

US-MENA: Biden cannot delay decline and disengagement

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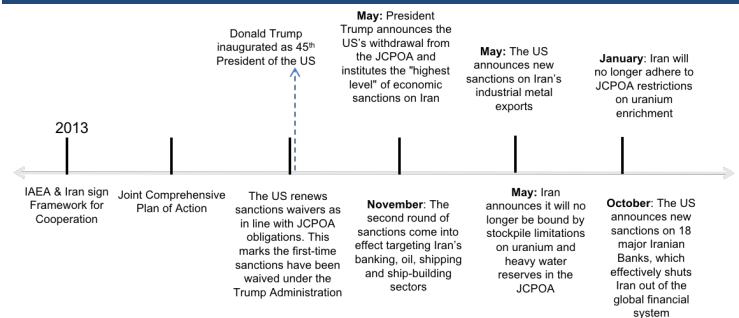
- Even if he is defeated, Donald Trump's policies will remain in force during the 'lame duck' window before a new administration. We do not rule out his liberal use of executive orders to effect foreign policy, which would probably be targeted at Iran.
- Trump has reshaped US-MENA alliances in ways he would seek to maintain if re-elected. While a Biden administration would be unable to undo some of these changes, we expect a return to the foreign policies we saw during the Obama years, including US disengagement.
- While global trade is set to drop this year due to pandemic-induced disruption, US-MENA trade could hold up, and new regional normalisation ties provide an opportunity for new trade markets with the US.

If Trump takes the White House again

Despite his unprecedented and often unpredictable foreign policies, President Donald Trump has made demonstrable moves in the Middle East and Gulf, although some of those decisions have cooled close relationships between some MENA countries and the US as well as between the US and its European allies.

- Trump's policies toward MENA has included a consistent line of re-enforcing diplomatic ties with the Gulf States and continuing to place "maximum pressure" on Iran in various ways.
 - Should Trump win re-election, we expect his administration to continue in its attempt to size down Iran's regional influence via pressure on the regime and economy, as well as on regional acolytes.
 - Iran's strategic patience would come to an end if Trump were announced the victor. However, the current Iranian regime's self-preservation prerogatives would eventually bring it back to the negotiating table -- albeit not as willingly as if Biden were to win.
- Trump has made the relationship between Israel and the US a hallmark of his foreign policy, something we expect to continue should he get a second term.
 - Moving the US embassy to Jerusalem, a change previously avoided by several administrations, signified a shift in US foreign policy to explicitly put the needs of Israel first in the region.
- Meanwhile, although the US would never fully abandon its troop presence in the greater region, the number of troops continues to drop and the relationship with the MENA region is being redefined.
 - One indicator of this relationship has been the strategic partnerships signed with Gulf States, but also with Iraq.
 - Following Iraqi Prime Minister al-Kadhimi's visit to Washington in August, the countries signed a record number of energy deals.
 - Additionally, US Foreign Secretary Pompeo and Saudi Foreign Minister Faisal Bin Farhan launched a US-Saudi Strategic dialogue in October that is expected to increase defence and energy cooperation.
- The vacuum left by the diminishing number of US troops in Syria and Libya has opened the door for Turkey and Russia

Figure 1 - A summarised US-Iran Nuclear Diplomacy Timeline¹



to advance their own foreign policy agenda. This trajectory is likely to continue under a second Trump term.

Bracing for the handover period

If Trump does lose the election, we are watching out for the potentially volatile post-election 'lame duck' period --- the window between when the results are counted on 3 November and the new president's swearing-in on 21 January 2021.

- The foreign policy decisions Trump makes during this window could carry over into the new administration.
 - During this time, he is still president and carries the same powers. Usually, this period is limited to domestic policy decisions such as presidential pardons. But unlike his predecessors, Trump could make lasting policy decisions to solidify his legacy.
 - The 20th Amendment of the constitution shortens the period of time between the election and inauguration to bring in a new congressional session. This potentially limits the potential for unchecked power from the outgoing president.
 - Nonetheless, Trump's liberal use of executive orders in the past could continue during this period, resulting in foreign policy decisions, most likely towards Iran, which would have been considered too controversial to attempt prior to an election.
 - We note, for example, that the assassination of Iranian Guard General Qassim Soleimani was a presidential move taken without congressional authorisation.
- There is no standard script for what might follow if Trump refused to concede.
 - Meanwhile, he has refused to commit to leaving office if he loses, indicating he would go as far as involving the US Supreme Court if necessary.
 - Trump has also sown the seeds to claim a rigged election were he to be defeated.
 - The only close precedent -- and it is not that close -- was in 2000 when the election results of George W. Bush vs. Al Gore were decided by the US Supreme Court.
 - Gore, however, accepted the decision that it was a Bush victory.

Political déjà vu

A White House led by Democrat Joe Biden could well bring back elements of foreign policy that hark back to the Obama administration. His transition team, like his campaign staff, is expected to be made up of Obama alumni, meaning he would reinstitute many of the foreign policy initiatives that were introduced during President Barack Obama's years -- most notably re-entering the JCPOA nuclear deal with Iran.

¹ Arabia Monitor.

- Candidate Biden has made re-joining the JCPOA an integral part of his campaign platform.
 - If he does, and complete sanctions relief were to go into effect, this could put oil production of more than 2.5M bpd back on the global market.
 - However, Iran is unlikely to re-enter the market at full production levels. Contingent on the terms of deal, Iran is more likely to reach 700,000 bpd in 2021 with full production capacity reached in 2022, at the earliest.
 - Iran's return to global oil markets would put downward pressure on oil prices and could result in an oil glut if demand remains weak. Production cuts would require a new consensus, this time including Iran.
 - An interim agreement would likely be put in place as in 2013. However, such a deal may not be palatable to Tehran, which is likely to push for a return to the full deal.
 - Nonetheless, Iran would return to the negotiating table if Biden took office, regardless of a probable hard-line president being elected in the Islamic Republic.
- A Biden administration would probably step away from the overt Israel-centric foreign policy goals of the Trump administration while maintaining the decades-long special relationship between the US and Israel.
 - We do not expect a Biden win to result in a cooling of recent developments between the GCC and Israel, although further normalisation progress might be slower in pace.
 - Several states in the region have declared their opposition to the Trump-orchestrated normalisation of relations between Israel and the UAE and Bahrain. Without pressure from Washington, the normalisation process could well stall on the back of regional politics.
- What remains to be seen, however, is how a Biden administration would respond to Saudi Arabia's recent moves to increase its influence around MENA, and if Biden would be as forgiving of Riyadh's activities as Trump has been.
- The most likely scenario is that Biden will adopt a more active presence in the region, both in MENA and Israel, that aligns with his foreign policy doctrine of "restoring America's position" in the area.
 - But if the Obama administration's record is taken as a reference point, we expect continued disengagement of the US from the region, under a Biden presidency.
- With US troops all but gone from Syria it is unlikely that Biden would push for a renewed presence in the region as he is famously sceptical of foreign military operations.
- Much like a Trump victory, this stance would be beneficial to Turkey and Russia, countries that have already built up an established presence in Syria on the back of US disengagement.

US-MENA Trade: Stable, with more to come

Trade with MENA continues to account for only a small share of total US trade. In 2019, US exports to MENA represented 3.5% of total US exports while imports made up 1.7% (USD 41.6B) of all US imports. GCC countries accounted for over 80% of US goods exported to the Arab world last year, totalling USD 45B. Meanwhile, the new Israeli normalisation ties with the GCC should open wider trade doors, particularly with the US.

Figure 2 - US-MENA Trade (USD, B)²



- The MENA region accounted for USD 98B, or just 2.3%, of the US's USD 4.1T global trade volume in 2019, a 10% decline from the year before. Compared with 2009, trade stood at USD 101B, around 1.9% of the US's then-USD 5.1T trade volume. Much of the decline, however, is a reflection of the US's growing self-sufficiency in the energy sector.
- Trade figures show that US exports to MENA have been more stable than its imports from the region (Figure 2).
 - Since 2010, US exports to MENA have been between 3.8% and 4.5% of total US exports. But after peaking in 2014 at USD 71.2B, the total value of US exports decreased to USD 55.4B in 2018. In 2019, exports grew slightly to USD 56.6B.
 - US imports from MENA dropped significantly following the 2008 peak (USD 121B) to a low of USD 41.6B last year -- around 1.7% of US imports.
 - With the US increasing its domestic oil and gas production, imports from MENA, which are heavily skewed toward energy, will decline. Between 2014 and 2015 alone, oil and gas imports from MENA fell by more than 50%.
- We do, however, expect total US exports to MENA to pick up, particularly from the GCC. The recent regional normalisation accords are already spurring new deals in the pipeline with the US, as indicated by the potential sale of US Lockheed Martin F-35 aircrafts to the UAE.
 - Putting aside the political elements of this sale, over the last 13 years, the UAE has been the top destination for US goods in the MENA region. The UAE imported USD 20B in 2019, or 35% of all MENA imports from the US during that year.
 - The UAE is a significant buyer of US military equipment and its investments support American jobs and provide liquidity to capital markets, specifically in innovative industries.
 - A significant example is the USD 6B investment in Global Foundries, the second-largest semiconductor chip maker in the world.
- As global power dynamics shift, and China's influence expands across the region, mainly via the Belt and Road Initiative, and particularly at a time when US commitment is questioned by regional allies, we expect Sino-MENA ties to deepen as the region inevitably continues its pivot to Asia.
 - While we do not expect the US to fully retreat from MENA, the US will be unable to contain China's rise as a regional hegemony. Whoever wins the US elections will be forced to face the reality that competition with China now runs through the region.

² IMF, Arabia Monitor.

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