

## **The Middle East: A Shifting Regional Equilibrium**

We're turning to evolutionary biology in framing the broad geopolitical change currently underway in the Middle East. According to the theory of punctuated equilibrium, a given equilibrium is stable -- until it's not. Once a shift away from the status quo occurs, change will continue to transpire until a new balance is cemented. Although the so-called Arab Spring has decisively broken the regional status quo, a new equilibrium has yet to emerge. This state of flux presents analytical challenges: forecasting is much more difficult as old patterns and certainties are upended. However, the fact that the shift has occurred presents an important opportunity to step back and identify what forward-looking conclusions we can—and cannot yet—draw from events.

### **New Roles for Regional Players**

Tunisia President Zine el Abedine Ben Ali's fall inspired a movement in Egypt that brought down president Hosni Mubarak only weeks later, precipitating serious unrest in Bahrain, Yemen, Libya, and Syria. In Morocco and Jordan, more limited—but still unprecedented—protests erupted. In this extraordinary context, every geopolitical piece of the region has come into play in a way that hasn't been true for decades.

But while international attention remains glued to developments in countries where authoritarian regimes succumb to the Arab Spring, the key driver of regional change comes from a nation with leadership that can readily handle such threats—Saudi Arabia. The Middle East has lacked a leadership fulcrum for decades despite the attempts of Khomeini's Iran, Saddam's Iraq, and to some extent al-Qaeda's terrorist network to assume the role that Egypt lost at Camp David in 1979. It would have seemed inconceivable a year ago, but a group of octogenarians in Riyadh may be at the helm of the newest structural rebalancing as they pick up the leadership baton—and shape the impact and scope of democratic change throughout the region.

From an incoherent and impotent initial Saudi response to the events in Tunisia and Egypt, Riyadh has been forced to adjust on the fly, kicking off policy response with knee-jerk repression in the Eastern Province and Bahrain (initiated by Prince Nayef, the Saudi Minister of Interior—and half-brother of King Abdullah). Saudi Arabia has since started to shape events in a coordinated, far-reaching fashion. Under Saudi leadership, the Gulf Cooperation Council (GCC) is unifying amidst an increasingly turbulent regional context. It is pursuing policy initiatives both in cooperation with the US and Europe (brokering a political transition in Yemen and pushing intervention in Libya) and independent of Western objectives (supporting a crackdown in Bahrain—although a rumored potential US-Bahrain arms agreement might call true backdoor objectives into question). The offer in May to admit Jordan and Morocco to the Gulf bloc, along

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<sup>1</sup> The views expressed here emerged from the Council meetings and interactions and do not necessarily reflect the views of the World Economic Forum or those of all the Council Members.

with a \$20 billion aid package for Bahrain and Oman, demonstrates a coherent strategy aimed at shoring up regional monarchies and differentiating them from authoritarian republican regimes.

While Morocco and Jordan have received GCC invitations, there is no precise timetable for their integration. Interestingly, the GCC has also made overtures to Egypt to join the group. The move to bring Egypt into the billionaires' club is an attempt to hamstring the next Cairo government with treaty commitments and bribes of fiscal support, which Egypt might badly need now, but will need even more desperately once a new government comes to power. But Egypt's new role is particularly complex and subject to change. The Egyptian-brokered reconciliation deal between Palestinian factions Hamas and Fatah represents an early diplomatic coup for the transitional Egyptian government. Mubarak's regime did not have the diplomatic clout or regional standing to broker such a deal, and was largely complicit in perpetuating the status quo. This agreement could well herald the emergence of an influential and independent Egyptian foreign policy after decades of irrelevance.

But Egypt isn't there yet. The so-called "natural" leadership of Egypt is swamped by the shift in regime, the worsening economic situation and a political discourse that is informed by rumor and conspiracies to a potentially dangerous degree. Egypt can influence events in Gaza, but the interim government's response to Libya has shown Egypt's weakness and lack of ambition; slowly the Al-Sauds are picking up the reins.

While the GCC may be a broadening, collective body—and Egyptian inclusion would underscore this—Saudi Arabia has and will retain the last word. Qatar's role in Libya and the barely-disguised political activism of Al Jazeera have been important but haven't quite yielded the change in Qatar's regional authority that the emir is seeking. Saudi Arabian leadership, lacking so critically in recent years, may have been galvanized by Al-Thani's attempts to sidestep Saudi Arabia, and Qatar is now having to recognize that when Saudi Arabia functions as a regional power, it simply cannot compete. Riyadh's moves on voting and female suffrage are helping to lift the country out of its policy stagnation and demonstrate how attuned it is to regional trends and perceptions. The "Arab Spring" may have pushed Saudi Arabia to fill a void that the movement has expanded.

To measure Saudi Arabia's hold on GCC leadership, look no further than oil. As OPEC loses some of its influence as a result of its members' inability and unwillingness to adhere to uniform policies, Saudi Arabia continues to pick up the slack. When rising oil prices threatened to undermine a tepid recovery and a June 8 OPEC meeting amounted to nothing, Saudi Arabia took matters into its own hands. Riyadh boosted its daily production unilaterally to output levels unseen since 1981. When it comes to regional leadership, oil talks—and Saudi Arabia has the megaphone.

While oil may be the language and lifeblood of Saudi Arabia's regional status, the country's short-term leadership opportunities match up with longer-term obstacles that cannot be ignored. On top of continuing Wahhabi influence and an impending demographic bulge, Saudi Arabia owns a budget that needs approximately \$85 per barrel oil to remain balanced. If long-term trends drive down the price of oil, the Saudi regime could face growing headaches. Also, the leadership structure cannot remain unchanged long-term. After all, too many octogenarians now

means too many nonagenarians within a decade. An anti-progressive likely successor to the king could prove contentious and destabilizing.

Iraq is the other Arab Middle Eastern power potentially capable of leading regional events, but the country is mired in its own internal morass of incompetent scrabbling for power. Maliki's "government" cannot frame internal—let alone regional—policy. While its long-term importance cannot be ignored, Iraq is unlikely to play a preeminent regional role for years to come.

Other established players have seen their roles change dramatically. Uprisings have challenged Turkey's foreign policy, while simultaneously highlighting its regional importance. Turkey's "zero problems with neighbors" policy has hit a dead-end. The ruling Justice and Development Party (AKP) tried to displace troubled relations and complicated legacies by building diplomatic and business relationships. At the same time, Turkey became an influential political model—a democratic system allowing for Muslim political expression in a dynamic economic context—without proclaiming itself as such. These competing dynamics have collided in the wake of the Arab Spring—specifically its appearance on Turkey's doorstep in Syria—and the movement has shown that Turkey is no longer able to play both sides in regional conflicts.

As a result of these trends, Turkey will restructure its foreign policy. Some degree of Turkey's pre-AKP security focus will likely make a comeback and Ankara may strengthen relations with the West as the domestic situation deteriorates for key regional allies. However, Turkey is poised to remain a pivotal player in the region, and under Prime Minister Erdogan's guidance, it will continue to expand its influence pragmatically. The Turkish model remains the most compelling political template for Arab reformers and the Arab Spring will ultimately push Turkey to be more vocal in supporting participatory politics. Turkish soft power is unlikely to deteriorate drastically as a result of missteps on Libya and Syria—in fact, huge photos of Erdogan are plastered across the streets in Cairo. Turkey remains willing to think creatively about Israel—despite serious tensions—and the value of a Western security umbrella amidst regional turmoil will increase its willingness to solidify a *modus vivendi* with Tel Aviv.

Iran is in a paradoxical position. Periodic outbursts of unrest have failed to rattle its authoritarian system, yet it is on the back foot as popular unrest continues to drive other countries in the region toward more participatory arrangements. Further, regional uprisings have given no credence whatsoever to the Islamic Republic. Its absence as a motivating ideal has only been highlighted by Arab activists' enthusiastic embrace of the Turkish model. Nevertheless, despite some turbulence on the domestic front, Iran is in relative control at home, and enjoys a high degree of regional clout in a number of different contexts. That being said, there are internal problems that deserve attention for the longer term. The regime's internal frictions within the Majlis and in the Cleric's Society are of particular importance. There is a rift growing between the kleptocratic Pasdaran commercial empire, the clerics and the Majlis that may be critical in years to come. Local anger at newly-minted millionaire former Pasdaran thugs will be a factor in future elections, much as a similar anger has fuelled events in Syria.

Geopolitically, Israel stands to lose the most from regional shifts. For a time, the Israeli-Palestinian conflict remained conspicuously muted amid regional upheaval, but this state of

affairs gave way to renewed tensions in light of the Palestinian declaration of statehood at the UN in September 2011. Arab pressure from a number of different angles and diverging domestic contexts in the US, Europe, and Israel will push the conflict further into the spotlight over the coming months. Rapid change driven by popular uprisings means that Arab countries will have to be more responsive to populist sentiment. In contrast with Mubarak, successful electoral candidates in Egypt will have to take a more independent line on Israel and the Palestinians to reflect the demands of their constituencies. Other regional players could trump up their pro-Palestinian credentials as well. Syria's tough domestic context could prompt them to drag Israel into the picture, while Gulf monarchies will be loath to support domestically unpopular policies so soon after the West has left them in the lurch on an existential issue like Bahrain.

In the wake of Palestine's bid for statehood, the Obama administration has limited room to maneuver during an election cycle considering Americans' overwhelming sympathy for Israel. European publics, on the other hand, are largely pro-Palestinian, so European powers are hard pressed to vote against recognition. At the same time, the Netanyahu government is unlikely to seize the moment to innovate on the peace front. It is hard to see this convergence of factors benefitting Israel's regional position in any way. The statehood bid presents a potentially insurmountable diplomatic challenge for the US, and is an instance in which it will be unable to shape the narrative on an internationalized regional issue.

### **Internationalization: Opportunities for the US and Europe**

Although the Arab Spring has unfolded on a highly differentiated country-by-country basis, the phenomenon is regional—and has become increasingly internationalized. Internationalization does not imply that external actors are driving events; Arab ownership of the uprisings has been consistent across the board. Outside interests are being drawn into regional developments in a way that reflects the changing nature of intervention. In a context where new actors have the capacity to make an impact, big players like the US and Europe become policy takers rather than policy makers on key issues. The divergence in US and European foreign policy in the region and the weakening of key European players as they grapple with domestic fiscal concerns is playing out in the context of the Arab uprisings.

The US led from behind on Libya. It tried to ensure that the intervention is seen as a NATO operation with strong European and Arab backing. This large coalition was an instance of quantity over quality: while many players coordinated on Libya, no one was willing to take the reins. Along with a fundamentally weak Europe, US reluctance meant that no member of the international community is taking a real leadership role on Libya post-Qaddafi. Although France and Britain will likely intervene militarily in conflicts where they perceive a strategic interest, European institutions will be less important in future conflicts than ad hoc coalitions of the willing and capable. As a result, regional players will seek further flexibility beyond what the US and its allies can provide. This will open up more opportunities for Turkey and the GCC, and possibly for a revitalized Egypt.

In a context where the US and key European players have a reduced capacity and willingness to shape events, there remain certain fronts where they can have an impact. US priorities in the region will remain largely the same—Israel-Palestine, the Iran nuclear question, and

counterterrorism. The dynamics of each of these challenges have changed in the wake of the Arab Spring, but none have been completely upended.

Notably, extremist ideology has played no role in the uprisings, and al-Qaeda and its affiliates are further reeling from the assassination of Osama Bin Laden. Bin Laden's death may see al-Qaeda ultimately lose some of its key players as they revert to local conflicts and return home. The primacy of Egyptians in the organization has long been an issue and al-Qaeda may face a real risk of splintering into national or sub-regional factions which will turn their focus back to their home conflicts. Despite these trends, terrorism and extremism will, of course, continue to pose a challenge—but key regional players will remain amenable to counterterrorism cooperation. On broad diplomatic challenges such as Iran, it will behoove the US to continue to employ “soft containment;” pursuing available channels to press for preferential outcomes without heavy engagement. The proliferation of opportunities as a result of rapid change could tempt the US to intervene more extensively, but capability and willingness are unlikely to align consistently.

Economic imbalances drove unrest and will continue to compromise long-term stability throughout the region. Certain European countries would be well positioned to engage this gap. Financial assistance and more open trade agreements could go a long way toward tying the Middle East more closely to Europe and increasing European influence in the region. Although economic engagement will appeal to the foreign policy community, domestic challenges mean pushback is likely from officials who deal with internal economic matters, rendering European coordination quite unlikely on this front. Engagement on a country-by-country basis could increase near and long-term influence for certain European countries, but is again unlikely to translate into a greater role for Europe as a whole.

After all, the EU is not viewed as a regional player, nor does it attempt to be one (other than on issues like immigration and trade agreements). However, individual powers like France, Italy and the UK will continue to play a strategic role and are welcomed by Middle Eastern governments as counter-balances to the US. The British and French will have considerable opportunities with regard to their foreign affairs strategies: the FCO and the Quai d'Orsay can step up and be welcomed by regional players— if they are not hampered by fiscal restraints. Berlusconi likewise has an opportunity to be a player, but his domestic position makes it difficult to do much more than act as an agent for ENI and Italy could be looking at a return to revolving-door governments.

## **Wildcards**

While still unlikely, a handful of events capable of generating severe and significant shocks in the region and beyond are much more plausible in the wake of the Arab Spring.

### **Egypt**

In Egypt, a reversion to revolutionary instability is possible. The next government will be far from monolithic and will have the shortest popular honeymoon imaginable. Fiscal problems, the on-going trials of regime officials, the adherence to conspiracy-dominated interpretations of

events by all political actors make Egypt a candidate for a very unstable policy environment in the years to come. For example, it is hard to address gas policy (arguably the most important single policy issue in the domestic economy) when the majority of the population is convinced that the government is selling gas to Israel at a quarter of the prices that it is actually getting. When most of Egypt's putative leaders think the same thing, the position becomes untenable.

### Regime Collapse

Further regime collapse cannot be ruled out. Syria has approximately seven months of spending at current levels left. Inflation is already rising to different degrees in different parts of the country, and international pressure continues to mount from beyond Syria's borders. While presently on a more favorable trajectory, Libya could become enmeshed in a de facto post-Qaddafi partition. Far less likely, the Iranian regime could conceivably topple at the hands of unforeseen shocks to a system that carries a dwindling cushion of stability.

### Turkey/Israel

Following months of deteriorating relations, the potential for direct military confrontation between Turkey and Israel--most likely through naval skirmishing over humanitarian flotilla ships to Gaza--has now become a "weak signal" for risk in the region. Neither side is looking for dramatic escalation, but efforts to brook negotiation given the changing security environment over Palestine and the broader Levant have become increasingly troubled.

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The members of the GAC on Geopolitical Risk are:

<b>Kanti Bajpai</b>	Visiting Professor, Lee Kuan Yew School of Public Policy, Singapore
<b>Katinka Barysch</b>	Deputy Director, Centre for European Reform (CER), United Kingdom
<b>Ian Bremmer (Vice Chair)</b>	President, Eurasia Group, USA
<b>Steve Clemons</b>	Director, American Strategy Program, New America Foundation, USA
<b>Sumit Ganguly</b>	Professor of Political Science, Rabindranath Tagore Chair in Indian Cultures and Civilizations, Indiana University, USA
<b>James F. Hoge</b>	Counsellor, Council on Foreign Relations, USA

<b>Jia Qingguo</b>	Professor and Associate Dean, School of International Studies, Peking University, People's Republic of China
<b>Jin Canrong</b>	Professor and Associate Dean, School of International Studies, Renmin University of China, People's Republic of China
<b>Bobo Lo</b>	Independent Scholar and Consultant, United Kingdom
<b>Nader Mousavizadeh</b>	Chief Executive Officer, Oxford Analytica, United Kingdom
<b>Gideon Rachman</b>	Associate Editor, Chief Foreign Affairs Commentator, Financial Times, United Kingdom
<b>Douglas A. Rediker (Chair) *</b>	Member, Executive Board, US, International Monetary Fund (IMF), USA
<b>Gideon Rose</b>	Editor, Foreign Affairs, USA
<b>Shen Dingli</b>	Professor and Executive Dean, Institute of International Studies, Fudan University, People's Republic of China
<b>Dmitri Trenin</b>	Director, Carnegie Moscow Center, Russian Federation
<b>Nasim Zehra</b>	Director, Current Affairs and Host, Policy Matters, Pakistan

\*This report was created prior to when he assumed the chairmanship of the GAC.