

MIDDLE EAST NOTES AND COMMENT

Value Investing

by Haim Malka

Hedge funds have had their day. Following years in which audacious bets paid off handsomely, the financial markets have tanked. The Bush administration has made similar bets in the Middle East, and it has left similar wreckage. Now many investment professionals are returning to the fundamentals: solid analysis, sustained investment, and modest expectations. President-elect Obama needs to return to the fundamentals of Middle East diplomacy.

The first step is to set realistic expectations. The Bush administration boldly set out to do what no administration had done before - nothing less than a reshaping of the Middle East - but it failed. It failed to make grand bargains and peace agreements. It failed to break America's foes. Perhaps most pointedly, it left the United States with far less influence than it had in the region eight years ago.

Expectations are now high that the Obama administration will fix all that the Bush administration had mangled, and that it will delve into peacemaking where the Bush administration had stayed aloof. In particular, many hope that the United States will engage vigorously with the Iranian leadership, turn with renewed energy toward the Arab-Israeli conflict, and engage with Syria, bringing all of these conflicts to something of a resolution. The issues need serious attention. Yet, rushing in with the goal of fixing these problems would be a mistake. In practical terms, it will likely yield even worse results than the combination of isolation and neglect practiced by the Bush administration. Instead, U.S. interests are better served by setting practical and achievable goals that ultimately strengthen the U.S. ability to influence events in the region over the long term.

Iran's pursuit of nuclear weapons technology needs to be at the top of the next administration's agenda. The idea of a "grand bargain" with Iran is an appealing one. But it is unachievable as long as the Iranian government's internal legitimacy is predicated on opposition to the United States, and its policies are designed to build influence at the expense of the United States rather than building on common interests. Further, putting all of the U.S.-Iranian bilateral issues on the

(continued on page 2)

Made in...Egypt?

Many of the knick-knacks for sale in Cairo's main tourist market, Khan al-Khalili, are made in China. Chinese companies in turn are relying on Egyptians to manufacture other things—such as televisions. Despite China's manufacturing juggernaut in global markets, Egyptian-Chinese manufacturing ties are growing. China TechFaith signed an agreement with Egypt's QuickTel in April to develop and manufacture low-cost cell phones in the Middle East, and the Hisense Group officially began production of LCD televisions in its new Egyptian factory earlier this month.

Egypt's true exporting sweet spot, however, may be more with services than manufactured goods. Egypt's tech-savvy Prime Minister, Ahmed Nazif, has built partnerships with leading international technology companies such as Microsoft, Cisco and Oracle to ensure that university students are learning the skills employers need. It has also established Nile University, which focuses on applied information technology research that will bring students together with industry.

Catering to those looking to outsource, Egypt has built a posh "SmartVillage" outside Cairo that includes call centers staffed by thousands of multilingual representatives. The Egyptians' ability to answer calls in English, French, German, Italian, Spanish, Greek and Portuguese gives India, which is almost entirely Anglophone, a run for its money. Egyptian telephone representatives even handle registration for Microsoft's products in Israel, drawing from the 500 or so Hebrew-speaking Egyptian graduates who come on the job market every year. When Bill Gates personally visits the call center, you know they're doing something right. ■ JF

Discussion with Dr. Anwar Gargash

The Middle East Program hosted UAE Minister of State for Foreign Affairs Dr. Anwar Mohammed Gargash on November 21, 2008 for an off-the-record discussion on Gulf security. CSIS President and CEO John J. Hamre moderated the discussion. The discussion touched on a number of critical issues of common interest, including the global financial crisis, Afghanistan, Iran, the Arab-Israeli conflict, and Iraq. Regarding Iraq, Gargash called for more active Arab engagement with the Iraqi government and urged greater attention to Iraqi reconciliation. Gargash earned his bachelor's and master's degrees from George Washington University here in Washington before earning his Ph.D. from Cambridge University. ■

table will ensure drawn-out negotiations that delay any potential agreement on the single most important issue: Iran's nuclear ambitions. Instead, the United States should focus on tough direct negotiations—in concert with European and Arab allies—over Iran's nuclear activities while continuing to engage Iran separately on the issues of Iraq and Afghanistan, where common interests are much easier to find.

On the Israeli-Palestinian front, regional allies will undoubtedly urge President-elect Obama to use his clout to promote a comprehensive Israeli-Palestinian agreement. It is a worthy cause, and the United States will certainly need to be more engaged early on in a constructive way and signal its commitment to a two-state solution. But pressuring Israelis and Palestinians to compromise on core issues now will backfire. Neither side is in a position to make strategic commitments, and neither side will be willing to make significant concessions when the other side's leadership is weak, divided, and unlikely to deliver on whatever promises it makes.

Preserving the possibility of a final agreement is important, but the most urgent need is to improve the politics on both sides and lay a solid foundation for future negotiations. U.S. interests are not served by fruitless summits, but instead by low-profile steps that improve conditions on the ground and reduce violence. One way to start is through support for a Palestinian unity government under President Abbas. Giving a nod to Palestinian unity talks would stabilize Palestinian politics, and reduce the potential for more violence. Moreover, without a basic power-sharing arrangement between Hamas and Fatah, Palestinians cannot reach a durable agreement with Israel. Another step is expressing support for the Israel-Hamas ceasefire. Since the ceasefire was brokered by Egypt in June 2008, rocket attacks against Israel have dropped dramatically, and overall casualties on both sides have declined significantly. Despite the recent violations of the ceasefire, both Israel and Hamas have demonstrated a desire to extend it. Neither step solves the underlying crisis between Israelis and Palestinians, but each would have far greater positive impact than an empty diplomatic victory or shelf agreement.

Setting realistic goals and expectations vis-à-vis Syria is also crucial. To start with, the Obama administration will need to dispense with the illusion that Syria can be “flipped.” Syria sees itself having far more influence challenging the generally pro-U.S. world of Middle Eastern governments than it would have as a junior partner in a coalition of pro-Western states. Realigning itself with the West would leave Syria wholly dependent on Western largesse at a time of shrinking Western resources.

But a Syria that is not aligned with the United States need not be a Syria that is hostile to the United States. The immediate goal of U.S. diplomacy should be to curtail direct and indirect Syrian support for militant movements in Lebanon, Palestine, and beyond, and to stop the flow of foreign fighters into Iraq. A practical starting point would be to offer Syria some limited incentives in exchange, such as lifting the toothless and largely symbolic Syria Accountability Act, which has done nothing to alter Syria's calculus. Deeper ties between the United States and Syria would create a web of interests worth protecting, and could begin to create a virtuous cycle. Down the road, the United States should consider direct mediation of Syrian-Israeli negotiations, which Syria has indicated it seeks.

None of the strategies described here will deliver remarkable short-term returns. Yet, eight years of reckless investment have left the United States battered in the Middle East. A long-term approach based on sound fundamentals which sets clear priorities and practical goals has a much greater chance of spurring a rebound and strengthening broader U.S. interests. The climb will be steep, but there are plenty of opportunities to find value. ■ 11/24/08

Links of Interest

Jon Alterman was quoted by Agence France Press in “[Fresh from Iraq Success, Petraeus Takes on Afghanistan, Iran.](#)”

The Middle East Program hosted the Gulf Roundtable event entitled “[Making Sense of Gulf Economic Trends](#)” with Dr. Mohsin Khan of the IMF.

Jon Alterman was quoted by the Associated Press in “[Moment of Truth for Shiite Party Over Pact.](#)”

Jon Alterman was cited in an op-ed in the *Washington Times* in “[New Global Expectations.](#)”

The Middle East Notes and Comment electronic newsletter is produced by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s). © 2008 by the Center for Strategic and International Studies.

The CSIS Middle East Program

Jon B. Alterman
Director

Haim Malka
Deputy Director

Lindsey Stephenson
Program Coordinator/Research Assistant

David Elliott
Jeffrey Fine
Interns