam, in the same way as is "Shahada" or Faith in the Oneness of God and accepting Muhammad as His messenger, prayer, Fasting during Ramadan, and the Hajj or the pilgrimage to Mecca.

³⁰ Mohamed Aslam Haneef Can There Be an Economics Based on Religion? The Case of Islamic Economics, 2005

Humanitarian acts, whether in the form of donations in money or in kind, or of a more practical nature, such as distributing aid, are an essential element of religious practice for Muslims. In Islam, giving is a way of validating faith, erasing sins (Kaffara), reparation for damages caused to others, or achieving God's satisfaction, "God loves the one who comes to the aid of the afflicted".³¹

ZAKAT

Definition

The word "Zakat" means "purification". It is a spiritual-material obligation on every Muslim in possession of a minimum amount of wealth. It can be defined as a system which organizes the transfer of money from the well-off to the poor and needy. In monetary terms, for example, every Muslim must donate 2.5 % of his annual savings, on condition that these are higher than the lower limits "Nissab", and that this money has been in his possession for more than one year.³²

The Zakat tax rate of 2.5 % should be carefully distinguished from the Christian "tithe" of 10 %, or the American marginal income tax rates of 10 to 35%. Zakat taxes wealth, not income; that is, it counts against all savings at the end of the year after paying off all debts or expenses. It is not a tax on profits or net revenues.³³

Collection and Distribution

The methods of collecting Zakat is collected by different way such as, collection by appointed staff, collection through offices of the state religious department, collection through deduction, and voluntary donations. Several Gulf Cooperation Council (GCC) states have instituted state systems for Zakat collection, such as the Saudi Arabia Department of Zakat and Income Tax, the United Arab Emirates Zakat Fund, the Kingdom of Bahrain Zakat Fund, the State of Qatar Zakat Fund, and the Sultanate of Oman Finance House.³⁴

The Quran mentions eight category of people as entitled to receive "Zakat". The list includes the poor, the needy or vulnerable, freed slaves or those in bondage, over-burdened debtors, travelers who need to return to their homes, etc. Islam prescribes that the proceeds of Zakat should be distributed among the poor by the state and not by the rich people. In this sense, Zakat is a tax collected and distributed by the state. The Public Treasury "bait-el-mal" under Islam is the counterpart of the modern Ministry of Finance which collects public revenues and distributes these among the various public utilities.

Some unofficial statistics claim the total annual Zakat money in the Persian Gulf countries is approximately \$25 billion.³⁵ The statistics of population paying Zakat are also incomplete. Some research reports that 43.2 % of the

³¹ Tabarani compilation

³² Nissab is equivalent to 85g of gold, currently at 900 euros, US \$ 1100. Every Muslim have in his saving account more than 1100 have the obligation to pay 2.5 to the poor.

³³ Tithing is an Old Testament concept. The tithe was a requirement of the law in which all Israelites were to give 10 percent of everything they earned and grew to the Tabernacle/Temple (Leviticus 27:30; Numbers 18:26; Deuteronomy 14:24; 2 Chronicles 31:5).

³⁴ Official Zakat institutions in the GCC States: www.Zakatfund.net/en/index.php

³⁵ Source: IMF's anti-money laundering efforts: right region, right sector? March 19, 2010, moneyjihad.wordpress.com.

Egyptian population pay Zakat, whereas 45.8% do not pay it, mostly because they do not meet its basic conditions, which is to own a certain minimum value in savings for a whole year.³⁶

Social and Economic Impact of Zakat

Experts in fiqh (religious law) say that Zakat should cover all the beneficiary's needs: social needs, food, clothing, shelter, health and education. According to Imam Malik, Zakat should be distributed in the country where it is collected, except when there is extreme need in another country due to famine, natural disasters, war, etc.³⁷

Zakat has a significant economic impact on society. The income support provided to the poor and needy would result in a measured increase of the money supply in the economy, causing upward shift in the demand for goods and services. This added employment would in turn generate more demand for goods and services, more room for additional investments, and finally, the growth cycle based on balanced consumption would contribute to balanced economic growth. Zakat also provides debt relief and enhances price stability. The Zakat system provided a means of social insurance whereby everyone in an Islamic society is provided with at least the necessities of life. In Saudi Arabia, Zakat makes up the majority of the Kingdom's public revenues in the non-oil sector, accounting for \$18 billion each year. Zakat revenues cover 60 % of social insurance expenditures.³⁸

Zakat also provides support to strengthen charitable institutions environmental organizations, development projects, health and cultural institutions. For example, in Egypt, Zakat money contributed to building the Childrens Cancer Hospital.

Food Aid and Humanitarian Aid

Zakat is not merely a religious obligation but also a right of the poor. During the Feast of Sacrifice, when each Muslim family sacrifices a sheep, Prophetic tradition recommends that they eat no more than one-third themselves, offer one-third to friends, and give one-third to the needy. Likewise, if a Muslim is unable to fast during the month of Ramadan because of a lengthy illness, for example, he must feed a needy person every day in exchange.

According to Saudi government figures, its humanitarian aid to the developing world, places it among the largest donors in the world. It is the third largest major donor to the Haiti earthquake victims with a donation of US\$ 4 billion.³⁹

Sponsoring orphans

A multitude of Quranic texts encourage help for orphans. The sponsoring program generally covers their entire needs, food, health, education, social

³⁶ Source: the Philanthropy for Development website! Philanthropy in Egypt

³⁷ At the beginning of the Muslim Era five schools of jurisprudence, which were inspired by the Quran and the traditions of the Prophet Mohammed, developed to legislate on all questions concerning religion and the economic, political and social life of Muslims. They are the Maliki, Chafi, Hanafi, Hanbali and Jafari schools.

³⁸ Talal Malik: "GCC can rake billions in Zakat, income tax" *arabianbusiness.com*. 12 September 2007

³⁹ Saudi Arabia pledges in the International Donors' Conference Towards a New Future for Haiti, held in UN Headquarter, New York 31 march 2010

assistance, etc., and is implemented either collectively in the orphanages or individually on a one to-one basis. For example, the Saudi charity foundation [Al-Haramayn Islamic Foundation] which gets most of its funds through Zakat, was taking care of the highest number of Somali orphans (3,000 children) by providing care, boarding and education in various places in Mogadishu and other regions all over the country.⁴⁰

ZAKAT AL-FITR

A different type of Zakat is the Zakat al-Fitr, or the charity given to the poor at the end of the fasting in the Islamic holy month of Ramadan. Breaking the fast is a general obligation on all Muslim individuals, regardless of freedom, sex, age, wealth, or urban or Bedouin status. The purpose of Zakat al Fitr is to ensure that those who are less privileged have the opportunity to join in the celebration of the Islamic festival of “Eid ul-Fitr”. The modest contribution trains all Muslims to become independent givers of charity. Zakat al-Fitr is a minimal payment, traditionally offered according to the measure of a “saâ”, or the cost of about 2 kilograms of dates or raisins or wheat or rice or other dry food commodities. In the USA, Zakat al-Fitr amounts to an individual donation of about \$ 10 for each member of the family.⁴¹

WAQF

Definition

A Waqf (plural: Awqaf) is an irrevocable religious endowment in Islam, typically denoting a building or a plot of land for religious or charitable purposes. It is conceptually similar to the common law Trust.⁴²

There are numerous ways to allocate “Waqf” money, including through direct benefit (housing people or building a mosque), and investments(financial or agricultural). Historically Awqaf were an important source of funding that played a critical role in the provision of services, including building mosques, orphanages, schools, libraries, hospitals, water supplies, cemeteries, public gardens, transport facilities.⁴³

Waqf is thus a form of permanent charity, or “sadaqah jariyah”, which continually gives out benefits to other people even after the death of its original owner.

Social and Economic Impacts

Waqf plays an important role in helping create equality and human development for the nation. This institution was well known by the people since the beginning of Islamic history. The majority of Awqaf aim at the objectives of poverty eradication, with five basic categories of food, housing, health, education and religion.⁴⁴ The Awqaf normally fall into the following categories:

⁴⁰ Integrated Regional Information Networks (IRIN)SOMALIA: Orphans facing street life after Saudi NGO pulls out , 21 May 2003

⁴¹ The Zakat Foundation of America - The Zakat Handbook: A Practical Guide for Muslims in the West - 2008 .Page 95

⁴² J. Krafess – The influence of the Muslim religion in humanitarian aid Jamal Krafess, “The Influence of Muslim Religion in Humanitarian Aid,” International Review of the Red Cross 87, no. 858 (2005):

⁴³ Barbara Ibrahim,Dina H. Sherif :From charity to social change: trends in Arab Philanthropy .

⁴⁴ Waqf and islamic philanthropy, land & property, research series,un-habitat,2005

- Welfare Institutions. The high proportion of endowments (awqaf) devoted to general welfare providing many of the services that the modern welfare state today offers.
- Civil Society Institutions: Awqaf were an integral part of the neighbourhood economy and society.
- Wealth Redistribution Institutions: The Waqf system succeeded for centuries in Islamic lands in redistributing wealth, for example by financing productive micro-enterprises at subsidized rates.⁴⁵

Contemporary Waqf Applications

Muslim giving is shifting its focus from conventional to strategic long-term planning. As important as emergency assistance will always be, Muslim philanthropy based on “Waqf” is now aimed at addressing the root causes of poverty and conflict, and longer term solutions. Corporations The creation of the World Congress of Muslim Philanthropists in 2008, helped to move the debate on the traditional charitable religious foundations to the international level. The third edition of this event, held at Abu Dhabi in the UAE in 2010 discussed how the integrated efforts of the philanthropic, and the public and private sectors can effectively respond to the worsening global issues of hunger, poverty, disease, and violence.

Some Waqf, like Islamic Relief, have even modernized the mechanisms used. The donor is, for instance, invited to make a donation of one or many shares (at present, a share is valued at 1,300 euros). These shares are invested in low-risk economic and real-estate projects. Annual profits, after deduction of administrative fees, are allocated to humanitarian projects previously selected by the donors.

Philanthropy in the Gulf Cooperation Council (GCC) countries is estimated at approximately a \$15-20 billion. Thus, GCC encompasses the most generous region in the world. However, this generosity is challenged by the fact that less than \$2 billion is institutionalized. Significant

THE PILGRIMAGE ECONOMY

The Hajj

Religious pilgrimages, also commonly referred to as faith tourism, finds its roots in Saudi Arabia. The Hajj (pilgrimage to Makkah), is an important religious destination for all Muslim. Every year the Hajj is performed by around 3 million pilgrims. The Hajj, which is the fifth pillar in Islam, and an Abrahamic tradition dating back to the pre-Islamic era, has been, along with oil production, the cornerstone of the Saudi economy, and has shaped its development throughout history.

Religious tourism, however, is not only about pilgrimages. The retail sector benefits from the large number of Muslim tourists visiting the country to take part in the Hajj and Umrah pilgrimages every year. The Hajj generates tax revenues for Saudi Arabia. Sales of gifts and souvenirs in 2008 were estimated to have risen to at least US\$1.1 billion due to shopping by Hajj pilgrims.⁴⁶ The Muslim

⁴⁵ Asming Yalawae and Izah Mohd Tahir: the role of Islamic institution in achieving equality and human development: Waqf or endowment, university darul iman, Malaysia 2007.

⁴⁶ News report. Increasing urbanization is also driving retail sales. Saudi Arabia Retail Report Q4 2009.

pilgrimage to Mecca accounts for 7 % of Saudi Arabia's gross domestic product. All the businesses and individuals that cater to the pilgrims (including airports, hotels, retailers, etc) are drawing an income from the Hajj. The total monetary value of activities related to the Hajj and Umrah exceeds \$30 billion. Additionally, the Hajj season provides employment opportunities for thousands of Saudi nationals. Some Saudis, including youngsters, engage in simple trading activities such as selling foodstuffs and prayer beads. Every year Saudi government creates more than 160,000 new jobs to cope with pilgrim demands. The infrastructure and logistics management demands linked to the Hajj are enormous, Public health and safety management is another unique challenge.

The annual Hajj also serves as a golden opportunity for international firms from China, Pakistan, and the USA. In February 2008, China Rail Construction Company won a \$1.8 billion contract to construct an 18-kilometer metro line linking Mina, Arafat and Muzdalifah.⁴⁷

The Shia Pilgrimages

There are between 160 million and 200 million Shia Muslims in the world today. Between 70 to 80 % live in just four countries: Iran, Pakistan, India and Iraq. About one million live in Turkey, Yemen, Azerbaijan, Afghanistan, Syria, Saudi Arabia, Lebanon, Nigeria and Tanzania.⁴⁸ The largest percentage of religious pilgrimages today in Iraq is comprised of 5 million visits to the holy sites of Najaf and Karbala.

The lucrative opportunities for hospitality have benefited both cities, and opened new investment opportunities. Lebanese, British, Korean, German and Swedish companies have all presented plans to establish hotels. At the end of 2008, a Lebanese company signed a deal to build six hotels at an estimated cost of \$150 million.⁴⁹ In July 2008, Najaf's economy received a massive boost with the opening of a redeveloped multi-million dollar international airport. The airport is part of a multi-billion dollar project led by the Kuwaiti investment firm Al-Aqeelah Holding, which plans to build hotels and thousands of new houses in the city.

CONCLUSION

The paper mainly attempted to shed light on some core issues and to generate questions and encourage further debate related to "Zakat" and "Waqf" within the framework provided by the Islamic theories of wealth redistribution.

There is no doubt, as most of the researches pinpoint, that Islam, as a way of life and an ethical code, increased altruistic behavior in the Middle East. It also helps underline the importance of the Zakat and Waqf models to achieve its objectives of establishing economic justice and general well being of all members of society around the world, through a more equitable distribution of wealth in today's economic environment.

⁴⁷ ibid

⁴⁸ USAID /Iraq: "The Tourism Industry in Iraq" July 16, 2008.

⁴⁹ ibid

WARS IN THE MIDDLE EAST

INTRODUCTION

By nature, human beings are psychologically attuned to war but their philosophical focus is towards peace, which is, in essence, a constant battle between heart and soul. War has always been a part of the human history, and it probably occurred from time to time, in one form or another, throughout the prehistory, that is, as far back as humans existed. The historical evidence also proves this human tendency towards war than peace. This is the case in the Middle East; wars of one kind or another have been a regular feature of Middle Eastern life. This may be the reason that all three great religions originated from this region so as to fill the gap between the human tendency towards war and the desirability towards peace.

The Middle East is the most unstable, repressive, and violent region of the world, and often defined by its wars and conflicts. The region had been a hotbed for religious conflict, and wars over the rich resources and arable land. The conflicts vary from localized civil wars, as in the Sudan, to country-specific wars, as in Iraq and Afghanistan, to chronic, region-wide antagonisms, as with the Arab-Israeli conflict. While terrorism, narcotics, and nuclear proliferation issues in the region demand the world's attention, the prospect of a global oil shortage and the access to Middle East oil reservoirs making the region ever more attractive to conflicts and tensions. All these problems and others are being worked over and negotiated in one way or another, in hundreds of forums and locales, by assorted diplomats and other specialists, but without any success.

There are a number of factors contributing to wars, tensions and conflicts in the region. Among them, the economic interest and political economy of war proved to be the most prominent factor throughout the history of the Middle East. In other words, the history of the Middle East had been an economic history. A variety of economic considerations played an important role—if not the major one—in the decision-making processes towards wars in the region.

The paper examines the political economy of war in the Middle East, paying special attention to the role of powerful external forces stemming from western interests. It also analyzes the major internal driving forces of war such as the regional factors, the perception in the region of the United States (US) and the elements challenging the status quo and resisting injustice and oppression of their authoritative governments and monarchies. Further, it discusses the failed peace process while presenting the possible economic costs and benefits of wars in the Middle East. It also provides an analysis of winners and losers of a recent war in the region. The paper attempts to highlight that war is inevitable in the Middle East though peace is desirable.

THE HISTORY OF MIDDLE EAST WARS

The Middle East is the most ancient region of human civilization. Around 10,000 BC farming first developed in the area referred to as the Fertile Crescent, the area of land arching from the Persian Gulf over the watersheds of the Tigris and Euphrates river in Iraq through the eastern coast of the Mediterranean into Egypt. Over the next 12,000 years many different great civilizations and cultures

developed from or invaded the area. The list of ancient empires includes: Egyptians (3000-1000 BC); Assyrians and Babylonians (1000-500 BC); Persians (550-330 BC); Greeks (330-60 BC); and Romans (60 BC-140 AD). In modern times, the Ottoman Empire (1300-1923) became the largest political entity in Europe and western Asia. During the second great expansion period from 1481 to 1683, the Ottoman Turks conquered territory in Syria, Egypt, Mesopotamia (modern Iraq), and Hungary.⁵⁰

Wars have thus been a part of the history of the Middle East since times immemorial. The following chart attempts to depict only some of these major wars:

War	Date(s)
Egyptian Invasion of Asia	1479 BC
Persia Empire Wars	546 - 539 BC
Persian-Greek Wars	499 - 401 BC
Alexander & Macedonian Conquests	338 - 322 BC
Wars of the Hellenistic Monarchies	318 - 170 BC
Third Macedonian War	168 BC
Wars of the First Triumvirate	53 - 45 BC
Wars of the Second Triumvirate	43 - 31 BC
Byzantine Empire Wars	395 – 1453
Muslim Conquests	624 – 982
Crusades	1096 – 1254
Arab-Israeli War	1948 – 1949
Suez War	1956
Wars in Lebanon	1958 – 1983
Six-Day War	1967
October War	1973
Iran-Iraq War	1980 – 1988
Persian Gulf War	1991
War on Terrorism – Afghanistan (on-going)	Since 2001
Iraq War (on-going)	Since 2003
Lebanon War	2006

When the Turks attempted to continue their European expansion by attacking Vienna in 1683, the assault failed and the slow decline of the Empire had begun. When Catherine the Great of Russia (1762-1796) regained control of the Black Sea region after a series of Russo-Turkish Wars against the Ottoman Empire, the platform had been laid for the demise of the Ottoman Empire.⁵¹ Egypt was temporarily lost to Napoleon in 1798 then permanently lost in 1882. Greece was lost after the Greek War of Independence (1822-1827). War with Russia (1877-1878) resulted in the loss of more Balkan Territory. The Empire tried to modernize its army and implement political and economic reform but it was too late. Having originally entered the World War I as an ally of Germany, the Turks eventually

⁵⁰ <http://ehistory.osu.edu/World/articles>

⁵¹ Katherine Stoneburner, Catherine the Great of Russia: An Early Modern Woman of Power, <http://users.manchester.edu/>.

surrendered to the allied powers. The victorious Allied Powers (the United Kingdom, France, and the Russian Empire) sought the dismemberment of the Ottoman state through the Treaty of Sèvres (10 August 1920), a peace treaty between the Ottoman Empire and Allies at the end of World War I. After the war, from the years 1919 to 1923, Mustafa Kemal led a national uprising (the Turkish War of Independence) against the last Ottoman sultan which laid the foundation of the new Turkish State and signalled the end of the Ottoman Empire.⁵²

One of the most significant developments in the region following the Treaty of Versailles was the rising Arab nationalism. Frustrated at the betrayal by the European powers, Iraqis rebelled against their British rulers. In 1932 the British had left Iraq with an established governmental system, a constitutional monarchy with an elected assembly, along British lines. Similarly, frustrated at their defeat in the 1948 war to destroy Israel and angry at the corruption of their Westernized ruler, King Farouk, Egyptian army officers overthrew the monarchy in 1952, establishing a revolutionary republic in Egypt under the radical new leadership of Gamal Abdel Nasser. After Egypt, it was Iraq's turn to overthrow its pro-Western monarchy. The military, important under the Ottomans, took over in 1958 in a bloody coup in which the Hashemite King Faisal and most members of the royal family were killed. Eventually Iraq came under the domination of Saddam Hussein's dictatorship. Similarly, King Idris of Libya was overthrown in 1969 and replaced by the radical anti-Western leader, Colonel Muammar Gadhafi. As monarchies were overthrown, the successor republics became dictatorships. Syria has even become a dynastic republic with the son of the previous president taking over after his death. In 1958 Egypt, Syria, Yemen and the United Arab States formed the United Arab Republic, an attempt at Arab unity that did not last, continuing only until 1961.⁵³

After World War I, the decline and dismemberment of the Ottoman Empire marked the beginning of a new stage of conflict over territory around the lands of Palestine. Palestine was among the several former Ottoman Arab territories which were placed under the administration of Great Britain under the Mandates System adopted by the League of Nations. Except Palestine, all of these Mandated Territories became fully independent States, as anticipated. This exception was because the Zionists found a keen sponsor for their national aspirations in Great Britain. The British government officially endorsed the plan for "the establishment in Palestine of a national home for the Jewish people" through the implementation of the "Balfour Declaration" in 1917. In 1947, the United Nations proposed the partitioning of Palestine into two independent States, one Palestinian Arab and the other Jewish, with Jerusalem internationalized (UN Resolution 181 (II) of 1947). One of the two States envisaged in the partition plan proclaimed its independence as Israel. The Palestinians rejected the new state of Israel and refused to make peace with it, as did the neighbouring Arab countries. In the 1948 war that followed, the Israel occupied 77 per cent of the territory of Palestine and also the larger part of Jerusalem. Jordan and Egypt occupied the

⁵² Patrick Kinross, *The Ottoman Centuries: The Rise and Fall of the Turkish Empire*, Morrow, 1977.

⁵³ <http://www.gnmagazine.org/booklets/me/risingtide.asp>

other parts of the territory assigned by the partition resolution to the Palestinian Arab State which did not come into being. About 726,000 Palestinians were expelled or fled their homes in the 1948 war.⁵⁴ Starting with the War of Independence in 1948, Israel has been involved in six wars⁵⁵ with its' neighbours. Additionally, they have experienced two Palestinian uprisings (intifadas) in 1987 and 2000. The Palestine-Israeli conflict is the longest conflict in the world.

Thus, throughout its long history, the Middle East witnessed more than 20 major wars and conflicts from the Persian-Greek Wars to the Crusades to the two on-going wars in Afghanistan and Iraq as shown in Annex I.⁵⁶

WESTERN INTERESTS IN THE MIDDLE EAST

During European colonial times (Britain, France and the former Soviet Union), the western interests in the Middle East had primarily been due to the energy and resource interests and to battle against the Ottoman Empire over territory. The US' relationship with the Middle East prior to the Second World War was limited, but since the Second World War, it has become the dominant world power in the region. Today, the US interests in the Middle East are primarily of four major directions: geo-strategic concerns; oil; Israel; and arms sales. While the secondary interest of the US include installation of puppet governments, preventing the spread of Weapons of Mass Destruction (WMDs) and democratization of certain states, these interests directly and indirectly complement the primary interests of the US, in particular, when it comes to its economic domination and exploitation of the region's people and resources.

Geo-strategic Concerns

The strategic location of the Middle East across vital trade, communication and transportation routes between Europe, Asia, and Africa, had always been an attraction to the western world. Especially, the US would not want the region to fall under the control of another power, and in particular to any hostile power, local, regional or global. Over the time, the US developed military force structures and regional relationships that allowed it to better project military force into the region. Today, defence of the US interests stretching from Pakistan to Kenya to Egypt, include numerous US military bases around the world.

Throughout the 20th century, strategic interests in the region, including a longstanding competition with the Soviet Union, have provoked a variety of US interventions ranging from diplomatic overtures of friendship to full-blown war.⁵⁷ There are countless examples of US intervention in the region since 1945 including the most recent "War on Terrorism" with air strikes on Afghanistan in 2001 and Iraq War since 2003. These illustrates the lengths to which the US power structure has gone to gain and maintain US domination of the Middle East—a region considered key to the US's standing as an imperialist world power. To this day, the US spends billions annually to maintain a large military presence in the region. It

⁵⁴ Question of Palestine, United Nations (<http://www.un.org/Depts/dpa/qpal/>).

⁵⁵ 1948 War of Independence; the 1956 Suez War; the six-day war in 1967; the War of Attrition from 1968-70; the 1973 Yom Kippur War; and the 1982 Lebanese War.

⁵⁶ <http://ehistory.osu.edu/middleeast/battles.cfm>

⁵⁷ <http://www.pbs.org/wgbh/globalconnections/mideast/timeline/index.html>

provides billions in military hardware to client states, in particular to Egypt, Saudi Arabia, and Israel.⁵⁸

Oil

Given the need for a vast amount of energy sources to sustain the western economies, their influence, involvement and intervention in the Middle East have been of paramount importance for the former and current imperial and super powers, such as Britain, France, the US and the former Soviet Union. The British had recognized the importance of the region's oil wealth as early as 1916 when it secretly signed the 1916 Sykes-Picot Agreement⁵⁹ with France which called for the division of the Ottoman Empire into a patchwork of states that would be ruled by the British and French. The 1928 Red Line Agreement described the sharing of the oil wealth of former Ottoman territories by the British and French colonial governments, and how percentages of future oil production were to be allocated to British, French and American oil companies.⁶⁰

From the beginning the US also understood that political, social, and economic dynamics of the Middle East region remain critical to US energy and economic security concerns. The early agreements such as the Anglo-American Petroleum Agreement of 1944 clearly reflected an American interest in control of Middle Eastern oil. Then American President Franklin Roosevelt had mentioned to a British Ambassador in 1944 *'Persian oil, is yours. We share the oil of Iraq and Kuwait. As for Saudi Arabian oil, it's ours.'*⁶¹ The Arab peninsula's oil wealth led to the cementing of ties between successive Saudi and US governments. US "interests" were exemplified by the quote: *"...the defence of Saudi Arabia is vital to the defence of the United States."* If 65 per cent of the proven oil reserves of the world are in the Gulf region, 38 per cent of that is in Saudi Arabia.⁶² Since the 1930s, when oil was discovered in the Arab peninsula, protecting the Saudi Arabian "prize" became a chief aim of US policy in the Gulf.⁶³

Control of resources and access to oil became paramount to the extent that the West has placed corrupt Arab leaders into positions of power and supported the overthrow of those that are not seen as favourable. This has also served the purpose of dividing the local populations and ensuring the establishment of impotent client-regimes whose administrations were subservient to western interests, in return for militarization, power and personal wealth of the elite.⁶⁴ The US has intervened directly to punish regimes that have challenged its dominance in the region—as it did to Iraq in 1991. The US government (through the CIA) has

⁵⁸ Paul D'Amat, U.S. Intervention in the Middle East: Blood for Oil, International Socialist Review Issue 15, December 2000-January 2001.

⁵⁹ Fromkin, David, A Peace to End All Peace: The Fall of the Ottoman Empire and the Creation of the Modern Middle East. New York: Owl, 1989, pp. 286, 288.

⁶⁰ Said Aburish, A Brutal Friendship: The West and the Arab Elite, Indigo, London, 1998.

⁶¹ Yergin, D, The Prize: The Epic quest for Oil, Money and Power New York: Simon and Schuster, 1991, p 401.

⁶² Anthony Cordesman, The Gulf and Transition: U.S. Policy Ten Years After the Gulf War (Working Draft), Center for Strategic and International Studies (CSIS), October 2000, p. 32.

⁶³ Paul D'Amat, U.S. Intervention in the Middle East: Blood for Oil, International Socialist Review Issue 15, December 2000-January 2001.

⁶⁴ <http://www.globalissues.org/issue/103/middle-east>

also been implicated in the coup against the democratically elected, left-leaning government of Mohammad Mossadeq, which had planned to nationalize Iran's oil industry, and install Shah as a result.

Israel

The US relationship with Israel is singular. Israel represents only one one-thousandth of the world's population and has the 16th highest per capita income in the world, yet it receives 40 percent of all US foreign aid. In terms of US aid to the Middle East, Israel received 54 percent in 1999, Egypt 38 percent and all other Middle East countries only about 8 percent. Direct aid to Israel in recent years has exceeded \$3.5 billion annually and has been supported almost unanimously in Congress.⁶⁵

In the early years following the Second World War, as the US endeavoured to extend its dominance over the Gulf States, Washington viewed Israel as one ally among many. However, as the threat of Arab nationalism rose after Mossadeq's and Nasser's rise to power in the early 1950s, US aid to Israel began to increase. Compared to \$100,000 in grants to Israel from the US in 1951, the coup in Egypt the following year prompted the US to give Israel \$86.4 million.⁶⁶ It was with Israel's role in the June 1967 Six Day War, when the Israeli army proved itself superior to the combined forces of several other states and expanded its territory into the West Bank, the Golan Heights, and the Sinai peninsula, that the US cemented its special relationship with Israel.

US sympathy has been strengthened over the years by four major Arab-Israeli wars, in 1948, 1956, 1967, and 1973. During the last three of these wars, Arab forces were supplied by the Soviet Union and Israel was seen as an American ally in the Cold War. An American military expert has been quoted as saying that it would cost US taxpayers \$125 billion to maintain an armed force equal to Israel's in the Middle East, and that the US-Israeli military relationship was worth "five CIAs." There can be no doubt that from the US point of view, the investment in Israel is a bargain, and the money well spent.⁶⁷

Arms Sales

The US dominates the international arms market, supplying just under half of all arms exports in 2001, roughly two and a half times more than the second and third largest suppliers. The US share in world arms exports increased from 35 per cent in 1990 to 50.4 per cent in 2000.⁶⁸ In 2005, the US provided nearly half of the weapons sold to militaries in the developing world as major arms sales to the most unstable regions—many already engaged in conflict. The US supplied \$8.1 billion worth of weapons to developing countries in 2005 - 45.8 per cent of the total and

⁶⁵ Stephen Zunes, *Continuing storm: The U.S. role in the Middle East*, Global Focus: U.S. Foreign Policy at the Turn of the Century, Martha Honey and Tom Barry, eds., New York: St. Martins Press, 2000, p. 248.

⁶⁶ Phil Marshall, *Intifada: Zionism, Imperialism and Palestinian Resistance*, London: Bookmarks, 1989, p. 77.

⁶⁷ Benjamin Beit-Hallahmi, *The Israeli Connection: Who Israel Arms and Why*, New York: Pantheon, 1987, pp. 196-98.

⁶⁸ Richard F. Grimmet, *Conventional Arms Transfers to Developing Nations: 1994-2001*, CRS Report for Congress, August 6, 2002.

far more than second-ranked Russia with 15 per cent and Britain with a little more than 13 per cent.⁶⁹ These figures underscore how the largely unchecked arms trade to the developing world has become a major staple of the American weapons industry, even though introducing many of the weapons risks fuelling conflicts rather than aiding long-term US interests.

The Middle East is the most militarized region in the world and also the world's largest recipient of conventional weapons. Of the top recipients of arms, five were in the Middle East—Egypt, Kuwait, Saudi Arabia, Oman and Israel. US arms sales to the Middle Eastern accounted for 76 percent of its total arms sales since 1999.⁷⁰ In the past, between 1970 and 1979, the US sold \$8.3 billion worth of arms to the Iran's Shah and sent more than 50,000 US advisers to train the Shah's army and secret police.⁷¹

The US has long seen the Gulf Cooperation Council (GCC) countries (Saudi Arabia, Bahrain, Oman, Kuwait and the United Arab Emirates) as profitable arms trading partners. Since the end of the first Gulf War, the US has delivered more weapons to the region than any other country in the world, including more than \$18 billion worth of US manufactured arms, which totals nearly a quarter of all arms deliveries to Gulf countries during that period. In May 2006, President Bush further cemented the US as the region's top arms exporter through the Gulf Security Dialogue, whose objective is reviving US-GCC defence cooperation, moderating regional terrorism and proliferation threats, and responding to regional changes in balance of power by providing a framework for US engagement with GCC countries.⁷²

US SECURITY POLICY IN THE MIDDLE EAST

During the Cold War period, the primary interests of the US in the Middle East were preventing the expansion of Communism by the Soviet Union, securing the free-flow of the Middle Eastern oil to Western industry, and providing the security of newly formed state of Israel⁷³ and other pro-Western states. When the Cold War ended in 1989 with the Soviet withdrawal from the Third World, the US remained unchallenged at a regional level, for an uncertain period of time. On the global level, international system has entered into a systemic transformation process in 1989, basically from bi-polar to unipolar US hegemony.⁷⁴ Liberalization of the economy and democratization of the politics have emerged as the new American slogan and legitimization tools for the American presence in the Middle East.

⁶⁹ Bryan Bender, US Is Top Purveyor On Weapons Sales List; Shipments Grow To Unstable Areas, *The Boston Globe*, Arms Trade Resource Center, November 13, 2006.

⁷⁰ Jim Lobe, US Dominates Arms Sales to Third World, *Dissident Voice*, September 30, 2003.

⁷¹ Paul D'Amat, U.S. Intervention in the Middle East: Blood for Oil, *International Socialist Review* Issue 15, December 2000-January 2001.

⁷² Doug Tuttle, Fueling the Arms Race in the Middle East, *Centre for Defense Information*, January 28, 2008

⁷³ Richard W. Cottam, United States Middle East Policy in the Cold War Era, in Dale F. Eickelman, ed., *Russia's Muslim Frontiers*, Bloomington and Indianapolis: Indiana University Press, 1993, pp.19-37.

⁷⁴ Richard Falk, U.S. Foreign Policy in the Middle East: The Tragedy of Persistence, in Hooshang Amirahmadi (ed.), *The United States and the Middle East*, State University of New York, 1993, p.75.

In the attempt of adapting into this new geo-political environment, the superpower was hit unexpectedly on 11 September 2001. While some analysts agree that the September 11 terrorist attack was the result of decade-long US involvement in the region, the attacks on New York and Washington, D.C., have had important impact on the US Middle East policy. The attacks provided sudden opportunities to implement more militarized policies toward the region. The decision shaping the US military campaign in Afghanistan shows a remarkable continuity on an ongoing, pre-September 11 evolution in approaches to global system. The war on terrorism and the related struggle against the proliferation of nuclear, chemical and biological WMDs have become the central elements of the US foreign policy.⁷⁵ The case for the invasion of Iraq in 2003 to overthrow of Saddam Hussein was built around this new foreign policy element on WMDs though it was later proved to be based on false intelligence information and there were no WMDs to be found in Iraq.

In recent years, all US operations and involvements in the Middle East, from military to humanitarian, were linked to the slogan of bringing democracy to the region. Democracy has emerged as a central component of US thinking in the reassessment of its security perceptions in the post-September 11 environment and looks to be a central factor for some time to come.⁷⁶ In addition, the US' inclusion of some of regional countries into the category of 'rogue states' and some into 'axis of evil' resulted in exclusion of the US and the values that US is demanding to transfer into the region. Today it is meaningless to ask what are reached as a result of a decade lasted involvements, operations, from military to humanitarian, and initiatives to democratizing the region.

REGIONAL FACTORS

While the Middle East is the geographic and emotional centre of three of the world's great religions: Islam, Christianity, and Judaism, it is one of the most volatile and war-torn regions of the world that holds numerous conflicts over ideology, religion, ethnicity, culture, land, water and oil. The whole region is driven by differences along ethnic, religion, sectarian, and regional lines that cross national boundaries in a cauldron of conflicts. The region is in a deadlock with conflicts between Israelis and Arabs, Persians and Israelis, Arabs and Persians, Sunnis and Shias, Islamists and liberals, and democrats and Khomeinists. For example the conflicts between the Shia and Sunni forms of Islam are seen in Iraq today; conflicts involving the Kurds are not new in Iraq, Turkey and Syria; and the civil war in Lebanon, in which the warring parties were divided along religious lines - Christian and Muslim.

Like oil, water has always been at the centre of conflicts in the Middle East.⁷⁷ The three major river systems of the Middle East - the Nile, the Jordan river, and the Tigris and Euphrates- are each the subject of rumbling contention

⁷⁵ Andrew Cottey, September 11th 2001 One Year On: A new Era in World Politics?, Alternatives: Turkish Journal of International Relation, 1(3), Fall 2002, 1-2.

⁷⁶ Daniel Neep, Dilemmas of Democratization in the Middle East: The Forward Strategy of Freedom, Middle East Policy, Fall 2004, p.75.

⁷⁷ Michael B. Oren, Six Days of War: June 1967 and the Making of the Modern Middle East, New York: Ballantine Books, 2003, pp. 16-23.

which could break out into open conflict. Egypt has always been deeply concerned about threats to its water supply from the Upper Nile. The struggle for water supplies is a major, but largely unspoken, factor in the Arab-Israeli conflict. The access to water resources will be a contentious subject in the region for years to come, whatever the outcome of Israeli-Palestinian peace talks.

MIDDLE EASTERN PERCEPTIONS OF THE USA

While the global transformation due to the collapse of the Cold War greatly influenced the Middle East, since September 11, new stresses and tensions have been superimposed onto the region as a consequence of Western reactions to terror, in the form of the American-defined and -led "war against terrorism". Many Arab countries have suffered regression in their human rights and political participation conditions; greater state control of their citizens, and more repression in some cases, are widely seen by Arab citizens as their states' preferred means of participating in the war against terrorism, given most Arab states' very high reliance on American military and/or economic assistance. This has tended to heighten anti-American sentiments at popular levels and within political elites, and has also increased local tensions between Arab citizens and state authorities. The pressure from Washington for forced regime change in Iraq, the rapid expansion of permanent American military bases in the Middle East and Central Asia, and the possibility of a long-term American military-political presence in Iraq are all widely seen by Arabs as signs of a novel American imperial adventure.⁷⁸

The post-Saddam Iraq period was proved to be a period when humane tragedies were observed daily, big amount of people died, terror intertwined with resistance and political instability turned into civil war. WMDs and any organic bond between Iraq and September 11 terrorist could not be found, and legitimacy and plausibility of US foreign policy was met with serious challenge in the region. Again, in this period, world turned into a more insecure place with violent actions in different parts of the world. In the same period the Palestine question, that has key role in the formation of regional peace, entered into irresolvable situation.⁷⁹ This presents a huge gap between the result and the American promises.

Noting that uncritical US support for autocratic Gulf monarchies and their human rights abuses exposes the hypocrisy in American rhetoric about democracy and human rights and *"creates the perception among Gulf subjects that their countries are being ruled in the interests of an outside power."*⁸⁰

Currently Iran's right to have nuclear weapons (technology) has become another global political issue while the US has nothing against Israel for acquiring nuclear weapons or being the only state in the Middle East not party to the Nuclear Non-Proliferation Treaty (NPT). This once again demonstrates its double standard approach in the region. This also created anger and enmity towards US among people in the Middle East. Furthermore, the US is not perceived as sincere by regional societies. Impact of this is directly affecting any initiatives headed by the US and is received with suspicion.

⁷⁸ Rami Khouri, Politics and Perceptions in the Middle East after September 11, Mar 26, 2004.

⁷⁹ Fuat Keyman, Amerika Felluce'de Sertleşiyor, Dünya Kaygılı, Zaman, 10.11.2004.

⁸⁰ Mamoun Fandy, US Policy in the Middle East, Foreign Policy In Focus, Vol. 2, No. 4, January 1997.

FORCES CHALLENGING THE STATUS QUO

The unresolved Arab-Israeli conflict, hatred of Israel, frustration among citizens with their own governments and leaders, difficult socio-economic-political environment and resentment toward the West have created a fertile environment in the region for the emergence of internal forces to challenge the status quo. Some forces are actually a re-emergence of an ancient force—Islamic fundamentalism with new form and structure. These internal forces of war have taken names such as Hezbollah, Al-Qaeda, Hamas, Iranian revolution and Kurdish uprising.

Hezbollah

In 1982 Israel invaded Lebanon to expel Yasser Arafat and the Palestine Liberation Organization (PLO) when they used Lebanon as its base and set up their own parallel state after their violent eviction from Jordan.⁸¹ Then, Israel held on to parts of south Lebanon for 18 years until Prime Minister Ehud Barak ordered the Israeli army out of south Lebanon in 2000. Hezbollah, who in the absence of the PLO and the Lebanese army assumed control of the area, is widely credited with forcing Israel to withdraw through its campaign of continued resistance and harassment of Israeli forces. It also won Hezbollah the respect and admiration of many young people throughout the Arab and Muslim worlds. This is particularly true in the West Bank and far more so in Gaza. Hezbollah gave the Palestinians living in the occupied territories hope that if Hezbollah could do it – that is, could force out the Israeli army – then the Palestinians could do the same in the West Bank and in Gaza. In 2000, Hezbollah managed to accomplish what the strongest of Arab armies have been unable to do in nearly six decades of war – resist Israel and claim major a victory.⁸²

Similarly, again in the 2006 war in Lebanon, Hezbollah, a private militia of only several thousand fighters, ended up looking like the winner. Hezbollah's widely acclaimed victory over Israel sent political shockwaves from Morocco to Saudi Arabia. Traditional pro-Western rulers who mistrust their Shia minorities and repress Islamic militant movements now fear their autocratic dynasties will be undermined by Hezbollah's popularity.⁸³ But much as Hezbollah and the Israelis are at the forefront of this conflict, the root cause of the conflict was, and remains, the Israeli-Palestinian dispute.⁸⁴

Hezbollah maintains that the main source of its income comes from donations by Muslims. Hezbollah also receives financial and political assistance, as well as weapons and training, from the Islamic Republic of Iran. The US estimates that Iran has been giving Hezbollah about US\$60–100 million per year in financial assistance.⁸⁵ Hezbollah has relied extensively on funding from the Shi'ite Lebanese

⁸¹ Where the Middle East Fights Its Wars , August 10, 2009, <http://www.michaeltotten.com/archives/2009/>

⁸² Claude Salhani, Root Cause Of War In The Middle East, UPI International Editor, Washington, Jul 31, 2006.

⁸³ Winners and Losers in the Lebanon Conflict, PRI's World, August 22, 2006 (www.theworld.org).

⁸⁴ Claude Salhani, Root Cause Of War In The Middle East, UPI International Editor, Washington, Jul 31, 2006.

⁸⁵ Hezbollah's Global Finance Network: The Triple Frontier, January 2002.

Diaspora in West Africa, the US and, most importantly, the Triple Frontier, or tri-border area, along the junction of Paraguay, Argentina, and Brazil.⁸⁶

Al Qaeda

Al Qaeda was founded in 1988 by Osama Bin Laden, with the primary membership base of Mujahedeens who fought the Soviets following their 1979 invasion of Afghanistan. Al Qaeda's objectives are in-line with the goals of radical Islamic groups such as the Muslim Brotherhood who came before Bin Laden. Those include removing Islamic/Arab countries' current leadership because they are perceived as secular, promoting corrupted forms of Islam, and guilty of permitting foreign (e.g. Americans) occupation; removing American military, as well as economic and cultural, influence of the West from the Middle East and Islamic countries; and weakening Israel.

The analysis that Osama bin Laden presented to his followers in his August 1996 fatwa was the "Declaration of War Against the Americans Occupying the Land of the Two Holy Places," comes across, if anything, as only more prescient and accurate today. He argued that the "Crusader military forces" of the US and United Kingdom had established a beachhead in Saudi Arabia from which they intended to impose a new imperialism on the Middle East in order to gain control over the region's oil wealth. Since at least 1996, bin Laden has argued about the asymmetric virtues of guerrilla warfare and repeatedly extolled the victory he claims was achieved with this tactic in Somalia against American forces in October 1993.⁸⁷

Under the leadership of Osama bin Laden, Al Qaeda operated military training camps in Afghanistan from 1996 to 2001. After Al Qaeda's 11 September 2001 attacks on America, the US launched a war in Afghanistan to destroy Al-Qaeda's bases there and overthrow the Taliban, the country's Muslim fundamentalist rulers who harboured bin Laden and his followers. Subsequent toppling of the Taliban regime eliminated Al Qaeda's presence but elements of Al Qaeda's leadership structure remained in Afghanistan and neighbouring Pakistan. Despite its crushing defeat in Afghanistan, during 2002, terrorist incidents linked to Al Qaeda occurred in places as diverse as Tunisia, Pakistan, Jordan, Indonesia, Kuwait, the Philippines, Yemen, Kenya, Saudi Arabia, Morocco, Turkey, Spain and Algeria.⁸⁸

The CIA has estimated, for example, that it cost Al Qaeda' some \$30 million a year to sustain itself during the period preceding 9/11, but the agency is still not sure what Al Qaeda needs or expends today.⁸⁹ Prior to September 11, the financial facilitators raised money from Gulf country donors, particularly Saudi Arabia. They primarily relied on imams at mosques who diverted compulsory

⁸⁶ Giraldo, Jeanne, *Terrorism Financing and State Responses*. Stanford University Press. 2007.

⁸⁷ Declaration of War Against the Americans Occupying the Land of the Two Holy Places, Azzam Publications translation in Yonah Alexander and Michael S. Swetnam, *Usama bin Laden's al-Qaida: Profile of a Terrorist Network*, Ardsley, NY Transnational Publishers, 2001, Appendix 1A, pp. 8-21.

⁸⁸ Bruce Hoffman, *Al Qaeda Trends In Terrorism And Future Potentialities: An Assessment*, The RAND Corporation, Washington DC, 2003.

⁸⁹ The 9/11 Commission, *Report of National Commission on Terrorist Attacks Upon the United States*, Monograph on Terrorist Financing, p.9, 2004.

charitable donations known as *zakat* to Al Qaeda. The CIA estimated that prior to September 11, Al Qaeda spent \$30 million dollars annually, \$10 - \$20 million of which went to the Taliban.⁹⁰

Hamas

Hamas was created as the armed wing of the Islamist Muslim Brotherhood in Gaza, in about February 1988 (or December 1987) to allow participation of the brotherhood in the first Intifada. The August 1988 Hamas Charter declared that all Palestine is Islamic trust land, can never be surrendered to non-Muslims and is an integral part of Muslim world.⁹¹

Unlike PLO, Hamas did not support Saddam Hussein in the first Gulf War, when Iraq invaded Kuwait. Instead they called for both Iraqi and US withdrawal. Consequently, Gulf States shifted their funding from PLO to Hamas, and may have donated as much as \$28m per month (from Saudi Arabia primarily). Hamas thus took PLO's welfare role away from it, generating considerable public support due to their greater efficiency.⁹² Although the PLO is considered the "sole legitimate representative of the Palestinian people" since 1964, opponents of the organization in its current situation claim that the PLO lost legitimacy after it slashed 12 articles and amended 16 others of its charter to allow the signing of the Oslo Accords in 1993 with Israel.⁹³ Hamas shunned the Oslo peace process and joined the wider rejectionist alliance which managed to gain considerable support.

Following the election of Mahmoud Abbas in March of 2005 to succeed Yasser Arafat as President of the Palestine Nation Authority as well as chairman of the PLO, the Hamas decided to participate for the first time in Palestine Legislative Council elections. In January of 2006, candidates representing the Hamas swept to victory in Palestinian elections, overcoming the traditional leadership of the Fateh and PLO. Polls showed that most Palestinians want the Hamas to negotiate with Israel and give up its non-recognition of the Jewish state. However, Hamas leaders refuse to recognize the existence of Israel in diplomatic terms and refuse to consider the possibility of peace. Donor states froze funds to the Palestinian authority until the Hamas would agree to recognize Israel and abide by the Oslo accords. However, this boycott was soon rendered more or less meaningless by mechanisms that allowed the donor states to pay Palestinian workers directly, bypassing the Hamas government formally. Meanwhile, the Hamas and other groups accumulated large quantities of arms smuggled in through tunnels from Rafiah in Egypt, and brought cash donations from Iran and Arab states through the EU supervised border crossings.⁹⁴

The Israeli aggression in Gaza in December 2008 – January 2009 compelled Hamas to alter its strategies to become more politically involved, as much as the PLO which has had a monopoly over armed resistance against Israel

⁹⁰ <http://www.globalsecurity.org/military/world/para/al-qaida-funding.htm>

⁹¹ <http://www.mideastweb.org/hamas.htm>

⁹² *ibid*

⁹³ Why Hamas wants to marginalize the PLO, Al Arabiya, 25 February 2009 (<http://www.alarabiya.net/>).

⁹⁴ <http://www.mideastweb.org/Middle-East-Encyclopedia/hamas.htm>.

prior to Oslo. The devastation that Israel unleashed on Gaza and the destruction it inflicted on the local population enabled Hamas to garner sympathy of the regional and international communities. This outcome and the gains in the public opinion gave Hamas leadership the confidence to speak on behalf of the entire Palestinian people thus questioning the legitimacy of the PLO.⁹⁵

The Council on Foreign Relations estimates Hamas's annual budget at \$70 million,⁹⁶ with over 50 per cent of its funds coming from Saudi Arabia⁹⁷ mainly through Islamic charity organizations. Hamas also receives funding from Palestinian expatriates, Iran, and private benefactors in Saudi Arabia and other moderate Arab states. Some fundraising and propaganda activities take place in Western Europe and North America.⁹⁸

THE FAILED PEACE PROCESS IN THE MIDDLE EAST

No issue has the same global impact as the Palestinian-Israeli conflict. During the cold war, the US and the Soviet Union twice raised their security alerts and aggressively challenged each other over this conflict. The oil embargo of the 1970s was inspired by the Palestinian-Israeli conflict. Numerous militants, terrorist groups and governments around the world which seek legitimacy place the Palestinian-Israeli conflict at the forefront of their agenda. And while the Palestinian-Israeli conflict is not the cause of terrorism, solving this conflict may transform the political landscape of the entire Middle East. Over 40 years since the Middle East war of June 1967, there have been many peace plans and many negotiations. Some of these have been successful, including those between Egypt and Israel and Israel and Jordan, but a settlement has still not been reached in the core conflict, the dispute between the Israelis and Palestinians.⁹⁹

It seems that the prospects for peace are now much worse than they were under Yasser Arafat. Neither the Palestinians nor the Israelis are really peace partners for the other side. There is no Palestinian unity, and waiting for Hamas, and other Palestinian radical groups to change is now even less credible than before the fighting started in Lebanon. If Hezbollah has sent any message to the Palestinians, it is that asymmetric warfare may not win, but it does damage Israel. On the other hand, Israel is less likely to make meaningful unilateral withdrawals. It will be far less willing to put trust in barriers without a forward Israeli Defence Force presence, and it will be far less willing to trust Palestinians in Israel. For the US, it can make beginnings; it can raise the visibility of the peace process; it can carefully allocate humanitarian aid; it can put constructive pressure on Israel to limit the size of its barriers and settlements; it can offer the Palestinians more incentives; and it can be far more aggressive in talking to Europe and Arab peace partners. At the end, however, it is hard to believe that the end result will do more than help prepare for the possible moment when one or both sides become so

⁹⁵ Why Hamas wants to marginalize the PLO, Al Arabiya, 25 February 2009 (<http://www.alarabiya.net/>).

⁹⁶ Hamas: Background Q&A, Council on Foreign Relations, 16 March 2006 (<http://cfrterrorism.org/groups/>).

⁹⁷ Flow of Saudis' Cash to Hamas Is Scrutinized, New York Times, September 17, 2003.

⁹⁸ <http://www.globalsecurity.org/military/world/para/hamas-funds.htm>

⁹⁹ BBC News, History of failed peace talks, 26 November 2007.

exhausted by their current struggle that they will change their position, and this seems unlikely for the next decade or so. Clearly all talk and no walk for the foreseeable future.¹⁰⁰

COSTS AND BENEFITS OF WAR IN THE MIDDLE EAST

Costs of War

The Middle East with only 8 per cent of world population, has witnessed 25 per cent of all the World's armed conflicts since 1945. It has known all sorts of conflicts such as regional wars, wars of intervention, and civil wars with devastating consequences on the human and material resources of the region. These conflicts were responsible of more than one million fatalities, \$450 billion of financial cost and millions of displaced persons. The Arab-Israeli wars in 1948, 1956, 1967 and 1973 were alone responsible for 200,000 casualties, \$150 billion of financial cost, and 3 million displaced persons.¹⁰¹

The war in Iraq, which began on 19 March 2003, has so far cost some 90,000 Iraqi lives. It has taken the life of 4,298 coalition troops, among whom almost 4,000 Americans. It has cost American taxpayers almost \$700 billion and may cost up to \$2 trillion if the occupation lasts another five years. The non-partisan Congressional Budget Office has estimated the cost of "prosecuting" a war against Iraq at up to \$9 billion per month, on top of an initial outlay of up to \$13 billion for the deployment of troops to the Persian Gulf region.¹⁰² Estimates for US military spending in Iraq go as high as \$8 billion per month with a further monthly bill of \$1 billion for ongoing operations in Afghanistan. With such interest in the Middle East from the world's super-spending superpower, it is hard to make a case for military spending in the region coming down in the foreseeable future.¹⁰³

While the global military spending in 2005 reached \$1.12 trillion the Middle East military spending has increased significantly.¹⁰⁴ The Middle East was the region that demonstrated the highest relative military spending increase, in large part due to a massive increase in Saudi Arabia's defence budget. In 2005, Saudi Arabia spent \$25 billion, a \$4.6 billion increase from the previous year, and its defence expenditure was around \$36 billion by the end of 2008. Israel has the second largest military expenditure in the Middle East. It is still expected to keep spending to stay ahead of its regional adversaries in order to protect its interests. Its defence spending for 2009 was around \$13 billion. Although countries in the Middle East have relatively less number of active troops compared to the nations in the west, the ratio of their defence spending to that of their total GDP is highest in the world.¹⁰⁵ Defence spending in the Middle East has been constantly growing, and the defence spending in the Middle East region is expected to surpass \$100

¹⁰⁰ Anthony H. Cordesman and Arleigh A. Burke, *The Middle East Crisis: Six "LongWars" and Counting*, Center for Strategic and International Studies, August 4, 2006.

¹⁰¹ Mohamed Kadry Said, *Security and Defense dilemmas in the Middle East: The Nuclear Dimension*, Pugwash Conferences on Science and World Affairs, November 15-17, 2002.

¹⁰² <http://usgovinfo.about.com/library/weekly/aaIraqwarcost.htm>

¹⁰³ <http://findarticles.co/p/articles>

¹⁰⁴ <http://www.accessmylibrary.com>

¹⁰⁵ Newswire Today, *Defense Spending in Middle East*, Dubai, UAE, September 2009.

billion by 2014.¹⁰⁶ The price of oil is not the sole driving force behind increased military spending and arms purchases in the region. Since 1989 and the end of the Cold War, the fear of intra-national conflict has been replaced to a certain extent by the fear of non-national combative organizations. Iraq is another reason for increased spending in the region. The associated regional uncertainty that remains, with regard to Iraq and increasingly with neighbouring Iran also, guarantees that military spending in the region is not likely to slow down.

Benefits of War

The war is not without benefits. War is often driven by a sense of grievance, be it scarcity, inequality, cultural or moral differences, or the distribution of power. Thereby, engaging in the war provides one means of addressing these concerns—either affirming a position of advantage or overcoming perceived shortcomings. In general, war provides collective, psychological and material benefits.¹⁰⁷

War often has significant benefits for group cohesion. War, for example, has been described as the creator of the modern nation-state, at least in Europe. Facing a common opponent can create new bonds and associations amongst those that previously were unrelated. For example, it has been argued that the US had to find an enemy to replace the USSR once the Cold War ended. Iraq, it was argued, was the unlucky choice.¹⁰⁸ Arabs considering Israel as their common enemy is another example. War can also bring about needed social change and empowerment. For Palestinians, the Arab-Israeli conflict serves the purpose of bringing justice because Palestinians do not believe that they should forfeit their land to compensate Jews for Europe's crimes against them.

War often has concrete material rewards in the form of land, treasure, and the like. It also provides benefits in terms enhancing one's power. For example, as a result of the first Gulf War, the US gained strategic advantage in the Middle East, influence over the two most important oil states, namely Saudi Arabia and Kuwait, and established military bases in the region. In the roughly three year period after the Iraqi invasion, the US sold nearly \$40 billion in arms to the region, accounting for 72.6 per cent of all arms agreements in 1993. US companies also got the enormous share of Kuwaiti reconstruction contracts with Bechtel Corporation alone making \$216 million. Wars also frequently provide significant benefits to those that are seemingly bystanders to the conflict. Often, those on the sidelines see their relative power increase as a result of combatants weakening each other. For example, Saudi participation in the Gulf War enhanced its position as a regional leader. Many conflicts also provide the opportunity for outside parties to sell goods to fuel the conflict. As a result of Operation Desert Shield and Desert Storm (Persian Gulf War in 1990-91), the Saudis saw increased oil profits as a result of the spike in prices from war disruption and reduction in supply from Iraq.¹⁰⁹

¹⁰⁶ <http://www.frost.com/>

¹⁰⁷ Louis Kriesberg, *Constructive Conflicts: From Escalation to Resolution*, Lanham MD: Rowman & Littlefield Publishers, 2003, Chapter 2 and 3.

¹⁰⁸ Eric Brahm, *Benefits of Intractable Conflict, Beyond Intractability*, September 2004.

¹⁰⁹ Gregory Quinn, *The Iraq Conflict: In The True Cost of Conflict: Seven Recent Wars and Their Effects on Society*, Michael Cranna, Ed. New York: The New Press, 1994, p.45.

Most wars benefit the private sector. There is an army of private security guards who escort convoys, protect infrastructure projects and ferry military equipment around Iraq while their companies earn billions. In October 2007, as per an estimate, the number of private contractors working in Iraq was at 160,000 from up to 300 separate companies. About 50,000 were private security guards from companies such as Blackwater. British firms have also been operating in Iraq. Tim Spicer—whose previous company, Sandline International, was accused of breaking a United Nations embargo by selling arms to Sierra Leone—has re-emerged as a powerful player with his latest venture, Aegis Defence Services. Aegis won a \$293m Pentagon contract in 2004, which has since been extended, and employs more than 1,000 contractors in the country. Another British company is Global Strategies which calls itself a "political and security risk-management company".¹¹⁰

Several countries in the Middle East receive US foreign aid. One of the identified "core" operational goals of US foreign assistance was supporting US geo-strategic interests, particularly in countries such as Iraq, Afghanistan, Pakistan, Jordan, Egypt, and Israel.¹¹¹ Since the 1970s, Israel has been one of the top recipients of US foreign aid. In 2004, the second-largest recipient of economic foreign aid from the US was Israel, second to post-war Iraq which received over \$20 billion for reconstruction. In terms of *per capita* value Israel ranks first, though other middle eastern countries get US aid as well – Egypt gets around \$2.2 billion per year, Jordan gets around \$400 million per year, and the Palestinian Authority gets around \$1 billion per year. In 2007, the US increased its military aid to Israel by over 25 per cent to an average of \$3 billion per year for the following ten year period, while ending economic aid. Under this new aid agreement, the US will transfer \$30 billion to Israel over 10 years, compared with \$24 billion over the past decade.¹¹²

Unquestionably a cause of some wars, from the empire building of Britain to the 1941 Nazi invasion of the Soviet Union in pursuit of oil, this theory has been applied to many other conflicts including the 2003 US invasion of Iraq. On the other hand, the economy of the US could also improve in the long run due to wars in the Middle East. For example, if a regime with better American relations were set up in Iraq, the supply of oil to the US would increase. This will drive down the price of oil, as well as driving down the costs of companies that use oil as a factor of production which will certainly help economic growth.¹¹³

WINNERS AND LOSERS

All wars have their winners and losers as seen in the case of the on-going Iraq war. According to many journalists, analysts and academics, the Middle East has benefited from the Iraq war, but hardly in the way that its supporters imagined. The scorecard for the Iraq war does clearly underscore how dramatically the Iraq

¹¹⁰ Raymond Whitaker and Stephen Foley, Iraq: Who won the war?, The Independent, Sunday, 16 March 2008.

¹¹¹ Curt Tarnoff and Larry Nowels, Foreign Aid: An Introductory Overview of U.S. Programs and Policy, State Department, 2004, pp.12–15.

¹¹² Forbes, Israeli PM announces 30 billion US dollar US defence aid, July 29, 2007.

¹¹³ Mike Moffatt, Are Wars Good for the Economy? - The Myth, About.com Guide

war has affected the international balance of power, with its unexpected slate of winners and losers.¹¹⁴

Winners in the Iraq War

Iran: By deposing Saddam Hussein, the US radically altered the balance of power in the Persian Gulf. Since the early 1940s, power had been dispersed among Saudi Arabia, Iraq, the US, Iran and the Soviet Union (and its successor, the Russian Federation). The most intense manoeuvring within this multipolar balance occurred between Iraq and Iran, with neither side achieving a clear advantage. That dynamic has now changed. Even before the US-led 2003 invasion of Iraq, Iran possessed a budding nuclear programme, the region's largest population, an expansive ballistic-missile arsenal and, through sponsorship, influence over the Lebanese Shia group Hezbollah. America's removal of Saddam Hussein as the principal strategic counterweight to Iran paved the way for an expansion of Iran's influence.¹¹⁵ Iraq has become an "Iranian sphere of influence" with growing commercial, political, and intelligence connections.

Turkey: Turkey, the old seat of Ottoman power, did its best to stay out of that fight, refusing even to let US forces cross Turkish soil for the 2003 invasion of Iraq. Still, it's the Turks – not the Iranians, as many observers claim—who are now emerging as the war's real winners. In economic terms Turkey is running neck and neck with Iran as Iraq's biggest trading partner. And in terms of regional influence, Turkey has no rival. According to Turkish Foreign Minister Davutoglu, Turkey is seeking to become a "partner to solve the region's problems." Whatever ambitions they may have harboured in earlier years, it's only in this decade—especially since 2002, when Erdogan and the AKP came to power—that Turkey has had the economic and political strength, as well as the military presence, to fill such a position.¹¹⁶

Israel: The US invasion neutralized the only two Arab leaders to call for Israel's destruction: Sadaam Hussein and Muammar el-Qaddafi of Libya. Hussein, of course, was forcefully removed; Qaddafi was cowed into nuclear disarmament once he saw that the US meant business in Iraq. This has been a lifesaver for Israel in many ways. Meantime, Iran has emerged as a serious new threat and its danger comes in the form of nuclear development rather than its influence in Iraq.

China: The mismanaged US occupation of Iraq has been a godsend for China. Scandals like Abu Ghraib have eroded American soft power and produced an international environment conducive to China as it projects its own rise as peaceful, benign, and even constructive. China's interest in the Middle East energy sector is supplemented by greater diplomatic efforts to foster good relations with the Arab world.

Al Qaeda: As for Al Qaeda, it never had a foothold in Iraq until the chaos created by the 2003 invasion gave it the opportunity to establish one. And while the US is preoccupied in Iraq, the conflict it neglected in Afghanistan and Al Qaeda

¹¹⁴ The Top Ten Winners of the Iraq War, News Magazine, Foreign Policy, 2007.

¹¹⁵ Ted Carpenter and Malou Innocent, The Iraq War and Iranian Power, Survival, vol. 49 no. 4, Winter 2007/08, pp. 67–82.

¹¹⁶ Owen Matthews and Christopher Dickey, Triumph of the Turks, Newsweek, Dec 7, 2009.

has re-established itself in the lawless tribal areas of Pakistan, while the Taliban, regains ground on the other side of the Afghan border.¹¹⁷ Thus, the Iraq war has breathed new life into Al-Qaeda in multiple ways.

The Kurds: The only Iraqis still wholeheartedly behind the occupation are the Kurds. Because, America ousted the man who attacked them with poison gas, and guarantees the safety of the closest thing the Kurds have ever had to an independent nation.

Arab Dictators: After September 11, traditional US allies Saudi Arabia and Egypt fell out of favour with the US. But after the Iraq invasion, chaos in Iraq has returned both countries closer to Washington, even though their democratic record has worsened. Both nations' opposition to Iran, the new regional rogue, has further softened their image.

Western Weapons Companies: One of the major countries for defence companies to target is Iraq. Iraq can be expected to invest heavily in upgrading its military infrastructure in the coming years and the spending might be as high as \$11 billion by 2014.¹¹⁸

Private contractors/companies: By far the biggest winner of contracts in Iraq is Halliburton, the oil and related services company run by Dick Cheney before he became US vice-president and a key architect of the war. The company generated \$16 billion in contracts in Iraq and Afghanistan in the three years from the start of 2004 – nine times as much as any other company. Western companies will also be able to profit up to three-quarters from new drilling projects in their early years.¹¹⁹

Losers in the Iraq War

United States: Despite and because of its huge military presence and the continuing occupation and war in Iraq, there is no question that Washington has lost significant influence in the Middle East. US efforts to dominate and control the region's governments, resources, and people are failing. US-backed governments and movements across the Middle East are rejecting Washington's demand that they isolate, sanction, and threaten the other governments and movements that Washington deems the bad guys – those linked to Iran. Instead the US-backed governments are themselves launching new bi-, tri-, and multi-lateral negotiations with "the bad guys" outside of US control, and often in direct contradiction to US wishes.¹²⁰

The Iraqis: At least 90,000 of Iraqi civilians have died violently since 2003 to 2008, at the most conservative estimate. Two million Iraqis have fled the country, and at least as many again are internally displaced. Baghdad households suffered power cuts of up to eight hours a day time; now they can expect less than

¹¹⁷ The Independent, Iraq: Who won the war?, Sunday, 16 March 2008.

¹¹⁸ Newswire Today, Defense Spending in Middle East Expected to Surpass \$100 Billion by 2014, Dubai, UAE, September 2009.

¹¹⁹ Raymond Whitaker and Stephen Foley, Iraq: Who won the war?, The Independent, Sunday, 16 March 2008.

¹²⁰ Phyllis Bennis, Middle East still at war: the US is losing but the winners are unclear, Global Research, Institute for Policy Studies, 2008.

eight hours of electricity a day on average. The US troop "surge" has cut the number of murders, but there are still 26 a day in the capital. The list goes on.¹²¹

The Palestinians: Preoccupied by Iraq, the US has had little time or inclination to press Israel to talk peace, apart from the half-hearted initiative launched during the last year of the Bush administration. The current administration has not done anything on the issue so far, but President Obama is seriously considering proposing an American peace plan to resolve the Palestine conflict.

Afghanistan: The world supported the US when it overthrew the Taliban and ousted its Al Qaeda "guests" in 2001, aftermath of September 11 attacks in New York and Washington. But America switched its attention to Iraq and, as a result, Al Qaeda and the Taliban have regained strength in Afghanistan.

Old Europe: France, Germany and its allies were right in 2003 about the non-existent WMDs; about the difficulty of bringing democracy to Iraq; and about the danger of sectarian warfare in Iraq. Old Europe has, however, yet to unfold a new global strategy. This failure to act now has given Ankara, Beijing, Moscow, and Tehran the upper hand.

CONCLUSION

The Middle East is never a peaceful place. It has seen almost continual conflicts since the fall of the Ottoman Empire. The nature and causes of the conflicts have varied, ranging from political and ethnic conflicts to economic and religious conflicts. Even if one ignores the problems raised by enduring issues like energy, development, demographics, and normal politics and diplomacy, the US and its allies are now directly or indirectly involved in six long wars in the Middle East, namely: the war in Iraq; the struggle with Iranian nuclear proliferation; the war in Afghanistan and the problem of Pakistan; the Israeli-Palestinian struggle; the Israeli-Lebanese struggle; and the broader war on terrorism. All of these wars involve religious, ideological, political, and perceptual struggles, all of which linked to the US policy in the region, to Israel's actions and to the struggle of Arab governments against their own internal forces, and that will play out over at least a decade or more.

In general, wars in the Middle East can be seen as an outgrowth of economic competition in a chaotic and competitive international system where these wars begin as a pursuit of new markets (e.g. weapons), of natural resources (e.g. oil), and of wealth (e.g. oil revenues). Clearly, economic factors do go far toward explaining the motives of those who have chosen to go to war or not to make peace in the region. Economics has worked as an accelerator for some parties in the Middle East and as a brake for others.

As in the case of Iraq war, most wars result in numerous winners who benefit from the war. Economics of war is easier than economics of peace because economics of war is visible and known while economics of peace is unknown and only one can expect to happen in the future. It is clear that until the time oil is present in the region, it plays an important role in its wars and conflicts. While the

¹²¹ Raymond Whitaker and Stephen Foley, Iraq: Who won the war?, The Independent, Sunday, 16 March 2008.

ruling elite, US supported governments and monarchies will continue to create the demand for weapons from the West, especially from the US, the continuation of inequalities and injustice in economic and social structure in the Middle Eastern countries will remain to be major causes of militarization and rebel actions in the region. Until the time the Palestine-Israeli conflict is resolved, the tendency towards wars, tensions and conflicts in the region will sustain because this conflict alone contributes to 90 per cent of the region's problems. Even when there would be a time that no oil, no conflict between Palestine and Israel, no monarchies and states depending on weapons and military support from the west, still the region's geopolitical significance will continue to be an attraction to the West because its importance is timeless. Thus, that factor alone could be a cause for wars in the region.

Wars have influenced economic history of the Middle East profoundly across time and space. The fact that wars in the Middle East produce benefits for many individuals, groups, and nations leaves one to conclude that wars in the region are inevitable. On the other hand, the desire for peace in the region restricts itself to verbal statements which are unconnected with any activity able to turn the tide of history until now and also it is clear that it will be the case in the future.

WATER WARS

INTRODUCTION

Water, wisdom and war: three words that seems to have little in common, however, they suddenly connect if placed in the Middle East scenario. Year by year, water resources have been shrinking in the region. Starting from the 80' writers and policymakers predicted that war in the Middle East might take place if scarce water resources were managed with no wisdom. In reality, growing needs and pressure on currently scarce water supplies will not lead to Water-Wars; yet, international cooperation and better management of water resources are essential to enhance water prosperity and regional stability in the Middle East.

The Middle East is not rich in water resources. Even though centuries ago the Tigris and the Euphrates Rivers provided the Sumerian civilization with a reliable and continuous flow of water, today the scenario is completely different; while concentrating a discrete amount of world population and land mass, water resources are deficient. According to a recent FAO survey¹²² the Middle East accounts for about 4.7% of the world population and more than 5% of its area. Statistics on water availability are far less generous. The region only collects little more than 1% of the world water and 1.1% of precipitations. When comparing the population versus water availability figures of the Middle East to world standards, a negative 3.5% ratio will display. Moreover, the region currently collects 540 km³ of water per year. In order to match per capita world's availability average, the region should collect more than 2100 km³ per year. The disparity between required resources and water availability highlights that the Middle East as a whole is experiencing the phenomenon of "water scarcity".

Water scarcity can be defined as negative balance between availability/supplies of water and its corresponding demand; in the future water scarcity levels in the region are certain to rise. Demand for water has been increasing while resources are being depleted. The population has been growing at a fast pace: In 1950 about 104 million individuals populated the area, in 2007 they became 430 million, and by 2050 almost 700 million people will be demanding access to water¹²³. A larger population will increase water demand for both agricultural and municipal consumption. It is estimated that developing countries use more than 70% of the water supplies for irrigation and agricultural purposes¹²⁴, other authoritative sources confirm the data. According to the ACQUASTAT 2008 survey¹²⁵ countries of the Middle East use 75% of their water for agricultural purposes. It is worth to mention that a slowdown of the population growth rate in the Middle East has been predicted, and the trend will intensify in the near future. However, the demographic slowdown will not solve the water problem because,

¹²² "Irrigation in the Middle East (region in figures)," ACQUASTAT Survey 2008. Pg 43-44.

¹²³ "World Population Prospects" UN Population Division 2008 Revision.

<http://esa.un.org/unpp/index.asp?panel=2>

¹²⁴ Water Facts and Trends." World Business Council for Sustainable Development.

<http://www.wbcsd.org/includes/getTarget.asp?type=d&id=MTYyNTA>

¹²⁵ Irrigation in the Middle East (Region Figures).

already today, Middle Eastern countries do not have enough resources to satisfy the current population.

Economic development in the region poses a threat to water resources as well. In fact, water not only is needed to support agriculture, but also it is required to sustain expanding economic activities and fast urbanization. Even though only little more than 10% of Middle Eastern water is allocated to industrial and services activities, any additional economic development in this region will stress already stretched resources. Furthermore, economic development also leads to urbanization, which in turn further pressures water supplies. Due to improved standard of living a large part of the population can move to the urban areas, where better structures provide wider access to water resources. Not all the Middle Eastern countries are witnessing exponential urbanization growth. In the region, Gulf countries are the most urbanized, recent studies prove that in oil rich countries more than 80% of the population lives in urban areas.

Such precious and scarce resource should be carefully managed. On the contrary, in order to satisfy increasing demand of water, Middle Eastern countries are abusing their natural resources. Too many times short term solutions have been preferred to long term planning. Iran, for example, is pumping its aquifers by an average of 5 million tons per year. As a consequence in the Chenaran plain water tables were falling by 2.8 meters per year in 1990. Quick-fix solution appealed to Saudi Arabia for a long period of time as well. Fortunately, in recent years, government officials realized the complication carried out by over pumping underground aquifers. In order to sustain Arabian agriculture (especially wheat) some Saudis farmers currently pump water from 4000 feet deep wells. In 2008, acknowledging its water limitation and unsustainable drilling practices the Saudi government announced a plan to gradually terminate its wheat production in 2016¹²⁶. Water tables in neighboring Yemen have been declining too. World Bank predictions indicate that in its capital city, the Sana'a basin will dry before the end of the next decade¹²⁷. Facing growing demand, governments relied too heavily on available resources drying aquifers and leading to the degradation of current water supplies through salinization¹²⁸.

Sustainability comes into play also when referring to the management of Middle Eastern water quality. Along with salinization, pollution is negatively affecting the quality of accessible water supplies. Partially, water pollution can be perceived as a consequence of fast urbanization and economic development. Food processing waste, industrial chemical waste, municipal garbage and much more are currently posing an environmental threat to water supplies. In addition, fresh waters have been polluted by chemical agents released during the various conflicts that took place on Middle Eastern soil. Both the Persian Gulf War and the Israeli

¹²⁶ Brown, Lester. "Water Tables Falling and Rivers Running Dry," Earth Policy Institute. July 25, 2007. http://www.enn.com/top_stories/article/21326

¹²⁷ "Yemen: Rationalizing Groundwater Resources Utilization in the Sana'a Basin," World Bank August 2003. Pg 4-5.

¹²⁸ As a result of over pumping practices water from the aquifers is enriched with salt.

Lebanon conflict brought about important environmental repercussions, which in turn affected water supplies.

REGIONAL OVERVIEW

Of course, not all the countries of the Middle East are faced with the same intensity levels of water shortages. Some small countries like Kuwait and Bahrain are totally dependent on outside sources, while countries such as Turkey and Iran possess adequate fresh water resources. Water demand also varies from country to country. Whereas large and arid states have usually low density population (exception made for Egypt) smaller countries such as Israel and Lebanon are densely populated. For practical purposes the Middle East will be divided into three main sub regions, which have been defined according to geographic, demographic and hydrologic parameters:

- The Arab Peninsula (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen.)
- The Near East (Iran, Iraq, Israel, Jordan, Lebanon, Occupied Palestinian Territory, Syrian Arab Republic, Turkey)
- The North East Africa (Sudan and Egypt.)

The Arabian Peninsula is the sub-region with less resources of water. The water supplies mainly consist of small amount of run-offs resulting from floods, groundwater alluvial aquifers, and groundwater reserves in the deep sedimentary aquifers. Precipitations are irregular and small in quantity. The main non-renewable source of water consists of fossil groundwater stored in the sedimentary deep aquifers. The Arabian Shelf stores significant amounts of groundwater that are thousands of years old. A vast amount of groundwater stored in the primary deep aquifers is used mainly by Saudi Arabia, and, to a lesser extent, the other countries of the peninsula. This reserve represents groundwater exploitable by lowering the water level to 300 meters below the ground surface. Such deep drilling is available only through the investing in modern machinery and equipment. Not all the aquifers are able to store good quality water; among them the Saq, Tabuk, and Wajid in Saudi Arabia¹²⁹, and the Dammam in Bahrain and Kuwait¹³⁰ are the largest. Lacking natural resources, Arabian countries strongly invest on desalination as an alternative resource for water.

The Middle Eastern industry¹³¹ led by Saudi Arabia, UAE and Kuwait, accounts for 75% of world desalination capacity. Unfortunately the desalination process comes with expensive energy costs and nowadays only oil-rich countries can afford it.

Both the Near East and North East Africa sub regions are richer in water resources. In Sudan precipitations are plenty; on the contrary, they are very small in the land of Egypt. Both Sudan and Egypt are heavily reliant on the longest river in the world: the Nile River. Among the two, Egypt is the country which is most

¹²⁹ Vincent, Peter. "Saudi Arabia an Environmental Overview." (London: Taylor and Francis Group) 2008. Pg 106-112.

¹³⁰ Al-Ruwaih, Mohammed and Sayed, Sas. "Relationships Among Hydraulic Characteristics Of The Dammam Aquifer And Wells In Kuwait," Hydrogeology Journal January 1995.

¹³¹ Fischetti, Mark. "Fresh from the Sea," Scientific American 2007. Pg 118-119.

sensitive to water issues. With less water resources and yet double the population of Sudan, water is a matter of national security for the Egyptian government. Acknowledging such vulnerability, the Egyptians worked hard to have secure access to water resources. Lake Nasser, shared by Egypt and Sudan, is the second largest man-made lake in the world and it guarantees access to water supplies for both countries. The Near East is the richer sub-region in terms of water. Precipitations levels vary from country to country but they are on average higher than those in Egypt or any of the arid lands of the Arabian Peninsula. In terms of water supplies Turkey and Iran are the richest countries in the Near East sub region, and of the Middle East as a whole. Turkey is a key player in the regions since it can control the flow of the two most important water resources in the area: the Tigris and the Euphrates Rivers.

TRANS-BOUNDARY WATER RESOURCES

Analyzing the three different sub-regions it might come natural to think that diplomatic tension would most probably arise within Arabian countries, such an assumption is certainly incorrect.

True, countries from the peninsula are not rich in water natural resources; however, there are other critical factors that come into play within the demand versus supplies water equation. First, Arabian countries are not densely populated. Hence, there is less need for municipal and agricultural consumption of water. Second, due to the oil in the sub region, various Arab countries have access to alternative sources such as desalinated water. The desalination process is very expensive and only countries who have easy access to energy fuel can afford it. It is not a coincidence that Saudi Arabia is the world larger producer of desalinated water¹³². To a lesser extent Kuwait, UAE, Qatar and Bahrain are considered as world leading countries when talking about desalination industries. Finally, differently from states in the Near East and North East Africa, countries in the Arab Peninsula do not share vital resources of water.

In the case of big trans-boundary rivers the scenario is extremely complex and precarious. Indeed, there might be multiple countries sharing the same resource and contributing at different quantity of water to the main flow of the river. There is never enough water to please all the sharing actors and it is always hard to find a “fair” way to divide up the resources. Many diplomatic bilateral or multilateral agreements have been signed, but that does not necessarily mean that the resources have been distributed in a reasonable way. When diplomacy fails to satisfy the needs of all the participant cooperation might get overshadow by diplomatic confrontation and regional instability. Therefore, because of their trans-boundary rivers, the Near East and the North East African sub-regions could be more inclined to experience political tensions. Is it plausible to think that litigation over trans-boundary rivers will lead to conflict? Three case studies have to be taken into consideration:

- The Tigris and Euphrates Rivers in the Near East

¹³² “Water Desalination Market Acceleration,” Environmental Technologies Action Plan April 2006. Pg 2-3. <http://ec.europa.eu/environment/etap/inaction/pdfs/watedesalination.pdf>

- The Jordan River in the Near East
- The Nile River in North East Africa

The Tigris and the Euphrates

The Turkish government has the strongest voice when it comes to decide how to share the Tigris and Euphrates resources. In fact, in both cases Turkey is the upper riparian country and it contributes the most of the water carried by the two rivers. The Euphrates River springs in the East of Turkey. It is the longest river in Southwestern Asia with 2,700 km. After entering Syria, it is joined by two more tributaries, the Khabur and the Balikh. Both of them have their sources in Turkey. Finally, after entering Iraq it joins the Tigris River near the city of Qurna. Turkey contributes between 88% and 98% of the water potentially carried by the river while Syria contributes the rest. The Tigris is the second longest river in Southwest Asia at 1,840 km. As well as the Euphrates it also has its springs in the highlands of Eastern Turkey, but the main contribution to the river comes from the tributaries in Iraq. The river follows a southeastern route in Turkey where it borders Syria for 32 km before entering Iraq. Turkey contributes around 38 per cent of the Tigris' flow, with Iraq contributing 44 %, Iran contributing the rest and Syria nothing at all¹³³. In conclusion, Turkey supplies more than 70% of the total water carried by the two rivers and being the upper stream riparian country it has the power to reduce the volume of water reaching Iraq and Syria.

Relations between the three countries became more confrontational when Turkey initiated the Southwestern Anatolia Development Project or GAP. GAP is one of the most ambitious water development projects in the world. It utilizes the water from the Euphrates and the Tigris rivers with the construction of 22 dams and 19 Hydroelectric Power Plants¹³⁴. In addition, it diverts the waters of the basin to the Harran field, in order to develop Southeastern Turkey irrigation. The goal of the project is to maximize the utilization of the waters of the basin, which would alleviate Turkey's electricity and agriculture needs.

The two lower riparian countries greatly resented Turkish efforts to boost the exploitation of the two rivers basin. As a matter of fact, if more water ends into the Turkish irrigation fields less water will be reaching Iraq and Syria. Syria is mainly concerned with the Euphrates River. The country needs the water from the river to continue its irrigation programs and to keep the water levels high in the Assad Lake in order to sustain the hydroelectric production. Ever since 1980 GAP construction projects begun, Syria has been worried about becoming dependent on Turkish control of the river. Iraq is found in even a worst position. Being the country further downstream it suffers from the subtraction of water of both Turkey and Syria. Tension might arise acknowledging that the Turkish government is not really concerned with the resentment of the two other riparian countries. In fact, even though both Syria and Iraq railed against the GAP project it does not seem like Turkey is willing to reduce the amount of water withdrawal from the Rivers; in 1992 at the opening of the Ataturk Damn former president Suleyman

¹³³ Kliot, Nurit. "Water Resources and Conflict in the Middle East," (New York: Routledge) 2005. Pg 95

¹³⁴ Gleick, Peter. "The World's Water, 2002-2003: The Biennial Report on Freshwater Resources," (Washington, DC: Island Press) 2002. Pg 182.

Demirel asserted¹³⁵: "Neither Syria nor Iraq can lay claim to Turkey's rivers.... This is a matter of sovereignty. We have a right to do anything we like. The water resources are Turkey's..."

The Jordan River

The dispute over the Tigris and Euphrates is not the only water dispute in the Near East; in fact, Syria, Jordan and Israel have longstanding quarrels over the Jordan River. The river originates in eastern Lebanon and then it flows south toward Jordan, Israel and Syria. The Jordan's main affluent are the Hasbani River, the Banyas River, the Dan River and the Yarmouk River. It is geographically important to Israel and Jordan because it forms the border between the western edge of Jordan and eastern side of Israel including part of the Palestinian autonomy. It is also important to emphasize that the Jordan River, in spite being the largest river in Israel is actually a small river by international standards.

Both Israel and Jordan pursue aggressive water policies because their agriculture sectors are heavily dependent on the River. In the Near East Sub-region the rainy season is usually short, between 6-8 months a year. Israel depends on water supplies which either comes from rivers that originates outside the border, or from disputed lands. The Jordan River is the largest and longest river that flows into Israel, and yet it is the only within Israel that has a permanent flow year round. The other Israeli rivers dry up for periods of months and do not fill up until the winter. Finally, the Jordan River is the only natural and clean river in the country since the rest of the rivers are tainted with agricultural and industrial sewage¹³⁶. To sum up, Israel drastically relies on the Jordan River.

To a lesser extend Jordan depends on such river as well. Differently from Israel though, only 36% of the total water flow originates outside the Jordanian border¹³⁷. However, Jordanian agricultural sector is facing an environmental problem that increases the dependency on the Jordan River: The Zarqa River (along with the Jordan and the Yarmouk one of the most important rivers in the country) faces pollution problems that prevent access to its water¹³⁸.

To make things worst expanding population in both countries exercise additional pressures on the agricultural sector. In Jordan the expansion is due to the birthrate and in Israel to large waves of immigrants. In 1990 the population of Jordan and Israel (including the Occupied Territories of Palestine) was respectively 3.6 and 6.7 millions. According to recent studies¹³⁹ by 2025 Jordan population will reach 8.1 million and Israel will reach 9.3. With an increasing population and few available resources Israel and Jordan have to find a way to collaborate.

¹³⁵ "Thirsting for War," BBC World News. October 5, 2000.

<http://news.bbc.co.uk/2/hi/programmes/correspondent/958132.stm>

¹³⁶ Lukacs, Yehuda. "Israel, Jordan and the Peace Process." (New York: Syracuse University Press) 1997. Pg 88.

¹³⁷ Guo, Rongxing. "Intercultural Economic Analysis: Theory and Methods," (New York: Springer Science) 2009. Pg 138.

¹³⁸ Helmer, Richard and Hespanhol Ivanildo. "Water Pollution Control: A Guide to the Use of Quality Management Principles," (London: E & FN Spon) 1997. Pg 479-484.

¹³⁹ Hummel, Diana. "Population Dynamics and Conflicts on the Water Resources in the Jordan River Basin," Institute for Social Ecological Research. September 2006. Pg 7.

Historically, lack of cooperation over the waters management of the Jordan River has contributed to deteriorate the already fragile relations between Israel and the rest of the Arab World (especially Jordan and Syria.) Both parts have a different understanding and perspective about the water dispute. Jordan, and the rest of the Arab countries, perceives the water problem as a part of the larger Israeli-Arab conflict¹⁴⁰. For instance, when in 1950 Israel created a National Water Carrier to transport water from the Jordan River to the Negev Desert, Jordan perceived the project as an act of classic Israeli expansionism. On a more practical level, a young country such as Israel looked at water resources as an integral part of its territory fundamental for development. Following the carrier project, it took the intervention of the American President Eisenhower to start negotiations between the Arab states and Israel over water sharing agreements.

Diplomacy failed and few years later Israel faced a coalition of Arab countries in the 1967 Six Days War. Water played a major role in destabilizing the already fragile regional equilibrium. The Syrian attempt to divert the Banyas River was followed by Israeli air-force attacks¹⁴¹. On a later stage, Egypt, Jordan and Syria unsuccessfully attacked Israel. At the end of the war Israel captured the Golan Heights and the Banyas headwaters. It also gained more control on the Jordan River, the West Bank and the Northern bank of the Yarmouk.

The Nile River

Diplomatic frictions also occurred in the North-East African sub region where nine African nations are dependent on the water coming from the Nile River. The states sharing the water supplies are Egypt, Sudan, Ethiopia, Tanzania, Burundi, Zaire, Rwanda, Uganda, and Kenya. The Nile is the world's longest river (4187 miles) and it is formed by three main tributaries: the Blue Nile, the White Nile and the Atbara. The White Nile springs in Burundi and merges into the Blue Nile when arriving in Sudan. The Blue Nile, which springs in Ethiopia, is the most important of the tributaries, since it carries more than 50% of the total river water. Finally, the Blue and the White Nile reach Khartoum (Sudan) and join the Atbara before reaching Egypt.

The Nile geopolitical state of affairs is somehow something exceptional: in such scenario the country which is further downstream is the one that has more control. Among the nine nations along the River Valley, Egypt and Sudan are the ones that more aggressively clench on water resources. The Egyptian government literally proclaimed the Nile waters as a matter of national security¹⁴²; with more than 70 million inhabitants and a mostly desert land the government has no other choice. The construction of the High Aswan Dam is a clear example of Egypt supremacy over the Nile resources. Despite complaints from Sudan and the rest of the upper riparian countries, Egypt went ahead with the project. The dam was built in order to control the yearly floods of the river and give birth to Lake

¹⁴⁰ Swain, Ashok. "Managing Water Conflict: Asia, Africa and the Middle East," (London: Routledge) 2004. Pg 83-85

¹⁴¹ Hambright, David and Ragep, Jamil. "Water in the Middle East: Cooperation and Technological Solutions in the Jordan Valley," (Brighton: Sussex Academic Press) 2006. Pg 17.

¹⁴² Romm, Joseph. "Defining National Security: the nonmilitary aspects," (New York: Council on Foreign Relations Press) 1993. Pg 23.

Nasser, the second largest man-made lake in the world. However, on the long run, upper riparian countries might be less patient with Egypt. With economic development the need for water in the region will increase. While the demand rises, supplies are supposed to remain unchanged if not to decrease.

International cooperation for management of the resources is required to maintain peace and stability. However, so far only few incomprehensive agreements have been signed.

The first agreement over the Nile was signed in 1902. The British understood the vital importance of the water resources for its colony, therefore, decided to sign an agreement with Ethiopia, which carries most of the water reaching Egypt. Few years later, in 1929, the British sponsored the Nile Water Agreement, which regulated the flow of the river and proportioned its use. The last and most comprehensive of such agreements was signed in 1959, between Egypt and Sudan. In spite of the fact that the agreement was signed only by two of the nine riparian countries, it proportioned out all the Nile's water. None of the seven other riparian countries recognize the agreement and Ethiopia, which carries 80% of the Nile's water, wasn't even consulted.¹⁴³ Such management of the Nile resources is not acceptable, and definitely not sustainable. Developing upper riparian countries will ask for more water in the future and Egypt and Sudan will have to deal with the fact that there are seven other countries sharing the water resource. Lack of cooperation might lead to catastrophic events.

WATER-WARS LITERATURE

The concept of water wars gravitates around the idea that increased water scarcity will lead nations of the Middle East to fight over water supplies. One of the most eminent voices among the water-wars advocates has been Boutros Boutros Ghali, he simply affirmed that future wars in the Middle East will not be fought on oil, but on water. Being also a former Egyptian minister he was particularly concerned about conflicts over the Nile River. When during an interview he was asked about the most important problem facing Egypt society he replied: "I believe that the most urgent problem is water. Because tomorrow Ethiopia may begin using the source of the Nile — as they need it for irrigation — or Kenya, which is one-third desert. All those countries will sooner or later need to use the Nile water, and then you will have a problem of water in this country. When I was Minister of Foreign Affairs I tried, without success, to provoke an interest in the government."¹⁴⁴ He continued the interview affirming that water conflicts were not only an Egyptian problem, according to him also the Palestinian conflict could be analyzed in terms of water-war: "...Yes, people are interested in poverty, money, overpopulation, the problem of big cities, etc. But the real problem for me is water. Again, the confrontation with Israel, this was the main problem. The Palestinians, this is the main problem".

¹⁴³ Allan, Toni. "The Middle East Water Question: hydrogeopolitics and the global economy," (London: I.B. Tauris & Co Ltd) 2001. Pg 218-222.

¹⁴⁴ Schurgott, Andrew. "The Statesman," Egypt Today Sep 2008.
<http://www.egypttoday.com/article.aspx?ArticleID=8140>

A whole new conflicts literature developed around the water wars scenarios in the Middle East. Beginning from the 80' different writers depicted diverse war settings within the region. In 1993, John Bulloch and Adel Darwish published "Water Wars: Coming conflict in the Middle East." The work was intended to divert the attention of Middle Eastern policymakers on water issues. Few years later, in 1999, another piece of literature contributes to the enrichment of the water-wars library. Through the work "Rivers on Fire" Arnon Sofer argues that trying to match population growth with food and energy production, countries of the Middle East will be forced to fight over internationally shared water resources. His studies are concentrated on the Nile, Tigris, Euphrates and Jordan Rivers. Investigations were carried on not only on the status of water resources, but also on the bad management practices that would have led to conflicts. In 2002, Vandana Shiva wrote about mismanagement of water supplies and consequent international tension. The book offers more of a general and global review of possible water conflicts, however there is also a section dedicated to the Middle East regional disputes. The idea of water conflict did not fade away with time. Just two years ago (2008) Mark Zeitoun wrote "Power and Politics in the Middle East." The volume came as a result of a detailed study of the Palestinian and Israeli litigation. In fact the author speaks about an Israeli Palestinian "water" conflict, assuming that hydro-hegemony lies at the core of the Israeli land disputes. These are only few of the many written works and research dedicated to the subject. A wide and multiform water wars bibliography sprung in the past 30 years; however, no major war was fought in the name of water. Are water wars a real phenomenon? Will water scarcity lead to cooperation or litigation?

COOPERATION OVER LITIGATION

In the Middle East, as in the rest of the world, water wars proved to be a myth. This is not to say that water scarcity does not create unfriendly relations and diplomatic tension, on the contrary water politics should not be underestimated. High level officials from Egypt, Israel, Syria and other Middle Eastern countries at times asserted to be ready to recur to military intervention to defend water supplies. It is all part of the big game of diplomacy in the Middle East. Cross border waters always create some tension; however these tensions are connected to wider factors that regulate relationships between countries. Therefore, water issues cannot be analyzed in isolation. Managing shared water resources can be a source of peace or conflict, at the very end politics will decide on the path to be walked.

So far, history taught us that cooperation prevails over litigation when dealing with water. First, in recent history no war was declared in the name of water. It is a fact that no country attacked another country deliberately to gain access to water resources, or in the form of a preemptive strike to defend its own water supplies. Second, studies from authoritative sources show that in the most of the cases water claims leads to cooperation between nations. The 2006 UN Human Development Report asserts that "Contrary to the claims of water war pessimists, conflict over water has been the exception, not the rule. Going back over the past 50 years, there have been some 37 cases of reported violence between

states over water—and most of the episodes have involved minor skirmishes. Meanwhile, more than 200 water treaties have been negotiated.”¹⁴⁵ Studies from UNESCO provide similar data. According to The World Water Development Report: “Of the total of 1,831 interactions, the overwhelming majority, 1,228, were cooperative. They involved the signing of about 200 water-sharing treaties or the construction of new dams. Turning to the 507 conflictive events, 37 involved violence, 21 of them with military action.”¹⁴⁶ Finally, water is too much of an important resource; no nation can afford to fight over it. On the contrary it can develop interdependence, so that countries can jointly manage shared resources, build trust and prevent conflict.

WATER FOR PEACE

Water scarcity will not lead to war, on the contrary water issues might push countries of the Middle East to work together and foster stability and peace in the region. The various countries of the Middle East should take advantage of the coercive interdependency generated by water scarcity to improve bilateral and multilateral relations. For instance, cooperation over the Tigris and Euphrates can improve shaky relations between Turkey and Iraq. Recently, the two countries have had difficulties dealing with the Kurdistan Workers Party or PKK. Seeking greater autonomy for the Kurdish people, the PKK (based in Iraq), has repeatedly conducted operation in South East Turkey. In retaliation, the Turkish parliament has authorized a cross border military operation in 2007. Naturally, diplomatic relations have been severely strained following such events. It is ambitious to state that cooperative water management will wash away the problem of the Kurdish region, but is also plausible to assume that successful joint operations over water resources will create the basis for trust and broader collaboration between the two nations.

“Water for peace” could be also a brand new strategy that would allow Israel to improve strained relations with Syria, Occupied Territories of Palestine and Jordan. It has to be understood that as long as there are unsettled water related issues between Israel and its neighbors countries peace will be difficult to achieve. In spite of the fact that Israel states that prior to the Arab attack in 1967 there was no intention to occupy more land or resources, in the aftermath of the war Israel gained exclusive control of the waters of the West Bank and the Sea of Galilee.

Since then, heated debates raged about the rights of usage of the Mountain aquifer in the West Bank. On one side Israeli sources state that the proportion of water used by Israel hasn’t changed since 1950, on the other side Palestinian claim that they are denied access to their own water from a belligerent military power. Since it has complete control over the water resources in the West

¹⁴⁵ Watkins, Kevin. “Beyond Scarcity: Power, Poverty and the Global Water Crisis,” Human Development Report (New York: Palgrave Macmillan) 2006. Pg 20-21.

¹⁴⁶ “Water for People Water for Life,” The United Nations World Development Report (London: UNESCO) 2003. Pg 320.

Bank, Israel can allocate its citizens with three to five times more water than Palestinians¹⁴⁷.

Stalled negotiations between Israel and Syria also originated on water-related issues. Israel occupied and successively annexed the Golan Heights into its own territory. Nowadays, seeking access to the Jordan and Yarmouk River, Syria asks for an Israeli withdrawal to June 1967 borders. Differently, Israel wants to abide to boundaries dating back to the British mandate (1923), which granted the Golan Heights to Israel. Once more water proves to be a key factor to the successful resolution of peace agreement between Israel and Arab neighboring countries. When the importance of cooperation over water resources was understood, diplomatic relations improved quickly. In fact, the Jordan-Israel treaty in 1994 produced remarkable agreements over the use of water in the Wadi Araba area and the sharing of the Yarmouk. The outstanding success of such treaty creates possibilities for a brighter future in the Middle East. Both Israel and its neighborhood countries (mainly Syrian and Occupied Palestinian Territories) should acknowledge the interdependence generated by water scarcity and work out agreements over water related issues. Such an attitude will lead both sides one step closer to regional stability and broader peace.

CONCLUSION

Water scarcity in the Middle East is a important issue; if such valuable and vital resource will be managed with wisdom the whole Middle Eastern countries will enjoy improved regional stability. The Middle East region as a whole is poor in water resources, however, not all the countries suffer from water scarcity at the same level. Some countries such as Turkey and Iran have enough resources, some other such as Israel and Egypt use their economic, political and eventually military means to gain access to water resources, some more such as the Gulf countries recur to alternative resources (desalinated water or wasted treated water). In such a complex and delicate scenario it is important that international agreements regulate the use of shared waters. In some cases, sharing water resources might lead to increased tensions and diplomatic standoffs (examples of Iran and Turkey and Israel and its neighbor countries). There is no need to be too alarmed because such confrontations will not give birth to “water-wars”. On the contrary countries of the region should take advantage of the interdependence created by water scarcity to boost multilateral relations and create stronger diplomatic bonds based on water sharing agreements and cooperation.

¹⁴⁷ Asser, Martin. “Obstacle to Peace: War”. BBC news. 23 May, 2007.
<http://news.bbc.co.uk/2/hi/6666495.stm>

THE IMPACT OF MIGRATION

INTRODUCTION

The Middle East is made up of many small and unique pieces much like a complex picture on a mosaic tile. The presence of Arabs and non-Arabs; Muslims, Christians and Jews; and Kurds, Berbers, and other ethnic groups add shades of color to national affiliations. Some Arabs are Christians such as Coptic Egyptians, and many Arab countries are or were at some point in recent history also home to small Jewish communities such as in Iran, Turkey & Morocco. Among the most populous countries in the region, are not Arab at all. Kurds and Palestinians, two peoples without a homeland, are scattered throughout various Middle Eastern countries.¹⁴⁸

In order to understand how migration impacted the Middle Eastern countries, we should first look back and analyze its history and its influential forces that shaped today's Middle East as we know it. One cannot overlook the effects of the Ottoman Empire and the European imperialism that dominated the region for many centuries. This paper will illustrate how the masses over a period of time left their homelands in the Middle East to seek better economic opportunities abroad. While it is important to provide a complete analysis of all the countries that were involved whether being migrated to or from, for the purposes of this paper we will only highlight a sampling of some countries.

Imperialism and the Ottoman Empire

At the height of its power (16th–17th centuries), the Ottoman Empire spanned three continents, controlling much of Southeastern Europe, Western Asia and North Africa. The empire was at the centre of interactions between the Eastern and Western worlds for six centuries that included many different linguistic, religious, and ethnic groups. With Constantinople as its capital city, and control over most of the Balkans and the Black Sea area, Anatolia, and the extensive lands around the eastern Mediterranean and northern Africa as far west as the borders of Morocco, the Ottoman Empire was, in many respects, an Islamic successor to the Eastern Roman (Byzantine) Empire and the primary empire in the Middle East and North Africa.¹⁴⁹

The description of the Ottoman Empire does not differ substantially from the description that could be applied to the Christian European Empire established from the sixteenth century onward, except that the Europeans were normally less willing to admit non-Europeans into the ranks of officials.

The sultans were primarily motivated by the desire to acquire land and wealth, whereas the overseas the European empire builders sought raw materials and markets; unrestrained exploitation of the economies they dominated for the disproportionate benefit of the European home country; feelings of racial, religious, and cultural superiority over the dominated peoples; and, in some regions,

¹⁴⁸ Sheila Smith Noonan, "The Changing Face of North America: Immigration since 1965".

¹⁴⁹ The Ottoman Empire in Oxford Islamic Studies Online.
<http://en.wikipedia.org/wiki/Ottoman_Empire>.

the implantation of European colonies or importation of non-indigenous laborers, often as slaves. Thus the Europeans had a greater impact on the international division of labor than did the Ottomans.¹⁵⁰

Transition from Ottoman Rule to the Enlightenment Era

The Ottomans' emphasis and devotion to tradition, and their cultural and religious differences caused their relations with the rest of Europe to be feeble. From the 16th to the 18th centuries, Europe was on the road to progress in all areas of life and new ideas were developed which challenged the old and brought about a newer less traditional society; this established a contrast with the more traditional Ottoman Empire. New perspective on life caused people to view society from a different perspective. This became known as the Enlightenment, which took place in the 18th century and triggered major reforms and the development of liberal ideas. The Ottomans were unable to compete with the scientific advances of the Europeans and consequently began to gradually fall behind that let the Empire's economic advancement to become almost idle, while the European nations steadily moved forward.

In the 1800s the Ottoman Empire experienced a decline as a result of a lack of advancement, corruption in the government, a weakening military power, which facilitated external attacks. Poor relations with other countries and negative feelings towards the empire resulted in further isolation from the West. Corruption started at the highest level with the Sultans interested in quick money and self-gain and steadily made its way down the administrative ladder. The peasants who were the poorest were affected by high taxation and extortion of money and were reduced to misery and extreme poverty. The business of the government had become corrupt and had become more of a self-serve business than one of governing. Simultaneously military instability caused the Empire to experience internal problems and weakened the foundation of the Empire, which created an environment perfect for external military defeat to occur and lose control of certain areas of the Empire especially the borders.

The European countries were involved in Imperialism, which was extending economic control to other regions outside their country, and were traveling the world in order to find resources. European merchants were furiously traveling around the world in search of raw materials which they could then profit from. These merchants were part of the middle class which had emerged in Europe, and made up a large part of societies throughout Europe. There was a large growth in the middle class throughout Europe, however, in the Ottoman Empire the middle class was viewed as a threat to the authority of the Sultan and therefore they received little support. The Sultans were successful in stopping the growth of the middle class in the Ottoman Empire, all the while in Europe

Europe the middle class was growing in both wealth and influence. With the emergence of the middle class and the increase in wealth among the population in most European countries, the people in the Ottoman Empire, in comparison, were poorer and lived a more "ancient" lifestyle. Overall, lifestyle had continued to

¹⁵⁰ Richard W. Bulliet, qtd in "Imperialism in the Middle East and North Africa," Answers.com, <<http://www.answers.com/topic/imperialism-in-the-middle-east-and-north-africa>>.

develop and move forward in Europe and in comparison the Ottoman Empire seemed “backward” and primitive. The European trade routes had switched from land to sea which decreased contact between the Ottoman Empire and the West, and decreased their “importance” to the West.¹⁵¹

The Ottoman Empire did have difficulty trying to protect and develop its promising industries (which arguably contributed to its financial difficulties in the late nineteenth century); however, this problem was no different to that faced by other nations at the time. The Ottomans were unable to develop financing models and techniques like the British and the Dutch, and were unable to mobilize and equip reserves en masse like its European counterparts, this shortcoming contributed towards its military weakness and shrinking borders. It had to capitulate against Britain and allow an influx of zero-tariff goods. These capitulations prevented it from reorganizing itself through its own finances and had to rely on unfavorable European financing terms. A number of subsequent financial crises did emerge towards the end of the nineteenth century that increased European involvement in the empire’s internal affairs, primarily in collecting taxes from securities pledged against debt.¹⁵² The British military took direct control of the sea route to India in return for maintaining the rulers and chiefs in power. New forms of European imperialism emerged; European Rulers granted concessions to European entrepreneurs for the building of canals, railroads, and telegraph lines; operation of banks; and marketing of primary products. They also sought loans from private European bankers. When Egypt, the Ottoman Empire, Tunisia, and Iran were successively unable to repay these loans, Europeans assumed financial control over customs and other sources of state revenue.¹⁵³

The Creation of the New Middle East

The Ottomans with Britain, France and Russia dominated global economies & politics in the nineteenth century. Like contemporary European states, the Ottomans had to form ever-changing alliances playing one power off against another preventing any one to be in a position to take on the empire. However, they suffered from the disadvantage of maintaining territorial integrity from nationalistic forces in the European territories.¹⁵⁴

In 1914 the Young Turks of the Ottoman Empire joined the Central Powers by fatally forming an alliance with Germany and Austria-Hungary in World War I, against Britain and France. The British saw the Ottomans as the weak link in the enemy alliance, and concentrated on knocking them out of the war. They turned to fomenting revolution in the Ottoman domains, exploiting the awakening force of Arab nationalism. The Arabs had lived more or less happily under Ottoman rule for 400 years, until the Young Turks had tried to “Turkicise” them

¹⁵¹ “Decline of the Ottoman Empire,” SocyBerty.com,
<socyberty.com/history/decline-of-the-ottoman-empire/>.

¹⁵² “Fall of the Ottoman Empire,” Wikipedia
<http://en.wikipedia.org/wiki/Fall_of_the_Ottoman_Empire>

¹⁵³ Richard W. Bulliet, qtd. in “Imperialism in the Middle East and North Africa,” Answers.com,
<<http://www.answers.com/topic/imperialism-in-the-middle-east-and-north-africa>>.

¹⁵⁴ “Fall of the Ottoman Empire,” Wikipedia,
<http://en.wikipedia.org/wiki/Fall_of_the_Ottoman_Empire>.

and change their traditional system of government. In an exchange of undertaking the revolt against the Ottomans, the British promised Arab independence.

When the Ottoman Empire was defeated in 1918, the Arab population was met with what it perceived as betrayal by the British. The British and French governments concluded a secret treaty (the Sykes-Picot Agreement) to partition the Middle East between them and, additionally. When the Ottomans departed, the Arabs proclaimed an independent state in Damascus, but were too weak, militarily and economically, to resist the European powers for long, and Britain and France soon established control and re-arranged the Middle East to serve their needs.

Syria became a French protectorate thinly disguised as a League of Nations Mandate. The Christian coastal areas were split off to become Lebanon, another French protectorate. Iraq and Palestine became British mandated territories. Iraq became the "Kingdom of Iraq" and Palestine became the "British Mandate of Palestine" and was split in half. The eastern half of Palestine became the "Emirate of Transjordan" and the western half of Palestine was placed under direct British administration. The already substantial Jewish population was allowed to increase under British protection. Kingdom of Saudi Arabia was created in most of the Arabian Peninsula.¹⁵⁵

Unlike parts of the world rich in raw materials or agricultural products that could not be grown in Europe, most parts of the Middle East and North Africa did not offer great rewards to their imperial masters. Egyptian cotton, Algerian wine, and Iranian oil flowed into international markets, and the Suez Canal was profitable, but the cost of military occupation in the face of rising nationalist hostility, and the cost of infrastructure investment, limited though it was in most areas, brought the economic value of imperialism into question. After World War II, the greatly depleted European powers were no longer able to bear the cost, either in money or manpower. One by one, the countries of the Middle East became free of direct imperial control.

As direct imperial control waned and overt indirect control in the form of military bases and foreign ownership of oil companies diminished in the 1950s and 1960s, cultural imperialism came to be looked upon as a pervasive remnant of the imperialist era. Cultural imperialism was considered to have several components: imposition of Euro-American cultural values and lifestyles through market domination by imported consumer goods, motion pictures, and television shows.¹⁵⁶

PUSH FACTORS BEHIND THE ARAB DIASPORA

The Arab Diaspora refers to Arab immigrants, and their descendants who, voluntarily or as refugees, emigrated from their native lands and now reside in non-Arab countries, primarily in Latin America, and Europe, as well as North America, parts of Southeast Asia, the Caribbean, and West Africa. They fled their native lands during the end of the Ottoman rule to find relief from its harsh taxations and the forceful recruitments into the Ottoman armed forces.

¹⁵⁵ "European Domination" qtd. in "History of Middle East," Wikipedia, <http://en.wikipedia.org/wiki/History_of_the_Middle_East>.

¹⁵⁶ Richard W. Bulliet, qtd. in "Imperialism in the Middle East and North Africa," Answers.com, <<http://www.answers.com/topic/imperialism-in-the-middle-east-and-north-africa>>.

Large numbers of Arabs migrated to West Africa, particularly Côte d'Ivoire (home to over 100,000 Lebanese), Senegal (roughly 30,000 Lebanese), Sierra Leone (roughly 10,000 Lebanese; about 30,000 prior to the outbreak of civil war in 1991), Liberia, and Nigeria. Since the end of the civil war in 2002, Lebanese traders have become re-established in Sierra Leone.

Arab traders have long operated in Southeast Asia, trading in spices, timber and textiles. But an important trading minority in the region that goes largely unrecognized comprises the local descendants of Arabs. Most of the prominent Indonesians, Malaysians, and Singaporeans of Arab descent have their origins in the southern part of the Arabian Peninsula, especially the coastal Hadhramaut region of Yemen and Oman. They are the Hadramis. As many as four million Indonesians are of Hadrami descent, and today there are almost 10,000 Hadramis in Singapore.

The Americas have long been a destination for Arab migration, with Arabs arriving in some countries at least as early as the nineteenth century, but even as early as 1492 with several Moors among Christopher Columbus' crew. The largest concentration of Arabs outside the Arab World is in Brazil, which has nearly 10 million Brazilians of Arab ancestry. Of these 10 million Arabs, seven million are of Lebanese ancestry, making Brazil's population of Lebanese greater than that of Lebanon itself. Most other Brazilians of Arab descent are mainly Syrian. There are also large Arab communities in Mexico (about 400,000 Mexicans of Lebanese descent), Argentina, Chile, Colombia, Jamaica, the Dominican Republic, Haiti, Trinidad & Tobago, Ecuador, and Venezuela. Palestinians cluster in Chile and Central America, particularly El Salvador, and Honduras (between 150,000 and 200,000). The 500,000 strong Palestinian community in Chile is the fourth largest in the world after those in Israel, Lebanon, and Jordan. Arab Haitians (a large number of whom live in the capital) are more often than not, concentrated in financial areas where the majority of them establish businesses. In the United States, there are around 3.5 million people of Arab ancestry. Most Arabs of the Americas are either of Lebanese, Syrian, or Palestinian ancestry, and are mostly Christian, with sizable Muslim, and Jewish minorities.

The Lebanese Diaspora, while historically trade-related, has been linked more recently to the Lebanese Civil War, and the 2006 Lebanon War. In October 2006, shortly after the 2006 Second Lebanon War had concluded, the Edinburgh Middle East Report ran an article covering the brain drain from Lebanon's universities. Increasing numbers of Lebanese students are travelling abroad to further their education in safer environments.

As of 2007, the U.N. High Commissioner for Refugees estimated that over 2.2 million Iraqis had been displaced to neighboring countries, with up to 100,000 Iraqis fleeing to Syria and Jordan each month. As a result of growing international pressure, on June 1, 2007 the Bush administration said it was ready to admit 7,000 Iraqi refugees who had helped the coalition since the invasion. According to Washington based Refugees International the U.S. has admitted fewer than 800 Iraqi refugees since the invasion, Sweden had accepted 18,000 and Australia had resettled almost 6,000.

About 80,000 Iraqis live in Sweden, forming the country's second largest immigrant group. An estimated 1,000,000 Arabs live in the United Kingdom (250,000 Iraqis, and some 150,000 Egyptians), representing 1.7% of the country's population.

There is also a medium sized Arab community in Australia (home to roughly 400,000 Arabs, mostly Lebanese), where Arabic is the fourth most widely spoken second-language. The number of Muslim and Christian Arab Australians are roughly equal with a slight Christian majority.¹⁵⁷

PULL FACTORS OUTSIDE THE MIDDLE EAST

The immigration rate in France was particularly high during the 1920s and 1930s. France was the European country which suffered the most from World War I, with respect to the size of its population, losing 1.4 million young men out of a total population of 40 million. France was also at the time the European country with the lowest fertility rate, which meant that the country had a very hard time recovering from the heavy losses of the war. France had to open its doors to immigration, which was the only way to prevent population decline between the two world wars. At the time France was the only European country to permit mass immigration.

Also during the *Trente Glorieuses* (1945-1974), the country's reconstruction and steady economic growth led to the labor-immigration of the 1960s, when many employers found manpower in villages located in Southern Europe and in the Maghreb (or North Africa). French law facilitated the immigration of thousands of *colons*, ethnic or national French from former colonies of North and West Africa, India and Indochina, to mainland France. 1.6 million European *pieds noirs* migrated from Algeria, Tunisia and Morocco. Since the 1980s, France has ceased being a country of mass immigration.

After World War II, the French fertility rate rebounded considerably, as noted above, but economic growth in France was so high that new immigrants had to be brought into the country. This time the majority of immigrants were Portuguese as well as Arabs and Berbers from North Africa. The first wave arrived in the 1950s, but the major arrivals happened in the 1960s and 1970s. More than one million people from the Maghreb immigrated in the 1960s and early 1970s from North Africa, especially Algeria (following the end of French rule there) It is also worth mentioning that between 1956 and 1967, about 235,000 North African Jews from Algeria, Tunisia and Morocco also immigrated to France due to the decline of the French empire and following the Six-Day War.¹⁵⁸

PULL FACTORS WITHIN THE MIDDLE EAST

The Middle East for centuries has witnessed large migratory movements, both internally and across borders. Some people moved in search of better living opportunities, while others were forced out by conflicts and civil wars. Increasing economic pressures and high rates of population growth converted Egypt into a country of emigration, coinciding with the oil boom in the Arab Gulf countries and the resulting demand for manpower. Internal migration began as a response to

¹⁵⁷ Arab Diaspora, <http://en.wikipedia.org/wiki/Arab_diaspora>.

¹⁵⁸ "For Pieds-Noirs, the Anger Endures" qtd. in "Demographics of France," Wikipedia.

poverty and the uneven distribution of economic activities, and acted as a balancing mechanism when Egyptian migration flows to the Gulf and elsewhere began. With overpopulation and rampant unemployment, Egyptian migration can be seen as a livelihood and survival strategy. These movements, and the remittance flows they have engendered, have undoubtedly had an impact on development.

The Arab states and neighboring countries in the Middle East are also host to a large number of forced migrants. The Arab region has witnessed vast refugee population flows out of Palestine, Iraq, Somalia, Sudan, into Egypt, Lebanon, Jordan and Syria, and these movements clearly impact the societies into which they are flowing. Although there are conventions tying countries to accept refugees and provide them protection, such as to the 1951 Convention relating to the Status of Refugees and the 1969 Organization of African Unity Convention Governing the Specific Aspects of Refugee Problems in Africa, about half the countries in the Arab world are not signatories to these conventions (e.g. Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, United Arab Emirates, and Libya), thereby accentuating the impact of forced population movements on countries bound by these conventions. Here again, while states might accept refugees, they might still not be able to access any rights.¹⁵⁹

Until the beginning of the 1970s, most of the migration from Arab countries was to areas outside the Middle East. There was large scale migration from Algeria, Tunisia and Morocco to Western Europe (mainly to France). In addition (since the 1860s), large numbers of Lebanese and Syrians emigrated to North and South America and Australia. However, migration from area to area within the boundaries of the Middle East for the purpose of employment is a relatively new phenomenon; it started in the late 1940s and reached its peak at the beginning of the 1980s. The source of the migration, which proceeded from the poorer countries to the oil-producing countries, lay in the enormous increase in income thanks to the export of oil from the oil-producing countries of the Persian Gulf and North Africa.

The dramatic increase in oil prices after the 'oil boom' of October 1973 transformed the Gulf Cooperation Council (GCC) countries, as well as Libya, into the wealthiest nations in the Arab World. The change in the amount of the money streaming into the oil-producing countries in the Middle East such as Saudi Arabia and Kuwait was not only extensive in scope, but developed rapidly in a short period of time, during the first half of the 1970s. The sharp increase of revenues from oil export enabled the governments of the oil-producing countries to increase their expenditure on the development of the other economic sectors and to provide a wide variety of welfare services for their citizens. These projects required a large and highly qualified work force, which could not be supplied by local sources due to small national populations and low rates of labor force participation. From the point of view of the oil-producing countries, the enlistment of an external work force did not require any incentive campaigns on their part, since the

¹⁵⁹ "Egypt/The Middle East," Development Research Centre on Migration Globalization & Poverty, <http://www.migrationdrc.org/research/regions/egypt_themiddleeast.html>.

tempting economic incentives offered provided a first-rate attraction factor. The wages offered to foreign workers in the oil-producing countries were several times higher than those paid at home for the same work. If we examine the wage and salary differentials between Saudi Arabia and Egypt, for example, an Egyptian school teacher who earned \$600-700 a year in his own village can save at least \$12,000 a year while teaching in Saudi Arabia and an unskilled Egyptian peasant can earn more in Saudi Arabia than one of his own cabinet ministers' back home. One can find similar wage and salary differentials between Syria and the Gulf states. For example, in 1977 the salaries in the construction and building sectors in Saudi Arabia exceeded those in Damascus by more than 400 per cent. By the end of the 1970s, the salaries offered to industrial workers in the Gulf states exceeded those in Syria by more than 700 per cent.¹⁶⁰

THE PALESTINIAN MIGRATION

Palestinians living in the West Bank and Gaza have faced a series of economic shocks since the Gulf War (1991). Each shock alone would have been difficult to weather, but combined they have led to a considerable worsening of economic conditions. These shocks included the Gulf War, Israeli closures of the West Bank and Gaza and the influx of Diaspora Palestinians after the Oslo Accords. While the first two clearly had negative consequences, the last is more complex. The repatriation of Diaspora Palestinians has led to a reversal of the "brain drain," and an influx of much needed capital. Yet the impact has been disappointing and widening economic inequality may have resulted.

The Gulf War

The Gulf War reduced to a trickle Palestinians' access to better-paying employment opportunities outside the West Bank and Gaza. Those directly affected by the closure were primarily young men who had been employed in Israel's construction, service and agricultural sectors. In addition, entrepreneurs and self-employed contractors who conducted business inside Israel were prohibited from pursuing those options after closure. The simultaneous expulsion of Palestinians from the Gulf, many of whom were unable to send back their savings and capital, exacerbated the impact on local labor markets. Fewer jobs and lower earnings led to less consumption, in turn affecting local businesses and industries as the demand for their products declined. As a result, per capita GDP (average income per person) dropped by about 14.2 percent between 1993 and 1995. Additionally, future migration possibilities were largely reduced.¹⁶¹

Aftermath of the Oslo Accords

In 1993 the State of Israel and the Palestine Liberation Organization (PLO) signed the "Declaration of Principles on Interim Self-Government Arrangements", a document also known as the "Oslo Accords". One of the main points of the Accords was the agreement in principle the transfer of power and responsibilities

¹⁶⁰ "Syrian Migration to the Arab Oil-Producing Countries," Access My Library, <<http://www.accessmylibrary.com/article-1G1-19179009/syrian-migration-arab-oil.html>>.

¹⁶¹ Ward Sayre and Jennifer Olmsted, qtd. In "Economics of Palestinian Return Migration," Middle East Report, 2010, 1 April 2010
<http://www.merip.org/mer/mer212/212_olmsted_sayre.html>.

to the Palestinians in the West Bank and Gaza, so they may have control over their own affairs. With the economy reeling from the dual shocks of the Gulf War and the closures, the Oslo Accords brought about a new influx of Diaspora Palestinians. This third shock had both positive and negative features. How the influx of returnees did affect the West Bank and Gaza?

Estimates of the number of post-Oslo returnees range from 40,000 to 100,000. The two most prominent groups of "returnees" were the "Tunisians" and the Palestinian-Americans. In Gaza, many of the returnees were "Tunisians": PLO officials formerly based in Tunisia, allowed into the territories to staff the Palestinian National Authority (PNA). In the West Bank, many of the post-1993 returnees came from the United States. Many of the Palestinian-Americans lost their residency rights while abroad and were attempting to re-integrate into Palestinian society and the economy by building houses and investing in businesses, particularly in the restaurant and tourist industries.

The Post-Oslo returnees have moved into newly created public sector positions. Many returnees were successful in their businesses and professions in the Diaspora and have come with ample amounts of capital and skills. They had strong links with other Palestinians in the Diaspora, as well as to the global economy which presumably would have been beneficial to the local economy.

The repatriation of many economically successful entrepreneurs and educated Palestinians initially suggested a reversal of the "brain drain," and may have brought in money that was earned abroad, which would have naturally stimulated the local economy. But the type of returnee investment is an important consideration. UNSCO reported that 80 percent of "investment" in the region was in construction of private dwellings, which provided jobs in the short run, but was not a solid basis for long-term economic growth.

Social and Political Repercussions

While the repatriated Palestinians may have provided short term economic boost to the territories, the benefits have been unevenly distributed. Tensions among returnees and locals have emerged, particularly as returnees were generally better off economically. Returnees have been accused of using legal loopholes that they helped create in the economic accords in order to profit personally from Palestinian "autonomy." While not all returnees are corrupt and immoral, such perceived differences between locals and returnees help fuel political opposition to the PNA. Without investments that emphasize longer term economic growth the initial benefits brought by returnees may have already dissipated.¹⁶²

THE ECONOMIC CRISIS

The Arab region suffers from a weakness that makes it difficult for its countries to overcome global economic crisis. This is due to its lack of productive activities and dependence on oil revenues, real estate investments, returns from the tourism sector, as well as foreign aid. The impacts of the economic crisis on international migration in the Arab region are not fully clear yet, as there is a lack of reliable timely accurate statistics on the issue. Available reports mainly focus on the

¹⁶² "Israel 1991 to Present – Oslo Accords," Palestine Facts,
< http://www.palestinefacts.org/pf_1991to_now_oslo_accords.php>.

sizeable flows of return migration, the rise in unemployment rates, the decline in remittances, etc... The Arab Labor Organization (ALO) estimates that in 2009 the unemployment rate reached 14% in the Arab region, which made it one of the highest among world regions.

In terms of job security, it is projected that unskilled migrants will be the most negatively affected by the economic crisis. However, skilled migrants have better chances of finding new employment if they lose their current one. They are more likely to engage in circular migration when they move to another destination country. This brain circulation can be considered as a 'triple-win solution' because it offers opportunities of gains for host countries, home countries and migrants themselves:

First, host countries can fill their labor market needs without facing the full challenges of immigrant integration. Second, home countries can tap into the skills and resources of returning migrants. And third, migrants themselves would benefit from the higher wages in host countries and enrich their work experience and skills. Thus, in circular migration, the emigration of highly-educated and skilled workers from Arab countries to work outside 'brain drain' can ultimately become beneficial for these countries of origin when emigrants return¹⁶³.

CONCLUSION

Crisis arise throughout parts of the world, predictable or not, could be economic, political or war, man-made or natural disasters, and often unavoidable. Migration will almost always need to be addressed during any crisis. The war in Iraq which have created unforeseen amount of migrants some categorized as refugees fleeing their homeland to avoid persecution. As of 2008, the U.N. High Commissioner for Refugees estimated that over 4.7 million Iraqis have been displaced, with 2.7 million within Iraq and 2 million in neighboring countries. Most ventured to Jordan and Syria, creating demographic & economic shifts that has worried both governments.¹⁶³

Some countries react to migration issues by initiating migration-relevant responses that include employment promotion, support for enterprises, social protections, strengthening international labor standards and trade facilitation. Migrant-receiving countries tend to respond to economic crises by the renationalization of employment through prioritizing nationals over foreigners and placing labor market policies on foreign workers. Additionally they place migration-specific policies for potential migrant workers, policies to reduce or reverse the "brain drain", and also provide services for displaced workers.¹⁶⁴

Each migrant has a unique motivation that initiates the move, whether it is economic, cultural, and educational or war related. There are great population and wealth imbalances that exist in the Middle East today. Arguably these

¹⁶³ "The Economic Crisis and International Migration in the Arab Region: Challenges and Opportunities,"

<http://www.un.org/esa/population/meetings/eighthcoord2009/P09_ESCWA.pdf>.

¹⁶⁴ Martin, P.L., qtd. in "The Impact of Financial Crises on International Migration: Lessons Learned", 2009 International Organization for Migration.

<http://www.iom.int/jahia/webdav/shared/shared/mainsite/published_docs/serial_publications/mrs_37_en.pdf>.

imbalances cannot be cured politically, militarily, and certainly not voluntarily amongst the countries; however, immigration just might remedy part of these imbalances. The flow of migrants across borders creates networks of social, economic, cultural and political relations among people from their places of origin to the area of migrating country. While some countries will continue to respond to migration flows according to their state's needs, nevertheless, migration is a natural phenomenon that cannot and should not be stopped.

THE OIL ECONOMY

INTRODUCTION

Petroleum, in one form or another, has been used since ancient times, and is now critically important across the world in all societies. The rise in its importance was mostly due to the invention of the internal combustion engine and the rise in commercial aviation.

More than 4000 years ago, according to Herodotus and Diodorus Siculus, asphalt was used in the construction of the walls and towers of Babylon; there were oil pits near Ardericca (near Babylon), and a pitch spring on Zacynthus. Great quantities of it were found on the banks of the river Issus, one of the tributaries of the Euphrates. Ancient Persian tablets indicate the medicinal and lighting uses of petroleum in the upper levels of their society¹⁶⁵.

Since antiquity, natural petroleum seeps were known particularly in Persia and the petroleum collected there was used for a variety of purposes. Not until the mid-nineteenth century, however, was any formal effort made to extract the oil for commercial use. When this finally happened, the first place people drilled for oil was near these seeps, assuming that they portended oil below.

Petroleum has become steadily more useful and valuable since the first [oil well](#) was drilled by Edwin Drake (1819-1880) in 1859. The first major oil fields were discovered in Pennsylvania and Ohio, with major strikes in Texas and Oklahoma to follow in 1901. Shortly after, the first oil concessions in Persia (now Iran) were granted, and the race for Middle East oil was on. Since that time, the discovery and exploitation of oil in the Middle East has had a profound influence on modern society and politics. Oil created vast fortunes and industrial empires, launched at least one war which is 1973, promoted the widespread use of petroleum, gave birth to OPEC, realigned twentieth-century politics, and much more. It very important to say that the huge reserves found in the Middle East played a tremendously important role in shaping the world we live in.

In the following years, oil was discovered in a great many places in the Middle East: the Arabian Peninsula, beneath the Caspian Sea, beneath what would become the nations of Iraq, Kuwait, the United Arab Emirates, and others. In 1944, a prominent petroleum geologist named Everette DeGolyer reported to the U.S. government that he was certain the Middle East nations were sitting atop at least 25 billion barrels of crude oil, at least 5 billion of which were in Saudi Arabia. Not reported at that time were his unofficial estimates of up to 300 billion barrels of oil, a third of which he thought underlay Saudi Arabia. In a report to the State Department, DeGolyer's team commented that "The oil in this region is the greatest single prize in all history".

At that time, the Middle East produced slightly less than 5% of the world oil supply; over 60% came from the U.S., which was providing virtually all oil for the Allied armies in World War II. Concerns about the longevity of America's domestic petroleum reserves began to emerge at the same time that the Saudi Arabian economy began to suffer, as the war kept many Muslims from making

¹⁶⁵ <http://www.wikipedia.com>

their required pilgrimage to Mecca. Saudi economic troubles and American fears complemented each other, and the U.S. began to take an active part in finding and extracting Arabian oil. This marked the beginning of Middle Eastern petroleum's ascent to its current domination of the global petroleum market.

Proven oil reserves are those quantities of oil that geological can be with reasonable certainty recovered in the future from known underground reservoirs¹⁶⁶. Of the trillion barrels currently estimated, 6% are in North America, 9% in Central and Latin America, 2% in Europe, 4% in Asia Pacific, 7% in Africa, 6% in the former Soviet Union. Today, 66% of global oil reserves are located in the Middle East: Saudi Arabia (25%), Iraq (11%), Iran (10%), UAE (9%), Kuwait (9%), and Libya (2%), Kazakhstan (2.2%), Azerbaijan (0.52%).

PRICE VOLATILITY

That the recent volatility in prices has been so precipitous merely confirms that, for the past 25 years, oil has been anything but a normal commodity. Although the Middle East contains two-thirds of the world's proven oil reserves, it actually produces less than a third of the world's oil. If production were determined by cost and quality alone, most oil would come from these countries. Oil in the Gulf is cheap to extract, barely \$2 a barrel, a quarter of the cost in the North Sea. Unlike the heavy crudes of Mexico or Venezuela, it is of high quality and high value. Much of the world needs fancy technology and expensive rigs to extract oil; in Arabia, as old hands say, "you just stick a straw in the ground and it gushes out."

Yet here is a thought: The price of oil is likely to fall continuously over the next few decades. Even \$10 a barrel might actually be too optimistic. We may be heading for \$5 a barrel. Thanks to new technology and productivity gains, you might expect the price of oil, like that of most other commodities, to fall slowly over the years. Judging by the oil market in the pre-OPEC era, a "normal" market price might now be in this \$5-10 range. Factor in the current slow growth of the world economy and the normal price drops to the bottom of that range.

The Gulf countries are to blame for their small share of the market. By nationalizing their oil industries and doing their best through the OPEC cartel to keep prices high in the 1970s and 1980s, they encouraged oil development elsewhere. With oil so profitable, prospectors searched inhospitable parts of the world. The perverse result is that high-cost regions (such as the North Sea) have been exploited before low-cost ones (such as Iran).¹⁶⁷

Yet if the Gulf producers thought that oil prices would remain low for some years, it would pay them to abandon all attempts to boost oil revenues by propping up prices, and instead to increase production. The result would be a world in which supply and demand were determined not by geopolitics and cartels, but by geology and markets—meaning that, in today's conditions, the price would head down towards \$5. That sounds appealing. But it carries also a less happy corollary of a world that depends upon a highly unstable region for half its oil, with the proportion rising all the time and it would also lead to greater over-consumption even use global warming.

¹⁶⁶ Institute for the Analysis of Global Security <http://www.iags.org>

¹⁶⁷ Mar 4th 1999 | From *The Economist* print edition

From now to 2020, world oil consumption will rise by about 60%. Transportation will be the fastest growing oil-consuming sector. By 2025, the number of cars will increase to well over 1.25 billion from approximately 700 million today. Global consumption of gasoline could double.

The two countries with the highest rate of growth in oil use are China and India, whose combined populations account for a third of humanity. In the next two decades, China's oil consumption is expected to grow at a rate of 7.5% per year and India's 5.5%. This is to be compared to a 1% growth for the industrialized countries. It will thus be strategically imperative for these countries to secure their access to oil.

THE IMPACT OF OIL

Middle East oil was discovered during the first rush to look for oil outside the U.S., when governments and industrialists were attempting to find out how much petroleum was available for further industrial expansion. In addition, with the advent of mechanized warfare on land, the increasing use of aircraft, and the transition of naval propulsion from coal to oil, petroleum became a vital strategic commodity. The U.S. and most of Europe found themselves with a seemingly inexhaustible source of energy to power their growth. This abundant, cheap energy encouraged them to increase their reliance on power-hungry machines and internal combustion engines. This industrialization ensured a high standard of living, but its almost total dependence on access to cheap energy became the Achilles heel of the developed world.¹⁶⁸

The Organization of Petroleum Exporting Countries (OPEC) was founded in 1960 by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela primarily in retaliation for price cuts made by the oil companies. (Current membership also includes Qatar, Indonesia, Libya, the United Arab Emirates, Algeria, and Nigeria.) At that time, most oil wells were owned by petroleum companies who had been granted concessions by the nations on whose territory the wells lay. These companies paid only a fraction of their proceeds to the countries. When prices dropped, the oil producing nations lost a great deal of money. OPEC was organized to raise and stabilize the price of crude oil. By regulating the amount of oil produced, the price could, theoretically, be maintained artificially high, increasing revenues for these nations. Of course, raising the price too high would be counter-productive because it would encourage less energy consumption, the recovery of otherwise marginal reserves, or both. So setting oil production and pricing became an intricate balancing act.

OPEC flexed its economic muscles in 1973 when, in retaliation for American support of Israel during the Yom Kippur war, it raised the price of oil from \$3 per barrel to \$12 per barrel and, for a short time it even stopped selling oil to the U.S. Other price increases followed; by 1980 oil was \$30 per barrel. This shocked the U.S. into realizing its dependence on foreign oil, encouraged energy conservation, research into alternate forms of energy, and increased development of domestic reserves. Although oil produced by non-OPEC nations surrounding the North Sea oil fields and in Southeast Asia has diminished OPEC's power

¹⁶⁸ www.bookrags.com (book reference about petroleum in the Middle East)

somewhat, OPEC nations still control a disproportionate share of world oil production, and retain a great deal of power as a result.

In addition to setting prices, countries like Saudi Arabia, Qatar, Iraq, and Venezuela nationalized their oil production in the 1970s, when they realized they could bank all the profits of oil production rather than just taking their concession fee. The government simply informed the oil companies that the government was buying their oil fields. The companies were paid off, asked to leave the country, and the government began operating the oilfields instead.

The influx of oil dollars, in turn, has made many OPEC nations dependent on petroleum to maintain their economy. Venezuela is an excellent example of the perils of over-dependence on a single commodity for a nation's economic well-being. Venezuela suffered in two ways: Much of the oil revenue was siphoned off from the economy by a corrupt government, which kept the revenue from benefiting the nation as a whole. In addition, the Venezuelan government counted on an unending and ever-increasing cash flow from oil. When prices dropped in the 1980s, Venezuela lost this revenue and much of their hard-won economic prosperity vanished with it. Plus, with little money saved, much of the infrastructure built with petro-dollars began to crumble.

Finally, since oil has a definite military value, protecting oil reserves, even in other countries, becomes a high priority for industrial nations. In World War II this led the Allies to bomb the Ploesti oil fields in Romania to deprive the Nazis in Germany of this energy source. In more recent years, Saddam Hussein invaded Kuwait and threatened to do the same to Saudi Arabia. This would have placed him in direct control of over 20% of total global oil production, which was considered an intolerable situation. For this, and other reasons, a coalition of forces waged war against Iraq to protect Saudi Arabia, restore Kuwait, and maintain unfettered access to Middle East petroleum. This, more than anything else, illustrates the importance of Middle East oil.

THE ARAB-ISRAELI CONFLICT

Petroleum was the only practical source of energy for Israel's rapidly growing population and its expanding and modernizing economy. As such, it was no less a basic existential problem than the supply of armaments. However, despite almost crippling financial limitations, the chief constraints in obtaining crude oil and its refined products were political. Governments and the major oil companies, primarily British and American (and later the Soviets and the Iranians, too) viewed the issue predominantly from the perspective of the Arab-Israeli conflict. In view of the Arab countries' role as the Western world's major oil suppliers, their strategic location, and their potential as developing markets for manufactures and other goods (in contrast to Israel's negligible weight as a market), it is in a sense surprising that Britain and its oil companies did not abandon Israel entirely--as they almost did in the mid-1950s.¹⁶⁹

In the mid-1950s Israel seemed to have finally circumvented the Arab oil blockade. The British companies agreed to operate the Haifa refinery at partial capacity, using Middle Eastern oil from non-member countries of the Arab League

¹⁶⁹ Oil and the Arab Israeli Conflict, New York: St. Martin's Press and Oxford: Macmillan Press, 1999.

to satisfy Israeli demand, despite doubts with respect to the enterprise's profitability. All that had been achieved, however, relied on temporary arrangements, without redress of Israel's grievances regarding prices, taxes and foreign exchange earnings or guaranteed supplies for the petrochemical industry. Subsequently, the foreign companies marketing in Israel even agreed to the establishment of an Israeli-owned corporation which would gradually be allocated up to 30% of the domestic market. But the British owners of the refinery adamantly refused to invest in its modernization and diversification.

Gradually Israel also managed to acquire oil business know-how and connections, to diversify its supplies by closing independent deals with Russia and Iran, and to somewhat improve its relations with the foreign companies operating domestically. However, the Israeli market became commercially less and less attractive, and outside developments--chiefly the 1956 Suez-Sinai campaign--weakened the political will to stay in it. Thus, during 1954-1957 the oil companies decided one by one to sell off their interests in Israel and leave the country. This process culminated in the 1959 agreement to sell the Haifa refinery to the Israeli government. While this process must be viewed as an Arab League success, it did not result in blocking Israel's oil supplies.

The 1973 oil crisis started in October 1973, when the members of Organization of Arab Petroleum Exporting Countries or the OAPEC (consisting of the Arab members of OPEC, plus Egypt, Syria and Tunisia): proclaimed an oil embargo "in response to the U.S. decision to re-supply the Israeli military"

By January 18, 1974, Secretary of State Henry Kissinger had negotiated an Israeli troop withdrawal from parts of the Sinai. The promise of a negotiated settlement between Israel and Syria was sufficient to convince Arab oil producers to lift the embargo in March 1974. By May, Israel agreed to withdraw from the Golan Heights.¹⁷⁰

For the most part, industrialized economies relied on crude oil, The 1973 "oil price shock", along with the 1973-1974 stock market crash, have been regarded as the first event since the Great Depression to have a persistent economic effect.

THE 1990 IRAQ KUWAIT WAR

History

Kuwait's status was a matter of international discussion in the period around World War I. In 1913 British and Ottoman representatives drew up the draft Anglo-Ottoman Convention in which Britain recognized Ottoman suzerainty over Kuwait but at the same time declared Kuwait an autonomous district of the Ottoman Empire. The convention conditioned recognition of Ottoman interests in Kuwait on the promise of Ottoman non-interference in the internal affairs of Kuwait. The Iraqi government's later assertion that this constituted British recognition of Iraqi jurisdiction in Kuwait was weak. The document specifically recognized Kuwait's historical political autonomy and disallowed Iraqi interference in Kuwait's domestic affairs. In any event, the document was never ratified, and at the beginning of World War I, Britain moved closer to Kuwait, not further away.

¹⁷⁰ www.wikipedia.com

At the end of World War I, the Ottoman Empire was dissolved. In the 1923 Treaty of Lausanne, Turkey renounced claims to all former Ottoman provinces.

In the interwar years, the border question again arose. In 1922 the British convened a conference at Al Uqayr in Saudi Arabia that set Saudi Arabia's borders with Kuwait and Iraq but not Kuwait and Iraq's border with each other. However, in 1923 the British high commissioner in Iraq sent a memorandum to the political agent in Kuwait laying out the border between Kuwait and Iraq. When in 1932 Iraq applied to the League of Nations for membership as an independent state, it included information on the borders from the memorandum.

Iraq thus seemed to be moving toward acceptance of its border with Kuwait when the discovery of oil, the promise of more Kuwaiti oil revenues, and the related Majlis Movement occurred. As the Majlis Movement grew, Iraq began to support dissidents in Kuwait and simultaneously put forward claims to Kuwait. Iraq also explored the idea of building a port on Kuwait's coast to give Iraq an alternative to its port of Basra. Iraq began expressing interest in the islands of Bubiyan and Warbah as well. The Majlis Movement in Kuwait failed, however, and Iraq had to await another opportunity.

In 1963 a new government came to power in Iraq. Anxious to mend fences, this government formally recognized Kuwait and signed an agreement recognizing the borders between the two states as those set forth in Iraq's 1932 application to the League of Nations. Iraq then dropped its objection to Kuwait's membership in the UN and in the Arab League and established diplomatic relations, including the exchange of ambassadors, with Kuwait.

Nonetheless, tensions lingered. During the 1960s and 1970s, a series of border incidents took place, and there was continuing Iraqi pressure for Kuwait to relinquish, or at least offer long-term leases on, the islands of Warbah and Bubiyan. In the 1980s, relations between the two states appeared to improve as Iraq, desperate for Kuwaiti financial support in its war with Iran, was careful not to press its unpopular claims. Both sides claimed sincerity in their historical effort to negotiate the border issue. When the war ended, however, the border issue reappeared.

The dispute itself does not seem to have been a precipitating factor in the invasion. When Iraq entered Kuwait in August 1990, it claimed to do so in support of a Kuwaiti rebellion. When no pro-Iraqi rebellion (or even bloc) emerged, and Iraq found itself unable to set up a pliable Kuwaiti government, it was forced to resort to direct occupation. It was only at this point that the Iraqi claim to Kuwait resurfaced. On August 9, one week after the invasion, Iraq formally annexed Kuwait, adding the northern part of the country, including the Ar Rumaylah oil field and the islands of Warbah and Bubiyan, to Iraq's province of Basra and creating a separate province out of the rest of Kuwait.¹⁷¹

Iraq's first financial disagreement with Kuwait related to oil policy. Iraq objected to Kuwait's production beyond OPEC quotas and the consequent contribution that overproduction made to lowering oil prices internationally. Iraq also claimed Kuwait was siphoning oil from the shared Al-Rumaylah oil field

¹⁷¹ Country Data www.country-data.com

straddling the Iraq-Kuwait border. During the Iran-Iraq War, Iraq ceased production from its side of the field while Kuwait continued operations. Kuwait asserted it had taken oil only from its own side of the field; Iraq claimed it had poached. Another financial disagreement with Kuwait concerned the estimated US\$13 billion that Kuwait had lent Iraq during the Iran-Iraq War, a debt that Iraq wished Kuwait to forgive. These financial claims were set in a broader context. The Iraqi government experienced serious financial strains following the war with Iran; nearby Kuwait had apparently ample resources. To obtain these resources, Iraq put forward whatever financial claims it could.

The primary impetus for the invasion thus lay in the dynamics of internal Iraqi politics--economic and political concerns after the long, debilitating, and ultimately unsuccessful Iran-Iraq War. However, economic and political relations between Iraq and Kuwait provided the context for conflict.

Invasion

On August 2, 1990, Iraqi forces invaded and occupied Kuwait. On February 26, 1991, United States-led coalition forces restored Kuwaiti sovereignty. These paired events represented both the failure and the success of Kuwait's foreign policy.

After Kuwait's liberation, the UN established a five-member boundary commission to demarcate the Kuwait-Iraq boundary in accordance with UN Security Council Resolution 687, which reaffirmed the inviolability of the Iraq-Kuwait border. In April 1992, the commission announced its findings, which demarcated the Kuwaiti border with Iraq about 570 meters to the north near the Iraqi town of Safwan and slightly north in the region of the contested Ar Rumaylah oil field. These modifications gave Kuwait six oil wells in the field and part of the Iraqi naval base of Umm Qasr.

Kuwait accepted the commission's finding and announced it intended to build a security fence along its border with Iraq as an advance warning system. Iraq responded to the findings with an angry letter in May to the UN secretary general rejecting the commission's findings. Domestically, it continued to refer to Kuwait's territory as an integral part of Iraq. Physical demarcation of the land boundary was completed in November 1992.

The postwar period thus opened with many of the issues still unresolved that had played a role in precipitating the invasion and war. In Iraq the government of Saddam Husayn continued to assert its prewar claim to Kuwait, coloring Kuwait's postwar foreign policy.

As long as Saddam Husayn remained at the helm in Iraq, Kuwait could feel no real security. Even after his departure, much of the insecurity that haunts Kuwait and drives its foreign policy remains. Kuwaitis see the war as one waged by the Iraqi people and remember previous Iraqi promises to respect Kuwait's sovereignty. Kuwait will continue to see Iraq as a serious threat, regardless of whatever has transpired in Iraq's leadership.

CONCLUSION

It is undeniable that oil revenues were instrumental in radically changing the life of the Middle Eastern populations, notably in the Gulf Region, and introducing accelerated modernity in all aspects of the economic and social setting.

To-day, many of the region's countries enjoy a very high standard of living that is reflected in the income level of the citizens, and the availability of social services such as education and health in a typical welfare style. Their governments enjoy a certain degree of prestige and leverage at the international level, earned mostly through commercial exchanges, financial assets and major foreign investment interests. They represent an important factor in the political and economic life of the rest of the region, both through official development assistance to less fortunate sister countries and direct private investment in such vital sectors as agriculture, telecommunications and infrastructure.

On the negative side, the most serious threat is the vulnerability of the economies of the oil producing countries of the region, first because of their heavy dependence on oil as the main (and almost single) source of income and, second, for the organic link between them and western economies, particularly as regards their financial assets in an increasingly globalized economy. Efforts are slowly being deployed towards the diversification of the economy to the industrial sector and, in some countries, focus on commercial and real estates activities which, as is clearly demonstrated by the recent economic crash in Dubai, are not always safe and proved to be extremely vulnerable in the face of the global financial and economic crisis.

Consumerism is another negative characteristic of these economies. This is largely manifested in sectors such as expensive and unnecessarily polluting big cars, outrageously lavish mansions, overdose of luxury technology in electronic appliances, irrational quantities of food processed in households (quickly discarded as garbage) and expensive items such as gold watches etc. All these fields are non-productive, and accentuate social vanity to the detriment of economic productivity. Added to this is the total dependence on the State as the provider of all goods and services and a lack of initiative and entrepreneurship among the youth and the educated.

Equally menacing is the demographic evolution of those countries due to the extensive "import" of foreign labor, mostly from Asia, to the extent that, numerically speaking, the nationals of a country constitute the minority in their own land. The social fabric is negatively affected in view of the strong influence of house employees on children, in such a way that in many aspects of life, their culture dominates the local culture. Combined to this, the laws governing foreign labor are not always consistent with international norms and standards and end by creating considerable tension and dormant conflicts.

Those are just a few of the negative sides of oil-driven economies in the Middle East. A number of options need to be seriously explored by their policy makers towards remedial action. Among these, one can mention a greater emphasis on regional cooperation by means of heavy investments in countries of the region, such as Sudan in the agricultural field where it has an immense potential, to achieve a certain degree of food security which is essential for the entire region. Equally important is the radical reorientation of the educational system towards a more productive approach, integrated in the whole macro-economic plans of the given country, highlighting the value of work and preparing the young generation to be competitive now and in the post-oil future.

Finally, economic reform alone would not yield the desired changes. The political systems in the regions have already embarked on a process of political reform towards greater participation by the population and more transparency and good governance. If both processes are carried out with wisdom and a spirit of change, the immense fortune compiled from oil revenues could be used towards a stable and prosperous future.

THE ARAB-ISRAEL CONFLICT

INTRODUCTION

From the inception of the creation of a homeland in Palestine for the Jewish people of Europe. A vision of the possible strategic role that this new group could play in the Middle East region, for the benefit of European powers at the time, was aired around the capitals of Western Europe. After World War II, the former Soviet Union and the United States envisioned the role of the Jewish state in the Middle East of great importance for their respective aims. Over two decades after the sunset of the Cold War, the Arab-Israeli conflict continues and has taken multiple dimensions. Consequently, the economic lost opportunities as a result of the conflict morphed into pressing challenges for the Middle East region, and the repercussions of the conflict are spreading far beyond the borders of the region as a result of a territorial dispute.

Arab-Jewish relations in Palestine under the Ottoman Empire

Under the Ottoman Empire, conditions for the Jewish people were good in the early Middle Ages, worse in the later Middle Ages, dire under the Almohads, and difficult under the Mamluks. Life was best in the center of the Empire and hardest on the periphery. As the European powers increased their influence and during the colonial era, Jews and Christians acquired near-equal status to Muslims. Crucially, however, conditions for the non-Muslims minorities deteriorated again when Arab nation states gained their independence.¹⁷²

At the turn of the last century, life was incomparably better than before for Jews of Iraq, Syria and Egypt. Jews sat in the Istanbul parliament after 1908. They served in the Turkish army. The big cities of the Middle East were heavily Jewish; along with other minorities, the Jews controlled trade and business. In 1919, the British appointed King of Iraq, Crown Prince Faisal, signed a pact with Chaim Weizmann viewing with sympathy the establishment of a Jewish home in Palestine.¹⁷³

Later, the exportation of European fascism and anti-Western sentiments, as a result of Arab nationalist movements, deteriorated the pluralistic attitudes under the Ottoman Empire and the end of tolerance of traditional Muslim attitudes.¹⁷⁴

Brief History of WWII and the Jewish-Palestinian Struggle

On May 15, 1948, Israel is declared as the Jewish State in historical Palestine. In response, Egypt, Syria, Iraq, Lebanon, Jordan, Saudi Arabia declared war on Israel. Consequently, the invasion of liberation of Arab land was carried-out by Egypt, Syria, and Jordan which resulted in the defeat of the three by Jewish forces.

On April 3, 1949, the UN Partition Plan allotted the declared state approximately 50% more territory than originally planned. Tensions increased in the region and paved the road to the June 1967 War which led to Israel's conquer

¹⁷² Israel-Palestina.info –English

¹⁷³ *ibid*

¹⁷⁴ *ibid*

and occupation of the Sinai and Gaza, the West Bank from Jordan, and the Golan heights from Syria. At the United Nations, Security Council approved and passed Resolution 242 calling, among other resolutions, for Israeli withdrawal of the conquered and occupied lands, and the establishment of peace.

The Cold-War and Arab Cold-War

The 1967 war marked both the full alignment of the United States with Israel and the beginning of Israel's heavy reliance on American weapons systems. The massive dependence on Israel on billions of dollars annually in U.S. military and economic aid came years later, following the subsequent Arab-Israeli conflict, the October 1973 war. By this time, the United States had come to see Israel as its most valuable ally in the Middle East region in the global struggle with the former USSR and its proxies.¹⁷⁵

The current reality in the Middle East is a situation that was heavily affected by the Cold War rivals and the "Arab-Cold" war. The contribution of the region in the geopolitical game that the United States carried-out in the region and beyond are felt today. A number of Arab [and Arab] Gulf states have spent vast amount of oil resources to increase their military hardware and preparedness as a result of instability and perceive threats from Iran; the U.S involvement in Iraq and Afghanistan; and Israel's linking the lack of progress in the Israeli-Palestinian conflict to the support from Iran to Hamas and Hezbollah. Consequently, impeding a final solution to the conflict and a lasting peace, and further impeding the positive effects of economic development as result of procurement to confront a conflict that does not reflect the perceived progress in the region.¹⁷⁶

Post-Cold-War Period - Effects

During the post Cold War period, strong regional groupings and so-called super states evolved. As an example we can now witness Greeks and Swedes, Spaniards and Finns, who once considered each other worlds apart, now see themselves as Europeans. In the era of globalization, economic interdependence and sustainability challenges make it imperative for humanity to cooperate as one. Following are global trends after the sunset of the Cold-War challenge:¹⁷⁷

The positive trends are the following: a) Between 2002 and the end of 2005 the number of armed conflicts decreased by 15% with battlefield deaths contracting 40%; b) In the same period the estimated number of displaced people fell by 6% to 32.1 million; c) Growing numbers of wars are settled through negotiated agreements rather than through military victories; d) The number of attempted military coups fell to 3 in 2005 from the peak of 25 in 1963; and e) The number of non-state conflicts dropped from 34 in 2002 to 25 at the end of 2005 as well as the conflicts being less deadly.¹⁷⁸

The Negative Trends: a) Between 2002 and the end of 2005 four regions of the world saw an increase in the number of conflicts: Central/South Asia,

¹⁷⁵ Khalidi, Rashid, *Sowing Crisis: The Cold War and American Hegemony in the Middle East* (Beacon Press Boston, 2009)

¹⁷⁶ *ibid*

¹⁷⁷ Institute for Economics and Peace: *Peace, Its Causes, and Economic Value*, 2009, p.6.

¹⁷⁸ *ibid*

Middle East/North Africa, the Americas and South East Asia/Oceania; b) The number of international terrorist incidents increased threefold between 2002 and the end of 2005 and the number of casualties increased fivefold. The U.S. State Department noted that in 2007, although the number of terrorist attacks remained the same, the number of people killed did increase; c) Organized violence against civilians has increased by 56% since 1989, although most of these have killed relatively few people; d) Although more wars are being settled by negotiations than battlefield victories, and the negotiated settlements last three times as long, they are also twice as likely to restart within five years.¹⁷⁹

THE ECONOMY OF THE MIDDLE EAST

In the Middle East, according to the UNDP Arab Human Development Report 2009, the main challenge for the Arab region is economic security. Economic security is defined in terms of acute unemployment and persisting income poverty. The countries of the region are classified by the World Bank into income brackets: low, lower middle, upper middle and high income countries. In this classification, the high income Arab countries are Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates; the low income countries include Comoros, Mauritania, Sudan, and Yemen. The rest of the Arab countries belong to the middle income group. The upper middle income group include Lebanon, Libya, and Oman; the remaining states are low-income countries namely, Algeria, Djibouti, Egypt, Jordan, Morocco, Syria, Tunisia.¹⁸⁰

In more than four decades, the Middle East witnessed four large-scale modern wars, a continuation of conflicts and regional tensions: the 1967 War, the 1973 October War, the Israeli invasion of Lebanon in 1982, the Iran-Iraq War of 1980-1988, and the Gulf War of 1991; two intifadas, the U.S. invasion of Iraq in 2003, the Israeli-Hezbollah conflict in Lebanon of 2006, the Israeli invasion of Gaza of 2008, a civil war in Somalia, and instability in Yemen, and the post-Cold War escalation of regional tension with Iran. To add to the mix, the Middle East, with exceptions, is continuing to lag behind the advanced industrial countries and developing regions of East Asia and Latin America. The long years through which the countries of the [Middle East] region have had to shoulder the burden of the confrontation and military spending required has made a number of them more dependent on foreign economic and military aid, opening the way to attempts to influence the foreign policy of these countries and even attempts to impose hegemony on them.¹⁸¹

International and regional organization have shed light on the effects that conflicts had had on the Middle East and what the future awaits if economic resources are not allocated to human and environmental needs. According to United Nations estimates, the Arab countries will be home to some 395 million people by 2015 (compared to about 317 million in 2007, and 150 million in 1980). In a region where water and arable land are shrinking, population growth at these

¹⁷⁹ *ibid*

¹⁸⁰ United Nations, Arab Human Development Report, 2009

¹⁸¹ Ambassador Aly Maher El Sayed, The Institute for Peace Studies, Cost of Conflict in the Middle East, Turkey, March 15-17, 2008

rates while falling, will still put intense pressures on the carrying capacity of Arab countries' lands and further threaten the environment.¹⁸²

The resources used to maintain military parity and readiness, as a result of [the Arab-Israeli conflict], regional instability and armament procurement have neglected the available opportunities to meet regional and global challenges. According to an international economic institute, the Arab world faces a demographic imperative – a possible 150 million person increase in population, equivalent to two Egypts, over the next decade or so. If this daunting challenge can be successfully addressed, the region could look forward to a “demographic dividend” as a new generation enters its most productive working years. To generate an increase in employment of the required magnitude requires duplication of the “miracle” economies of Korea and Taiwan – an expansion of labor-intensive manufacturing or services exports, often in conjunction with foreign investors or local entrepreneurs who [can] integrate into the global supply networks. Outside of the energy sector, the region's track record in integrating into the world economy has been inauspicious. Therefore, the Arab world risks being left behind at precisely the moment it needs to accelerate job growth.¹⁸³

Based on World Bank data, real GDP per capita in the Arab countries rose by a mere 6.4 per cent over the entire 24 year period from 1984 to 2004 (i.e. by less than 0.5 per cent annually). Since the 1990s, real per capita growth rates in non-oil as well as oil countries have fluctuated erratically, often turning negative. The economic structural weaknesses of some economies position the region into inferior level in the global markets due to the lack of investment, where needed, by foreign sources, as a result of the instability that conflict harvests. A trend that at the expense of Arab manufacturing and industrial production to meet the regional and global economic challenges.¹⁸⁴

Not surprisingly, most Arab countries have experienced significant deindustrialization over the last four decades. In fact, the Arab countries were less industrialized in 2007 than in 1970, almost four decades ago. This includes [middle income countries] with a relatively diversified economic base in the 1960s, such as Algeria, Egypt, Iraq, and Syria. True, Jordan, Oman, Tunisia, and UAE have made noticeable progress in industrial development. Nonetheless, in general, the contribution of manufacturing to GDP is anemic, even in Arab countries that have witnessed rapid industrial growth. In addition, the lack of industrialization since 1970 points to a benchmark year of regional conflict, 1967.¹⁸⁵

THE ECONOMY OF ISRAEL

Israel with a population of over 7 (seven) million peoples has a technologically advanced market economy that in 2009 posted an estimated annual GDP of \$205 billion. It depends on imports of crude oil, grains, raw materials, and military equipment. Despite limited natural resources, Israel has intensively

¹⁸² United Nations, Arab Human Development Report, 2009

¹⁸³ Peterson Institute for International Economics, Arab Economies Face Massive Bulge in Labor Force and Require Renewed Globalization to Respond, June 12, 2007

¹⁸⁴ United Nations, Arab Human Development Report, 2009, p.101-103

¹⁸⁵ *ibid*

developed its agricultural and industrial sectors over the past 20 years. Israel usually posts sizable trade deficits, which are covered by large transfer payments from abroad and by foreign loans. Roughly half of the government's external debt is owed to the United States. Israel's GDP, after contracted slightly in 2001 and 2002 due to the [Israeli-] Palestinian conflict. The global economic downturn affected Israel's economy primarily through reduced demands for Israel's exports – which account for about 45% of the country's GDP – in the United States and EU, Israel's top trading partners.¹⁸⁶

An important economic implication of the Arab-Israel conflict is that Israel must allocate a major part of its budget to defense. The size of the defense budget has varied, rising during wars and armed hostilities. The total defense burden (including expenses not in the budget) reached its maximum relative size during and after the Yom Kippur War of 1973, close to 30 percent of GNP in 1974-1978. In the 2000-2004 periods, the defense budget alone reached about 22 to 25 percent of GDP. Israel has been fortunate in receiving generous amounts of U.S. aid. Since 1973 U.S. aid has been closely connected to Israel's defense needs. During 1973-1982 annual loans and grants averaged \$1.9 billion, and covered some 60 percent of total defense imports. But even in more tranquil periods, the defense burden, exclusive of U.S. aid, has been much larger than usual in industrialized countries during peace time.¹⁸⁷

As a result of the effects of the Arab-Israeli conflict: U.S. aid has allowed the Israeli government to steadily increase spending despite running deficits year after year. According to Yuval Levin's calculations, unilateral transfers to Israel such as U.S. aid, combined with borrowing by the Israeli government, allow the government to annually spend \$10 billion more than it takes in as revenues. Because much of this additional \$10 billion comes to Israel as "free money", Israel's debt burden increases only by a fraction of its excess spending.¹⁸⁸ By any measure, Israel is the largest recipient of American aid. Since 1948, it has received at least \$90 billion in direct aid. This is more than twice the amount of combined U.S. aid to all of Latin America in the same period, and over 2.5 times what all of Africa (excluding Egypt) has received.¹⁸⁹

Over the past 25 years, American aid and other lesser forms of "free money" have made this bad situation worse and have created an attitude of dependence which permeates the thinking of Israeli policy makers....Figures made available by Israel's own Central Bureau of Statistics reveal that the era of aid has been a dark age for the Israeli economy. Between 1950 and 1973, the pre-aid age for Israel, per capita GDP grew at an average annual rate of 5.59 percent – a healthy rate indeed for a new nation developing in difficult circumstances. But between 1974 (when sizeable U.S. aid began) and 1999, Israel's per capita GDP grew at an average annual rate of only 1.51 percent.¹⁹⁰

¹⁸⁶ CIA World Facts 2010, www.cia.gov

¹⁸⁷ A Brief Economic History of Modern Israel, H. Halevi, Hebrew U., Economic History Association - eh.net

¹⁸⁸ Levin, Yuval, American Aid to the Middle East: A Tragedy of Good Intentions, December 2000, p3

¹⁸⁹ *ibid*, p11

¹⁹⁰ *ibid*, p.14

Levin further states that, thanks in part to combine generous financial support from the United States, successive Israeli governments have been able to maintain the kind of unsustainably extravagant socialist infrastructure that European, Latin American, and East Asian countries have been jettisoning for decades. Today, few countries have larger state sectors, high marginal tax rates, or more lavish social welfare systems than Israel. Until now, successive Israeli governments have managed to avoid choosing between economic reform and economic collapse by turning to Washington.¹⁹¹

Obviously, the economic consequences of military budgeting and preparedness, as a result of the Arab-Israeli conflicts, has prevented Israel profoundly to take advantage of the lost opportunities that peace could offer to meet the economic challenges that it faces, as well as the possibility to reap fruits from the critical mass market that the Middle East region represents.

THE ECONOMY OF PALESTINE

The population of the Palestinian occupied territories is as follow, not including refugees in Lebanon, Jordan, and Israel and beyond: West Bank - 37.7% and Gaza - 53.1% totaling approximately 3,761,646 peoples.¹⁹²

With the establishment of the [Palestinian Authority] PA in 1994, numerous economic and development projects were initiated, but the [West Bank and Gaza Strip] WBGS are still totally dependent on support from outside. Palestinian economy is dominated by services, while industry remains underdeveloped and at a low level, and the agricultural sector [suffers] from the lack or restrictive access to natural resources. The main reason behind the current economic crisis is the general closure and separation policy imposed by Israel in March 1993, as a result of the First Intifada in protest of Israel's attempt to annex Palestinian territories, which has never been lifted since. Any sustained Palestinian economic recovery will ultimately require the dismantling of the closure system impose by Israel.¹⁹³

The period since late 2000 has been characterized by macroeconomic compression, declining incomes and high rates of unemployment and poverty in Palestine. The Palestinian economy has deteriorated significantly and remains completely dependent on the Israeli labour market. It was greatly influenced by the changes in the policy of the donor community that took place following the legitimate legislative elections of Hamas in January 2006; the decline in external assistance has meant that in many cases public sector salaries could not be paid. Between 2005 and the end of 2006, Palestinian Government revenues are estimated to have declined by 71 per cent, while Government expenses decreased by 36 per cent during the same period.¹⁹⁴

The economic restrictions have remained and the situation in Gaza continues to deteriorate. The [Palestinian Central Bureau of Statistics] PCBS

¹⁹¹ Rose, Tim, Bibi Does Economics, Can a former prime minister find happiness reforming Israel's economy?, March 10, 2003, Vol. 8, No.25

¹⁹² <http://www.passia.org>

¹⁹³ United Nations, Arab Human Development Report, 2009

¹⁹⁴ Economic and Social Commission for Western Asia (ESCWA), Social and Economic Situation of Palestinian Women 2006-2009, p6

estimates that real GDP growth in the WBGS in 2007 was 0.5%, while IMF analysis notes a drop in GDP of -0.5% in 2007 and modest growth of 0.8% in 2008.¹⁹⁵ Economic progress has been insufficient to stimulate growth in the [Occupied Palestinian Territories] OPT because of the restrictions on movement, while dependency on aid was increasing. Approximately half of all Palestinian households are dependent on food assistance provided by the international community (80% of households in Gaza, 33% in the WB).¹⁹⁶

A World Bank study estimates that a single full-day closure inflicts a \$7 million dollar income-related loss in the West Bank and Gaza. For 2001-2005, the total employment-related loss is estimated at \$2.4 billion and the total closure-related loss is estimated at \$928 million, which comes to a total estimated loss of \$3.3 billion for that period, or the equivalent of 58 per cent of the total foreign aid provided to the PA [Palestinian Authority].¹⁹⁷

Furthermore, the economic costs of closures, as a result of the conflict, go beyond their impact on income. Production cost rise sharply when closures force goods to move via long detours, or when commerce is block. According to the World Bank study, between 2000 and 2005, transportation costs from Ramallah to Bethlehem soared by 348 per cent; from Ramallah to Nablus by 105 per cent; and from Ramallah to Jenin by 167 per cent. Such handicaps reduce the competitiveness of the Palestinian economy and deter investment.¹⁹⁸

Economic Contribution of Arab-Israelis to the Israeli Economy

Presently, Arab-Israelis make up approximately 20% of the population but only, 12.3% of the general workforce (2007), and 8% of the GDP. It is estimated that “incomplete integration of the Arab population generates a continued loss to the [Israeli] economy of over [USD 10.5] billions or more each year.”¹⁹⁹

The primary factors preventing economic development for Arab-Israelis are discrimination and insufficient allocation of resources to the Arab-Israeli sectors. These includes: Insufficient investment in education and vocational training; Lack of land for development of industrial zones; insufficient public services and economic infrastructure; Lack of financial investment in the Arab sector.²⁰⁰

Obviously, the economic development of both Israeli-Arabs and Jews can mutually benefit, but not until there is no full and lasting peace and integration.

ISRAEL'S RELATIONS WITH ITS NEIGHBORS

The signed peace agreements between Israel and its Arab neighbors, Egypt (1979), the PLO (1993) and Jordan (1994), were expected to improve the relationship between the parties to the conflict; and as a consequence to usher economic benefits to the Middle East region after signing on the dotted lines of the agreements. In fact, for decades the region has not witness a military confrontation

¹⁹⁵ The World Bank, Palestinian Economic Prospects: Aid, Access and Reform. Sept 2008

¹⁹⁶ ILO, The Situation of Workers of the Occupied Arab Territories. May 2008

¹⁹⁷ UNDP, Arab Human Development Report, 2009, p.178

¹⁹⁸ *ibid*

¹⁹⁹ The Abraham Fund Initiative, The Economic Benefits of Socio-Economic Inclusion and Arab-Jewish Equality in Israel

²⁰⁰ *ibid*

between Arab states and Israel, and lack of regional economic integration that other regions are experiencing.

After the signing of the few peace agreements, lines of communications and partial relations developed, but prospects of real economic relations, cooperation, and trade are yet to be seen on the horizon as a result of a comprehensive peace agreement. The stability achieved by peace has brought increased investment as well as an increase in the Jordanian tourism sector. Jordan has also benefited in an even clearer way, as its treaty with Israel guaranteed its rightful water share and returned its occupied lands. As a result of peace some states agreed to write off or reschedule Jordan's debt payments after it signed the treaty with Israel.

For almost four decades a formal state of war exists between Israel and Syria. Yet, secret meetings were brokered by Turkey and in other occasions carried out under the auspices of France to resolve the issue of the Golan Heights. But the invasion of Israel into Gaza in 2008 strained relations even the broker of these initiatives, Turkey. Yet, Egypt, Jordan, and the Palestinians, and some Arab states still face many economic challenges. The key parties to the Arab-Israeli conflict would not bear the fruits or the dividends of peace while war is waged on the Palestinian people. Today, Israel and some Arab states enjoy a mere relation of "cold peace".

MILITARY SPENDING IN THE MIDDLE EAST

For the United States, the Middle East was not an important focus of American aid policy until the early 1970s. Before that time, Middle Eastern nations including Israel, Egypt, Jordan, Lebanon and others received aid generally in the tens of millions of dollars per year as part of the American food and poverty assistance effort. The enormous growth of aid in the 1970s was directly linked to the increasing importance of the region during the Cold War.²⁰¹

As a result of conflicts, the Middle East is a region of high military expenditure and arms imports relative to its economic and demographic size. In common with most other regions worldwide, military expenditure and arms imports have been on an upward trend in recent years. The United States has increased its dominance of the Middle East arms market; it accounted for over half of all major conventional weapons deliveries between 2004 and 2008.²⁰² It accounted for 53 per cent of the volume of deliveries of major conventional arms, up from 46 per cent for 1999-2003. The next largest supplier was France, with 16 per cent, followed by Germany with 8 per cent and Russia with 7 per cent. These four countries thus accounted for 84 per cent of all deliveries to the region.²⁰³

The [Middle East] has generally been the largest arms market in the developing world. However, in 2001-2004, it accounted for 42.4% of the total value of all developing nations arms transfer agreements (\$33.9 billion in current dollars), ranking it second behind Asia which was first with 49.6% of these agreements (\$39.7 billion dollars). But, during 2005-2008, the [Middle East] region accounted

²⁰¹ American Aid to the Middle East: A Tragedy of Good Intentions, December 2000, Yuval Levin, p.3.

²⁰² Stockholm International Peace Research Institute, SIPRI, July 2009, p.2-3

²⁰³ Arms Transfers to the Middle East, Stockholm International Peace Research Institute, July 2009, p.2

for 54% of all such agreements (\$83.3 billion in current dollars), again placing it first in arms agreements within the developing world.²⁰⁴

The principal catalyst for major new weapons procurements in the Near East region in the last decade was the Persian Gulf crisis of August 1990-February 1991. This crisis, culminating in a U.S.-led war to expel Iraq from Kuwait, created new demands by key purchasers such as Saudi Arabia, Kuwait, the United Arab Emirates, and other members of the Gulf Cooperation Council (GCC) for a variety of advanced weapons systems. Subsequently, concerns over the growing strategic threat from Iran have become the principal driver of GCC states' arms purchases. Because GCC states do not share land border with Iran, their weapons purchases have focused primarily on air, naval, and missile defense systems.²⁰⁵

Most recently, Saudi Arabia has been the principal arms purchaser in the Persian Gulf region. In the period from 2005-2008, Saudi Arabia's total arms agreements were valued at \$28.3 billion (in current dollars). Also placing substantial orders during this same period was the U.A.E., making \$12.8 billion in agreements (in current dollars).²⁰⁶

Yet, the Middle East has not benefited from the positive trend in the decrease of conflicts; the region has not had similar effect as in other parts of the globe. This indicates that the economic costs of conflict increased after the end of the Cold-War and will continue to rise into the future.

BENEFICIARIES OF THE ARAB-ISRAELI CONFLICT

At a time when a deep economic recession is causing much turbulence in the civilian world...[the] defense giants such as Boeing and [European Aeronautic Defense and Space Company] EADS, or Finmeccanica and Northrop Grumman, are enjoying a reliable and growing revenue stream from countries eager to increase their military might.²⁰⁷

The profit enthusiasm generated by these industrial giants has been felt by shareholders and employees in the aerospace and defense industry. Clearly [they are] the ones who benefit most from growing defense spending. Defense companies, whose main task is to aid governments' efforts to defend or acquire territory, routinely highlight their capacity to contribute to [their respective national] economic growth and to provide employment. Indeed, some \$2.4 trillion...or 4.4%, of the global economy "is dependent on violence", according to the Global Peace Index, referring to "industries that create or manage violence" – or the defense industry.²⁰⁸

This clearly indicates that the benefactors of the Arab-Israeli conflicts see the status quo of the Middle East as detrimental for the well being of local economies that are in the business of the spill-over effects of conflicts. More than 1,000 companies in 47 states, the District of Columbia and Puerto Rico have signed

²⁰⁴ Grimmet, Richard F., Congressional Research Service, Conventional Arms Transfers to Developing Nations, 2001-2008, September 4, 2009, p.13

²⁰⁵ *ibid*

²⁰⁶ *ibid*

²⁰⁷ Madslie, John, Spending on peace vs. spending for war, The purchasing power of peace, BBC, June 3, 2009

²⁰⁸ Madslie, John, Spending on peace vs. spending for war, BBC, June 3, 2009

contracts worth billions of dollars through the Foreign Military Financing (FMF).²⁰⁹

The costs to business of increased levels of violence need to be analyzed and understood. These costs vary from business to business, but these types of analysis may show that some businesses become more viable in higher levels of violence than other businesses.²¹⁰

ISRAEL-HEZBOLLAH-HAMAS-IRAN CONNECTIONS

The Israeli-Hezbollah conflict of 2006 in Lebanon was a reminiscence of the proxy wars that were carry-out during the Cold War in the name of the super powers. The regional powers of the Middle East are replicating those maneuvers. Intensifying and escalating regional tensions and conflicts in the region, further entrenching the exit of the vicious cycle of Arab-Israeli conflict, and creating a gravitational pull beyond the Arab sphere. According to an article in the Middle East Forum, the Lebanese and Israeli border may be calm today, but the potential for regional conflict has only grown. If a new conflict erupts, it likely will be deadlier and harder to contain to Israel and Lebanon. Hezbollah now possesses missiles capable of striking not only Haifa, but also Tel Aviv. Experts and analysts generally put the Hezbollah rocket force somewhere between 10,000 and 12,000 missiles. The heart of arsenal remains rooted in Hezbollah's massive stocks—perhaps 7,000 to 8,000—of 107mm and 122mm Katyusha rockets, virtually all of which were supplied directly from existing Iranian army stocks.²¹¹

The Forum further stresses: The arms trade continues through Syria. As the German military prepared to enforce the prohibition on Hezbollah re-supply under terms of its UNIFIL [United Nations Interim Force in Lebanon] mandate, the German news magazine Focus reported on October 9, 2008, that Germany's Federal Intelligence Service (Bundesnachrichtendienst), BND) had concluded that the Islamic Republic [of Iran] had already re-supplied missiles to Hezbollah in the aftermath of the war [of 2006]. The BND reported that the re-supply had occurred over land through Syria [and] estimated that the volume of total trade ranges from \$2.5 to \$3 billion.²¹²

THE ECONOMIC COSTS OF CONFLICT

Regardless of the industry of a country or region, conflict bears an economic cost in the short, medium, and long-term. The Report of the Strategic Foresight Group highlights in detail the opportunity costs and sheds daylight on the economic waste buildup that continuation of conflicts in the Middle East accrued, the tantamount burden on the region; and the multi-layered consequences, if the account of conflicts are not tally as inheritance for future generations. The economic costs accounted for in the report include direct costs incurred due to destruction and damage caused by war, opportunity costs reflecting growth that did not take place due to conflict environment, opportunity costs reflecting trade and

²⁰⁹ Bard, Mitchell, U.S. Aid to Israel, January 13, 2010

²¹⁰ Institute for Economics and Peace, Global Peace Index, Peace and Sustainability: Cornerstone to survival in the 21st century, May 2007, p.21

²¹¹ Rubin, Michael, The Enduring Iran-Syria-Hezbollah Axis, Middle East Forum, December 2009

²¹² *ibid*

investment opportunities missed and indirect costs. In addition, the approach use examines the neighboring countries involved and assesses the impact on them as well as on the international community.²¹³

Just to site few of the findings out of the wealth of data that the Strategic Foresight Group highlighted in their report, light is shed on the multi-dimensional economic bearing of conflict in the Middle East and they are:

- a) The countries in the Middle East that are directly involved in or affected by the Israeli-Palestinian conflict, internal strife in Lebanon and the U.S. invasion of Iraq have lost a whopping \$12 trillion dollars (in 2006 dollar value) in opportunity costs from 1991 to 2010.²¹⁴
- b) The opportunity cost has meant that the per capita income in these countries is less than half of what it actually should be. Iraq would have had four times the per capita income in 2010 - \$9,600 without war instead of around \$2,400. The per capita income of Egypt would be almost \$3,000 instead of \$1,800 and Lebanon would have double its projected per capita income of \$5,600 in 2010. Israel would also have almost double its per capita income without conflict at \$44,000 instead of \$23,000 in 2010.²¹⁵
- c) The Palestinian people have lost over 100 million man hours waiting at the checkpoints between Ramallah and Jerusalem since 2000. At present there are more than 11,000 Palestinians in Israeli Detention Centers. The unemployment in Gaza reached over 50% with the suspension of 95% of the industrial operations even before the December 2008 attack by Israel.²¹⁶
- d) If sustainable peace is established, every household in the Middle East will gain. An average Israeli family will increase its income by \$4,429 per year, even after paying compensation to settlers and making some contribution to the Palestinian refugees. The average family income in Egypt will go up by \$500, in Jordan by \$1,250 and in Saudi Arabia by \$5,000 per year.²¹⁷
- e) Israel lost \$15 billion of potential tourism revenue from 2000 to 2006. Housing prices in areas affected by direct hostility have crashed. More than 90% of Israelis live with a sense of insecurity.²¹⁸
- f) The opportunity cost for 1991-2010 appears largest for Saudi Arabia at \$4.5 trillion or one third of the total opportunity loss incurred by 13 countries in the region. However, as compared to the size of its economy, Iraq has suffered the largest loss. Its GDP could have been more than 30 times of its present size. Moreover, [the Strategic Foresight Group] used 1990 as the base year. Iraq had already spent a decade in a war with Iran by that time. If we examine Iraq's opportunity loss since 1980 when it

²¹³ Cost of Conflict in the Middle East, Strategic Foresight Group, 2009

²¹⁴ *ibid*

²¹⁵ *ibid*

²¹⁶ *ibid*

²¹⁷ *ibid*

²¹⁸ *ibid*

entered a period of warfare – first with Iran, then Kuwait and finally the West – it would be at least 50 times of its GDP in 2010.²¹⁹

- g) There is a race going on in the Middle East – an arms race, Saudi Arabia leaps in a decade from \$18 billion to \$30 billion, Iran from \$3 billion to \$10 billion, Israel from \$8 billion to \$12 billion – and this was in the times before the dollar began to slide. As a region, it registered the highest increase in the world in the decade ending 2006, closely followed by the United States, which is extensively involved in the Middle East in any case.²²⁰

According to Collier and Hoeffler, a typical civil war in a developing country, not to mention between states, costs at least US\$64 billion dollars. This exceeded the annual global Official Development Assistance in 2004, a significant part of which was committed to post-conflict reconstruction. Secondly, economic activity is inhibited by high transaction costs associated with weak security of person and property. Private investment falls and is distorted away from employment-generating activities towards quick turnaround activities. This is the natural consequence of uncertainty; risk greatly increases even over a short period of time. Both rich and poor countries bear the cost of conflict whether through increased homeland security, destruction of productive assets or the loss of markets that international businesses could have had to invest in.²²¹

As study found that as national and regional economies become more dependent, and affected by events that occur in any corner of the globe. The Institute for Economics and Peace and in conjunction with the Economists for Peace and Security has released an insightful study which assesses the impact of lost peace on the world economy at 7.2 trillion dollars (US\$7,200,000,000) annually. Over a ten year period this adds up to US\$72 trillion.²²²

A TWO-STATE OR A ONE-STATE SOLUTION

At the core of the Arab-Israeli Conflict is the Israeli-Palestinian Conflict. Any resolution to remedy the core issue entails difficult decisions and serious sacrifices that would need to be made by the parties involved. It is also imperative to note that at the heart of the conflicts, the issue is not a conflict between Jews and Muslims – it is a territorial issue, it is about historical territorial homeland for both Jews and Palestinian.

Since the beginning of peace talks, a Two-State solution has become the principal vision in Israel-Palestinian official discussions: This option was the basis of The Madrid Conference (1991), the Oslo Accords (1993), the Interim Agreement (1995), the Hebron Protocol (1997), the Wye River Memorandum (1998), and the Road Map (2002). But, these agreements were rejected by various factions on the Palestinian side and view with caution and reservations by Israelis. As a result, the Oslo Accords were never fully adopted and implemented by both sides, regardless of future economic incentives and speculations.

²¹⁹ *ibid*

²²⁰ *ibid*

²²¹ Global Peace Index, Peace and Sustainability: Cornerstone to survival in the 21st century, May 2007

²²² Institute for Economics & Peace, Peace, Its Causes and Economic Value, 2009

Israel sought-out economic agreements with economies outside the Middle East region as a result of decades of an imposed boycott by Arab states. The exceptions are those states with which peace agreements have been signed and few states which Israel has established limited economic trade. On the other hand, the fragmented Palestinian economy has been carved as a result of the occupation and its dependence on foreign aid and the full control by Israel. Therefore, it would be impossible on paper or in theory for a Palestinian economy to be sustainable while the economic engine is fragmented.

Since 2003, there has been renewed interest in the old view of a bi-nationalism state by a greater number of intellectuals outside the Israeli-Palestinian region and some on the regional ground.

During the occupation Israel has derived enormous gains. These gains include Palestinian water, a captive export market, a cheap labor pool, prime agricultural land and...the free rent derived from it, tax revenues far in excess in occupation costs, and the large foreign exchange flows from Palestinian remittances...under occupation the West Bank and Gaza were forced into an economic union with Israel.²²³

A One-State solution would require Israel to make the Palestinians full citizens of Israel with equal democratic rights and values. It would require the Palestinians to surrender their long-cherished dream of an independent Palestine state.

Peace in the Middle East will be secured only when it takes root in the everyday lives of people in the region. In addition to securing the appropriate political agreements, securing peace requires establishing a hospitable environment for economic development that will only materialize if peace brings open economic relations and development of the people and countries of the region. All in the context of a just resolution of the Palestinian question as the core issue of the Arab-Israeli Conflict.

CONCLUSION AND RECOMMENDATIONS

At the core of the Arab-Israeli conflict is the Israeli-Palestinian conflict. The lack of willingness and effort to remedy this regional problem lies in its complexity, as a result of the parties involved and their geo-political interest and the interest in dominating oil resources. It is imperative to note that the conflict does not stem from and has never been a religious issue, the issue is about territory and territory alone.

The roots of the conflict are foreign to the region but acknowledge must be made to the fact that all the parties involved in the conflict are there to stay; and that given the vast energy resources that form the backbone of western economies; their influence and involvement in the Middle East has been and its of paramount importance, and they play a pivotal role in economic challenges of the region, and the final outcome of the conflict. Particularly because the conflict has morphed into other regions wearing different masks, but the end source is the Israeli-Palestinian conflict.

If there is one thing that we can learn from history, it is that vast amounts

²²³ Kubursi, Atif A., Prospect for Arab Economic Integration, After Oslo

of resources are needed to maintain a conflict, and that the opportunities lost and figures could only end-up as statistical figures instead of maximized opportunities. The Middle East region is in dire need of an economic consolidation of local and regional economic blocs, which would be capable of addressing the challenges of the next century, with the strategy of placing the Middle East region on the road to parity with world's economies.

As for the future of the peace between Israeli and Palestinians, a two-state solution would be impossible to create and maintain. Both Jews and Arabs have lived side-by-side for millennia. Today they have the opportunity to do the same under tent of a one-state solution. The history of both peoples has been intertwined, prior to the Ottoman Empire and presently. From a bird eye view of the contested territory and the interlocking of the respective economies, we can see that the web of a one-state solution already exists and that what is needed is the political will and mutual acceptance under democratic principals, values, and pragmatism to fully realize the available opportunities for the embitterment of both historical peoples.

SAUDI ARABIAN DEVELOPMENT ASSISTANCE

INTRODUCTION

This paper will discuss a relatively new form of investment, development assistance. What is development assistance? Does it benefit its recipients? A corollary question would be: Should donor countries continue to fund development?

According to Ellerman and Hirschmann, in their book, “Helping People to Help Themselves: From the World Bank to an Alternative Philosophy of Development Assistance”, the forerunner of development aid, such as the World Bank has championed, was the Marshall Plan of the United States. It is interesting to note that the main theme of this paper will be, that development aid, for all its good intent, does not always benefit its recipient as it should. There are certain conditionalities to ensure that development assistance will work, although such is not guaranteed. These conditions re-enforce the position of being for development assistance, despite all the arguments against it.

Saudi Arabia has generously shared the bounty of its oil wealth. Although Saudi citizens are proud of this philanthropy, many are also skeptical if it has really benefited its recipients in a sustainable manner. Over the decades, Saudi Arabia has funded, assisted, aided, many other countries, both bilaterally and multilaterally. Billions of dollars in development aid and humanitarian assistance had been dispatched by the Saudi Arabian Government, in various forms, such as loans, grants and contributions.

Such aid or assistance had been channeled through governments and their economic funding arms, international organizations, development banks, regional organizations, inter-state oil organizations, non-governmental organizations, and the United Nations and its agencies. This paper will only focus on the development aid funded by the Saudi Fund for Development (SFD) and the Saudi Arabian Government, channeled through the United Nations and its agencies, with a focus on the United Nations Relief and Works Agencies to Palestine Refugees in the Near East (UNRWA), in an attempt to answer the question posed in this paper: Does development assistance benefit its recipient?

An affirmative position on the matter goes back to the “Eureka moment” shared with Messrs. Ellerman and Hirschmann, because it brings it to another level: *“The best kind of help to others, whenever possible, is indirect, and consists in such modifications of the conditions of life, of the general level of subsistence, as enables them independently to help themselves.”*²²⁴

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

“Official Development Assistance is defined as those flows to developing countries in the DAC list of the ODA Recipients and to multilateral development institutions which are provided by official agencies, including state and local governments, or by their executive agencies, and each transaction is administered

²²⁴ David Ellerman and Albert O. Hirschmann, “Helping People to Help Themselves: From the World Bank to An Alternative of Development Assistance”, Foreword, p. xvii.

with the promotion of the economic development and welfare of developing countries as their main objective, and is concessional in character and contains a grant element of at least 25% (calculated at a rate of discount of 10% per annum).²²⁵

Flow Channels of ODA

“Multilateral ODA are multilateral contributions made by a donor to a recipient institution which conducts all or part of its activities in favor of development, in an international agency, institution or organization, whose members are governments or a fund managed autonomously by such an agency; or pools contributions so that they lose their identity and become an integral part of its financial assets. Recipient institutions are multilateral agencies such as UN agencies, EC, development agencies, IDA, GEF, Regional Development Banks etc. Bilateral ODA are bilateral transactions that are undertaken by a donor country directly with an aid recipient. They also include transactions with national and international non-government organizations active in development and other internal development-related transactions such as interest subsidies, spending on promotion of development awareness and administrative costs. Bilateral ODA includes projects and programme aid, technical cooperation, development aid, debt relief and humanitarian aid.”²²⁵

Bases of Arab/ Islamic Multilateral ODA

For a more focused definition of ODA, there is a need to qualify, that in addition to all of the above, Saudi ODA is characterized by regionalism, such as those administered through the Cooperation Council of the Arab States of the Gulf (GCC), Islamic cooperation, exemplified by the Islamic Development Bank (IDB), Arab cooperation exemplified by the Arab Development Bank, oil-export based, such as those funded by the OPEC Fund for International Development (OFID), humanitarian, such as those channeled through the United Nations and its agencies like the Office of Humanitarian Affairs and Coordination of Emergency Relief Assistance (OCHA), World Food Programme (WFP) World Health Organization (WHO) and United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

According to Villanger and Espen’s Report, which examines Arab aid flows and aid policies, and contrasts them with the broad Western practice in these areas: “...it seems that Arab aid is different from Western aid in that it is used to promote Islam and build Arab solidarity....One feature of aid from the three major Arab donors, Saudi Arabia, Kuwait and the U.A.E., is that they give most of it (around 85 %) bilaterally, mostly in the form of loans, with a large share (about 50 % of national and multilateral Arab aid) going to Arab countries. This is not to say that the Arab multilaterals are not major financiers of development projects. On the contrary, Arab multilaterals have been built up over the years in such a manner that they are more important than the bilateral national aid agencies of the Arab countries. However, most of the Arab bilateral aid is channelled through their Ministries of Finance and is not open to public scrutiny; hence, the Ministry of Finance in each of the Arab donor countries seems to be the most important aid

²²⁵ Global Finance and Concessionaire Partnerships, Glossary of Terms and ODA, World Bank, www.worldbank.org.

institution in the Arab region. Another feature is that while Arab aid has been very generous, it has also been very volatile – due both to the volatility of Arab countries' revenue from their oil and gas exports and to their strategic use of aid to support their foreign policies. On the latter issue, much aid has gone to build and maintain allies in the Arab world and to reward supporters during military conflicts (Iran-Iraq war, the 1991 Iraqi invasion of Kuwait). This is the same motive for giving aid as is found for much Western aid. Other motives important to Arab donors seems to be to support their own commercial interests; similarly, Western donors have a long history of pursuing tied aid and giving more aid to countries that are major importers of that donor country's goods. Finally, Arab aid seems to go partly to Islamic countries, and coupled with the large flow of non-official aid into promoting Islam, it seems as though such religious aims are important to Arab donors. Arab donors have not participated in the aid policy debate that has been so important to Western donors. This probably reflects the Arab view that recipient countries should be allowed to choose their own development path and not be obstructed by “imperialist” ideas from donor countries. The Arab donors thus have a long history of policy dialogue with recipient countries that Western countries can learn from if they are in fact interested in building partnerships with recipient countries.”²²⁶

THE SAUDI FUND FOR DEVELOPMENT (SFD)

Objectives/Mission

Since its inception, the Saudi Fund for Development has played a prominent role in extending development loans to developing countries to support their efforts at boosting their economies and help many developing countries to achieve further socio-economic development. Since the start of its financing activity in 1975, up to the end of 2008, there was an increase in the total amount of aid, which was directed at the financing of 430 development projects and economic programs. The beneficiaries worldwide include: 42 in Africa, 26 in Asia, and five in other regions.²²⁷ “The terms under which the SDF provides loans formulated to provide recipients with the greatest possible help are;

- the loans are without conditions
- repayment terms are generous (up to 50 years with a 10-year grace period)
- the outright grant component of such loans can amount to 60% of the total
- the cost of loans is generally 1% only”²²⁸

Saudi Arabian Government Contributions

The Government of the Kingdom of Saudi Arabia has been a major donor of aid and assistance to the United Nations and its Agencies, as well as to other International Organizations. It is a member of the G20, being one of the twenty (20) largest contributors to the United Nations. These assistance in the form

²²⁶ *ibid.*

²²⁷ Villanger and Espen, “Arab Foreign Aid: Disbursement Patterns, Aid Policies and Motives, CMI Collection, Abstract, <http://hdl.handle.net/10202/19>.

²²⁸ *ibid.*

of financial and other contributions, either voluntary or assessed are disbursed via Saudi Arabian Monetary Agency checks, authorized by the Saudi Ministry of Finance, or directly transferred to the accounts of these UN agencies, as requested. Pledging conferences are held and communications requesting for such contributions and assistance are sent as reminders to the Saudi Government, usually on an annual basis. They are coursed through the Saudi Arabian Permanent Missions to the United Nations, in New York, Vienna, or Geneva, or directly to the Saudi Government Ministry of Foreign Affairs and Ministry of Finance, by the Resident Representatives of the UN and its agencies and other international organizations in Riyadh.

Among the recipients are the World Food Programme, for food assistance, the World Health Organization, for health related issues, the UN High Commission for Refugees, for conflict-induced displacement, the UN Office for Humanitarian Affairs and Emergency Relief Coordination, for natural disaster victims and the UN Relief Agency for Palestine Refugees in the Near East (UNRWA), an important Arab issue: the Palestinian problem.

UNRWA PROJECTS

Saudi Arabian contribution from all funding categories to the UNRWA are:

- Saudi Committee (Ranked #19) totaling US\$ 5,999,977
- OPEC Fund for International Development (OFID) (Ranked #16) totaling US\$8,000,000. See Annex 3.²²⁹
- Saudi Arabian Government contributes annually US\$39,569 (for the red crescent)
- Pledges: US\$25 million for the reconstruction of the Bahr el-Bared Camp in Lebanon (Record Pledge in 2009, second only to Kuwait)²³⁰

As for the top 15 Non-State Donors to UNRWA in 2008, OPEC Fund for International Development (of which Saudi Arabia is a member) ranked 2nd, next only to the United Nations and the Saudi Committee ranked third, next only to OFID. See Annex 4.²³¹

ANALYSIS OF DEVELOPMENT ASSISTANCE

One cannot deny the benefits development assistance renders to UNRWA and the ultimate recipients, the refugees in the camps. For matters of simplification of data and as an exemplification, this paper discusses the Nahr el-Bared Camp in Lebanon, to which H.R.H Prince Naif Bin Abdulaziz Al-Saud, Deputy Second Prime Minister and Minister of the Interior, pledged US\$25 million in 2009. The UNRWA Budget Appeal for this particular intervention is as follows:

NAHR EL-BARED CAMP (UNRWA)

In the Nahr el-Bared camp, certain objectives of funding are targeted, and indeed, it includes provision for Education and Training. The first three clusters as shown in their Budget Summary, food, shelter, health and protection are basic

²²⁹ UNRWA Budget Summary, Public Information Office, www.unrwa.org.

²³⁰ UNRWA Donors, Arab Donors Unite Update, Issue 2 Oct 2009-Feb 2010, www.unrwa.org.

²³¹ Record Arab Pledges 2009, UNRWA News Update, p. 2, www.unrwa.org.

needs which if given as freebies, year in and year out for decades, leads to a level of entitlement on the part of the beneficiaries, fostering dependency. It is true even of rich industrialized nations, with highly advanced social security systems in place. This needs to be avoided, however, especially because the funding comes from donations and not from social security contributions, as is the case for the latter. Certainly, oil-wealth is not guaranteed, it is not sustainable. And moreover, countries like Saudi Arabia are beginning to experience their own economic ills: unemployment, unstable and dwindling oil prices. Even the United States is now facing the probability of dwindling social security funds and are in danger of encountering their own funding shortages. As for the United Nations, a major funding source, it is merely dependent on the generosity of member states.

Education and Training provisions are therefore key to preventing dependency as it provides sustainability for the one constant factor in this funding equation, human labor. The Nahr el-Bared Budget in its Emergency Appeal states that:

Education Aims

To guarantee access to adequate education services and safe facilities for all students and to mitigate the impact of the crisis on their behavior and learning abilities through:

- To support provision of schooling for approximately 5,000 refugee pupils from NBC, ensuring the same level of support as existed pre-crisis.
- To enable 300 displaced Baccalaureate graduates to continue their studies at universities through provision of financial grants.
- To maintain psycho-social support services for pupils and those who have returned to the adjacent areas.

a. Basic Schooling

Through this appeal, UNRWA will support the continued delivery of basic education services to around 5,000 refugee pupils displaced from NBC as a result of the conflict in 2007. Activities will run for the 2008-2009 school year and the first four months of the 2009-2010 year.

Since the start of the crisis, UNRWA has maintained education services for displaced refugees through a range of interventions, including rental of temporary premises, construction of pre-fabricated buildings and integration pupils into existing schools. The Agency continues to adapt its response to needs and locations of displaced students, to ensure minimal disruption to the education process.

Based on current planning projections, at the start of the 2008-2009 school year UNRWA estimates that around 3,800 displaced pupils will be housed in five pre-fabricated schools in adjacent areas and Beddawi camp, with 800 in second shifts at Agency schools in Beddawi and the remaining 400 in UNRWA schools in other parts of the country.

Funding under this Appeal will cover the ground rental and maintenance costs of the pre-fabricated schools in northern Lebanon, as well as the installation of heat insulation and toilet blocks for these structures. UNRWA will also construct three computer labs at the pre-fabricated schools and pay for replacement furniture and equipment, which has been damaged by overuse. To support continued high enrolment and attendance levels and in light of the

continued hardship of affected families, the Agency will waive voluntary contributions for displaced pupils, which average around US\$ 11 per pupil per year, and also provide uniforms, bags and stationary. Transport will be provided, to ensure that displaced pupils and teachers are able to reach their schools. UNRWA is also seeking to continue remedial education and recreational activities for poorly performing pupils during the 2009 summer vacation. Vocational and technical training initiatives introduced under the previous appeal will be maintained and expanded using other sources of funding and are therefore not budgeted under this appeal.

b. University assistance

UNRWA will provide financial support to successful Baccalaureate II students from NBC who wish to continue their studies in universities in Lebanon and who do not have the financial means to cover the cost of tuition. Based on the experience of the *Emergency* and *Flash Appeals*, the Agency estimates that 00 students will qualify for such assistance, including 100 students who received support during the 2007-2008 year and are now seeking to continue their studies, and a further 200 students who will matriculate in 2008 and 2009.

c. Psycho-social support

Continued support is required to enable refugee children and youth to cope with the trauma of the conflict and the protracted displacement and upheaval. UNRWA is seeking to maintain psycho-social support interventions introduced as part of the previous emergency appeal. The Agency will maintain the services of 20 counselors, for whom funding is secured until the start of the 2009-2010 academic year, and will also continue to work with NGO partners. A range of targeted interventions will be provided, including: (i) guidance sessions in school, (ii) individual and group counseling, (iii) recreational activities; and (iv) awareness raising activities for teachers, parents and families. A referral mechanism will also remain in place to ensure specialised professional care is provided where necessary.

Despite the belief that Saudi funding of UNRWA benefits its recipients, several issues need to be dealt with.

Argument 1: Budgets are presented to gain funds.

One could argue that such data are prepared by UNRWA for funding purposes, therefore the figures could be magnified. The history and results of the UNRWA mandate in this area, nevertheless speaks for itself. The World Bank, states, international organizations, the United Nations, regional development organizations, non-governmental and all other donor funding of UNRWA camps, attest to their belief that UNRWA is performing its mission and is worth their funding. But if one looks at who the other members of the club are, certainly, the company is trustworthy. It is not just limited to Arab, Islamic, Middle East, oil exporter buddies of Saudi Arabia. It includes the European Community, the USA, other highly developed Western nations such as United Kingdom, Sweden, Norway, the Netherlands and Canada, who certainly are not in the habit of throwing money for unworthy causes. Additionally, the main argument that is presented for an affirmative position that the recipient benefits from development assistance, lies in the way the funds are allocated. This leads to another often recurring argument.

Argument 2: Funding has led to dependency on the part of recipients.

True, it sounds like a sensible outcome. Studies have shown, however, that this is not always the case. It could either benefit or not benefit its recipients. The World Bank can attest to this. One needs to avoid generalizations in making such statements, and this is why a more objective way is to look at how funding has been spent in particular cases.

Argument 3: The camps are replicas of prisons and are breeding grounds for terrorist activities.

Certain instances of alleged infiltration of terrorist Fatah elements of Nahr el-Bared camp occurred in 2007.²³² Allegations of the “fugitive vs. refugee” nature of camp inhabitants circulated in the media. Once again, it could be that such infiltration has occurred, but certainly unfair to state that it is a breeding ground for terrorism. Certainly also, these camps might replicate the conditions of prison, but only insofar as access to other areas of Palestine or Lebanon are hindered by the Lebanese Army, or the IDF, or the building of settlements, such as what also occurred in the West Bank and Gaza.

Furthermore, the conditions of poverty, lack of sanitation and water and health facilities might exist, but the issue of prison-like conditions is one of freedom of movement, and not poverty. The latter is precisely a targeted area of the UNRWA. Certain security measures of identification had been put in place by the Lebanese Government and the PLO, to solve the issue of so-called terrorist infiltration. The Lebanese Government and the Palestine Liberation Organization (PLO) estimate that there are around 415,000 Palestinian refugees in Lebanon (Palestinian Human Rights Organization: 2002) and these are divided into 3 categories:

- *Refugees registered with UNRWA and the Lebanese authorities.* The number of Palestinian refugees in Lebanon registered with the UNRWA in June 2006 was 406,342 (about 10% of the population of Lebanon). They are Palestinians who had fled Palestine in 1948 ([UNRWA](#)).
- *Palestinian Refugees registered with the Lebanese authorities (non-registered Palestinian refugees).* There are Palestinian refugees registered with the Lebanese authorities but not with UNRWA and are estimated to number between 10,000 and 40,000, according to the European Union's Humanitarian Aid Office (ECHO) (Amnesty International, 2003). UNRWA states that the Lebanese Ministry of Interior has 'unofficially' informed it that these refugees number 13,000 (UNRWA, 'The Latest Developments in the Living Conditions of Palestine Refugees in Lebanon', 2006). Half of these refugees were registered by the Red Cross and later by the Lebanese Government, and are also 1948 refugees, while the rest were registered under the orders of former Interior Ministries in the period of 1969-1978 and are 1967 displaced persons.
- *Non-ID Palestinian refugees.* The number non-ID Palestinian refugees in Lebanon is subject to controversy: the International Federation for Human Rights (FIDH) in March 2003 issued a report estimating there to

²³² UNRWA Annual Emergency Appeal for Nahr el-Bared Camp, Ibid.

be 10,000 of them; the US Committee for Refugees estimated 16,000 (World Refugee Survey, 2003); and the Danish Refugee Council, who carried out a survey in 2005, estimated the number at 3,000 people.

These refugees moved to Lebanon in the 1970s after the events of Black September in Jordan or because of the civil war in Lebanon and did not consider it necessary at the time to register themselves. However, after the PLO political military infrastructure in Lebanon was disbanded and the redeployment of the Lebanese security over Lebanon, their lack of documentation became a prominent issue. These refugees are residing in Lebanon without papers, and thus cannot access education, work, health or travel etc. Some of these refugees are actually registered with UNRWA in other fields of operation (UNRWA, 'The Latest Developments in the Living Conditions of Palestine Refugees in Lebanon', 2006). UNRWA states that in view of the exceptionally difficult circumstances of Palestinian refugees in Lebanon, it provides services to all 3 categories of refugees.

However, these numbers do not accurately represent the number of Palestinian refugees in Lebanon, since many refugees registered with UNRWA are currently residing in other countries. It is estimated, that the number of Palestinian refugees actually residing in Lebanon to be around 250,000.²³³ⁱⁱ It is estimated that there may be around 100,000 Palestinian refugees from Lebanon who, since the 1980s, have emigrated to Arab Gulf countries and northern Europe, mainly to Germany, Denmark and Sweden. About 15,000 Palestinian refugees from Lebanon live in Sweden and 2,000 in Denmark.²³⁴

Argument 4: Fighting recurs and it is a hopeless economic situation.

Lebanon, states that the economic situation in Nahr el-bared is worst than what it was before the 2007 fighting.²³⁵ Rightly so, but as with all other conflict-induced emergencies, damage at all levels are inflicted. Any economic progress retrogresses or is lost, and such was the case for Nahr el-Bared, or all of Lebanon, for that matter, after the 2007 fighting. For me, this makes a stronger case for increased assistance, as long as sustainability is incorporated into the UNRWA strategy and objectives. The benefits were felt by the refugee recipients, at that particular occurrence of crisis-induced emergency, however short-lived. Another beginning is the hope this assistance gives, and it does not pose real burdens on the donors.

CONCLUSIONS AND RECOMMENDATIONS

This paper concludes, therefore, that: Yes, Saudi assistance has benefitted the UNRWA recipients, the Palestinian refugees. Inasmuch as redundancy is to be avoided, and since this paper has already presented a position in the above discussion, it is fitting and appropriate, however, to go back to Ellerman and Hirschmann's "Helping People to Help Themselves" where they talk about "autonomy respecting development assistance.", and "knowledge-based

²³³ Washington Post Article

²³⁴ Forced Migration Review, Issue 26, 2006, Nahr el-Bared search, www.google.com.

²³⁵ Ray Smith, "Nahr el-Bared's Recovery Hampered by Military Siege", Electronic Lebanon, <http://electronicintifada.net/v2/article11013.shtml>.

development assistance.” Certain conditionalities have to be met to assure success in donor-recipient relations. To quote:

- Assistance is a principal-agent relationship. (Donor-UNRWA)
- Need to begin from present institutions. (UN, UNRWA, WB, NGOs etc.)
- Need to see the world through the eyes of the victim (Palestinian refugees) vis-à-vis the Palestinian Governing Authority or Lebanon.
- Respect the autonomy of agent (UNRWA and refugee camps).
- Knowledge based development assistance (Education, Training and Jobs Creation for Economists).
- Need to create universal and local knowledge, as opposed to “unsustainable missionary outposts”
- Assistance to countries in transition need for human agency, as opposed to permanent mandates.”²³⁶

Economists, diplomats, politicians, international organizations, regional banks, developmental assistance donors can only do so much. Even the philosophy and methodology of Ellerman and Hirschmann can only suggest so much. To put it in layman’s terms, “*It is not enough to give a man a fish, it is better to teach him how to fish.*”²³⁷

²³⁶ Ellerman and Hirschmann, “Helping People to Help Themselves: From the World Bank to an Alternative Approach of Development Assistance” University of Michigan Press.

²³⁷ Chinese Proverb

THE ECONOMICS OF IRAN

INTRODUCTION

Iran's long and distinguished history, with major contributions to the civilization of the world, goes back to more than 9,000 years.²³⁸ Iran has been among the world's most thoughtful and complex civilizations from the very beginning, with its glory in literature and poetry finding few equals in other countries.²³⁹

Iran is the third most populous country in the Middle-East after Egypt and Turkey. It is commonly thought of as a homogenous nation with strong national culture even though its population of over 70 million²⁴⁰, includes minorities like Azaris, Gilakis, Mazandarani, Kurds, Baluchis, Arabs and Turkmen, which make up nearly half of that population.

In land area, Iran is the second largest Middle Eastern country after Saudi Arabia. It is bounded by the republics of Azerbaijan, Armenia, the Russian Federation, Turkmenistan, and Kazakhstan to the north; by Afghanistan and Pakistan to the east; by Turkey and Iraq to the west; and by Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates to the south. Perhaps, no other country in the world finds itself surrounded by as many nations.

It is apparent that Iran's geo-strategic location in the region places extraordinary pressures for adeptness in domestic and foreign affairs on the shoulders of its government leaders.²⁴¹

OIL AND GAS POTENTIAL

Iran's economy relies heavily on oil export; petro-revenues account for around 80%²⁴² of total export earnings and 40%²⁴³ of the government budget. Strong oil prices over the past few years have boosted Iran's oil export revenue and helped Iran's economic outlook by accruing foreign exchange reserves, mostly 80% from crude oil exports²⁴⁴. Its petro-production and exports have enabled Iran to become the 17th largest economy in the world.²⁴⁵

Iran has long been an important player in world oil markets. With an estimated 138 billion barrels or approximately 10% of the world's proven oil reserves, Iran stands in third place behind Saudi Arabia and Canada respectively.

As the second producer of oil among the members of the Organization of Petroleum Exporting Countries (OPEC), Iran produces about 4 million barrels of oil per day, equal to 5% of total global production.

As the fourth largest exporter of crude oil globally after Saudi Arabia, Russia, and the United Arab Emirates, Iran exported approximately 2.9 million

²³⁸ http://en.wikipedia.org/wiki/History_of_iran

²³⁹ A history of Iran, Empire of the Mind, by Michael Axworthy, copyright 2008,

²⁴⁰ Official Website of Ministry of Foreign Affairs of Iran
(<http://www.mfa.gov.ir/cms/cms/Tehran/en/Tourism/>)

²⁴¹ <http://azadeganiran.com/GeoStrategic.asp>

²⁴² http://www.dfat.gov.au/geo/iran/iran_country_brief.html

²⁴³ Iran's Economic Conditions: US Policy Issues by Shayerah Ilias

²⁴⁴ <http://www.eia.doe.gov/emeu/cabs/Iran/Oil.html>

²⁴⁵ http://en.wikipedia.org/wiki/Economy_of_Iran

bbl/d of oil, 2.6 million bbl/d of crude, and 300,000 bbl/d of products. Iran's net oil export revenues amounted to approximately \$73 billion.

Iran has the largest oil tanker fleet in the Middle East. The National Iranian Tanker Company holds 29 ships, including Very Large Crude Carriers. Kharg Island, the site of the vast majority of Iran's exports, has a crude storage capacity of 20 million barrels of oil and a loading capacity of 5 million bbl/d. Also the Gulf port of Lavan Island provides a storage capacity of 5 million barrels and loading capacity of 200,000 bbl/d. Other important terminals in the region include Kish Island, Abadan, Bandar Mahshar, and Neka.

Iran has an expansive domestic oil network including 5 pipelines, and multiple international pipeline projects under consideration. Iran has invested in its import capacity at the Caspian port to handle increased product shipments from Russia and Azerbaijan, and enable crude swaps with Turkmenistan and Kazakhstan. In the case of crude swaps, the oil from the Caspian is consumed domestically in Iran, and an equivalent amount of oil is produced for export through the Persian Gulf for a swap fee.⁸

Iran's estimated proven natural gas reserves stand at 1,045 trillion cubic feet (tcf), second only to Russia, making up 15%²⁴⁶ ²⁴⁷of the world's gas reserves. Over two-thirds of Iranian natural gas reserves have not been developed yet. Despite its vast gas resources, Iran has been unable to become a major international gas exporter. In 2008, Iran produced an estimated 4.1 tcf of natural gas and consumed an estimated 4.2 tcf; the difference being made up by imports from Turkmenistan. Both production and consumption of natural gas have grown rapidly over the past 20 years, and natural gas is often used for re-injection into mature oilfields in Iran. In 2008, roughly 70 percent of Iranian natural gas was marketed production, approximately 16 percent was for enhanced oil recovery gas re-injection, and shrinkage, loss, and flaring accounted for about 14 percent. As with the oil industry, natural gas prices in Iran are heavily subsidized by the government.²⁴⁸

While the oil and gas sector in Iran is heavily state-dominated, Iran is engaging in serious efforts to privatize nearly 50 state-run oil and gas companies. Both domestic and foreign investors would be able to buy shares.

REFINERIES

Despite Iran's third largest global oil reserves, the country must import a sizable share of its gasoline supply in order to meet domestic consumption needs. In 2009, Iran's total refinery capacity was only about 1.5 million barrels a day, still unable to keep up the pace with its domestic demand; the country was forced to import approximately 162,500 barrels daily.

Fuel subsidies, which reduce financial incentives to build new refinery capacity, are not only a burden to the government, but also to downstream operations. Oil imports coupled with the subsidy programs, are a heavy drain on a state budget that relies on oil sales for almost 80 percent of its revenues.

²⁴⁶ http://www.atimes.com/atimes/Middle_East/HE09Ak02.html

²⁴⁷ <http://www.payvand.com/news/10/feb/1055.html>

²⁴⁸ <http://www.eia.doe.gov/emeu/cabs/Iran/NaturalGas.html>

Sanctions have also led to limited technology transfers, higher operating costs, and a much slower pace of development in Iran. But the multi-fold increase in crude oil prices over the last few years has provided the government with the financial wherewithal not only to continue operating these refineries but also to add to capacity and to upgrade them.

Iran has discussed joint ventures in Asia, including China, Indonesia, Malaysia, and Singapore to expand refining capacity. It has embarked on a multi-billion dollar, five-year program to revamp and expand its own refining system to 3.3 million barrels per day by 2014. Increases through expansions at existing refineries as well as planned grass-root refinery construction, could eliminate the need for imports.

STRATEGIC LOCATION

Iran is a geographic and economic epicenter linking the Middle East to South Asia, while bridging the central Caucasus to the Persian Gulf, thus connecting two important centers of energy: the Caspian Sea and the Persian Gulf. Its strategic location puts it astride the route for oil exports directly from the Persian Gulf as well as through oil swaps for Caspian Sea oil.

At the same time, Iran's geostrategic position and its status as the world's second largest holder of natural gas reserves make it a potential major player in the race to market the region's burgeoning gas resources.

The overarching significance of oil in the global economy and the concomitant rise of nationalism and religious particularism has vividly added to Iran's importance, not only as a passive link, but also as a key player and arbiter of events in the entire region.

THE STRAIT OF HORMUZ

The Strait of Hormuz, on the southeastern coast of Iran, is an important route for oil exports from Iran and other Persian Gulf countries. At its narrowest point the Strait of Hormuz is 21 miles wide, yet an estimated 17 million barrels in the first half of 2008 or roughly 40 % of all seaborne traded oil, flows through the Strait daily.

Iran's coastline is particularly important because tanker and shipping routes pass so close to Iran's land mass, to the islands it controls in the Gulf, and to its major naval bases.

Abu Musa, the Greater Tunb and the Lesser Tunb are three small but strategically important islands located along the narrow route through the Gulf into the Strait of Hormuz and out into the Gulf of Oman. Having control over the three islands in the Strait of Hormuz provided staging grounds for Iran to safeguard its security, economic and strategic interests in the Gulf. After the British withdrawal from the Gulf in the early 1970s, Iran assumed sovereignty over the islands but there have been significant territorial disputes between Iran and the United Arab Emirates (UAE) over the ownership of these islands.

EDUCATION

Iran has a major potential in educated youth. "More than 77% or 51 million Iranians aged 15 and above can read and write and a significant majority of

this population is at or approaching collegiate levels.”²⁴⁹ There are currently 20 million at school and 2 million in universities. According to the Human Development Report of 2009, the public expenditure on education as a percentage of the total government expenditure is estimated at 19.5 %.

PRIVATIZATION

After the 1979 revolution, the bulk of private sector companies, including commercial banks, were taken over by state and quasi-state institutions. Foreign participation in Iran’s economy was prohibited. The government controls more than 80% of the economy, a figure more or less consistent for the past 30 years.

After the end of Iran-Iraq war, the government decided to privatize most state owned industries to stimulate the ailing economy. The effort, however, did not properly materialize and most industries remained state owned. The majority of heavy industry, including steel, petrochemicals, copper, automobiles, and machine tools, was in the public sector, while most light industry was privately owned.

In an effort toward more private sector development, Iran began a major privatization initiative in July 2006. It allowed issuances of up to 80% of shares in strategic industries through the stock market, including downstream oil sector businesses, banks, insurance, utilities, and transportation. Iran is also working to privatize state-run oil and gas companies.

During all these years, the authorities have missed an important fact: a successful privatization without a free market system is impossible. Iran has a command economic system based on central planning that has greatly intensified recently. Simply put, the system has been the major obstacle to a thriving private sector. A successful privatization plan requires a comprehensive macroeconomic reform and adoption of proper macro and micro economic policies.

FOREIGN INVESTMENT

As the most populous country in the Middle-East and with vast natural resources, Iran potentially has a significant market for foreign businesses. In the early 2000s the government of Iran liberalized investment regulations and foreign investors have concentrated their activities only in a few sectors of the economy like the oil and gas industries, vehicle manufacture, copper mining, petrochemicals, foods, and pharmaceuticals. Stringent domestic regulatory environments, government reluctance to allow Foreign Direct Investment (FDI), political uncertainty and international sanctions have contributed to low levels of FDI. For instance, Iran attracted just \$ 754 million in FDI in 2007 and \$ 317 million in 2006. That total of \$ 1,071 billion over two years comprises one-third of 1 percent of all of the \$ 3.2 trillion in FDI made around the world over the last two years. In 2007, the flow of FDI into Iran stood at \$ 754 million, compared to FDI inflows of \$ 24.3 billion to Saudi Arabia, \$ 22.0 billion to Turkey, and \$ 11.6 billion to Egypt.²⁵⁰

UNEMPLOYMENT

The significant unemployment rate which currently stands at 11.8%, is one of the country’s biggest problems. Iran has a population of more than 70 million, two-thirds of which is under 30 years in age. According to official statistics,

²⁴⁹ http://en.wikipedia.org/wiki/Iran%27s_brain_drain

²⁵⁰ Iran’s economic conditions: U.S. Policy Issues by Shayah Illias, June 15, 2009

of the 270,000 university graduates entering the labour market each year, only 75,000 can find jobs.

Population growth, decline in GDP, the fall in oil revenue, the inadequate atmosphere for trade and business, the absence of labor investment, the increase of imported goods, the illegal foreign workers and the current world recession are the main factors behind the unemployment in Iran.

BRAIN DRAIN

Migration of educated and skillful population from Iran harms the development process of the country. Today, Iran suffers a major loss of intellectuals, scientists, medical doctors, and academic elites.

According to the International Monetary Fund, Iran has the highest rate of brain drain among 61 developing and less developed countries it measured. More than 150,000²⁵¹ Iranians leave the country every year, and an estimated 25% of all Iranians with post-secondary education now live abroad in developed countries.^{252 253}

Numerous factors such as economic instability, low level of salaries, unemployment and underemployment, tight domestic job market, intense competition for universities, political structure, lack of democracy and basic social freedoms, and existence of friends and families abroad, all contribute to the brain drain in Iran.

THE IRAN-IRAQ WAR

The Iran-Iraq war which was lasted nearly eight years (1980-1988) weakened the two strongest states of the region with no victory for either. Both countries suffered devastating losses of human, material and financial resources. After of years of fighting, the estimated number of dead ranges up to 1.5 million²⁵⁴, with several hundred thousand wounded, and whole cities destroyed. The economic loss of the war is estimated more than \$500 billion.²⁵⁵

Half of Iran's revenue was spent on arms imports in the mid-1980s. In order to dedicate half its budget to military expenditures, Iran was forced to reduce such essential imports as food, for which it spent about \$4 billion annually from 1983 to 1987. Rationing of essentials such as meat, rice, and dairy products after the beginning of the war resulted in long lines at shops and an active black market. Sometimes the need occurred, as in the spring of 1987, to add nonfood consumer items to the rationing list. These austerity measures gave rise to the possibility of political instability.

Because of the war, trade had to be rerouted through the Soviet Union and Turkey, which increased transportation costs. The war also caused Iran to deplete its foreign reserves and to depend on foreign suppliers for needed goods. Military equipment accounted for about 25 percent of total imports by the mid-1980s, and the budget for FY 1987 showed that funds for the war exceeded

²⁵¹ <http://www.middleeastexplorer.com/Iran/Irans-brain-drain>

²⁵² <http://hnn.us/blogs/entries/94725.html>

²⁵³ <http://politicalmavens.com/index.php/2009/06/25/in-iran-its-the-global-economy-stupid/>

²⁵⁴ <http://www.answers.com/topic/iran-iraq-war>

²⁵⁵ http://wapedia.mobi/en/Iran%E2%80%93Iraq_War

financial allocations to all other economic sectors. The total cost of the war from its beginning in 1980 until early 1987 was more than \$240 billion (based on a total of US\$200 billion by the end of 1984 and a cost of US\$20 billion for each year thereafter). If lost oil revenues were taken into account, the cost of the war through 1987 would be even higher.

STRONG ARMED FORCES

Armed Forces of Iran include the Islamic Republic of Iran Army (IRIA), Islamic Revolution Guards Corpse (IRGC) and the Police Force. These forces total about 545,000 active personnel (not including the Police Force).

The Iranian Military consists of the Islamic Republic of Iran Army, Islamic Republic of Iran Navy, Islamic Republic of Iran Air Force, and the Iranian Air Defense Force. The regular armed forces have an estimated 420,000 personnel: the Islamic Republic of Iran Army, 350,000 personnel; the Islamic Republic of Iran Navy, 18,000 personnel; and the Islamic Republic of Iran Air Force, 52,000 airmen. Iranian Air Defense Force is a branch split off from the IRIAF.

The Army of the Guardians of the Islamic Revolution, or Revolutionary Guards, has an estimated 125,000 personnel in five branches: Its own Navy, Air Force, and Ground Forces; and the Quds Force (Special Forces).

The Basij is a paramilitary volunteer force controlled by the Islamic Revolutionary Guards. Its membership is a matter of controversy. Iranian sources claim a membership of 12.6 million, including women, of which perhaps 3 million are combat capable. They claimed 2,500 battalions of which some are full-time personnel. Globalsecurity.org quotes a 2005 study by the Center for Strategic and International Studies estimating 90,000 active-duty full-time uniformed members, 300,000 reservists, and a total of 11 million men that can be mobilized if need be.

Iran's military was called the Middle East's most powerful by General John Abizaid chief of United States Central Command (U.S. forces' commander in the region). However General Abizaid said he did not include the Israel Defense Forces as they did not fall into his area of operations.

Iran's 2007 defense budget was estimated to be \$7.31 billion by London's International Institute for Strategic Studies. This was \$102 per capita, a lower figure than other Persian Gulf nations and lower as a percentage of gross national product than all other Persian Gulf states. (2.6% of GDP in 2007) This makes Iran's ranking the 25th largest defense expenditure globally. In 2010 the Iranian government put the security and defense budget at \$18 billion, 2.2% of GDP.²⁵⁶

NUCLEAR PROGRAM

Iran's nuclear program began in 1960s under the Shah but revolution of 1979 and Iran- Iraq war brought a halt to nuclear activities. Iran was known to be reviving its civilian nuclear programs during the 1990s, but revelations in 2002 and 2003 of clandestine research into fuel enrichment and conversion raised international concern that Iran's ambitions had metastasized beyond peaceful intent.

Today, Iran is openly developing nuclear power capability. They claim this is for peaceful energy purposes, but many are skeptical. And they have been

²⁵⁶ http://en.wikipedia.org/wiki/Armed_Forces_of_the_Islamic_Republic_of_Iran

purposefully provocative on whether or not they might use their nuclear capabilities to create weapons.

SANCTIONS

Before the Revolution with the Shah, the United States was Iran's foremost economic and military partner, thus participating greatly in the rapid modernization of its infrastructure and industry. After 1979 and subsequent hostage crisis, the United States froze about \$12 billion²⁵⁷ in Iranian assets, including bank deposits, gold and other properties.

President Bush, citing the "unusual and extraordinary threat" to U.S. national security posed by Iran, has continually renewed sanctions originally imposed in 1995 by President Clinton. The goals of US sanctions are to end Iran's support for militant groups such as Hamas and Hezbollah and prevent the development of weapons of mass destructions.

The 1995 executive orders prohibit U.S. companies and their foreign subsidiaries from conducting business with Iran, while banning any "contract for the financing of the development of petroleum resources located in Iran." In addition, the Iran and Libya Sanctions Act of 1996 (ILSA) imposed mandatory and discretionary sanctions on non-U.S. Companies investing more than \$20 million annually in the Iranian oil and natural gas sectors. However, unilateral US sanctions did not prevent Iran to continue trade with other countries, its oil wealth and natural gas reserves enabled Iran bolster its economy.

In 2006, at the behest of the United States and in response to Iran's failure to comply with International Atomic Energy Agency (IAEA) safeguards, the UN Security Council imposed multilateral sanctions. The council demanded that Iran suspend its uranium-enrichment activities and address IAEA concerns about possible military connections to its nuclear program. When Iran refused the UN demands, two subsequent rounds of sanctions were imposed in 2007 and in 2008. Recently, in an effort, the US seeks broader international support for a new round of UN sanctions designed to curtail Iran's atomic program.

Although sanctions have isolated Iran and affected its economy, slowed foreign investment particularly in petroleum sector, rising inflation, unemployment rate, difficulties obtaining trade finance and high cost of living, it seems that sanctions will not prevent Iran from pursuing its atomic activities.

CONCLUSION

Iran has long had a strong sense of identity, rich culture and an ancient civilization from which it takes inspiration. In terms of its economy, the resources are certainly available to sustain exponential growth and build infrastructure. Petroleum constitutes the country's main source of foreign exchange earnings. The future level of these earnings will depend on the price of oil, demand for Iranian oil exports in the world market, Iran's oil production capability, the country's domestic consumption and Iranian gas production and exports.

Iran's combined oil and gas reserves are probably the highest in the world. Oil reserves are estimated 137.62 billion barrels which is approximately 10% of the

²⁵⁷ http://en.wikipedia.org/wiki/U.S._sanctions_against_Iran

world's total proven petroleum reserves. This allows the country to produce more than 4 million barrels per day for over 95 years.²⁵⁸

As the modern civilization is highly dependent on oil and the rapid growth in global demand fed by voracious new users in China and India, made Iran an important player in the world global markets. Thus, any move by Iran to cut off or curtail its oil exports would quickly translate into higher oil prices or pose a very real and immediate threat to the world economy. Steven Mufson Washington Post Staff Writer in an article dated May 19, 2006 defines Iran's oil as weapon and says "Many believe that Iran's oil weapon could prove more useful than any nuclear weapon it might develop. Using the oil weapon, by trimming exports to jack up oil prices and holding the world economy hostage, could bring influence, concessions and, if handled adroitly, tens of billions of dollars in extra revenue without any direct military conflict."²⁵⁹

Iran is ranked second in the world in view of its natural gas reserves, after Russia. Its gas reserves estimated 1,045 tcf, making up 15% of the world's reserves. At present, Iran is producing only a small share of its gas reserves, about 5.5 tcf per year. This means that Iran is one of the few countries capable of supplying much larger amounts of natural gas in the future. Iran still has huge potential for new significant gas discoveries in areas like Caspian Sea, North East, Central Kavir and especially areas starting from Aghar and Dalan gas fields in Fars province up to the Strait of Hormuz and Central Persian Gulf have considerable amount of undiscovered gas resources. Besides this, Iran has large mineral deposits and considerable amount of forest wealth, in addition to zinc, lead, chromite, iron ore, copper, red oxide and manganese, nickel, cobalt, tungsten, uranium, gold and silver.

Iran possesses the major attributes of a regional power in West Asia by virtue of its geo-strategic location, larger size and human resources. Iran's geo-strategic location is a potential asset which connects the resources of the Persian Gulf countries with those of the Caspian Sea region and Russia. Easily access to markets in the Far East and Europe from the Persian Gulf is an additional advantage. Iran significantly shares borders with the Central Asian Republics Region.

Against all these enviable potentials, there remain a number of major challenges that have to be addressed if Iran would like to benefit from these advantages. Iran, with a plethora of natural resources, a geostrategic advantage, and a transitory youth bulge, has the potential to become a regional economic powerhouse, but foreign policy and the domestic economic system threaten the very underpinnings of economic development.

The future of the republic will depend on three factors: foreign investment; the rectification of the nuclear issue; and government initiative to implement needed economic reforms and promotion of a private sector.

For the past several years, Iran has been under pressure of the international community particularly, the United States and Europe over its nuclear program. It is imperative for Iran to redefine its outlook in line with regional and

²⁵⁸ http://en.wikipedia.org/wiki/Oil_reserves

²⁵⁹ <http://www.washingtonpost.com/wp-dyn/content/article/2006/05/18/AR2006051802089.html>

international realities and sort out its differences with the United States and Europe to open the door to a constructive competition from all countries for inward investment, especially in the oil and gas industries which is country's engine of growth.

Iran's economic development is closely linked to its political system. Most economic activity is controlled by the state. Private sector activity is typically limited to small-scale workshops, farming, and services. Price controls, subsidies, and other rigidities weigh down the economy, undermining the potential for private-sector-led growth.

Also, questionable relations with the gulf countries have proven expensive; because of regional tension the republic has invested heavily in armed forces causing an economic drain. To ease tensions, Iran needs to take measures to assure its Gulf neighbors that it does not have any territorial or hegemonic intentions. That's not to say that Iran cannot wield its respective regional power, but the need for the republic to unequivocally assure neighbors' sovereignty is of huge political and economic significance. External aspects are exacerbating Iran's path to economic growth. The war with Iraq had severely damaged the economy of the country, creating stagnation, imbalance among sectors of the economy, shortages, insufficiencies and poverty. The war's drain on the state budget, the drop in oil prices, poor economic management, declining agricultural output, an estimated 1987 inflation rate of 30-50% and large budget deficits combined to put enormous strains on the economy of the country. In the face of these challenges, Iran over the past few decades, within the framework of revolution, initiated reforming the economy with the implementation of a series of five-year socio-economic development plans through restructuring and changing the policymaking environment to better address the economic interests of the country.

The Islamic republic set guidelines for an average growth rate of 8% (currently at 6.8%) and inflation rate of 12 % (currently 20.2%) for the country during 2010-2015. On the basis of the plan, Iran aims for boosting the private sector's role in national economic growth and increasing cooperative sector's share to 25% in economic activities. The plan also stipulates for reducing the unemployment rate to 7% in 2015 through creating an average 990,000²⁶⁰ jobs annually.

²⁶⁰ Tehran times 14 Sep 2009, Interview of IRIB with Mohammad-Qasem Hosseini, director of the Presidential Office for Strategic Planning and Supervision Affairs

THE ECONOMY OF YEMEN

INTRODUCTION

Economically Yemen is one of the poorest countries in the Arab world. This is despite its natural resources, which include oil, gas, and abundant tourism attractions. Yemen's economic problems are due to a number of reasons including economic mismanagement, high population growth rates, and lack of security, lack of water, unification costs and external debt. The Yemeni government headed by its President Ali Abdallah Saleh has been making a visible effort to improve Yemen's economy and to some extent he has been successful.

Examples include falling population growth figures, focused efforts to fight anti-government insurgents and development of Yemen's gas industry with the recent \$2.5 billion project which will enable Yemeni gas exports to the US and South Korea. This is in addition to drafting of new investment friendly laws as means of attracting foreign investment in Yemen's economy. Foreign participation is also being encouraged with proposals to allow foreign companies to run Yemen's Aden container port. At the same time the Yemeni parliament has proposed a draft law, which aims to curb the use of illegal weapons in the country. This is an important step in government efforts to improve Yemen's security situation. Such improvement will have a positive impact on foreign investment in Yemen.

ISSUES AND PROBLEMS

Uncontrolled corruption is a prime obstacle to development in the country, limiting local reinvestments and driving away regional and international capital. The government has recently taken many measures to stamp out corruption, but efforts have been met with only partial success. Foreign investments remain largely concentrated around the nation's hydrocarbon industry.

Substantial Yemeni communities exist in many countries of the world, including Yemen's immediate neighbors on the Arabian Peninsula, Indonesia, Pakistan, the Horn of Africa, the United Kingdom, Israel, and the United States, especially in the area around Detroit, Michigan, and in Lackawanna, New York. Beginning in the mid-1950s, the Soviet Union and China provided large-scale assistance. For example, the Chinese are involved with the expansion of the International Airport in Sanaa.

In the south, pre-independence economic activity was overwhelmingly concentrated in the port city of Aden. The seaborne transit trade, which the port relied upon, collapsed with the closure of the Suez Canal and Britain's withdrawal from Aden in 1967.

Yemen's crumbling economy has created a fertile ground for the spread of extremism and the rise of withdrawal movements in the south and a Shiite rebellion in the north, officials and analysts have recently suggested. Economic problems in one of the poorest nations on earth have been aggravated by widespread corruption, social injustice and a steep decline in oil income, which makes up 70 percent of total state revenues. Mohammad al-Muthaimi has suggested that Yemen's deteriorating economy is the main driving force behind events in the country, including the spread of Al-Qaeda. He suggested that the terrorism and extremism market in Yemen is successful with the Al-Qaeda network attracting

desperate, unemployed young men.

Sixty-five percent of young people are without job opportunities, and extremist organizations are exploiting the chance to recruit them by handing out much-needed money. Unemployment in Yemen's workforce of 6.5 million has jumped to 34 percent, while per capita income remains one of the lowest in the region at just above 1,000 dollars, according to official data, compared with more than 70,000 dollars in Gulf state Kahtar. The United Nations 2008 Arab Human Development Report said poverty affects 59 percent of Yemen's 24-million-population, while according to International Monetary Fund reports and government data 45.2 percent of Yemenis live below the poverty line.²⁶¹ Saudi analyst Anwar Eshki suggests that slumping economy is certainly contributing to the rise of Al-Qaeda and rebel movements. Corruption is another key problem. Both these factors make foreign assistance and investments difficult to come by social injustice within parts of Yemen and internal tribal feuds are also helping Al-Qaeda in Yemen, which is under pressure in Afghanistan and Pakistan.

The decline in oil income has had an influence on all conditions from the viewpoint of the economy, finance and security, suggested presidential office head and chairman of Yemen's National Security Agency Ali Muhammad al-Anisi. He further argues that, this creates a fertile environment conducive to the spread of extremist ideas and an increase in criminal and terrorist acts. Oil production in Yemen has declined from around half a million barrels per day in 2000 to less than 300,000 bpd last year coupled by a sharp drop in oil prices from its peak of 147 dollars a barrel in the summer of 2008.

In addition, the country's already scarce crude oil reserves could be depleted in 10-12 years in the absence of any major new discoveries. The start of liquefied natural gas (LNG) exports in November gave Yemenis rare cause to celebrate. The 4.5-billion-dollar project is expected to boost economic development and generate between 30 and 40 billion dollars over the next 25 years.²⁶² However, the IMF said this would only partly compensate for the decline in oil revenues. Yemen faces considerable challenges in dealing with the transition to a non-oil economy, generating strong non-hydrocarbon economic growth, ensuring fiscal and external sustainability, and reducing poverty and unemployment.

Other major economic challenges include high inflation, down from 20 percent at the end of 2008 but still around 10 percent, and a continual budget loss despite the government's reform programme. The current account deficit stands at seven percent of Gross Domestic Product, estimated at 28 billion dollars, following a small surplus between 2002 and 2006, while foreign debt stands at six billion dollars.²⁶³

The government has turned to energy-rich Gulf Cooperation Council (GCC) states and the international community for help, which Muthaimi said has

²⁶¹ The United Nations "Human Development Report 2009: Yemen".

http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_YEM.html.

²⁶² "Yemen". International News Safety Institute.

http://www.newssafety.org/index.php?option=com_content&view=section&layout=blog&id=28&Itemid=100385.

²⁶³ *ibid*

been almost negligible, although Riyadh gave Sanaa 7.2 billion dollars in aid over the past 10 years.

Complicating Yemen's economic challenges is the fact that half of the population is under 15 and the same proportion is illiterate, with as many as 70 percent of women unable to read or write. Muthaimi suggests that funds to lure new recruits are sent from outside to the Yemeni branch of Al-Qaeda, which Eshki believes will be far more dangerous than in Afghanistan because of its proximity to Gulf oil resources and transportation lines.²⁶⁴

POSITIVE OPPORTUNITIES

Although currently Yemen may not be a top investment destination, nevertheless the country does offer opportunities that are worth exploring by foreign companies. Furthermore investment in the Yemeni economy will assist the Yemeni government's plans to improve the economic situation in the country as means of reducing terrorism and religious extremism. Therefore although Israeli companies are not allowed to invest in Yemen, it is the opinion of Meepas that other foreign companies should be made aware of potential investment opportunities there. This is in accordance to our opinion that fighting poverty and terrorism through economic development in the region is in the interest of all countries of the Middle East.

Subsequently the following analysis by Meepas will focus on the most promising sectors of the Yemeni economy for foreign investment.

Investment Policy

Yemen has streamlined its investment laws and procedures in an attempt to attract more foreign investment and permits foreign investment in most sectors. A new policy grants equal treatment to all investors, both domestic and foreign. However the following two conditions must be observed:

- Foreign investment in the exploration for and production of oil, gas, and minerals is subject to production-sharing agreements.
- Foreign investment is not permitted in the arms and explosive materials industries, banking and money exchange, industries that could cause environmental disasters, or wholesale and retail imports.

Oil Industry

Increasing production and efficiency at the country's present oil fields, plus finding new sources of oil are targets set by the Yemeni governments for the oil sector. According to the Energy Information Administration Website, the government of Yemen recently announced a 1-million-bbl/d-production target for 2006. In terms of strengths and advantages offered for investors wishing to invest in Yemen's oil industry, the following factors can be taken into consideration:

- Yemen's strategic location: Owing to Yemen's strategic location on the Red Sea and the Indian Ocean, Yemeni oil is easily accessible to the world's tankers. The country's strategic location also provides it with a comparative advantage over GCC oil exporters because oil export by those countries is influenced by the political and military

²⁶⁴ The United Nations "Human Development Report 2009: Yemen".
http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_YEM.html.

status of the countries, which surround the state of Hormuz waterway.

- Low production costs: According to sources in the oil industry, it costs \$1.70/bbl to produce oil in Yemen, while it costs \$3/bbl in Saudi Arabia and \$4/bbl in neighboring Sudan and \$10/bbl in the North Sea.

The reason behind the establishment of such targets is also due to oil being the country's biggest export and income earner. Earnings from oil are also to be used to finance the government's second five year plan and social projects such as improvement of the country's health and education system. Such targets are very important for the Yemeni government due to commitments made to the World Bank as part of the loan agreement.

It is also worth noting that Yemen is not a member of OPEC and is therefore not obliged or bound by any quotas in the export of oil. Therefore in time of high oil prices it can produce oil in accordance to its own best interests. Subsequently the Yemeni government is conducting a marketing campaign in order to encourage investment in the country's oil sector. Focusing on advantages offered by Yemen's oil reserves and strategic location, whilst emphasising the government's commitment to reduce associated risks such as lack of security, the Yemeni government hopes to attract the attention of oil company giants.

At the same time, according to oil industry sources, the Yemeni government is offering incentives to foreign companies wishing to invest in the country's oil industry such as:

- Lower signature bonuses
- An increase in the proportion of oil earnings that companies can claim for development cost recovery to between 50% and 70% (compared with a previous range of 25-45%)(Human Development Report 2009)
- Introduction of a sliding scale of 3-10% for royalties (compared with a previous flat fee of 10%).²⁶⁵

In mid-2001, Yemeni officials took further steps to improve the energy-related investment climate, announcing a policy of contract extensions, added flexibility on negotiations, and a commitment to amending existing legislation if necessary.

The Ministry of Oil and Mineral Resources (MOMR) places oil tenders up for bid on a semi-annual basis. Contracts typically involve a 2-3 year exploration period and a 20-year production concession. All licenses for exploration and production in Yemen are authorized by the Petroleum Exploration and Production Board of MOMR, subject to ratification by parliamentary secession. All contracts are signed between a company or group of companies, as contractor to the government of Yemen.

The Yemeni government has been able to attract investments from companies such as the Austrian group OMV which in October 2004 signed an understanding memorandum with the Yemeni government according to which

²⁶⁵ BBC News. January 17, 2009.

OMV pledged to invest \$14 million for excavation of oil in the Shabwa region. The agreement stipulates that the company would spend the money during two phases of oil exploration in the region.

Yemen has also attracted investment in its oil refinery capacity which includes:

- A new \$300 USD refinery in Ras Issa near a terminal in Hudeida, 270 kilometres (170 miles) west of Sanaa. Local businessmen and the rest finance 40% of the project by a consortium of foreign banks and investors. Construction for the new refinery will start in 2005 and is to be completed in early 2007. The capacity for the new refinery will be of 50,000-60,000 barrels of oil per day⁽⁴⁾.
- There are also plans for a \$900 USD refinery in the southeastern region of Al-Mukallah to be financed by Saudi and UAE investors.

The new refineries will certainly provide a boost to the country's export capacity and earnings. At the same time with proven reserves of 4.6 billions barrels of oil and the government's plans and commitments to increase oil capacity and exports, there is opportunity for oil companies to participate as investors and/or as suppliers to Yemen's oil industry.²⁶⁶

Gas Industry

According to the US Energy Information Administration's annual country reports, "with reserves of 16.9 trillion cubic feet (Tcf), Yemen has the potential to become a commercial producer and exporter of natural gas. The bulk of Yemen's gas reserves are concentrated in the Marib-Jawf fields".

France's Total has a 43% stake in Yemen LNG (Yemen's Gas Company), followed by state-owned Yemen Gas owning 23%, followed by Texas-based Hunt Oil with 18%, then South Korea's largest oil refiner SK Corp having 10% and lastly Hyundai owning 6%.

As mentioned new developments in the Yemeni gas sector include the \$2.5 billion project launched recently. Three contracts were signed in February 2005 for the export of liquefied natural gas (LNG) annually to the United States and South Korea over 20 years starting in 2009. The project is a major breakthrough in the Yemeni gas sector. At the same time the Yemeni government is looking for other potential customers and investors as it aims to turn its Gas industry into a major revenue generator for the Yemeni economy.

Power Generation

According to a number of analysts Yemen's infrastructure is inadequate for a country of 20 million people. Its maximum electricity capacity is 600 megawatts, but actual output is between 350-400, and that only reaches 30 percent of the population. As a result of such shortfalls, the Yemeni government has a programme to increase power generation capacity in the country over the next ten years. Therefore there will be a need for new power plants as well as transmission and distribution systems.

²⁶⁶ Richard Fontaine and Andrew Exum "Yemen's coming disaster; Its oil is expected to run out in 2017, but Yemen hasn't planned for its young, poverty-ridden population's post-oil future". *Los Angeles Times*. January 5, 2010.

Projects which have been commissioned so far include a new gas fired power station which is to be built in the Marib area. This new power station will be using locally available natural gas. According to trade and investment sources, the Yemeni government's aim is to have the first phase of the power plant (500KV) operational within the next four years and the second phase (200KV) operational after a further two years.

However after the completion of this power station, there will still be a need for further power generation as in rural areas, the general population relies heavily on private generators. Unlike its neighbor Oman, Yemen has not opened up its power generation market to investors for complete foreign ownership. However opportunities exist for international companies to participate in joint ventures with Yemeni companies for the construction of power plants in the country as well as supply of equipment and skills.

Water Management

Scarcity of water and its continued depletion at present rate is of serious concern to the Yemeni government as it has a direct negative impact on the country's agriculture industry and the general population's drinking needs. The Yemeni government has committed itself to the continued implementation of efforts and plans to address this matter. Therefore opportunities exist for investors (as joint owners with a Yemeni partner) and/or suppliers in the areas of water management, irrigation equipment, and construction of water reservoirs and storage points.

Food and Agriculture

The majority of Yemen's food (almost 75%) is imported.²⁶⁷ As a result the every year the Yemeni government spends a noticeable part of its income on the purchase of food abroad. The need to import is partly due to the fact that Yemen's own agriculture industry has been suffering from problems such as soil erosion, overgrazing, desertification and pollution, which reduce the agricultural output of the land. Major flooding in the late 1990s also caused the loss of much valuable topsoil thus leading to falls in agriculture production. As part of the Second Five Year Plan, the Yemeni government has set target growth rate of 6.7% per annum for the agriculture industry.

The government's motives behind the planned growth are to:

- Maintain existing jobs in the agricultural industry (approximately 15% of the country's workforce is currently employed in the sector).
- Create new employment in the sector
- Increasing Yemen's food production capabilities
- Reduce food imports

There are opportunities for foreign companies for the supply of agriculture equipment, expertise, fertilizers and food processing equipment and machinery.

Tourism

Tourism has been identified as one of the most important sectors for the Yemeni government's SFYP. The SFYP strives to increase tourism value added by

²⁶⁷ "Yemen". Encyclopædia Britannica.

11% per annum. The expansion of the tourism industry is to be used to achieve the following goals:

- To diversifying the economy
- To increase foreign currency revenue for the economy
- To create additional employment positions

Yemen is certainly not short of tourism attractions and potential for further development of this industry. Tourism guidebook descriptions about the country include "unspoiled mountains, temples dating from Sheba's reign in the 10th century BC, and remote villages that have been inhabited for thousands of years. Yemen is also famous for Shibam, its "Manhattan of the desert". The United Nations Educational, Scientific, and Cultural Organization (UNESCO) has declared this 1,500-year old site as one of the most beautiful places in the world.

Other potential advantages offered by the Tourism industry include increased foreign exchange earnings and economic growth in supporting industries such as those of Hospitality Management, Food, Art and Crafts. Opportunities exist for the development of Yemen's tourism industry in areas such as Hospitality Management skills and hotels.

Health Industry

Improvement of the country's Health care facilities has been one of the target areas set by the Second Five Year Plan (SFYP). According to the UN Human Development Index, current health facilities in the country are underdeveloped and as the Yemeni government has committed to its improvement (also as part of World Bank Country Assistance Strategy Scheme). Opportunities exist for the supply of medical training and equipment, as well medicine and pharmaceuticals.

Aden Free Trade Zone

The Aden Free Zone provides many opportunities for foreign investors, mainly because this area was established by the Yemeni government specifically for this purpose. Several projects have been designated and completed for the improvement and expansion of this commercial area, which include the construction of a container port, power station, industrial estate, and an expanded international airport. Numerous incentives have been offered to attract foreign investors. Current participants include the Port of Singapore Authority (PSA) which was awarded a construction contract in 1997 worth \$187 million. After the contract was awarded, PSA decided to increase its involvement in the project by taking a 49 percent stake in the Yemen Investment and Development Company (Yeminvest). Other foreign participants in the Aden Free Zone project include Hyundai of Korea, Reggiane of Italy, and FELS Cranes of Singapore as well as a number of Malaysian companies.

AL-QAEDA

Stretched around the southern heel of the Arabian Peninsula and home to 23.8 million people — compared with 28.7 million in geographically much larger Saudi Arabia — Yemen is one of the poorest countries in the Middle East. It came into being when North and South Yemen merged in 1990. Long a source of jihadis, the region sent hundreds of fighters to the war against the Soviets in Afghanistan and — to judge by the number of captured, killed and identified insurgents in Iraq

— continues to be one of the biggest suppliers of fighters to regional conflicts. It is common knowledge in the tearooms of the Yemeni capital of Sanaa and in Western embassies that the government of northern Yemen used jihadis to help defeat the south in the civil war that ended in 1994. But the symbiotic relationship between the government and al-Qaeda shifted after 9/11 and the American invasion of Iraq, when the Yemeni government worried that it too might be on the receiving end of U.S. military action. Sana'a helped the U.S. with the assassination of an al-Qaeda leader in 2002 by missile attack from a Predator drone, even as it turned a blind eye to other extremists as long as they didn't cause trouble.

The post-9/11 cooperation between the U.S. and Yemeni governments met with considerable success — so much so that Yemen later fell off the radar to some extent as the Bush Administration shifted its focus back to battling insurgencies in Iraq and Afghanistan. But in the past two years, al-Qaeda in Yemen began to regroup, spurred by the dramatic 2006 prison break of its leader Naser al-Wahishi and 22 other members. Early this year, Wahishi announced a merger between his organization and al-Qaeda's Saudi branch to form al-Qaeda in the Arabian Peninsula. With a base in Yemen, al-Qaeda could launch attacks on the Red Sea gateway to the Suez Canal as well as stage operations against Saudi Arabia and the Persian Gulf.

The recent U.S.-assisted attacks on alleged al-Qaeda strongholds in Yemen appear to be a stepped-up attempt to stamp out the threat. However, Gregory Johnsen, a Princeton University expert on Yemen, contends the strategy will ultimately prove counterproductive: "You can't just kill a few individuals and the al-Qaeda problem will go away." Indeed, a primary target in the attacks, Qasim al-Raymi, the al-Qaeda leader who is believed to be behind a 2007 bombing in central Yemen that killed seven Spanish tourists and two Yemenis, is still at large. And reports of a U.S. role, plus mass civilian casualties at the sites of the attacks, have sparked public outcry and added to anti-American sentiment across the country. "They missed that individual," says Johnsen of the targeted al-Qaeda chief. "And at the same time, they ended up killing a number of women and children in the strike on Abyan.

Meanwhile, the Sana'a government is in the middle of another ferocious war, against its Houthi minority, Yemeni followers of the Zaydi sect of Shi'ite Islam. That introduces the shadow — both real and imagined — of the primary Shia power in the region, Iran, which is happy to take credit even if its actual influence may still be negligible. When Iran is mentioned, however, both the U.S. and Saudi Arabia, the predominant Sunni power in the region, start quaking. And al-Qaeda in the Arabian Peninsula, no friend to any of the parties, is happy to sow destabilization so it can thrive. It thrives off the ruins of Yemen's economy, which is in tatters; its population complains of neglect and development woes; and 50% of Yemeni children suffer from malnutrition. Observers warn that poverty and unemployment are prime recruitment factors for al-Qaeda, something they say the U.S. and other foreign powers should have done more to address.

Meanwhile, analysts say Yemen has been slow to confront the al-Qaeda threat with the gusto that the U.S. has been pushing for, in large part because going after the Islamist group hasn't always been in the government's best interests.

Indeed, some experts say that al-Qaeda seeks not to overthrow the government but only to establish a base in Yemen, a link between the Horn of Africa and the rest of the Arabian Peninsula, and that so long as Yemeni President Ali Abdullah Saleh leaves al-Qaeda alone, they'll do the same for him.

The Yemeni government insists it is doing its utmost in the war against al-Qaeda. "We have been cooperating closely with the U.S., much more than the Pakistanis, for instance, in the fight against al-Qaeda," says a Yemeni official. "The strike last week [that killed top al-Qaeda commanders in Yemen] was a huge blow to them. With one strike, we cut off their head. We are investigating [Abdulmutallab] according to what the FBI told us. If there was a plot from Yemen, it's possible that it happened before last week's strike. Is al-Qaeda using Yemen as a base to attack the U.S.? That may be their ambition, but first they are attacking Yemen itself, trying to destabilize the country and destroy the government. Our priority is to prevent this, and it also coincides with American interests."

Indeed, one of the jihadi commanders reportedly killed in the pre-Christmas raids in Yemen was the founder of al-Qaeda in the Arabian Peninsula, Nasser. But though that head may have been cut off, al-Qaeda still survives in Yemen.

THE HUTHI MOVEMENT

Yemen has a population that is over 90% Muslim, though the Muslim population is split between Sunni and Shiites. This split reached violent peaks when Hussein Badreddin Al-Houthi, a Shi-ite tribal leader, began a strong internal rebellion against the rule of President Saleh for "increased autonomy for his tribe and for his region of Yemen. Al-Houthi was against the war in Iraq and opposed the strong ties between the Yemeni government and the United States. Al-Houthi and his followers almost took over the capital city of Sana'a on June 18, 2004, resulting in hundreds of casualties. He was killed in September 2004 and his father, Badreddin Al-Houthi, took over as leader of the rebellion. The terrorist and sabotage operations have caused the worst damages in the performance of the different economic sectors, which badly affected the economic growth level and the development process in general.

The Huthi Movement and Iran

Indeed, while Iran has been publicly linked to militant groups Hizballah and Hamas, as well as Shi'ite militias in Iraq, its Houthi link is tenuous. Zaydi Shi'ism is distinct from the "Twelver" Shi'ism practiced in Iran, and Houthi demands have centered on rights and resources, something Princeton University Yemen expert Gregory Johnson says is rooted in Houthi feelings of marginalization following the 1962 Yemeni revolution. Observers are also quick to point out that Yemen's President Ali Abdullah Saleh is himself a Zaydi.

Since 2004, the Ali Abdullah Saleh regime in Sana'a, Yemen has been confronted by the steadily escalating al-Houthi rebellion, based in the northern city of Saada. Because most of the rebellion's supporters come from the minority Za'idi sect of Islam, some commentators (ignoring the fact that the president of Yemen is himself a Zaidi) have seen the rebellion as an implicit sectarian conflict. This,

however, is to ignore the many tensions the regime faces, including both religious and secular factors, and an incipient rebellion in the country's south. It also overlooks the fact that governance in Yemen has always been a contingent affair, given the uncertain reach of government power beyond the capital and major towns.

The argument, however, cannot be ignored. Today — in the wake of an Iranian offer of mediation — the Yemeni government insists that the rebellion is a manifestation of growing Iranian interference in regional affairs, directed against Saudi hegemony in the Peninsula. Now that fighting has spilled over the Saudi Arabian border, the Saudi government would no doubt agree. However, a close examination of the origins of the rebellion itself leaves little doubt that its causes are primarily domestic in nature.

THE KAHT ECONOMY

Yemen also struggles with a severe water shortage, in large part because of the national addiction to khat, a shrub whose young leaves contain a compound with effects similar to those of amphetamines. The top estimate is that no fewer than 90% of men and 25% of women in Yemen chew the leaves, storing a wad in one cheek as it slowly breaks down and enters the bloodstream.²⁶⁸ Astonishingly, most of the country's arable land is devoted to the plant, which accounts for approximately a third of the country's water usage.

Prior to the expansion of kaht trade, coffee was the biggest crop in Yemen. However, Yemeni coffee trade peaked in the 17th and 18th centuries and then began to decline from competition with coffee production in Indonesia, South America, and East Africa. Now, as a result of national and regional demand, kaht is replacing coffee crops. Currently, in Yemen, estimates suggest one-half to two-thirds of arable land has been cultivated for kaht, largely because farmers earn five times as much for kaht as for other crops, including coffee. In fact, in 1992, kaht "held its price, while coffee slumped." Kaht is also Ethiopia's fastest growing export. In Ethiopia, over 93,000 hectares have been devoted to kaht production, the second largest crop in terms of land area (coffee is first). Though kaht cultivation has taken over the arable land because of its value, as a crop it is "non-nutritious and unproductive".²⁶⁹

The replacement of coffee and other crops for kaht is detrimental to the economy because it drains foreign investment. Primarily, only local, regional governments and a growing market in Britain import kaht. Kaht is illegal in the United States, Holland and much of Europe.

Despite the regional parameters of kaht trade, an extensive and efficient system of production and distribution has arisen for the industry. On journalist noted that the "network of production and distribution is sophisticated, and if ever applied to something other than kaht, Yemen might suddenly find itself in much better economic condition".²⁷⁰

²⁶⁸ A Habit Hampering Progress," Middle East, n221 (March 1993) and "Kaht about That?" Economist March 3, 1990

²⁶⁹ American Medical Association Journal, v269, January 6, 1993

²⁷⁰ "Krazy Khat," The New Republic, November 23, 1992

Some argue that kaht harms the economy by encouraging laziness and absenteeism: as workers go to lunch and then engage in kaht sessions and do not return. A 1973 estimate suggests that over 4 billion hours of work a year were lost as a result of kaht chewing.

While, today, this claim is widely disputed, in 1967, the Marxist government of South Yemen attempted to do away with kaht because of the laziness it allegedly inspired. With wide resistance to a total ban, the government placed a heavy tax on the narcotic. Surprisingly, the people paid the tax and kept on chewing. As a result, by 1985 kaht "ranked first among taxes on agricultural products and second among all excise duties," in increasing revenue.

Kaht is also cited as part of the problem for the economies of Ethiopia, Yemen, Djibouti and others in part because, statistics suggest, nearly every family spends one third of its disposable income on kaht. In 1993, the average family income in Yemen was \$700 a year. Kaht can cost up to \$20 per person a day; in 1992, the *LA Times* reported that Yemeni's spend an estimated \$2 million a day to consume kaht. Ultimately, the "crux of the matter is that people do not pay as little as they can [for kaht], but as much as they can afford.

A further problem with kaht is the "mafia-like" control over production and distribution. "Those who produce kaht and those who grow it are so powerful that nobody would start campaigning against it. . . like the mafia in Italy or cocaine. . . in Colombia. . . For example, in 1983, Somali president Siad Barre banned kaht and called for food crops. However, the ban was repealed in 1990, apparently after the kaht trade had been taken from the border-controlling Ysaq clan, and placed in the hands of his administration, triggering accusations that such a transfer of control had been the intent of the ban in the first place.

Somalia only produces enough kaht for local, rural use. During the civil conflict in Somalia, warlords controlled the import and distribution of kaht. Much of Somali kaht is imported from Yemen and Ethiopia. In fact, in 1992, the value of khat imported [into Somalia] dwarfed that of any other commodity including food and weaponry.

In 1993, the Kenya-Somalia trade in kaht equaled approximately \$100 million annually for wholesalers, transporters and street dealers. Most of the profits made by the warlords were invested in banks abroad, e.g. Rome, rather than placed back into the local economy. Further, relief workers and U.S. diplomatic sources speculated that food and fuel [were] looted and sold for more khat, rather than" dipping into existing profits. Finally, it was reported that stolen relief supplies were sold to merchants by the militias to purchase kaht.²⁷¹

One final note on the economics of kaht trade relates to the potentially violent political environment. In Somalia, three boys were assassinated on an air strip over 15 pounds of kaht. In Yemen, increased production of kaht brought attempts to steal it. "A considerable percentage of the violent deaths in [Yemen] resulted from theft, and in the absence of efficient police forces, guarding the fields has become one of the significant costs of the kaht farmer.

²⁷¹ (Khat Abuse Fuels Somali Conflict, Drain Economy," American Medical Association Journal v269 (January 6, 1993)

CONCLUSION

The Yemeni economy offers attractive opportunities for companies which wish to invest in the region. Investing in the Yemeni economy will also be an investment in the war against terror as economic development is one of the most effective weapons in reducing the influence and popularity of extremist organizations in the region as a whole and in Yemen especially.

OIL IN SUDAN

INTRODUCTION

Petroleum, most commonly termed oil, is a pricey natural resource that has come to define modern society, much like tap water and household electricity. Oil is essential to modern existence and, without it, most of the world's population would have to make drastic adjustments to their lives. Without oil, most automobiles currently in circulation would be unable to run; most, if not all, all airplanes in the world would be grounded; and most internal-combustion engines would stop operating.

While the man in the street mostly associates oil with gasoline, – alternatively called “petrol” – crude oil serves to produce a variety of other essential commodities, such as jet fuel, fertilizers, pesticides, plastics, dyes, paints, detergents, synthetic fibers (such as polyester, nylon, acrylic), make-up, and candles.²⁷²

Oil is conventionally quantified in number of barrels of 42 U.S. gallons each;²⁷³ and many are familiar with the frequent fluctuations in crude oil price. In the recent past, oil price reached a record peak in July 2008, at just above 145 dollars per barrel,²⁷⁴ triggering global concerns and causing financial woes to consumers who saw gas prices skyrocket at the pump.

Owing to its high market price, a direct consequence of its essential functions, oil is generally viewed as a source of prosperity for countries that possess it in abundance. Oil exports have enriched several countries, making them the envy of less fortunate states who own no economically significant amount of *black gold*.

For other oil-exporting countries, however, oil reserves have been more of a liability than an asset, as they have typically caused more divides and conflicts than served the well-being of the majority. One such country is the Republic of the Sudan, notorious, *inter alia*, for a much-reported conflict in its western Darfur region.

Sudan's oil reserves were first discovered in the south in 1980. Three years later, the country faced its second civil war which lasted 22 years, with access to, and control of oil reserves dividing the government and the rebels of the Sudan People's Liberation Army/Movement (SPLA/M). Ever since, oil has been one of the most important drivers of the country's economy, politics, and foreign relations. On the economic front, oil has turned Sudan's agriculture-based economy into one depending almost exclusively on oil export earnings. Furthermore, a country that was previously one of the world's poorest started making hundreds of million dollars a year in oil revenues, most of which reportedly goes into defense expenditures and Khartoum-based infrastructure, leaving the rest of the country in striking underdevelopment. Politically, oil considerably raised the stakes in Sudan's

²⁷² Natural Environment Blog. *Uses of Crude Oil*. <http://www.natural-environment.com/blog/2008/03/06/uses-of-crude-oil/> (March 2008).

²⁷³ 42 U.S. gallons equal 158.987295 liters.

²⁷⁴ New York Stock and Commodity Exchanges. *Crude Oil Price History: A Sampled History of Crude Oil Prices at the New York Mercantile Exchange from 2006 to the Present*. <http://www.nyse.tv/crude-oil-price-history.htm>. Retrieved on 16 April 2010.

second civil war, turning the oilfields, licensed to foreign companies, into targets for the southern rebels. As regards foreign relations, oil is the most important factor in the strong economic and diplomatic ties existing between Khartoum and Beijing. China's National Petroleum Company (CNPC) effectively dominates Sudan's oil sector, and the Asian giant imports the bulk of Sudan's crude oil production. Some analysts discern an ongoing, unspoken competition between China and the U.S. to control Sudan's oil reserves. In this context, while China's noninterference, decried by the West, has earned it Khartoum's favor, leading to juicy oil contracts for CNPC, the U.S. has allegedly sought to obstruct development and exporting of Sudan's oil, by backing rebels battling the government and by slapping trade sanctions on the country.

The approach adopted in this multidisciplinary paper is to study the fundamentals of Sudan's oil sector, then use this knowledge as a foundation to examine a wide range of economic, political, polemological, and diplomatic issues arising from the country's possession of substantial oil reserves. The objective is to demonstrate that (a) access to, and control of oil reserves have shaped most major developments in Sudan for the past three decades; and (b) oil is a key determinant of the country's future. Consequently, the paper begins by exploring what anyone interested in the economics of Sudan's oil would want to know, then proceeds to investigate the utilization of oil revenues by the Sudanese government. The third section looks at the role of oil in Sudan's foreign relations, particularly with China and the U.S. Next, the paper succinctly analyzes how oil has contributed to armed conflicts in Sudan over the past 30 years. Finally, based on the premise that oil will determine Sudan's future, this essay exposes some complex challenges related to the quasi-certain secession of Southern Sudan in a referendum scheduled for 2011.

BASIC FACTS²⁷⁵

Oil's importance in Sudan's economy can hardly be overstated. According to the International Monetary Fund (IMF), oil accounted for 95% of export revenues and 60% of all revenues in Sudan in 2008. While 65% of North Sudan's revenues come from oil, South Sudan is even more dependent on this commodity and derives an impressive 98% of revenues from oil exports.

According to the *Oil and Gas Journal*²⁷⁶, Sudan's proven oil reserves stood at five billion barrels in January 2009, which represents a considerable increase from the estimated 563 million barrels recorded in 2006. The Muglad and Melut basins, located in the south, hold much of these reserves; however, oil exploration has mostly focused on central and south-central Sudan, due to two protracted civil wars in the south, from 1956-1972, and 1983-2005, respectively. These wars are generally referred to as the first and second Sudanese civil wars.

Sudan's main oil-producing region is Abyei, which straddles the north-south border. Abyei was home to the Heglig and Bamboo oilfields until July 2009, when the Permanent Court of Arbitration (PCA) redrew the region's borders and

²⁷⁵ Energy Information Administration. *Country Analysis Brief: Sudan*. <http://www.eia.doe.gov/emeu/cabs/Sudan/Full.html> (September 2009).

²⁷⁶ The *Oil and Gas Journal* is one of the most read publications on the petroleum industry. The link to its website is: <http://www.ogi.com/index.html>.

placed the two oilfields out of Abyei. While the ruling National Congress Party (NCP) and the SPLA/M²⁷⁷ both accepted the PCA ruling, the two parties have issued statements suggesting different interpretations of the ruling, in particular whether it places the rich Heglig field above or below what is presently the north-south border. The Comprehensive Peace Agreement (CPA), which ended the second Sudanese civil war, gave special administrative status to Abyei until 2011, at which point a referendum would enable its population to decide whether the region would join North Sudan or South Sudan. Crucially important, the CPA further stipulated that revenues from the oil produced in the south should be equally split between north and south, until the south decides by referendum, in January 2011, whether to remain with the north or secede.

Sudan's proven oil reserves were estimated at five billion barrels on 1 January 2009. Its daily output was 480,000 barrels in 2008; and its crude oil refining capacity stood at 121,700 barrels per day (bpd) in 2007. The country's main oil ports are Port Bashair and Port Sudan in the northeast. The major oilfields, mostly located in the south, are Unity (Block 1); Heglig (Block 2); Adar Yale and Palogue (Blocks 3, 7); Thar Jath and Mala (Block 5a); and Fula (Block 6).²⁷⁸

Sudan has three oil export pipelines, the longest of which is 994-mile long and connects the Heglig and Unity oilfields to the Suakim oil terminal near Port Sudan. Canadian Arakis Energy Corporation²⁷⁹ partnered with the Greater Nile Petroleum Operating Company (GNPOC) in 1996 to raise investment for this pipeline. While initially built to deliver a throughput of 150,000 bpd, the pipeline has since been upgraded to 300,000 bpd, with its maximum capacity estimated at 450,000 bpd. Sudan's second longest pipeline is 870-mile long and connects Blocks 3 and 7 in the Melut Basin to an oil export terminal near Port Sudan. Brought online in November 2005 by Petrodar, the pipeline currently puts through 150,000 bpd, with its maximum capacity set at 500,000 bpd. Lastly, the shortest of the three pipelines is 110-mile long and runs from Thar Jath and Mala oilfields to Port Sudan.

Considering that oil has long been a major conflict driver in Sudan, one might wrongly believe that the country's oil reserves are larger than those of other, more peaceful oil-producing states in Africa. The truth, however, is that Sudan's five billion barrels of proven reserves only make it Africa's fifth largest oil reserve holder, well behind Libya, Nigeria, Algeria, and Angola; and shortly ahead of Egypt.

Exploration and development of Sudan's oil reserves have long been tainted by allegations of human rights violations committed and/or financed by the Sudanese government with oil revenues. These violations include the torching of

²⁷⁷ Within the context of north-south relations, especially from the point of view of the Comprehensive Peace Agreement (CPA), the NCP, the party of President Omar al-Bashir, theoretically represents the interests of Northern Sudanese and acts *de facto* as the government of Northern Sudan. Conversely, the SPLA/M, the former rebel movement that fought the north from 1983-2005, constitutes the Government of Southern Sudan (GoSS) and theoretically defends the southerners' interests.

²⁷⁸ For the purpose of oil exploration and production, the Sudanese government has partitioned most of the country into blocks.

²⁷⁹ Arakis was acquired in 1998 by Talisman Energy Inc., also headquartered in Canada.

entire villages in oil-rich areas and the forcible displacement of large civilian populations around oilfields to pave the way for exploration and production. In addition, longstanding instability in the south, where most of the oil is found, has impeded oil production and exploration. Section IV and V expand on the factors that have rendered the south unstable for decades and could well reignite civil war in the near future.

U.S. economic sanctions imposed in 1997, on account of Khartoum's alleged sponsorship of terrorism, prohibit U.S. citizens from participation in Sudan's oil and gas industry. Sudan is also under UN and EU sanctions, including but not limited to travel bans, arms embargoes, and restrictions on all financial transactions likely to impede the north-south peace process. These sanctions, however, are not specifically directed at Sudan's oil sector.

Established in 1997, the Sudan National Petroleum Corporation (Sudapet) is entirely owned by the Northern Sudanese government. Sudapet is in charge of developing Sudan's oil industry, training Sudanese oil technicians, and overseeing the transfer of oil exploration and production skills to Sudan. Sudapet controls between 5 and 20% of every oil-producing block in the country,²⁸⁰ but because of its limited technical and financial capabilities, it typically enters, as a minority shareholder, into joint ventures with foreign oil companies. The foreign oil companies operating in Sudan are mostly Asian and include the China National Petroleum Corporation (CNPC); the Oil and Natural Gas Corporation (ONGC) of India; and Petronas, a Malaysian state-owned company also involved in Iraq's oil sector.

The Nile Petroleum Corporation (Nilepet), based in South Sudan, is entirely owned by the Government of Southern Sudan (GoSS). It was established in 2007 to oversee the allocation of oil and gas concessions in the south, and to represent the GoSS in oil and gas matters. Nilepet's licensing of southern blocks previously licensed by Khartoum has been reported as a source of friction between north and south.

In October 2005, following the signing of the Comprehensive Peace Agreement (CPA), the Sudanese authorities established the National Petroleum Commission (NPC), comprising four representatives each from north and south, and tasked with developing the country's oil reserves. Since its creation, the NPC has been responsible for awarding new oil contracts and ensuring an equal sharing of oil revenues between Khartoum and Juba.²⁸¹ The Commission is also competent to address issues arising from Juba's licensing of blocks overlapping concessions previously awarded by Khartoum.

Sudan owns and exports two blends of crude. The first one is the Nile blend, a paraffinic crude oil with a high wax content, high pour point (+30-36°C), and high wax appearance temperature (+39°C and higher), which demands careful handling during loading, carriage, and discharge. The other kind, the Dar blend, has

²⁸⁰ African Development Information. *Sudan National Petroleum Corporation (SUDAPET)*. www.afdevinfo.com/htmlreports/org/org_42398.html (February 2009).

²⁸¹ In the context of north-south relations, Khartoum and Juba designate the capitals, as well as the governments of Northern and Southern Sudan, respectively.

a heavy and highly acidic content making it less merchantable, which causes it to sell at a deep discount to Indonesia's Minas, the Asian benchmark crude.²⁸²

Oil exploration began in Sudan in the late 1950s and was mostly carried out offshore in the Red Sea; however, these offshore efforts proved unsuccessful for the most part. Beginning exploration in southwestern Sudan in 1975, Chevron had a breakthrough in 1980 when it found important oil reserves in the Unity field situated north of Bentiu, the capital of Unity State. Chevron went on to discover the Heglig field in 1982, but it was not until the late 1990s that Sudan's oil production began in earnest. Production then increased rapidly, starting in July 1999 when an export pipeline linking central Sudan to Port Sudan became operational.

Sudan's oil comes principally from two major fields. This production is complemented by much smaller output from other fields that have come on-stream only recently:

The largest and oldest oil development project is the Greater Nile Oil Project (GNOP), which covers Blocks 1, 2, and 4 in the Muglad Basin. The GNOP is operated by the Greater Nile Petroleum Operating Company Ltd (GNPOC), a consortium comprising CNPC (40%); Petronas (30%); ONGC (25%); and Sudapet (5%). In 2008, Blocks 1, 2 and 4 produced together slightly over 210,000 bpd of Nile Blend, which signaled a decline in production that is likely to continue in the short term.

The second major field includes Blocks 3 and 7 and is located in the Melut Basin. It is operated by Petrodar, a consortium composed of CNPC (41%); Petronas (40%); Sudapet (8%); China Petroleum and Chemical Corporation-SINOPEC (6%); and Tri-Ocean Exploration and Production (5%).²⁸³ Blocks 3 and 7 represent together an estimated 460 million barrels of recoverable reserves. Their combined daily output in 2008 was about 200,000 barrels. Production from these two blocks is likely to increase in the short-term, thanks to the coming on-stream, in 2009, of the Qamari field, expected to produce up to 50,000 bpd in 2010.

Among the smaller projects is the Fula field on Block 6, which CNPC brought online in November 2004. The field currently produces 40,000 bpd (2008), a figure expected to increase. A pipeline connects the field to a refinery in Khartoum, where its production is processed for use inside the country.

Block 5a is another small project covering the Thar Jath and Mala fields. The block is operated by the White Nile Petroleum Operating Company (WNPOC), a consortium comprising Petronas (68.9%); ONGC (23.1%); and Sudapet (8%). Block 5a produced approximately 25,000 bpd in 2008, and its maximum capacity is estimated at 60,000 bpd.

Other blocks worth mentioning include:

- Block B, located in southeastern Sudan and licensed to Total. Production from this block has been hindered by surrounding

²⁸² Sudan Tribune. *Sudan Puts off Nile Blend Crude Sale*.

<http://www.sudantribune.com/spip.php?article34263> (February 2010).

²⁸³ Petrodar. *Petrodar Operating Co. Company Profile*. <http://www.petrodar.com/profile.html>. Retrieved on 16 April 2010.

conflict, contract issues, and finally the withdrawal, due to U.S. sanctions, of Marathon Oil, previously participating in the consortium operating the block.

- Block 5B, situated south of the Muglad Basin, initially under exploration by ONGC and Sweden's Lundin Petroleum, in partnership with Petronas and Sudapet. Negative drilling results prompted ONGC and Lundin to withdraw in 2009, leading the NPC to approve Ascom, a Moldovan company, to participate in the project.

In 2008, Sudan's cumulative daily production averaged 480,000 barrels, whereas its daily consumption was estimated at 86,000 barrels. The remaining 394,000 bpd was exported to Asia, mostly to China (214,000 bpd), followed by Japan (102,000 bpd), and Indonesia (43,000 bpd). In addition, India, South Korea, Taiwan, Thailand, and Malaysia also import crude oil from Sudan.

The combined capacity of Sudan's refineries in Khartoum and Port Sudan was 121,700 bpd in January 2009.²⁸⁴ The Khartoum refinery doubled its capacity from 50,000 to 100,000 bpd in 2006, which enabled it to process more oil for domestic consumption. With its 21,700 bpd, the facility in Port Sudan is Sudan's smallest refinery. A project by Petronas to build another refinery in Port Sudan to process the Dar Blend has been postponed several times and its status is currently unclear.

Finally, it is worth noting that Sudan maintains observer status with the Organization of Petroleum Exporting Countries (OPEC) since August 2001, an indication that it is considered a significant oil producer and exporter.²⁸⁵

Having surveyed Sudan's oil business in this section, this paper will now examine some ways in which the Sudanese authorities distribute and utilize their significant revenues from oil exports.

WHERE THE MONEY GOES

While Sudan's economy was traditionally driven by the production of cotton and other agricultural commodities, this situation has substantially changed with a considerable increase in the country's oil production since the late 1990s. Thanks to oil exports boosted by record high oil prices in recent years, the country's economic situation has significantly improved, with several hundred million dollars generated every year from the sale of Sudanese oil on Asian markets. One of the biggest beneficiaries of this economic boom has been the army, with over 70% of the government's share of oil profits allegedly going into the defense budget. In this regard, it is believed that one of the government's priorities is to manufacture guns and ammunition locally, should external supply lines be cut out, for example in the event of a complete arms embargo.²⁸⁶

²⁸⁴ *Oil and Gas Journal*.

²⁸⁵ Peter S. Goodman. Washington Post Foreign Service. *China Invests Heavily In Sudan's Oil Industry: Beijing Supplies Arms Used on Villagers*. <http://www.washingtonpost.com/wp-dyn/articles/A21143-2004Dec22.html> (23 December 2004, p. A01).

²⁸⁶ Jeffrey Gettleman, in New York Times. *War in Sudan? Not Where the Oil Wealth Flows*. <http://www.globalpolicy.org/component/content/article/168/39730.html> (24 October 2006).

At some point between 1999, when the first shipment of Sudanese oil departed Port Sudan, and the signing of the CPA in 2005, the Northern Sudanese government reportedly spent as much as one million dollars a day to finance its war against the SPLA, at a time when over three million Sudanese needed emergency food aid, according to humanitarian sources.²⁸⁷

While Sudan is currently one of the fastest-growing economies in Africa, its wealth is unevenly distributed and mostly benefits Khartoum and the northern elite that live there. New roads, bridges, hospitals, schools, and other infrastructure worth tens of millions of dollars have mushroomed across the capital in the last few years, plausibly raising the government's popularity among the Khartoumites. In contrast, much of the rest of Sudan, including Darfur and the south, grapples with dispiriting poverty.²⁸⁸

Although the CPA did provide a framework for equitable wealth-sharing among all of Sudan's regions and citizens, the reality is starkly different. Unfortunately, Sudan is not the only country making several hundred million dollars or more in oil revenues every year, yet in which the majority has little to no access to this financial manna. Several other countries, including Nigeria, seem to fall under the same category. In the case of Sudan, the Constitution empowered the NPC to make decisions related to the country's petroleum resources. Unfortunately, functioning of the institution has largely been hindered by differences between Sudan's two main political forces, the NCP and the SPLM/A, over its statutes. As a consequence, the Minister of Energy and Mining continues to call the shots in the country's oil industry. While the CPA assigned 50% of all oil revenues generated in the south to the GoSS – after the oil-producing state²⁸⁹ has received two% and another cut has gone to the Oil Stabilization Fund – analysts note that the production figures released by Khartoum can hardly be verified. Unsurprisingly, this situation leads to suspicion that the north manipulates the production figures to avoid sharing the totality of oil revenues with the south.²⁹⁰

A further issue in the economics of Sudan's oil is that local refineries purchase the country's crude oil at a much lower price than the export price. It has so far been impossible to determine whether the difference goes to the Sudanese consumers, the Northern Sudanese government, the oil companies, or other unsuspected beneficiaries.²⁹¹ Moreover, at least until mid-2009, the south was not receiving its mandatory 50% of revenues from Heglig, Sudan's most lucrative oilfield, due to disagreement between the NCP and the SPLM on whether the field is located above or below the north-south border. Likewise, disputes continue to

²⁸⁷ Benjamin Bock, in Amnesty NOW magazine. Amnesty International. *Sudan: Mixing Oil and Blood*. http://www.thirdworldtraveler.com/Africa/Sudan_Oil_Blood.html (Summer 2002).

²⁸⁸ Jeffrey Gettleman, in New York Times. *War in Sudan? Not Where the Oil Wealth Flows*. <http://www.globalpolicy.org/component/content/article/168/39730.html> (24 October 2006).

²⁸⁹ In theory, Sudan is a federation of 25 states, 15 of which are located in the north, and the remaining ten in the south. In reality, however, Sudan is a highly centralized state where most the authority is concentrated in Khartoum, the northern power locus, and, to a much lesser extent, in Juba, the capital of Southern Sudan.

²⁹⁰ Jeffrey Gettleman. *War in Sudan? Not Where the Oil Wealth Flows*.

²⁹¹ *ibid.*

prevent a fair sharing of revenues from other fields in the Melut Basin as well as in Abyei.²⁹²

Overall, Sudan's oil sector is plagued by suspicious secrecy and lack of transparency and accountability, all of these factors fueling mistrust and conflict between northern and southern politicians.

THE IMPACT OF OIL ON FOREIGN RELATIONS

Without a doubt, oil plays a key role in Sudan's interaction with the rest of the world, especially with China, its most prominent trade partner and diplomatic ally. Oil also goes a long way in explaining Khartoum's tense relations with the Western powers, notably the U.S. and U.K. This section looks at these two contrasting and related facets of Sudan's foreign relations.

Sino-Sudanese Friendship

China's relations with Sudan are essentially of an economic and political nature. On the economic front, Sudan constitutes China's largest overseas oil project, and Beijing's CNPC is Sudan's largest foreign investor. China's interest in overseas oil sources was triggered by a decline in its domestic oil production, notably from Daqing, its largest oilfield. As part of efforts to sustain its rapid industrial development with commensurate and predictable energy sources, the Asian giant has become by far the largest buyer of Sudanese oil. Between 1999 and 2007, it invested at least US\$ 15 billion dollars in the country,²⁹³ mainly on infrastructure including airports and dams. According to the Washington Post, Sudan's oil accounts for one-tenth of all oil imports in China. The news outlet further compared China to those unscrupulous colonial powers which supplied weapons to local tyrants to secure unchecked access to Africa's natural resources.²⁹⁴

Besides purchasing the largest part of Sudan's oil and investing in its infrastructure, China is also the principal arms supplier to the Northern Sudanese government. China's two-track, mutually beneficial relationship with the Sudanese regime is well captured in the phrase *oil for weapons*: Sudan sells the bulk of its oil to China and, in return, uses a large chunk of its oil revenues to buy weapons from China.²⁹⁵ During the second Sudanese civil war, human rights advocates repeatedly accused China of fueling the conflict by selling tanks, attack helicopters, machine guns, and other military equipment to the Northern Sudanese government, which reportedly used them to commit massive human rights violations on rebels and ordinary citizens in the south. Among such violations are the massacre and forced displacement of large numbers of civilians from their ancestral land to set up oil development facilities. China has also been accused of contributing to the Darfur conflict by selling weapons to Khartoum.

On the political front, ostensibly to protect its business interests, Beijing has extended its diplomatic protection to Khartoum more than once. Most importantly, China has used its membership in the United Nations Security Council

²⁹² *Sudan: Whose Oil, Sudan's Oil Industry Facts and Analysis*.

<http://www.ecosonline.org/reports/2008/dossier%20final%20groot%20web.pdf> (April 2008).

²⁹³ F. William Engdahl, in Asia Times Online. *Darfur: Forget Genocide, There's Oil*.

<http://www.globalpolicy.org/component/content/article/206/39764.html> (25May 2007).

²⁹⁴ Peter S. Goodman. *China Invests Heavily In Sudan's Oil Industry: Beijing Supplies Arms Used on Villagers*.

²⁹⁵ Jason Switzer. *Oil and Violence in Sudan*. www.iisd.org/pdf/2002/envsec_oil_violence.pdf.

(UNSC) to prevent the body from adopting *tough* resolutions aimed at pressuring Khartoum to change its policies in Darfur. As of late, however, some analysts have noted a little, if meaningful change in Beijing's handling of its relationship with Khartoum. According to Stephanie Kleine-Ahlbrandt and Andrew Small, in *Foreign Affairs* magazine, China has revised its policy of obstructing UNSC resolutions authorizing the deployment of UN peacekeepers in Darfur and has moderately pressured the Sudanese government to allow such deployment. Kleine-Ahlbrandt and Small interpreted this change of policy to mean that Beijing is becoming aware of the limitations of noninterference in the domestic affairs of its trade partners.

A much likely secession of South Sudan could threaten China's oil interests in Sudan for two interdependent reasons: first, most oil development projects are in the south; secondly, once the south has declared independence as expected, the GoSS may decide to renegotiate all oil contracts previously awarded by Khartoum on southern blocks. With this in mind, it would be in China's interest to help normalize north-south relations ahead of next year's referendum and to develop a good rapport with the GoSS, to ensure that its lucrative oil deals are not revoked in the event of secession or renewed hostilities. China would also protect its investment in Sudan by helping ensure that the interests of communities living around oilfields are balanced with those of Khartoum and Juba, since serious discontent among these populations could conceivably put Chinese oil installations and workers in great jeopardy.

Western Interests

Although American oil companies are not openly part of Sudan's oil business, due to U.S. trade sanctions in effect since 1997, many cannot wait to claim some of the huge profits that Chinese, Indian, Malaysian, and other companies are making in Sudan. This view is argued by journalist and author David Morse.²⁹⁶ To prove his point, Morse mentioned millionaire businessman Friedhelm Eronat, who, in October 2003, renounced his American citizenship and became British, which allowed him to use one of his companies registered in the British Virgin Islands, Cliveden Sudan, to acquire oil exploration rights in Darfur the same month. Although Morse was only after American companies clandestinely investing in Sudan, the moral of Eronat's story applies as much to British businessmen: the U.S. and U.K. governments are both harshly critical of the Northern Sudanese authorities, whom they accuse of grave human rights violations and even genocide in Darfur; yet they allowed a citizen of both countries to *legally* invest in Darfur's oil, thereby boosting the finances of an allegedly genocidal regime.

According to another article available on *Global Policy* website, it is neither compassion nor humanism that explains Washington's interest in Darfur, but the aim of controlling Sudan's oil reserves. For William Engdahl, author of the article, Darfur represents a major front in what he termed the new Cold War between the U.S. and China for control of important overseas oil reserves. In this confrontation, he added, Beijing has outdone Washington so far, by opting for noninterference in Sudan's domestic disputes, in other words, by focusing

²⁹⁶ David Morse. *Blood, Ink, and Oil: the Case of Darfur*. <http://www.commondreams.org/views05/0721-26.htm> (21 July 2005).

exclusively on doing business with the Sudanese authorities. According to Engdahl, it is also Washington's objective of appropriating Sudan's oil that has led it, backed by *friendly* NGOs and movie stars such as George Clooney, to persistently accuse Khartoum of genocide in Darfur, although an International Commission of Inquiry, led by prominent judge Antonio Cassese, concluded in 2005 that no acts of genocide had been committed in Darfur. Engdahl alleged that the reasoning behind Washington's campaign on genocide in Darfur is the following: if the U.S. manages to garner international support for charges of genocide against Khartoum, it will become much easier to justify a forceful regime change in Sudan, through a NATO military intervention, for example. As was the case in other countries such as Iraq, Washington would then ensure that the next Sudanese administration, to be handpicked by the *leader of the free world*, has U.S. interests at heart and allows American companies to effectively dominate the country's oil sector. According to Engdahl, it is no accident that Washington's campaign on the theme of genocide commenced in 2003, the same year that Chevron and ExxonMobil – both U.S. oil giants – launched a major pipeline to carry oil from Doba, central Chad, near Darfur, to Kribi, Cameroun, on the Atlantic Ocean. In his opinion, the coincidence of these two developments suggests that, having secured a foothold in neighboring Chad, the U.S. was then ready to go after Darfur's oil, which prompted its human rights-related *offensive* on the unfriendly regime in Khartoum.²⁹⁷

Other analysts have echoed the view that the U.S. has long coveted Sudan's oil reserves. Most disturbing, however, is some analysts' accusation that the U.S. has resorted to highly questionable means in its attempt to control these reserves. For example, anti-imperialist activist Sara Flounders contended that U.S. policy on Sudan has consistently aimed to prevent oil exports, including by imposing trade sanctions, and to fuel regional and domestic hostility towards Khartoum. Since realizing its inability to control Sudan's oil policy, the U.S. has done everything in its power to obstruct the development of the country's oil reserves. First, it trained and armed the SPLA/M rebels fighting Khartoum during the north-south war, calculating that the conflict would weaken the regime politically and economically, prevent it from developing the country's oil reserves, and possibly cause its downfall. Then, as a peace agreement between Khartoum and the SPLA/M loomed large, Washington turned to another potential hotspot, Darfur, where it helped train the two main rebel groups, the Sudan Liberation Army (SLA) and the Justice and Equality Movement (JEM). If the above accusations of Washington are grounded in facts, one can only agree with Sara Flounders that the U.S. government has importantly contributed to almost three decades of armed conflict in Sudan, first the north-south war, then the Darfur conflict since 2003.²⁹⁸

THE IMPACT OF OIL ON CONFLICTS

In Sudan, the story of oil has mostly been one of war, death, suffering, divides, inequality, exclusion, and enjoyment of the revenues by a minority around

²⁹⁷ F. William Engdahl. *Darfur: Forget Genocide, There's Oil*.

²⁹⁸ Sara Flounders. Global Research. *The U.S. Role in Darfur, Sudan*.

<http://www.globalresearch.ca/index.php?context=va&aid=2592> (6 June 2006).

the circles of power. To many Sudanese outside Khartoum, especially the inhabitants of the oil-rich south and Darfur, the country's oil wealth has brought little to no economic benefit and has, instead, made their existence more problematic. This section examines the extent to which oil, since its discovery in 1980, has been a key factor in Sudan's armed conflicts. It should be noted that since this paper is about oil, this section does not dwell on the specifics of the three conflicts within its scope; rather, it concisely highlights the role that oil has played in these armed confrontations.

Sudan's Second Civil War

Sudan's second civil war, also referred to as the north-south conflict, was fought from 1983 to 2005. It mainly opposed the Khartoum-based government, dominated by northern politicians, to the SPLA/M, then a rebel movement based in, and defending the interests of the south. Approximately 1.9 million civilians died during this war, considered one of the deadliest and longest armed conflicts since World War II. The conflict was a continuation of the first Sudanese civil war (1956-1972), triggered by the southerners' resentment of the north's political, economic, cultural, linguistic, and religious domination and exclusion of the south, which has more natural resources, more rainfall, and more fertile land. Clearly, there was much more to this conflict than oil, at least at the beginning; however, oil's relevance to the war increased gradually until it became, by the late 1990s, a key issue as well as the main source of the government's military spending.

When it comes to the causal or exacerbating role of oil in Sudan's second civil war, three schools of thought are worth mentioning:

- The first school holds that the discovery of oil in 1980 was the main trigger of the conflict. Subscribing to this view, William Engdahl argued that Sudanese President Nimeiry's "invitation" to Chevron, in 1979, to develop the country's oil industry was "perhaps a fatal mistake," as "wars over oil have been the consequence ever since".²⁹⁹ According to Engdahl, Chevron's discovery of substantial oil reserves in South Sudan was the most important trigger of the civil war. Once the war broke out, Chevron came under repeated rebel attacks and killings and was forced to discontinue its oil development project in 1984. Eight years later, Chevron 'threw in the towel' by selling its Sudanese oil concessions, while the war went on for another 13 years.
- For the second school of thought, the second civil war was effectively and essentially a continuation of the first one, because the grievances that triggered the first war were also at its origin. In this context, oil was not the main trigger of the 1983-2005 war; rather, it was an exacerbating factor that added itself to other preexisting causes of conflict. Oil's main impact was to dramatically raise the stakes in the conflict and to make a major addition to the rebels' list of grievances: *Khartoum was "stealing" the south's oil with no compensation, financial or otherwise, to the southerners*. This situation had the potential to intensify the conflict, and it most likely did.

²⁹⁹ F. William Engdahl. *Darfur: Forget Genocide, There's Oil*.

This school of thought appears more nuanced and more cogent than the previous one, mainly because the patterns of northern domination that it holds responsible for the war are still observable today.

- The third school of thought stands out, not only because its proponents also fall under either of the other schools, but also because it points an accusatory finger at the U.S. This school is not defined by whether oil was the main cause or just one of many factors in the conflict. Instead, it centers on the major role that U.S. imperialism and coveting of Sudan's oil have played in the war. In other words, this school's focus is how the U.S. fueled the conflict to serve its own purposes: removing a regime considered a potential threat to the U.S. and gaining control of Sudan's oil at the same time. To this effect, it armed, trained, and funded the SPLA/M through the 'frontline' states of Uganda³⁰⁰, Ethiopia, and Eritrea.³⁰¹

In specific terms, oil has impacted the conflict in many ways, some of which are presented in the following, non-exhaustive list:

- The existence of oil in the south strengthened the government's determination to control and stabilize the south to secure access to oil reserves;
- Large populations living around the oilfields were forcibly displaced to clear the way for oil production;
- Oil revenues provided the bulk of the government's military spending;
- Oil installations became strategic targets for the rebels, prompting the government to deploy troops to protect them from attacks;
- Oil companies and their staff came under rebel attacks intended to discourage oil exploration and production;
- Oil attracted conflicting foreign interests, especially from China and the U.S. In exchange for lucrative oil deals, China supplied the government with military equipment used against the SPLA/M and civilians in the south, whereas the U.S. backed the rebels and imposed trade sanctions on the country, allegedly to prevent the government from producing and exporting oil.

To conclude, however relevant oil was to Sudan's second civil war, it is clear that the conflict was the result of several factors that compounded each other to deliver one of the deadliest and longest wars in history.

Fortunately, the CPA ended the hostilities in January 2005, but the parties have yet to overcome complex challenges including the issue of oil wealth sharing and the demarcation of the north-south border.

As a result, peace prospects in Sudan are fraught with uncertainty, even irrespective of the conflict in Darfur.

³⁰⁰ Chris Talbot. *Conflict over Oil in Sudan*. <http://www.wsws.org/articles/1999/oct1999/suda-o20.shtml> (20 October 1999).

³⁰¹ *Sudan People's Liberation Army (SPLA), Sudan People's Liberation Movement (SPLM)*. <http://www.globalsecurity.org/military/world/para/spla.htm> (27 April 2005).

Oil and the Darfur Conflict

Having established that oil played a key role in Sudan's second civil war, this paper will now focus on oil's relevance to the Darfur conflict, in which as many as 300,000 people have died³⁰² and over two million were displaced. It should be noted that this section does not cover every single way in which oil has affected the Darfur conflict, but it highlights some of the most significant linkages between oil and fighting in the war-torn region.

In April 2005, the Sudanese government announced that it had found enough oil in Southern Darfur to produce 500,000 bpd at full development. By that time, according to Engdahl,³⁰³ Chevron and ExxonMobil, representing U.S. interests, had already colluded with Chadian President Deby to supply arms to the Sudan Liberation Army (SLA) and the Justice and Equality Movement (JEM), the two rebel groups that launched the Darfur conflict in February 2003. SLA official Minni Minnawi said around that time that his group's objective was to create a united democratic Sudan, a manifesto that critics linked to allegations that the U.S. was pursuing regime change in Sudan.³⁰⁴

Other analysts have echoed the view that the West's coveting of Sudan's oil led it to train and arm the SLA and JEM rebels to ignite conflict in Darfur. The underlying calculation was that the conflict would unleash enough chaos to justify a Western military intervention in Sudan, which would serve as an excuse to oust the regime in Khartoum. The International Monetary Fund and the World Bank would then be empowered to dictate the terms of the country's economic opening, and, in the process, they would hand the lion's share of its oil reserves to Western oil companies.³⁰⁵ The current status of the Iraqi oil industry gives a certain weight to this analysis: After the Western powers ganged up to remove Saddam Hussein and squash his political influence, there was no obstacle left between Iraq's immense oil reserves and the Western companies that currently control the sector.

On a separate note, the suspicion that Darfur could hold large oil reserves led the Sudanese government to erase entire villages, to clear the ground for oil installations and to eliminate possible hideaways for rebels. In addition, oil profits provided the government with important revenues that it wholeheartedly invested in weaponry used against the rebels and the people of Darfur.³⁰⁶

To summarize, the possible existence and subsequent discovery of oil in Darfur raised the stakes in the Darfur conflict, giving the rebels an additional, powerful reason to fight the government, and creating an incentive for Khartoum to control Darfur and its oil reserves. Darfur's oil potential also played into the same foreign interests as the second civil war, with some Western countries allegedly backing the rebels, whereas China and others supplied the government with military equipment, which the latter purchased with oil profits. Lastly, villages

³⁰² BBC. *Q&A: Sudan's Darfur Conflict*. <http://news.bbc.co.uk/2/hi/africa/3496731.stm> (8/2/2010).

³⁰³ F. William Engdahl. *Darfur: Forget Genocide, There's Oil*.

³⁰⁴ *ibid*

³⁰⁵ Rainer Chr. Hennig. *UN Darfur Vote Turns Scramble for Sudan's Oil*. <http://www.afrol.com/articles/13921> (10 September 2004).

³⁰⁶ David Morse. *War of the Future: Oil Drives the Genocide in Darfur*. <http://www.tomdispatch.com/post/14239/> (18 August 2005).

were destroyed and populations displaced en masse in Darfur to enable oil companies to set up their installations.

The Conflict on the Eastern Front

Without a doubt, this conflict was the least reported and, therefore, the least known episode of Sudan's instability in the past 30 years. This under-reporting is largely attributable to the fact that the conflict was relatively short-lived and did not cause nearly as many casualties as the second civil war or the Darfur conflict. It pitted the government in Khartoum against the Eastern Front, a coalition of rebel groups active in Eastern Sudan along the border with Eritrea, especially in the Red Sea and Kassala states. The SPLA was originally the principal member of the Front, but left before the CPA ended the second Sudanese civil war in January 2005. An important development within the rebel coalition was the merger, in February 2004, of the Beja Congress and the Rashaida Free Lions, two tribal-based movements of the Beja and Rashaida people, respectively. The JEM from Darfur joined the Eastern Front at a later stage.

The main grievance cited by the Beja Congress and the Free Lions was the inequitable distribution of oil profits by the government. The two groups demanded a greater say in the constitution of the central government, which they found to undermine the CPA. As a result, they threatened to cut off the flow of crude oil traveling from the fields in the south-central regions to Port Sudan. They also menaced to disrupt a government project to build a second refinery near Port Sudan. The rebellion saw an influx of Beja fighters into its camps in Eritrea in January 2005, after police killed a group of 17 Beja rioters in Port Sudan.

After backing the rebels for some time, in what appeared as an act of retaliation for Sudan's support to Islamist groups in Eritrea, Asmara switched hats in mid-2006 and took on the role of peace broker. This move was crowned with success on 19 June 2006, when the Sudanese government signed a declaration of principles with the Eastern Front, followed by a peace agreement signed in Asmara on 14 October.³⁰⁷ While the agreement contained no direct reference to oil, it addressed wealth distribution to benefit Sudan's eastern states of Red Sea, Kassala, and al-Qadarif; power-sharing; and security matters. The agreement earned the Eastern Front several senior positions in the executive and legislative, both at national and regional levels.³⁰⁸

As is evident from the above, access to, control of, and sharing of oil profits played a remarkable role in all three conflicts studied in this paper. In other words, oil is inextricably connected to the uninterrupted stream of conflicts that Sudan has experienced over the past three decades. The most devastating of these conflicts started just three years after oil was found in the south, at a time when the size and economic significance of the country's oil reserves was yet to be ascertained. Twenty years later, the Darfur conflict broke out, also against a backdrop of oil-related mistrust and disagreements, and has yet to be resolved.

³⁰⁷ *Sudan*. <http://www.statemaster.com/encyclopedia/Sudan>. Retrieved on 12 April 2010.

³⁰⁸ Sudan Tribune. *Eastern Sudan Peace Agreement*. <http://www.sudantribune.com/spip.php?article18145> (16 October 2006).

Then, as if to prove that all bad things do come in threes, the Eastern Front rebellion added itself to Sudan's tradition of domestic wars over oil.

Having demonstrated oil's prominence in Sudan's recent history and present, this study will now examine in what terms, and to what extent, oil will determine the country's future, with particular attention to the referendum on self-determination scheduled for 2011 in the south.

THE FUTURE SCENARIOS

Oil has already decided Sudan's fate, for the country's political future is practically set in stone with regard to the referendum on self-determination scheduled for January 2011. Save for a dramatic turn of events, most Southern Sudanese will likely opt for separation in this historic and crucial plebiscite. In this regard, it should be recalled that the CPA, which ended the second Sudanese civil war in 2005, provided for six years of power-sharing between the ruling NCP and the SPLA/M within a government of national unity. At the end of this transitional period, during which all efforts would have been made to render Sudan's unity attractive to the southerners, South Sudan would decide, in a referendum, whether to remain with the north or become a separate state. Presently, there are at least two good reasons why Southern Sudanese are expected to massively choose secession next year:

First, two protracted civil wars have amply demonstrated that the southerners are generally fed up with the north's continuous supremacy since the colonial period. In a determined attempt to end such supremacy, the south fought the north for 16 years (1956-1972), then for another 22 years (1983-2005), losing almost 2 million lives in the second war alone. Considering that the fundamental nature of north-south relations has not changed since the signing of the CPA, it is highly likely that the southerners will seize next year's opportunity to part with their overbearing brothers in the north.

Equally if not more important, the fact that most of Sudan's oil is in the south will tilt the balance towards separation, notwithstanding that only the demarcation of the north-south border will determine exactly how much oil there is in the south. If accepted by the north, as President al-Bashir publicly promised on the fifth anniversary of the CPA, South Sudan's secession would mean that the GoSS could start keeping the totality of revenues from its oil, a much appealing prospect considering that Juba presently receives a 50% share that Khartoum allegedly tampers with. As attractive as secession may appear to the southerners, however, this choice carries important challenges and uncertainty that are worth considering.

The first challenge, tinged with the possibility of renewed conflict, is that, faced with the quasi-certainty of an unfavorable referendum result, some hardline northern politicians could engineer a scheme to have the referendum postponed indefinitely. One way of achieving this, for example, would be to stir enough instability in the south to make it impossible to hold the referendum any time soon. According to *Reuters* journalist Ed Cropley, reciprocal mistrust and invectives between Khartoum and Juba around the April 2009 elections offer no guarantee that the referendum will take place on schedule. If the plebiscite does proceed,

however, it is almost certain that the south will secede and proclaim itself independent.³⁰⁹

Secondly, while the bulk of Sudan's oil is found in the south, most oil processing and exporting facilities, such as oil ports and refineries, are in the north. The south's oil currently traverses the north by pipeline to reach Port Sudan; and it is important to note that the Southern Sudanese state that will likely emerge from next year's ballot will be landlocked. It follows that Khartoum could potentially prevent Juba from exporting its oil in the short to medium term, jeopardizing 98% of Southern Sudan's budget. Should this happen, the GoSS would soon find itself unable to sustain its military and, therefore, to oppose significant resistance to the north in the event of conflict.³¹⁰ For the aforementioned reasons, even in the event of secession, Juba would have little choice but to continue cooperating with Khartoum to generate its vital oil revenues. In this context, the south's best move may be to negotiate a "civil divorce" as distinct from "a civil war" with the north, as the U.S. is strongly hoping.³¹¹

From a different perspective, as eager as the southerners may be to part with the north, they should be reminded that South Sudan lacks the minimum governance, institutional, administrative, and security structures that it would require to function as an independent state. Far from suggesting that Khartoum has done a stellar job in administering the south so far, this statement means that the south would need to put in a lot of work – the kind of hard work that takes several years and a lot of resources – before it can decently run itself as a state. To raise further apprehension at Southern Sudan's independence, the south is known for large-scale in-fighting between its two largest ethnic groups, the Dinka and the Nuer. In fact, a separate war between Dinka and Nuer took place as the second civil war was raging, adding tens of thousands of casualties to the death toll. To illustrate the extent of the Dinka-Nuer enmity, many accuse GoSS vice-president Riek Machar, a Nuer, of ordering the Bor massacre, in which Nuer forces killed about 85,000 people, mostly Dinka, and wounded around the same number in 1991. Moreover, in 2009, inter-tribal conflicts caused the south to register a higher death rate from violent conflict than Darfur, with over 2,000 casualties by August, according to UN sources who pointed to the likelihood of a humanitarian emergency in the south.³¹² With the above in mind, it becomes painfully apparent that the Southern Sudanese may not be ready to live in peace and govern themselves responsibly by next year, raising fears that an independent, underdeveloped, and fragmented Southern Sudan could slide into violence and anarchy and cause instability in the region.

Lastly, South Sudan's secession would set a dangerous precedent and show other separatist movements that they too might achieve independence someday. Such prospect can only worry other African leaders, considering that the

³⁰⁹ Ed Cropley. *Special Report: Southern Sudan: Oil Boom to Bust-up?*

<http://www.reuters.com/article/idUSTRE6380V020100409> (9 April 2010).

³¹⁰ *ibid*

³¹¹ *ibid*

³¹² *United Nations Radio*. A Humanitarian Emergency is Brewing in South Sudan Warns UN Senior Official. <http://www.unmultimedia.org/radio/english/detail/79841.html> (13 August 2009).

continent is rife with entities pushing separatist agendas often encouraged by foreign powers.³¹³ It is therefore out of concern that South Sudan's secession could dangerously resonate with some segments of their own populations that countries such as Kenya and Uganda are publicly advocating Sudan's unity, though they secretly believe that Juba should end its unhappy marriage with Khartoum despite the daunting challenges involved.³¹⁴

To recapitulate, rejection of Khartoum's domination and the appeal of greater revenues make South Sudan's secession next year very likely. While attractive to many southerners, this eventuality involves major political and economic challenges and will have important repercussions in Sudan and elsewhere. These factors explain why many approach South Sudan's forthcoming independence with caution and apprehension. The risks associated with untimely secession also justify that key international players have discreetly advised the GoSS to postpone independence for a few years and to use this time to build the necessary capacity to run a stable and viable state.³¹⁵

CONCLUSION

Without a doubt, oil is a crucial commodity with no parallel in Sudan. It is as much a source of wealth as a cause of conflict, a motive for mass killings and human rights abuses, and a force that defines the country's relations with the world's most powerful nations. If oil is central to Sudan's economy as a whole, it is even more important for South Sudan, where most of the country's oil reserves are located, and whose revenues come exclusively from oil exports. In just ten years, oil exports turned Sudan's formerly agrarian and poor economy into a booming and fast-growing one; though only a small minority of Sudanese have seen their daily lives improve accordingly so far.

China is, by far, Sudan's main partner for oil exploration, production, and exportation; and Beijing's special rapport with Khartoum extends to arms sales and diplomatic protection as well. The Sudanese government has often been criticized for prioritizing large arms purchases with its oil profits, and for implementing most development projects in the north, mostly in Khartoum, neglecting the rest of the country. Historically marginalized and given short shrift in the distribution of oil profits is the south, which paradoxically supplies the bulk of the oil exported.

Besides dominating Sudan's economy, oil has been a key determinant of its foreign relations, placing it at the center of a Sino-American race to control overseas oil reserves. In this context, Sudan's invitation to China in the mid-1990s to help develop its oil reserves probably upset the U.S. and contributed to Khartoum's uneasy relations with several Western capitals. Some analysts contend that the U.S. has long sought to remove the Sudanese regime, including by supporting neighboring states and rebel groups hostile to it, and by accusing Khartoum of genocide to press for forceful regime change in the country.

³¹³ Dennis Laumann. *Seeing Sudan Elections through the Lens of History*. <http://peoplesworld.org/seeing-sudan-elections-through-the-lens-of-history/> (2 April 2010).

³¹⁴ Michael Wakabi. The East African. *Don't Break Away From Sudan, West Tells South*. <http://www.theeastafrican.co.ke/news/Dont%20break%20away%20from%20Sudan%20West%20tells%20South%20/-/2558/883182/-/qlmth9/-/index.html> (22 March 2010).

³¹⁵ *ibid*

Unsurprisingly for a strategic and expensive resource in a mostly poor country, oil has long divided the Sudanese people, with those profiting from it on one side of the fence, and those shut out of the benefits on the other. Oil was connected to every armed conflict in Sudan since the first oil reserves were discovered in 1980, acting as an incentive, an objective, a war target, a bone of contention, and a source of military spending.

The expectation that, once separated from the north, South Sudan could start keeping the totality of its oil revenues, along with a firm resolve to escape Khartoum's rule, will lead most Southern Sudanese voters to choose secession in next year's referendum. This eventuality is fraught with risks and challenges, as South Sudan is underdeveloped and lacks the requisite environment and structures to form a viable state. As a result, everyone holds their breath ahead of the forthcoming referendum on self-determination, which holds the key to the future of Africa's largest country as well as the fate of many other separatist movements on the continent.

In the final analysis, while oil has and continues to divide the Sudanese, it is also the most important reason why northerners, southerners, and Darfurians alike are better off renouncing war and resolving their differences peacefully. For there to be equitable wealth-sharing among all of Sudan's regions, as stipulated in the CPA and the Darfur Peace Agreement (DPA), there has to be wealth creation in the first place. This requires a national environment free from the whirring sound of attack helicopters and the deafening staccato of machine guns. Should a large-scale conflict erupt in Sudan, Chinese and other foreign companies will have little choice but to suspend oil production and pull out their workers, which would deprive all Sudanese of precious revenues that form the basis of their economy.

However major disputes there are between various Sudanese parties, no side would gain from another war, especially in a country that has known little stability since gaining independence 54 years ago. An unwavering commitment to peace should therefore guide all the Sudanese politicians as they approach the key challenges facing their country.

THE MAGHREB

INTRODUCTION

This paper discusses the political, economic and governmental structures of Mauretania, Morocco, Tunisia, Libya and Algeria, and attempts to examine how these countries are searching for new structures to build economically sustainable human development. This paper attempts to draw upon the historical realities of each of these countries, including from the colonial period, through a transformational phase to modern independence and the predominance of Islamic influences that have contributed to shaping their modern political and economic systems. It hypothesizes that colonial and Islamic influences have had both positive and negative effects on these countries and that all five of these countries are positioning themselves to take advantage of the global economic crisis to turn their colonial limitations into development opportunities through partnership arrangements. The paper also offers some prospects for developments and potential policy options to help place these countries on a more stable path to development on the basis of past experiences, influences and lessons learned.

BACKGROUND

The historical make-up of the Maghreb region, as the term is currently used, refers collectively to Morocco, Tunisia, Libya, Algeria and Mauritania. Previous to today's usage, the area was considered to be the land between the Atlas mountains in the south and the Mediterranean Sea in the north, thus excluding Libya. As Hein de Haas in his study of irregular migration points out, there is a nuance between the use of the term "Maghreb" and what could be called the "greater Maghreb". He points out that because of its geopolitical and ethnic composition, Mauritania is difficult to classify as Maghreb or West African and therefore should be considered as belonging to both categories.³¹⁶

The current political and economic structures of these countries in the Maghreb region have largely been shaped by their colonial past. In Tunisia, Mahfoud Bennounne states that a numerically weak working class played a decisive role in the national movement of emancipation, but could not ascend to a leadership role.³¹⁷

Dr. Omar Elbendah in the Journal of Human Sciences, also points out that colonialism had different phases in these countries, and coexisted with foreign governing forces. The main beneficiaries of the foreign infrastructure left behind were the Maghreb countries.³¹⁸

The arrival of Islam in North Africa brought new political, cultural, economic and social thought to towns in North Africa.

Dr. R. Saoud points out that "Towns were established to facilitate the spread of Islam". Later they assumed political roles serving the ruling dynasties.

³¹⁶ Hein de Haas, Irregular Migration from West Africa to the Maghreb and the EU: An Overview of Recent Trends. IOM Research Series No. 32, 2008, p. 51

³¹⁷ Mahfoud Bennounne, Primary Capital Accumulation in colonial Tunisia. Journal of Dialectical Anthropology. Springer Netherlands, Vol. 4, No.2, July 1979, pp. 83-100

³¹⁸ Dr. Omar Elbendak, Urbanization in the Arab Maghreb Region: An Overview. Journal of Human Sciences, #44, January 2010, p.3.

This often resulted in discontinuity and urban decline in times of internal disputes, but with prosperity in times of stability. The main functions of towns were religious although other functions (economic and administrative) evolved later as subordinate activities as towns developed. The urban city was a social organ assembled by various socio-cultural and religious forces of that time.³¹⁹

Islamic influence began in the Maghreb during the 7th Century A.D. The indigenous Berber population in Morocco was converted to Islam but was allowed to retain its customary laws. The Islamization and Arabization of the region was a long and complicated process. The first Arab military expeditions into the region, between 642 and 669 AD, resulted in the spread of Islam.³²⁰

The vast majority of Algerians and Tunisians today are Sunni Muslims. Islam provides Algerian society with its central social and cultural identity and gives most individuals their basic ethical and attitudinal organization.³²¹

In Libya, widespread conversion of the desert nomads did not come until after large-scale invasions in the 11th century by Bedouin tribes from Arabia and Egypt.³²² The current context of economy and governance, particularly by the Muammar al-Gaddafi regime has explicitly endeavored to reaffirm Islamic values, enhance appreciation of Islamic culture, elevate the status of Qur'anic law, and to a considerable degree, emphasize Qur'anic practice in everyday Libyan life.³²³

NATION BUILDING

Colonialism

France focused its power in the colonial period on “assimilation,” attempting to create in its colonies the same feelings of loyalty towards France that “real” French people felt, especially in Algeria, even though Tunisia and Morocco were slightly more autonomous colonies.³²⁴

Brian McLaren, in his book entitled *Architecture and Tourism in Italian Colonial Libya*, states that the “modern” and “traditional” were entirely constructed by colonial authorities, who balanced their need to project an image of a modern and efficient network of travel and accommodation with the necessity of preserving the characteristic qualities of the indigenous culture.

On November 4, 1911, six years after France had asked the sultanate of Morocco for a protectorate, Germany agreed to a French protectorate in Morocco in exchange for the cession of French territory in equatorial Africa. On March 30, 1912, the sultan agreed to a French protectorate, and on November 27, 1912, a Franco-Spanish agreement divided Morocco into four administrative zones: French Morocco, nine-tenths of the country, a protectorate with Rabat as capital; a Spanish protectorate, which included Spanish Morocco, with its capital at Tetouan; a

³¹⁹ Dr. R. Saoud, *The Impact of Islam on Urban Development in North Africa*, Foundation for Science, Technology and Civilization, UK, May 2004

³²⁰ www.en.wikipedia.org/wiki/Medieval_Muslim_Algeria

³²¹ www.en.wikipedia.org/wiki/Islam_in_Algeria

³²² www.en.wikipedia.org/wiki/Islam_in_Libya

³²³ *ibid*

³²⁴ Alison Tarwater, *French Colonization I the Maghreb: A Central Influence in both Regions Today*, Research paper on Cultures of the Middle East, April 17, 2005.

Southern protectorate of Morocco, administered as part of the Spanish Sahara, and the international zone of Tangier.³²⁵

In terms of the re-emergence of the Islamic movement, one can see the translation of educational material, which would include dictionaries and reference material of all types following independence. Tunisia adopted a “pragmatic, incremental approach”,³²⁶ policymakers maintained French as both a foreign language and as a medium of instruction for math and science in primary education.

In Morocco, in the mid 1960s, French was maintained as the language of instruction for math and sciences in the third, fourth, and fifth grades. To meet the demand for secondary education in the 1970s, Morocco had to import French-speaking teachers from countries such as France, Romania and Bulgaria to teach math and sciences.³²⁷ Algeria followed a more aggressive approach, largely in reaction to the French attempt during the colonial period to forge a new identity for the Algerian population.³²⁸

The Arab Maghreb Union

The Arab Maghreb Union was signed into being on February 17, 1989. The Union aimed for unity in North Africa, a logical step since the countries of the Maghreb have a shared common geography and history. The emergence of many regional organizations even within the UN system is a trend that should not go unnoticed, and this Union could have enabled the countries of the Maghreb to meet common challenges.

The idea of an economic union began in 1956 with the independence of Morocco and Tunisia. In 1986, the five Maghreb states of Algeria, Tunisia, Morocco, Libya and Mauritania met for the initial Maghreb Summit. The 21st Anniversary of the creation of the Union was marked a few months ago in a speech by President Zine El Abidine Ben Ali of Tunisia. This is not surprising since the Secretary-General of the Arab Maghreb Union is H. E. Mr. Habib Ben Yahia of Tunisia.

President Ben Ali reaffirmed his commitment to the Arab Maghreb Union as a strategic choice that requires all parties to exert more efforts to overcome current difficulties and to set up a climate of fraternity and solidarity.³²⁹

To show how difficult it is, though, to create unity in this region, the Arab Maghreb Union, since 1994, has had little active impact, following the call by the Libyan President to “put the Union in the freezer”.³³⁰ The unresolved issue Algerian-Moroccan issue of the Western Sahara, which annually is on the UN agenda, also has proven to be an obstacle to the progress of the Union.

The Libyan President has called for the re-emergence of the Islamic movement as the “second Shiite Fatimid State in North Africa”.³³¹ Two notable

³²⁵ History of Morocco: Early History and Colonial Struggles

³²⁶ www.siteresources.worldbank.org/INTMENA/RESOURCES/EDU_05

³²⁷ *ibid*

³²⁸ *ibid*

³²⁹ www.maghrebarabe.org

³³⁰ Le Quotidien D’Oran. 2003. Le Magasin en Lambeaux. 23/12/2003. P.1

³³¹ History News Network, George Mason University, April 30, 2007

aspects of a Fatimid state were its leaders who were considered to be mahdis, or divinely rightly-guided ones, ushering in the kingdom of Allah, and that the Fatimid state was expansionist.³³²

POLITICAL REFORM

In her in-depth review of women in the Maghreb, “States and Social Rights: Women’s Economic Citizenship in the Maghreb”, Valentine Moghadam, Director of Women’s Studies at Purdue University, West Lafayette, Indiana, writes that state-society relations are being re-negotiated in terms of both new social contracts and new gender contracts.³³³

She argues that the three Maghreb countries of Algeria, Tunisia and Morocco form a distinctive geo-cultural unit with similarities and differences in their economic and political arrangements, social structures, and gender relations that allow for appropriate comparisons.³³⁴

Following the lead of T.H. Marshall, Professor Moghadam argues that “social rights” are parts of the rights of citizens, that is, rights to employment, training, fair wages, trade union, collective bargaining, and the right to an occupation of one’s choice.

She backs her statement up by reference to the International Labor Organization’s (ILO) core labor standards, the Beijing Platform for Action, the International Covenant on Economic, Cultural and Social Rights, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), and the Charter of Women Workers Rights of the International Confederation of Free Trade Unions (ICFTU), which is now known as the International Trade Union Confederation, a Category I Non-governmental Organization that is accredited to the Economic and Social Council (ECOSOC) of the United Nations.

New forms of governance can be developed either through massive political voice, such as can be seen in the Polish workers movement, or by legal and policy frameworks that can redefine the social contract. Other agendas that have been defined by international organizations such as the ILO in its decent work agenda and in the concept of the social protection floor can also encourage governments to redefine policy for an enlargement of public space.

International factors that precipitate protest, such as seen in previous years in the protests by some in the global social movements around the annual meetings of the IMF and the World Bank, can also lead to enlargement of demands for participation in decision-making by non-state civil society actors.

Professor Moghadam also states that according to the World Bank, in many countries, “large hydrocarbon exports were accompanied by high and increasing product concentration, loss of export dynamism in non-fuel exports and little participation in global production sharing”.

In searching through the International Civil Society Database that has been developed and maintained by the Department of Economic and Social Affairs

³³² *ibid*

³³³ Valentine Moghadam, “States and Social Rights: Women’s Economic Citizenship in the Maghreb”, December 2008.

³³⁴ *ibid*

(DESA) of the United Nations, none of the Maghreb countries have more than 10 non-governmental organizations that are accredited in some way to the work of the United Nations ECOSOC.³³⁵

Such a fact can be attributed to the strenuous process of application for consideration by Member States in an organization being granted ECOSOC status. The process can involve months of communication between the organization and the NGO section of the Secretariat and then usually in a personal appearance by a representative of the organization to answer questions posed by Member States about the organization's application.

Such questions can also be directed toward the organization's affiliates, members, budget and activities, and the sustainability of the organization over time. It may be very difficult for organizations within the Maghreb region to give detailed accounts of their history as well as to appear in New York City for what could be one or two weeks. If Member States are not satisfied with replies, the organization may have to submit further clarifications that may require a return visit.

It should be noted that President Bouteflika of Algeria sponsored a South-South summit of approximately 2000 NGO representatives from around the world who met in Algiers from 16-17 March 2002, and who issued the Algiers Declaration. Approximately 5000 NGO representatives from around the world were also involved in the comprehensive planning for the event, which was totally sponsored by Algeria.

The Summit was inaugurated by President Bouteflika who addressed representatives for approximately 75 minutes on matters relating to the development of the South, and was concluded by the Foreign Minister of Algeria who thanked NGO delegates for their active participation in the summit.

In New York, NGOs had worked in close cooperation with the then-Permanent Representative of Algeria to the United Nations, H.E. Abdallah Baali, who now serves as Ambassador of Algeria to the United States in Washington.

The Algiers Declaration called for support of Southern NGO positions, including one innovative call for community-based development banking: "given a history of racism and other forms of class and caste discrimination against groups of peoples, International Financing Institutions should be encouraged to support joint ventures, regional and national community-based development banking, initiated and organized by communities, especially discriminated and marginalized groups".³³⁶

In terms of regular, free and fair elections, according to the UN Democracy Fund website, the Moroccan Center for Civic Education, supported by the UN Democracy Fund, organized a round-table on 15 September 2009, the second International Day of Democracy, on "The Role of Civil Society in Promoting the Values of Democracy". The event brought together university students, educators, and NGOs from all across Morocco.

³³⁵ International Civil society Organization Database (ICSO), UN Dept.I of Economic and Social Affairs, Civil Society Unit

³³⁶ Algiers Declaration, Final Statement of the South-south NGO summit, Algiers, Algeria, 17 March 2002.

The event featured case study sessions and open discussions on education for democracy, responsibility, justice, rights and duties. The roundtable was covered by several radio stations and by the Maghreb Arab press.³³⁷

On 11 September 2009, the UN Secretary-General, Ban Ki-moon, issued a system-wide guidance note on democracy, aimed at strengthening UN engagement towards providing democracy support and provides a platform for working together on the basis of shared principles, joint analyses, and demand-driven strategies.³³⁸

International IDEA, an Observer in the United Nations General Assembly, provides comprehensive data and information on elections within countries.

In the case of Algeria, International IDEA provided the results of the last Presidential election, with President Bouteflika receiving 90.2% of the popular vote, and five other candidates receiving the remainder of the 9.7% of the vote. Information is also provided on the website as to the names of the political parties.

For Morocco, the information on the 2002 and 2007 legislative elections give information on all candidates who were elected, including votes, seats, and information on women who were elected and their party affiliation.

In Tunisia, there are national summaries of the presidential elections, and detailed electoral information on legislative elections of 2004.

For Libya, the information page on International IDEA's website states that there have been no elections in Libya since the 1960s.

Political Reform in the Maghreb and Democratization: Professor Rex Brynen of McGill University has shown in his paper "Political Reform in the Maghreb: Some preliminary Thoughts on Comparative Context".³³⁹ His view is that in Tunisia and in Libya, the process of liberalization is not really underway yet".

In Morocco, King Mohammed VI, who succeeded his father the late King Hassan II, has promoted considerable liberalization and democratization, although Professor Bynen also points out that this has been in the realm of the reform of the monarchy and not in terms yet of transferring political power into the hands of elected representatives.

In Algeria, with some unanswered questions about Islamist influences and the role of the military, there is a vibrant press and civil society, as well as a proliferation of political parties.

Professor Bynen states: "In all these cases, it is important that we distinguish between political liberalization – that is, the expansion of public space for civil society and political debate -- and political democratization, understood as the degree of popular control over executive and legislative power, generally through regular, fair, free and elections within an accepted constitutional order. While liberalization is generally a prerequisite and correlate of democratization, it

³³⁷ UN Democracy Fund website, www.un.org/democracyfund

³³⁸ *ibid*

³³⁹ www.mcgill.ca/files.icames/MaghrebDemocratization.pdf

may also be intended as an alternative to it, with limited liberalization used to contain social pressures for more thorough-going political change”.³⁴⁰

Lessons learned for Morocco and Tunisia are that the leader that is known for a long period of time may be preferable to the uncertainty of political change. Obviously, post-conflict peace has been an issue of importance to Algerians, and this has manifested itself in the overwhelming election plurality of President Bouteflika in being given a third term as President.

CHALLENGES

Claire Brunel, in “The Political Economy of the Maghreb”, states that the threat of terrorism has led to tighter restrictions on the movement of people and merchandise through the Maghreb. Crossing points between Tunisia and Algeria are highly congested, and there is virtually no truck traffic between Algeria and Morocco due to the issue of the Western Sahara.³⁴¹

In an essay entitled “Is North Africa Losing Its ‘Soul’”, Beat Stauffer shows that social unrest can also mean migration of people for a variety of reasons, one of the main reasons being deteriorating or poor educational systems.³⁴² “Over many years, obsessions with security policy and domestic and foreign conflicts have siphoned off so much funding that culture and education only received extremely low budgets. A lack of freedom of speech, political repression and widespread corruption have ultimately prompted large swathes of the region’s intellectual elites to move abroad, a serious drain on their home countries”.

In an interview dated 16 March 2010 in Magharebia, EU Minister Andreas Koetsenruijter spoke about the complex issues of terrorism, crime, and drug trafficking.³⁴³ In terms of the EU Good Neighbour Policy project that was approved in 2004 to support cooperation with its partners in the region, he states: “This topic [of unemployment] is unsettling as it threatens social stability in the Maghreb countries and will increase the numbers of those contemplating the risks of clandestine immigration. We are aware of this and are working to create opportunities for these young people in their own countries by helping them attain a good, professional livelihood, financing several projects and encouraging investment in Maghreb countries, which will help to increase economic growth rates. This is the best response for reducing unemployment”.

There are risks of cooperation between terrorists and drug traffickers, and the Minister said that: “We are aware of these risks. And we are strengthening our cooperation with governments of the region to counter and eliminate the phenomenon. We are providing assistance to those who ask us for it, and we will not hesitate to send our troops if needed. Libya, for example, asked us for assistance after the government noticed an increase in crime rates associated with the drug trade because of the increasing number of illegal immigrants on its soil. Algeria is also suffering from such cooperation between Islamist groups and drug dealers”.

³⁴⁰ *ibid*

³⁴¹ Maghreb Regional and Global Integration, Chapter 2, The Political Economy of the Maghreb, p.4.

³⁴² Beat Stauffer, “Is North Africa Losing Its Soul?”, essay in Qantara, May 22, 2009,

³⁴³ Interview by Jamel Arfaoui of EU Minister Adrianus Koetsenruijter in Magharebia, March 16, 2010

On another aspect, Tunisia's President Ben Ali is seeking to promote economic expansion, given a report in Middle East Online, by branding Tunisia as a regional hub of services.³⁴⁴

The Carnegie Endowment for International Peace has, in research within the last six months, shown that an average economic growth rate of 5% in 2008 has slowed since early 2009. But the Maghreb is far from homogeneous, with Algeria an oil exporter with a weakly diversified economy and a large public sector, while Morocco and Tunisia are oil importers with more diversified economies.³⁴⁵

Prior to 2009, Algeria's external debt fell to 3% of GDP and had large foreign exchange reserves. Agriculture in 2009 grew in Morocco and Tunisia, resulting in a decline in food imports. Manufacturing in both Morocco and Tunisia declined in 2009. FDI fell by 36% in the first half of 2009. Morocco has a large trade deficit as well; however, as the same Carnegie study shows, Morocco's debt is now estimated at 20% GDP compared with 50% in Tunisia.

Algeria's business infrastructure is considered poor, with inefficient administration and unpredictable legal and regulatory frameworks. Regional inequalities exist and there are large gaps between urban and rural areas in the three countries. Public investments should target all classes, as well as rural and urban, in order to prevent social unrest.

Future Developments and Policy Options

There are three main policy options that could be suggested for the countries individually and that also could have regional impact:

The first is the model of Education For Employment Foundation, whose mission is to train and employ jobless youth in the Middle East and North Africa. EFE Foundation says that according to the World Bank, first-time job seekers account for 65% of unemployed youth, and that employers report difficulty in finding qualified, retainable employees that can help their companies grow.³⁴⁶

EFE's Workplace Success Training Program now partners with leading Moroccan businesses, such as BMCE Bank and YNNA Holding, Morocco's largest private sector employer. EFE success stories are to be found in the Middle East as well, especially in Jordan. One of the problems that EFE has found regionally is that even youth who are qualified for a certain job may have to relocate to another country in order to fill that job, thus leaving their home and family, which for many youth can be a severe hardship.

The success story of EFE, started by one Brooklyn businessman with \$10 million of his own money, is comparable in some ways to the start-up programme of Mohammed Yunis and the Grameen Bank.

The second policy recommendation would be a multi-stakeholder examination of the problems of the Western Sahara – without a settlement, there will be no true Maghreb development in the region. What might be the new and innovative aspect of bringing about a settlement could be turning the Western

³⁴⁴ Middle East Online, www.Middle-East-Online.com/ENGLISH/tunisia - June 29, 2009

³⁴⁵ Lachen Achy, *The Maghreb and the Global Economic Crisis: When Does the Tunnel End?*, Carnegie Endowment for International Peace, International Economic Bulletin, September 2009.

³⁴⁶ www.efefoundation.org

Sahara into a renewable energy zone, where renewable energy could be supplied to the region at very low cost and with little carbon footprint.

The third policy option stems from the second. The Climate Investment Funds are a unique pair of financing instruments designed to test what can be achieved to initiate transformational change towards low-carbon and climate-resilient development through scaled-up financing channeled through the Multilateral Development Banks. The two funds are the Clean Technology Fund (CTF), financing scaled-up demonstration, deployment and transfer of low-carbon technologies for significant greenhouse gas reductions within country investment plans; and the Strategic Climate Fund (SCF), financing targeted programs in developing countries to pilot new climate or sectoral approaches with scaling-up potential.

According to information from the World Bank, Morocco will receive \$150 million from the CTF to help establish a national “Fond de Developement de l’Energie” (Energy Development Fund or FDE), a funding mechanism that will serve as a central pillar of the government’s strategy to enhance energy security and pursue low-carbon growth. With CTF support, it is expected that the FDE will mobilize additional financing in the range of \$1.5-2 billion to help meet Morocco’s energy goals, including a 600% increase in wind power and a 15% reduction in energy use in buildings, industry, and transport by 2020.

In a December 9, 2009 press release,³⁴⁷ the World Bank said that the Clean Technology Fund had approved an investment plan that will:

- Enable MENA to contribute the benefit of its unique geography to global climate change mitigation – no other region has such a favorable combination of physical and market advantages for Concentrated Solar Power (CSP);
- Support the deployment of about 1 gigawatt of CSP generation capacity, amounting to a tripling of worldwide CSP capacity;
- Support associated transmission infrastructure in the Maghreb and Mashreq for domestic supply and exports, as part of Mediterranean grid enhancement. This will enable the scale up of CSP through market integration in the region;
- Leverage public and private investments for CSP power plants, thereby almost tripling current global investments in CSP; and
- Support MENA countries to achieve their development goals of energy security, industrial growth and diversification, and regional integration.

In Manila, 15-19 March 2010, at the first meeting of the CIF Trust Funds and related subsidiary entities, a presentation on the Tunisian Solar Plan was made by the Ministry of Industry and Technology of Tunisia, outlining the solar potential of Tunisia. A proposed Elmed Project was introduced, that would be an interconnection between Tunisia and Italy with a capacity of 1000MW.³⁴⁸

³⁴⁷ World Bank Press Release No. 2010/MNA/183, December 9, 2009

³⁴⁸ Ministry of Industry and Technology, Republic of Tunisia, Renewable Energy Plant in Tunisia, Powerpoint presentation at the Asian Development Bank, Manila, Philippines, March 17, 2009

At the same meeting in Manila, the Kingdom of Morocco Clean Technology Fund Investment Plan was presented by Zohra Ettaik, Head of Renewable Energy and Energy Efficiency Division, Ministry of Energy, Mines, Water and Environment of Morocco. The growing energy demand in Morocco was outlined, along with a national and regional energy strategy that would promote sustainable development and preserve the environment.

A new legal framework for renewable energy has been developed through a number of local laws, and governance issues for long-term leveraging was also explained.³⁴⁹

CONCLUSION

While the countries of the Maghreb have taken steps toward development, it appears they are at a 'make it or break it' time of change. In recent years the region has been marked by rising terrorist attacks, which has forced the governments to focus more on terrorism than on economic or social development. Furthermore, they have also been forced to restrict the flow of goods and commerce amongst and between countries to help reduce susceptibility to terrorist activities. This has in turn served to the detriment of trade and investment revenues. From 2001-2005, the region has only experienced a 2.5 per cent growth rate in GDP, which is far below other emerging economies in Asia. In order to reinvigorate economic activity and create a sufficient number of decent jobs needed to accommodate those seeking employment, the region must focus on integration. The colonial past together with the Islamic influences should work as a unifier.

However, nuances in the level of openness and conservatism between the countries seem to be driving wedges to the detriment of unification. Success can be drawn from unification of other regional efforts such as Mercosur, and thus may be an opportunity for targeted international assistance to help the Maghreb achieve integration.

The region should be viewed as strategic and important for the West to be involved in helping to facilitate long-term economic and social stability. Targeted action is needed to address the growing unemployment, particularly the large youth unemployment problem in the region. The alternative may be further increases in fundamentalist terrorist activity in the name of Islam as an alternative to contributing to the productive sector.

³⁴⁹ Zohra Ettaik, Head of Renewable Energy and Energy Efficiency Division, Ministry of Energy, Mines, water and Environment of the Kingdom of Morocco, "Clean Technology Fund Investment Plan of Morocco".

VIOLENT NON-STATE ACTORS

INTRODUCTION

The opening of the new millennium was greeted with apocalyptic visions of the rupture of the electronic infrastructure of modern day society. The seemingly simple click of the digital clock from a double nine to a double zero was feared as the beginning of the end. Yet nothing happened. We sailed smoothly into the double zero without falling off the edge of the world. The seeming well-being of the world was restored.

Yet shortly after that the world did change. The attacks by Al Qaeda on New York and Washington brought an end to the sense of security and freedom which had ruled the day. The following months saw the passage of quickly-drafted legislation which changed the nature of travel, immigration, commerce and finance. In the United States, the shock came from the realization that an attack of this magnitude and from this source had not been anticipated. Aside from odd incidents of domestic madmen like Timothy McVeigh, and a relatively failed attempt on the World Trade Center in 1993, the United States thought of terrorist acts as occurring on distant shores and affecting people of different kin. Until the 11th of September 2001, the concerns of violent non-state actors of the Middle East were of minor interest to Americans.

The response to the attack was swift. Before we knew it, we were at war in Iraq, but that was only part of the response. How to fight against an aggressor who was not a recognizable political entity? Find the enemy first, if possible, and then bleed him dry. Both meant tracking the sources of funds for the non-state actors. Action was taken throughout the international community to track and stop the flow of funds. Yet, despite the efforts of the international community, the financing of non-state actors which commit acts of violence will continue to increase.

DEFINITIONS

Non-state actors come in different forms. The term is usually understood to refer to non-governmental organizations which perform humanitarian activities. The term has also been expanded to include multi-national corporations and, after 2001, violent non-state actors. "Violent non-state actors" is a term used by the United States military among others to describe groups who disregard the state's monopoly on violence and who attempt to take control of a territory or of a political or financial process and to fill the gaps left by the state's operations.³⁵⁰ Such actors have become increasingly prominent in international affairs during the past two decades. Phil Williams, writing on Violent Non-State Actors in International Relations and Security Network, has pointed out that while European nations benefitted from the wars of the 20th Century in building more solid and cohesive state structures, other parts of the world experienced dissolution and instability.³⁵¹

³⁵⁰ Violent Non-State Actors, http://en.wikipedia.org/wiki/Violent_non-state_actor

³⁵¹ Williams, Phil, "Violent Non-State Actors and National and International Security", International Relations and Security Network, Swiss Federal Institute of Technology, Zurich, Switzerland, 2008, p. 14

THE ACTORS AND THEIR MOTIVATIONS

Within the Middle East, three groups have been of particular interest and scrutiny to the West during the last decade: the Taliban/Al Qaeda, Hamas and Hezbollah. The three groups have been labeled “terrorist organizations” by the Western media, and, in the eyes of the West, the aim of the three is the destruction of the free and democratic way of life of the West and the establishment of the over-arching predominance of militant Islam. Yet, the continued success of these groups is due in part to the public sympathy and support they are able to elicit. As they define themselves, they seek freedom from the repressive and corrupt regimes of the West who came unbidden to the Middle East and imposed control, imposed secular states, imposed illegitimate borders and boundaries and imposed social structures, all with complete disregard for what had gone before. Al Qaeda, Hamas and Hezbollah’s use of violence is a means to assert the legitimate (to them) claims of Islam against the corrupting claims of the West. By the same token, the Western state powers’ use of violence against the various peoples of the Middle East is legitimated by the Western belief in the fundamental right of the state to use violence when needed to protect personal freedom.

The three groups to be looked at here have different origins and histories, and distinct but also overlapping motivations and objectives. However, it is possible to see a fundamental motivation to all three groups, and here we begin to delve into the economic factor. The capitalistic economic system which is embraced by most Western nation-states fosters a competitive, ego-centric, materialistic and over-consumptive way of life which violates fundamental principles of charity, mercy, and altruism which is at the core of the monotheistic belief systems of Christianity, Judaism and Islam.

In establishing the democratic states of the West, personal freedom became the political and economic catchword. The fervent religious beliefs which drove the very first pilgrims to the shores of North America have become lost in the scramble for material gain.

The true beneficiaries of the capitalistic system are the few at the very top who oil the machine of personal greed and ambition. Nonetheless, freedom of choice flourishes and personal talents are harnessed and shine. Charity is hardly forgotten. So deeply is “freedom” embedded in the consciousness of the peoples of the United States that any attack (or threat of potential attack) on the United States, whether from a non-state actor or from a considerable state power is seen as an attack on personal freedom.

The attack on the World Trade Center crystallized this fundamental divide. The collapse of the structures which symbolized the financial power of one of the world’s great financial centers was brought about by the unforeseen actions of a non-state actor based in one of the world’s poorer and more under-developed countries.

AL QAEDA

The instigator of the attack was the first of the groups mentioned above. Founded in the late 1980’s in Pakistan, Al Qaeda, prior to the events of September 11, was known, but not well-known, and it is probably safe to say that it was never taken seriously as a potential threat to civilian life on Western shores. A failed

attempt on the World Trade Center occurred in 1993 engineered by Al Qaeda operative, and an attack on an American military target in Yemen in October 2000 killed 17 servicemen, yet the scope of the success of the September 11 operation was a blow to Western confidence.

Al Qaeda was founded in late 1988 or 1989 as a decentralized network of Islamist Sunni jihadists under the ostensible leadership of Osama Bin Laden.³⁵² The philosophy of Islamism is distinct from the pure Koranic religion of Islam in that it calls for the foundation of a political state based on the principles of Islam. Notable Islamist figures include the author Sayyid Qutb, the Ayatollah Ruhollah Khomeini and Osama Bin Laden.³⁵³ Osama Bin Laden himself has been cited as saying that he aims to force American troops out of Saudi Arabia, initiate an economic crisis in America, change US policies in Israel, Iraq and elsewhere, exact revenge, call attention to the plight of Muslims throughout the world and exact revenge.³⁵⁴ Part of the belief system of Al Qaeda is the notion that there is a Christian-Jewish conspiracy to destroy Islam and that the alliance between the United States and Israel is a key element in the conspiracy. The killing of innocent civilians and bystanders is justified as part of the Islamist jihad.³⁵⁵

According to an article written by a senior member of Al Qaeda, since the citizens of the Western world take full part in the decisions taken by their governments, they are not civilians and they cannot be separated from the entire population during an attack.³⁵⁶

HEZBOLLAH

Hezbollah, the second of the three groups studied here, shares with Al Qaeda resistance to the state of Israel, however it is primarily a political Shia organization. Rather than being a decentralized network, it is a centralized armed political party. The movement began its military operations in 1982 when Israel invaded Lebanon. Its military forces were trained by the Iranian Revolutionary Guards. Its manifest of 1985 stated Hezbollah's goals as ending colonial entry into Lebanon, exact revenge on the Christian phalangists and establishing an Islamic regime in the currently Christian state of Lebanon. The name of the group "Hezbollah" literally means "Party of God" and international opinion on the movement is divided with many in the Arab and Muslim world viewing it as a resistance movement and other Arab states condemning its action, while Western countries have dubbed it a terrorist organization.³⁵⁷ Its popular appeal is demonstrated in part by its growth from a small militia to a large presence on the Lebanese political scene with its own television and radio stations, seats in the Lebanese government and social development programs. Its grassroots basis of

³⁵² Al Qaeda, http://en.wikipedia.org/wiki/Al_qaeda

³⁵³ Islamism, <http://en.wikipedia.org/wiki/Islamism>

³⁵⁴ Eckert, Sue E and Biersterker, Thomas J. (editors), *Countering the Financing of Terrorism*, Routledge, London and New York, 2009

³⁵⁵ Eckert, *op. cit.*

³⁵⁶ Al-Hilali, Abu Alman, as quoted in Ehrenfeld, p. 7

³⁵⁷ Hezbollah, <http://en.wikipedia.org/wiki/Hezbollah>

support has grown from the Shia population to include the Christians and Druze of Lebanon.³⁵⁸

HAMAS

The third group, Hamas, is a social-political organization with a para-military wing known as the Izz ad-Din Al-Qassim Brigades. The name Hamas is an acronym for the Arabic term: “Islamic Resistance Movement”. Some countries, such as the United States and Japan, classify Hamas as a terrorist organization. Other countries, such as the United Kingdom, refer only to the Izz ad-Din Al-Qassim Brigades as a terrorist group.³⁵⁹ Hamas was created in 1987 out of the Palestinian wing of Egypt’s Muslim Brotherhood as part of the Intifada (“resistance”) to the Israeli occupation of Palestine. Between the years 1993 and 2005, Hamas engaged in attacks against Israel in the form of suicide bombings, shootings and the detonation of explosive devices in the early years and rocket attacks beginning in 2001. Like Hezbollah in Lebanon, Hamas entered the Palestinian government gaining more votes than the rival party Fatah in 2006, a victory which led to in-fighting between the two groups and the eventual decree of the Palestinian President Abbas outlawing Hamas.³⁶⁰ Like Hezbollah, Hamas engages in social services to benefit the people of Palestine, funding schools, mosques, clinics, day care centers and the like.

Hamas’s charter of 1998 calls for the establishment of an Islamic state of Palestine to replace the current Israel and Palestinian territories. Its introduction states “Israel exists and will continue to exist until Islam obliterates it, just as it obliterated others before it” The introduction to the charter goes on to state that the establishment of an Islamic state in the territory currently occupied by Israel was prophesied by the Hadith, the collection of the sayings and deeds of the Prophet Mohammad. Renouncing part of the territory of Palestine is tantamount to renouncing Islam. It should be noted also, that this Charter written some twenty years ago has been disavowed by the political bureau chief of Hamas as being a document born during a time of occupation.³⁶¹

THE FUNDING PROCESS

Despite their attacks on civilian life, and their condemnation from many quarters of the international community, Al Qaeda, Hamas and Hezbollah have continued to flourish. As non-state actors, they represent a particular challenge for the international community. How does one state enter into bilateral or multilateral negotiations with a non-state actor? How are sanctions imposed?

One approach taken was to track the funding of the non-state actors. By tracking the funding, two results could be achieved. The groups could be brought to light and their allies brought to light as well, and without the funding, the groups would lose the capability to attack again. Tracing the flow of money to violent non-state actors presents particular challenges precisely because such groups have not been legitimized by the state and because their activities are by definition

³⁵⁸ *ibid.*

³⁵⁹ Hamas, <http://en.wikipedia.org/wiki/Hamas>

³⁶⁰ *ibid.*

³⁶¹ *ibid.*

covert. More specifically in the case of Al Qaeda, Hamas and Hezbollah, a specifically Middle Eastern form of money exchange processes presents special opportunities in hiding funding flows and Islamic traditions of charitable giving can also act as a cover for the financing of violent activities. Therefore, those who write about the funding of terrorist groups face challenges in gathering accurate intelligence.

Funding for violent non-state actors comes from several different sources. Sympathy for the causes for which the groups fight extends across geographic boundaries. The diaspora of peoples from the Middle East to the New World has created a unending supply of potential supporters. Money flows from certain states to non-state actors, but the money-laundering mechanisms which have been set in place make the flow difficult to trace.

Business Operations

One of the means of hiding the flow of money is through the establishment of false corporate identities. These might be legitimate businesses which operate as fronts for the donation of monies to violent non-state actors (VNSA's).³⁶² Such a company was Ptech, based in Massachusetts and owned in part by a Saudi millionaire, Yassin Al-Qadi who was a funder of Al Qaeda through the Muwafaq Foundation. As a Ptech was a software design company whose clients included US government agencies, concern was raised that not only were funds given to Ptech actually funding Al Qaeda but that through its software, Al Qaeda might gain access to US government databases.

Al Qaeda is a particular case as its leader, Osama Bin Laden, is himself a star businessman who had a flourishing career in Saudi Arabia and Sudan. Many of his own business became part of the financial support network of Al Qaeda. The "war on terrorism" has had little effect on him. The Washington Post reported on a portfolio of legitimate businesses which are managed on his and on Al Qaeda's behalf.³⁶³

Through opening and operating legitimate businesses, the VNSA's can not only generate a profit, but successfully launder the money which will be used violent activities. Agriculture and construction companies have been linked to such groups and Osama Bin Laden has run a series of honey shops which were used to conceal the transfer of weapons and money.³⁶⁴

Illicit Trade in Natural Resources

Natural resources, such as diamonds and gold, provide ample opportunities for the laundering of money which is actually designated for VNSA's. Cash can be converted into these durable goods, and the goods can be exchanged for cash again in any other place. No paper trail is created and no value is lost.³⁶⁵

According to Global Witness, a non-governmental organization which seeks to halt the exploitation of natural resources for purposes of conflict, Al

³⁶² Ehrenfeld, Rachel, *Funding Evil: How Terrorism is Financed and How to Stop It*, Bonus Books, Chicago and Los Angeles, 2003, p. 2

³⁶³ *ibid*, p. 18-19

³⁶⁴ Kaplan, Eben, "Tracking down Terrorism", Council on Foreign Relations, April 4 2006, http://www.cfr.org/publication/10356/tracking_down_terrorist_financing.html#p2

³⁶⁵ Ehrenfeld, p. 2

Qaeda devised and carried out a ten-year strategy to move into the unregulated diamond market by taking advantage of illicit trading structures and weak governments and trade regulations. President Charles Taylor of Liberia co-operated by facilitating the entry of Al Qaeda into Sierra Leone and Liberia in exchange for diamonds and weapons.³⁶⁶ Hezbollah also participated in the “conflict diamond trade” as a way to launder funds.³⁶⁷

Other Illicit Trade

Links exist between the international drug market and international prostitution rings and the funding of violent non-state actors.³⁶⁸ Not only is the trade justified as it allows money to flow into the hands of VNSA’s, but it also feeds off and contributes to the further corruption of the already corrupt West.³⁶⁹ Under Al Qaeda, the opium production of Afghanistan grew and the alliances between drug traffickers and “terrorists” seemed to increase.

Michael Braun, Chief of the US Drug Enforcement Agency, claims that more than 40% of the Taliban’s money comes from the sale of opium produced from Afghani poppies.³⁷⁰ Drug trafficking has become increasingly prominent as a means for violent non-state actors to fund their activities. Further afield, narco-terrorism has become an issue in Latin America. Ciudad del Este in Paraguay has a (primarily Lebanese) Muslim community of 20,000 and is a center for the drug trade. The triborder region where Paraguay, Brazil and Argentina converge is known as a lawless area where the drug trade has flourished. A Congressional report has found that money is sent from the region to bank accounts in Canada, Lebanon and elsewhere, and intelligence sources believe some of that money is earmarked for groups such as Hamas and Hezbollah.³⁷¹

Funding through Banks

One of the banks credited with being a pipeline for funding of violent groups is the National Commercial Bank (NCB) founded by Saudi billionaire Khalid Bin Mahfouz. Bin Mahfouz is also the founder of the Muwafaq Foundation which has provided support to both Al Qaeda and Hamas. The bank and the Foundation are believed to be part of the “Golden Chain” which, according to the September 11 Commission Report was part of the financial support structure for Osama Bin Laden’s financial position in Afghanistan. Financial markets, especially the unregulated commodities market, can also be exploited for the purpose of channeling money to VNSA’s.³⁷² The Dubai Islamic Bank was used to funnel funds

³⁶⁶ Anonymous, “For a Few Dollars More: How Al Qaeda Moved into the Diamond Trade”, Global Witness, 17 April 2003, http://www.globalwitness.org/media_library_detail.php/290/en/for_a_few_dollar_more_how_al_qaeda_moved_into_the_

³⁶⁷ Anonymous, Illicit Diamonds, Conflict and Terrorism: The Role of U.S. Agencies in Fighting the Conflict Diamond Trade, United States Senate, February 13, 2002, p. 3

³⁶⁸ Ehrenfeld, p. 2

³⁶⁹ *ibid*, p. 4

³⁷⁰ Hendlin, Robert, “DEA Digging into Al Qaeda Drug Links”, CBS News, July 13, 2008, http://www.cbsnews.com/stories/2008/07/18/cbsnews_investigates/main4274339.shtml

³⁷¹ Adams, David, ““Narcoterrorism” needs attention”, St Petersburg Times, March 10, 2003, http://www.sptimes.com/2003/03/10/Columns/_Narcoterrorism__need.shtml

³⁷² Ehrenfeld, p. 2

to at least of the operatives of the September 11 attacks. The money went to their accounts in the SunTrust Bank in Florida. The Israeli Defense Force found documentation indicating that Arab Bank, based in Amman, had been a recipient of funds that were to go to the families of suicide bombers.³⁷³ The Saudi bank, Al Rahji Bank, one of the major banks of Saudi Arabia, and the financier of much of the construction being undertaken in the kingdom, was the bank used by a top Al Qaeda operative to the perpetrators of the September 11 attacks. The National Commercial Bank of Jeddah and the Al Barakaat exchange were also vehicles for funding Al Qaeda operations.³⁷⁴

The Hawala Money Exchange Network

A form of international money exchange which is specific to the Middle East presents an additional challenge. “Hawala” exchange takes the form of a paperless, taxless system in which a person could move money from, say, a Michigan suburb to a business in Saudi Arabia. Person A can telephone person B in Saudi Arabia and ask him/her to give \$10,000 to Person C. Person A, in the meantime, gives \$10,000 to Person D in Michigan. The money has arrived at its destination but is extremely difficult to trace and control. Official hawaladars, though not necessary to conduct such an exchange, make it easier to expand the network.³⁷⁵

Charitable Donations

Charitable giving is one of the five pillars of Islam. Every follower of the faith who is able to do so is expected to contribute a percentage of his/her savings towards charitable causes. The organizations discussed here are beneficiaries of charitable giving, because they, in addition to their paramilitary work, also are benefactors to societies. Hamas and Hezbollah are actively involved in humanitarian social-building efforts and have established their own network of charities. Having a prominent social outreach program serves the dual purpose of laundering money that might fund violent activities and also legitimizes the organization itself in the eyes of those who give money.³⁷⁶ Hence funding given to these organizations can be muddled. Is the money going towards the building of a hospital, or towards the purchase of an explosive device?

Other charitable bodies can lend their support. The Muslim World League and Islamic International Relief Organization are two in particular who lend aid to violent non-state actors.³⁷⁷ The Muslim World League was founded by and is funded by the Saudi government. In operation since 1962, the organization has denied any links to terrorism yet some of the officers have had close ties to Bin Laden and have been of assistance in Al-Qaeda’s attempts to get nuclear weapons.³⁷⁸ The International Islamic Relief Organization, one of the arms of the Muslim World League, donated more than \$60 million to the Taliban, in the words

³⁷³ *ibid*, p. 20

³⁷⁴ *ibid*, p. 45-49

³⁷⁵ *ibid*, p. 14-15

³⁷⁶ *ibid*, p. 21

³⁷⁷ *ibid*, p. 2

³⁷⁸ Ehrenfeld, p. 38

of its secretary-general Adnan Basha.³⁷⁹ Yet another foundation, the SAAR foundation, was founded in the 1970's and had raised revenues of more than \$1.8 billion. When raided in March 2002, it was found that the Foundation had been sending money to Al Qaeda cells around the world. The Saudi High Commission founded in 1993 by the son of Saudi King Fahd and claiming to be the largest fund-raising effort in the Arab and Muslim world, yet the money it collected apparently never reached the needy peoples for which it was destined. What was found during a raid was documentation of the foundation's links to Al Qaeda's attacks on the World Trade Center, on the USS Cole and others.³⁸⁰

Grass-roots Fund Raising

It is through "zakat" and through the charitable activities that Hamas, Hezbollah and Al Qaeda are about to fund their activities at the grass-roots level. Involvement in fronting businesses, banking, illegitimate sources of revenue and so on all require forethought and networking on a global scale. Charitable fund-raising is direct and speaks to the popularity of the causes for which these groups fight. A Hamas sympathizer explained to writer Loretta Napoleoni: "Among the poverty and desolation of these areas (speaking of the shanty towns of the Gaza Strip) Hamas's violent and radical message has been the only voice of hope." It is in these desperate regions that Hamas finds its strongest supporters and its followers are in the tens of thousands.³⁸¹

Funding from States

While the non-state actors do not align themselves with any state power per se, various states have been accused of supporting violent non-state actors. Iran, Saudi Arabia, Libya, Sudan, Syria, Pakistan and Afghanistan have all opened training camps for jihadists.³⁸²

Under the rulership of the Ayatollah Khomeini, alliances between Iran and newly-born Islamist organizations were fostered. Iran supported Hezbollah and similar groups by establishing training camps and giving funds.³⁸³ According to a United Nations report of December 2002, Saudi Arabia has contributed \$500 million to Al Qaeda during the preceding decade.³⁸⁴

Funds earmarked for Palestine can be problematic. The Palestinian Authority received funding from European states. In 2006, while Western states were discontinuing their support of Hamas, Iran donated \$50 million.³⁸⁵

Funding from Fellow Non-State Actors

Students of violent non-state actors have suggested that an international collaborative network exists between like-minded organizations. The express purpose might be somewhat different, but they have a common enemy. Links

³⁷⁹ *ibid*, p. 39

³⁸⁰ *ibid*, p. 40-42

³⁸¹ Napoleoni, Loretta, *Terror Incorporated: Tracing the Dollars Behind the Terror Networks*, Seven Stories Press, New York, 2005

³⁸² Ehrenfeld, p. 27-29

³⁸³ *ibid*, p. 25-27

³⁸⁴ *ibid*, p. 35

³⁸⁵ Alfano, Sean, "Hamas Gets \$50M Boost from Iran", CBS News World, 2006, <http://www.cbsnews.com/stories/2006/04/16/world/main1501210.shtml>

between Palestinian groups and other Jihadist groups are believed to exist. In 2006, the Egyptian interior ministry arrested operatives from one group who operated in Sinai yet were trained in Palestine.³⁸⁶ The Irish Republican Army is said to have ties not only to the Palestinian Liberation Organization, but also to the Colombian FARC.³⁸⁷

INTERNATIONAL COUNTER-MEASURES

The financing of non-state actors is clearly complex. Efforts to contain or cut off the funding led to the passage of certain agreed-upon resolutions by the international community. At the national level, the United States passed an act which in effect turned the principles on which the country was founded on its head.

Security Council Resolution 1267

Even before the attacks of September 11, the United Nations Security Council passed resolution 1267 in an effort to control Al Qaeda, the Taliban and Osama Bin Laden. Through this resolution, the Security Council hoped to freeze the assets of the Taliban, prevent the sale of arms to the Taliban or Al Qaeda or any individual linked to Al Qaeda.

The resolution was agreed upon and it is reliant upon the reporting of the member states to implement the sanctions. A consolidated list consisting of 500 names of individuals and entities associated with Al Qaeda and the Taliban was consolidated. Member states were to provide annual reports on how they had implemented the resolution.³⁸⁸ Clearly, while the intention was good, the efficacy of 1267 was limited.

Security Council Resolution 1373 and 1390

On the 28th of September, 2001, the Security Council unanimously adopted Resolution 1373 requiring all states to prevent and suppress the financing of terrorism and to criminalize the collection of funds for such acts. States were to share intelligence regarding possible terrorist financing activity.³⁸⁹

Security Council Resolution 1390 was passed in January 2002. It reaffirmed the resolutions set forward by the earlier resolution 1267 and Al Qaeda and Osama Bin Laden. It urged all states to enforce “where appropriate, the domestic laws against their nationals” and to report to the Committee if desired.³⁹⁰

The United States Patriot Act

It is important to note that while the SC Resolution listed above were agreed upon, the so-called US Patriot Act of October 26, 2001 was one imposed on the American people without their consent.

³⁸⁶ “The Egyptian Interior Ministry exposed operative collaboration....”, Intelligence and Terrorism Information Center, May 26, 2006, http://www.terrorism-info.org.il/malam_multimedia/English/eng_n/html/dahab_250506.htm

³⁸⁷ Ehrenfeld, Rachel, PLO & IRA, National Review, 21 August, 2002, <http://old.nationalreview.com/comment/comment-ehrenfeld082102>.

³⁸⁸ Security Council Committee Established Pursuant to Resolution 1267 (1999) Concerning Al Qaeda, <http://www.un.org/sc/committees/1267/information.shtml>

³⁸⁹ “Security Council Unanimously Adopts Wide-ranging Anti-terrorism Resolution, Press Release, SC 7158, <http://www.un.org/sc/committees/1267/information.shtml>

³⁹⁰ Security Council Resolution 1390, 28 January 2002, <http://www.un.org/sc/committees/1267/information.shtml>

This seemingly anti-American piece of legislation broadened extensively the powers of the federal government to search telephone, e-mail, medical, financial, and personal records of individuals without justification. Immigration blocks became much tighter. Not only was it much more difficult to enter the country, but immigrants could be indefinitely detained. Aspects of the Act have become permanently codified into American law.³⁹¹

European Union Efforts

In response to Security Council Resolution 1267 and 1390, the European Union enacted Common Position 2002/402/CSFP and Regulation (EC) 2580/2001.

Despite the urgency of responding to the attacks of 11 September, resistance towards the regulations on the basis of their violation of due process rights began to be heard. The listing and de-listing processes involved lacked transparency.³⁹²

ISSUES RAISED

The instruments enacted by the international bodies and by the United States Congress begged the question to what extent would basic rights be violated in order to block further funding of violent activities by non-state actors. Principally in the case of the American Patriot Act, certain issues became problematic.

Violation of Privacy

Given the great difficulty of tracing the funding and sponsoring of groups such as Al Qaeda certain basic liberties, which had hitherto been taken for granted, were compromised. Chief among these were the right to privacy. With the US Patriot Act in particular, the citizenry lost its right to privacy, to conduct private conversations, correspondence or transactions. All citizens were suspect. No longer was the United States a country where all were innocent until proven guilty. All citizens were now suspect.

Violation of Human Rights

Not only were all citizens now suspect but the United States government had now taken on the power to detain citizens and visitors alike and at will without just cause or transparent motivation. The horrific activities which were carried out at Guantanamo were not the activities of a nation which prided itself as a protector of human rights. Beginning in October 2001, 775 detainees have been brought to Guantanamo. As of January 2009, 420 had been released.³⁹³ This represents extreme detention for subjects who have yet to be proven guilty.

Racial Stereo-Typing

Perhaps the most unfortunate aspect of the Patriot Act and of its continued presence in American law is that it codifies racial stereotyping. One can

³⁹¹ USA Patriot Act, http://en.wikipedia.org/wiki/USA_PATRIOT_Act

³⁹² Author Unknown, Fresh Perspectives on the War on Terror, Chj. 12, http://epress.anu.edu.au/war_terror/mobile_devices/ch12.html

³⁹³ Author Unknown, Guantanamo Bay Detention Camp, http://en.wikipedia.org/wiki/Guantanamo_Bay_detention_camp

be suspect simply by virtue of associating with Arabs or Muslims. Once so labeled, the stereotype is difficult to remove.

Lack of Tolerance of Religious Freedoms

Islam became a frequent target of criticism. Islam is a pure religion and shares the same fundamental belief in a monotheistic deity which is found in Christianity and Judaism. Yet, Islam has become confused with Islamism and followers of Islam with supporters of Al Qaeda

The Irony of the Patriot Act

The enactment and enforcing of the US Patriot Act represents a break with the founding principles of the United States. The country was first founded by immigrants seeking, above all else, religious freedom and a haven where they could live their lives privately without interference, criticism or observation from others. Upon declaring independence, it was stated that all men are created equal.

Efficacy of Counter-Measures

What has been the true impact of the instruments enacted? Have they put a stop to the funding of violent non-state actors? Or have they simply been useful in alienating citizens from their states and peoples from each other? We have no real way of knowing.

Financial intelligence, for the reasons listed above, is extremely difficult to come by. All that we know for certain is that life has changed. We are left with fear not only of the actions of the violent non-state actors, but also, possibly, fear of the actions of the state.

THE ECONOMICS OF NON-STATE ACTORS

What are the costs borne by a violent non-state actor? The operating expenses include payments for arms and explosives, training camps, housing and food, intelligence, communications, bribery and recruitment.³⁹⁴

Funding an individual operation such as a suicide bombing, or even an attack on the twin towers need not be that expensive, but maintaining a training camp is.

Al-Qaeda as a Business Model

These groups then, can be seen as covert businesses. Through a multiplicity of means, they finance their operations, train and maintain their human resources. Al Qaeda, when looked at as a business, is an interesting example. Allegedly the cost of the September 11 operation was \$350,000 yet it appears to have caused \$4 trillion worth of damage and lost business.

In an article published in 2001, Don Van Natta compared Al Qaeda to a large business struggling to stay afloat in the new economy, and Osama Bin Laden was compared to a CEO handling employee grievances.³⁹⁵ In pure business terms, Al Qaeda is an extremely successful operation with no worthy competitors.

CONCLUSION

The efforts of the international community have, in the end, failed to achieve what they intended and it appears likely that the financing of violent non-

³⁹⁴ Ehrenfeld, p. 1

³⁹⁵ Van Natta, Don, Jr., Al Qaeda Inc.: Running Terrorism as a Business, The New York Times Week in Review, November 11, 2001, <http://www.nytimes.com/2001/11/11/weekinreview/11VANN.html>

state actors will continue to increase. Not only is controlling and blocking the financing of these groups inordinately difficult, as they have many different sources of income each of which is almost impossible to control, but the efforts taken by the international community, and particularly, unfortunately, the United States are actually counter-productive. One of the chief reasons why the groups continue to exist is that the injustices which brought about their inception continue to exist and seem to have become worse.

Since the Second World War came to an end, the United States has occupied a particularly powerful position, both politically and economically. It is the consumer par excellence and it has failed to recognize the inequalities which it fosters both within its borders and without. It feeds off the oil produced by the Middle East, and by allying itself with states which repress human rights, is itself a repressor.

Some of the imbalance is being redressed and the picture has changed as new economic rules have come to bear. The opportunities created by the internet, by the globalization of the marketplace and by the trends towards deregulation have now opened up the field. Covert networks are easily established and maintained. It is the growth of the inequalities between East and West after the Second World War and the opening of the new capabilities which has led to the current situation.

The only hope to shift the tide is not to take an economic approach, but to address the fundamental issues which are at stake. The efforts of the international community are currently counterproductive. By attempting to control the financing of non-state actors, they are violating the rights and dignities of the very people they claim they want to help. It is their responsibility, and should be their objective, to guarantee that true equality exists for all and to ensure personal freedom of all peoples with no opportunity for exploitation. Greater humanitarian assistance must be provided where needed. True statehood for Palestine must be guaranteed at the international level. Immigration controls in the West should be eased and a greater, not a lesser integration of cultures must be allowed.

A report issued by the United Nations Development Program and the Arab Fund for Economic and Social Development states that “strengthening personal freedoms and boosting broad-based citizen participation in political and economic affairs” is key to undermining the growth of funding for the violence of these non-state entities.³⁹⁶

Other Considerations

It is worth bearing in mind that the success of non-state actors in mounting a costly and covert campaign is a harbinger of new economic truths about the world we currently live. Money flows and networks are more complex than in years past. This could suggest the need for revision of banking and taxation strategies, while still allowing for fundamental human rights and civil liberties.

³⁹⁶ UNDP Report, as quoted in Ehrenfeld, p. viii

