

Point of View

Shifting Sands



Vali Nasr

A generational shift in geopolitics is creating new possibilities for prosperity in the Greater Middle East



The Middle East is often seen as an arena of unending conflict: ambitious regional rivals vie for advantage as restless young people struggle against authoritarian rule and ailing economies.

And yet despite the region's many challenges—from the Islamic Republic of Iran's nuclear program to raging conflicts in Palestinian territories, Iraq, Libya, Sudan, Syria, and Yemen—recent developments suggest that the Middle East's place in the world is undergoing profound change.

The Abraham Accords between Israel and a group of Arab countries in 2020—or the recent rapprochement between Iran and Saudi Arabia—signal axial shifts in regional politics. The most salient impetus for change is the palpable shift in the US outlook on the Middle East. Since the 1979 revolution in Iran the United States has served as the mainstay of the region's security architecture. It implemented containment first of Iran and then of Iraq after the invasion of Kuwait in 1990. After the 9/11 attacks, the US "global war on terror" brought a sharper

focus on the region, leading Washington into wars in Afghanistan and Iraq and interventions in Libya and Syria. Since that high point of engagement and commitment, US attention has shifted to other global priorities, notably managing China's rise.

Despite US protestation to the contrary, Washington is no longer keen on entanglement in Middle East conflicts—as has become clear to its friends and foes in the region. Its wars in Afghanistan, Iraq, and Libya ended badly; its impact on conflicts in Syria and Yemen has been limited. Washington continues to seek containment of Iran, but not at the cost of direct confrontation.

This realization has meant that the Middle East must conceive and manage its own security to a greater extent. In the absence of ironclad American security guarantees, regional powers deem it prudent to mitigate threats and reduce tensions with adversaries through diplomacy and greater economic engagement. This approach led Saudi Arabia and the United Arab Emirates (UAE) to mend relations with Qatar and restore ties with Türkiye, Iraq, and, most recently, Iran and Syria. The same logic led to the Abraham Accords and greater engagement between Israel and Saudi Arabia. The Gulf monarchies are investing in Israel, Iraq, and Türkiye—and Iran and Syria could be next. Economic statecraft is driven by opportunities but is also the means to build and sustain new strategic relationships.

Integration, not confrontation

This thawing of relations between the walls of chasms intersecting the region since the Arab Spring of 2011 and the 2015 Iran nuclear deal will benefit countries caught in the middle—from Lebanon and Iraq in the Levant to Qatar and Oman in the Persian Gulf. Greater trade and investment are another important result. Both Saudi

Arabia and the UAE are investing in Türkiye and Iraq. The UAE's trade with Iran has grown over the past two years, and Saudi Arabia has hinted that it may invest in Iran if the two countries can normalize relations. There is now talk of major investment in a trade corridor that would connect the Persian Gulf to the Mediterranean, with roads and railways linking Oman to Saudi Arabia and on to Iraq, Jordan, Syria, and Türkiye—with lateral connections to Iran and Israel. The United States is not keen on including Iran but supports a broader Persian Gulf–Levant–India connection to limit China's role in the region and integrate the Persian Gulf into its Asia strategy.

As far-fetched as such a vision may seem—and there are significant obstacles in its path, most notably the fate of Syria—it underscores how far the region's geostrategic reality has moved. The Middle East is now imagining economic integration in lieu of confrontation. Security concerns have thus far been an obstacle to such a project, but it is now possible to contemplate a future not dissimilar to present-day Southeast Asia and to see economic integration as a solution to persistent security concerns. Even the United States recognizes strategic advantage in promoting an economic vision for the region.

The Middle East's most ambitious powers, Saudi Arabia and the UAE, aspire to be notable players in the global economy. These countries need security to build service industries and attract investment and assume the role of the economic hub for the region. This vision is more compelling because the economic boundaries of the Middle East have expanded beyond the narrower security map in the minds of many Western observers. Economic and cultural ties are weaving Central Asia and the Caucasus, the Horn of Africa, and South Asia into what has traditionally been viewed as the Middle East and North Africa region. Consider that today India is the UAE's largest trading partner. China and East Asia play an important part in this ascendant economic vision.

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Geostrategic shift

China is now Saudi Arabia's largest energy partner, and its investments in the kingdom outpace those of all other countries. Chinese economic ties with other Gulf countries, and with Iran, Iraq, Egypt, and Pakistan, are also growing. China has invested more than \$56 billion in Pakistan as part of its Belt and Road Initiative and is discussing similar investment in trade and infrastructure in Iran. For China the Greater Middle East is a critical part of its vision for Eurasia, the landmass that would connect China's economy to Europe.

Western China borders the Greater Middle East—a region of strategic significance, especially as China's own domestic economic production moves westward from its eastern Pacific shores. China is hungry for the region's vast energy resources, but also for its potential as a transit corridor that could balance out China's current dependence on the Indian and Pacific oceans and

the increasingly contentious maritime access points in Southeast Asia and the South China Sea. The Arabian Peninsula is vital to East Asia's trade with Africa and Europe, and Iran and Pakistan are unique corridors that connect Europe on one side and the Arabian Sea on the other to China through Central Asia or overland into Xinjiang.

Just as the US has shifted its gaze away from the Middle East to Asia, China is looking west to the Middle East. This coupling of the shifting interests of the world's premier great powers constitutes the most significant change in the geopolitics of the Middle East for decades. China's deeper engagement will have an economic impact, and—as evidenced by Beijing's role in normalizing ties between Iran and Saudi Arabia—it will also contribute to a climate of greater economic interdependence within the region.

This geostrategic shift has been bolstered by Russia's war in Ukraine, too. Russia was already deeply involved in the Middle East through its intervention in Syria's civil war and its oil-production pact with Saudi Arabia and the Organization of the Petroleum Exporting Countries. The war has reduced Russian involvement in Syria but deepened its ties with Iran. Those ties are most evident in the military arena as Iranian drones and ordnance have contributed to Russia's assault on Ukraine. But Russian dependence on Iran extends beyond military supplies. Moscow is increasingly looking to the transit corridor stretching from the port of Astrakhan on the Caspian Sea through Iran to the port of Chahbahar on the Arabian Sea to trade with the world. Growing Russian trade has been important to Iran's cash-strapped economy, but it has also connected Iran with port cities on the southern shores of the Persian Gulf, which are a part of the emerging Russian trade network.

New pipelines

The same dynamic is at work in North Africa and the Levant, this time driven by Europe's reaction to Russian aggression. As Europe weans itself off Russian oil and gas, it will inevitably depend to a

greater extent on energy imports from North Africa, the Middle East, and the Caucasus and Central Asia. This will impact Algeria and Egypt, the region's gas producers, first and foremost. But its broader implications for economic integration across the Mediterranean will benefit Morocco and Tunisia, which have been at the forefront of supply chains serving European economies. The energy connectivity is translating into plans for a network of pipelines to connect oil and gas from these sources to Europe. Türkiye sees a future as the transit hub for energy pipelines coming from the south and the east and on to Europe in the west. Saudi Arabia and Qatar are contemplating pipelines that would take their own oil and gas, as well as Iraq's, to that Turkish hub.

These plans depend on resolution of conflicts in and between countries along the way. Economic interest would, in turn, foster interest in continued peace. This is perhaps a distant goal but not impossible to realize. In November 2022 Israel and Lebanon (with Hezbollah's approval) signed a historic deal setting their borders in the Mediterranean—a necessary prelude to development of their respective gas fields. The United States helped negotiate that deal and, in recognition of these emerging trends, it hopes to supplant its own old order in the region with one that connects India to the Persian Gulf and Israel through a network of ports, roads, and railways. America's vision is partly aimed at containment of Iran and China. But insofar as it relies on economic ties, it too will confirm the new geopolitical reality of the region.

As has happened so often throughout history, great power rivalries will shape the future of the Greater Middle East. Yet in this case they are working to bind countries closer together economically rather than wrenching them apart. This will open up new possibilities for the region. **F&D**

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Jordan's Fiscal Ownership



Mohamad Al-Ississ

Finance Minister Al-Ississ reflects on how his country spearheaded preventive and progressive fiscal policies against all odds

When I joined the Ministry of Finance in November 2019, I naively thought that our biggest challenge would be getting the budget through Parliament (it was in fact no small feat). Our relationship with the IMF, with a stagnating Extended Fund Facility (EFF) program, also left much to be desired. We believed that after these two issues were resolved, it would be smoother sailing.

Little did we know. By March 2020, we had passed the budget and had a fresh EFF program built on completely different principles. In this homegrown program, we aimed to widen the tax base instead of raising marginal tax rates. We also intended to instill discipline over our primary deficit, but not at the expense of safety nets or growth. Few people initially believed we would succeed; even fewer did when we were hit with three consecutive “black swans”: COVID-19, the Russia-Ukraine crisis, and global stagflation.

Today, Jordan's macro-fiscal and monetary stability is acknowledged by all major credit rating agencies. Moreover, Jordan's April 2023 Eurobond issuance was six times oversubscribed. We still have a long way to go, but it's worth taking a look at how we got here.

Back in academia, we debated the fiscal paths and structural frameworks proposed by the IMF. For policymakers, however, managing fiscal risk is not about neat mathematical equations or econometric models; it is about the political economy of owning reforms and tailoring them to your country's circumstances. I'll first elaborate on how we strove to do that, then examine what this process revealed about the flaws of international financial institutions and what might be done to rectify them.

Reclaiming the reform momentum

First, we stopped relying on packaged prognoses and instead did our own evidence-based analysis in 2018 and 2019. After a deep dive into the causes of our fiscal challenges, we looked at which reforms would help achieve equitable macroeconomic stability. Previous shocks from the region, which amounted to 44 percent of our GDP, drove up our deficits and debt. There was a significant fiscal impact from

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these shocks, including closing our borders because of conflict in neighboring states, a disrupted energy supply, and an influx of Syrian refugees comprising 20 percent of our population essentially overnight. But when we stepped back from the pressing need for ad hoc measures, Jordan could identify the virtuous intersection of progressively widening the tax base, enacting countercyclical pro-growth reforms, expanding targeted safety nets, and managing debt service. Our new evidence-based path built credibility with the IMF and allowed us to challenge the standard approach of indirect taxation, subsidy cuts, and reduced procyclical expenditures.

Our approach was a feasible yet ambitious overhaul unique to Jordan. On the revenue side, we tapped into fighting tax evasion and avoidance rather than raising marginal rates (in fact, we cut sales tax rates on essential goods in the 2020 budget to signal a redirection, then lowered and unified our customs tariffs in 2022). We focused on improving the efficiency and equitability of revenue collection. We closed tax loopholes via legislative changes such as transfer pricing, unified the tax administration throughout the country, cracked down on tax evasion, and unified rates to limit arbitrage across multiple categories. On the expenditure side, we sharpened targeting while expanding safety nets, attempted to pay back arrears, and boosted capital expenditure for the first time in years.

The second step was to build trust by generating results. The revenue mobilization strategy is bearing fruit: in 2022, Jordan had met its income tax target for the year by August; in the first quarter of 2023, domestic revenue rose 9.1 percent year over year, driven mainly by taxes on income and profits. The country's fiscal discipline in 2022 yielded a primary deficit that outperformed the IMF program target, thanks to higher-than-expected domestic revenues. To say the plan was perfectly executed would be inaccurate, but instead of raising rates on the average citizen, we ensured that those who could afford to pay taxes paid their fair share. The revenue benefit was tangible, as was the greater social stability that followed.

It is an example of good policy being good in itself—and growing more effective the more progressive it becomes.

The third step was flexibility and focus on the big picture. Within the Ministry of Finance, macroeconomic stability remains our key goal, but context matters, and context is malleable. For example, our IMF program was one of the first with a built-in COVID adjuster and other adaptive features. As a result, Jordan achieved its EFF program targets ahead of schedule, in June 2023.

Surviving within this global system, however, is not the same as thriving—Jordan faces many ongoing challenges. For instance, rising global interest rates mean that our gains on income tax revenue go toward the rising cost of servicing debt instead of improving public services. I believe the onus is on the IMF to continue its leadership position of adapting the financial system to global changes. Here are a few suggestions.

Setting benchmarks for the IMF

Our international financial institutions rose from the ashes of World War II. Their very premise is therefore reactive, not preemptive. These institutions often mobilize resources for a country only once a shock has occurred, leading to knee-jerk firefighting, not structural measures that preventively enhance resilience. Governments tend to provide aid after the middle class has fallen into poverty rather than working to prevent it; emerging markets need tools to navigate risks preemptively, which is more cost-effective than dealing with the aftermath.

First, the IMF should add preventive tools to its roster. Jordan's recent experience shows what can happen if this practice is encouraged on a larger scale. At the onset of the pandemic, under the directives of His Majesty King Abdullah II, we avoided the post-COVID global food supply and demand shocks most countries experienced by ensuring investment in better wheat storage facilities and reserve buffers. As a result, we averted some of the expensive repercussions of the Russia-Ukraine war and other price fluctuations. Moreover, we included an adjuster for unforeseen pandemic expenditures

and were able to expand spending on vaccination and treatment. The IMF should systematically embed such adjusters in its programs.

Second, if international financial institutions stand behind globalization, they must provide buffers against globalization's challenges. We cannot assume that an unequal global system will miraculously spread the spillovers and costs of conflicts equally; we must pursue global solutions. As IMF Managing Director Kristalina Georgieva reminded us, "War in Ukraine means hunger in Africa." Yet resources are not mobilized in a way that balances need and availability.

Third, economy-wide stability is a prerequisite for household-level stability—but that alone does not guarantee it. Governments should take a more proactive approach to ensuring that the middle class has better, more affordable buffers, as opposed to expanding social safety nets following a crisis. Consider, for example, rising home mortgages, which put the squeeze on families. This must be remedied before we see widespread defaults.

Fourth, international financial institutions must be the world's apolitical institutional memory. As governments change, these institutions must keep reminding the global community of pressing, unresolved challenges before shifting resources to the crisis du jour. The international community should not abandon the Syrian refugees residing in Jordan just because headlines turn attention elsewhere. Jordan is left with a financial penalty for providing a global public good.

Last, the IMF must empower countries' ownership of their reform agenda, as it did with Jordan. In our case, equitable, progressive fiscal policies, when we were able to implement them, worked. It is not ethos, nor is it theory. The fairest policies—those that favored national interests over individual private interests—proved the most fiscally viable as well. **F&D**

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Climate Financing That Puts People First



Rania Al-Mashat

We need to find an equitable approach to financing for a climate-resilient future

As I read the daily headlines, I can't help but feel a sense of urgency and concern about our planet. An unprecedented number of calamitous climate events—floods and heat waves, superstorms, droughts, and uncontrollable forest fires, all connected to human activity—are putting people's lives in danger, disrupting economies, and causing havoc in the natural world. The need for climate action has never been more pressing, and innovative approaches to financing carbon mitigation and climate adaptation are critical to address these mounting problems. It's time to move from mere promises and pledges to concrete implementation, and resources must be allocated equitably and generously—putting people and the planet first.

Broad access to climate financing is indispensable to an effective fight against the global climate emergency. Hurricanes and heat waves know no borders. But today, global climate financing is regionally siloed and out of step with the scope and consequences of the crisis. Over 75 percent of global climate financing is spent in the countries where it is raised. As a result, many vulnerable regions—including those with a negligible impact on global warming in the first place—have limited access to climate financing.

Africa, for example, contributes less than 8 percent of global greenhouse gases but contends with a slew of climate-related maladies, including severe water scarcity, rising sea levels, and climate-sensitive diseases. Yet Africa receives less than 5.5 percent of global climate financing, even though the United Nations calls it a highly vulnerable region. Countries have a shared moral obligation to protect the global environment, as established by the principle of “common but differentiated responsibilities and respective capabilities,” which was formalized at the UN's 1992 Rio Earth Summit. But not all countries have the same financial resources, and not all countries are equally responsible for the situation we find ourselves in.

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The amount of climate investment needed to prevent catastrophic degradation of the environment is staggering, estimated to hit \$4.5 trillion a year by 2030 and rise to \$6 trillion a year by 2050. Today, by comparison, a mere \$632 billion is spent annually. These figures are sobering, especially considering that about 60 percent of developing economies' needs are not included in their Nationally Determined Contributions—pledges made under the Paris Agreement—which renders the \$100 billion pledge made in 2009 at COP15 in Copenhagen pitifully inadequate.

What's more, just 7 percent of climate financing today is earmarked for resilience and adaptation, even though the Global Commission on Adaptation 2019 estimated that investing \$1.8 trillion in initiatives such as early-warning systems and climate-smart practices over 10 years could yield \$7.1 trillion in total benefits.

Complicating matters, the COVID-19 pandemic and Russia's invasion of Ukraine have led to higher food and energy prices and tighter financial conditions. These have added to the fiscal burden on emerging market economies and have tested their socioeconomic and environmental resilience just as temperatures are rising at unprecedented rates. These cascading events have siphoned money and resources from sustainability projects and caused sharp capital retrenchment that threatens to reverse decades of hard-won development gains. The World Bank estimates that climate change could jeopardize development progress by pushing 132 million people into poverty by 2030, particularly those living in Africa and South Asia.

The cost of implementing the climate agenda—in adaptation and mitigation—far exceeds available deployed resources. A bigger pool of funds is clearly needed. It is argued that if multilateral development banks dedicated all their funds to the green transition, it would amount to about 4 percent of the financing needed (World Bank 2020). Shifting only 1–1.5 percent of global private sector assets—worth over \$450 trillion—would, however, bridge the climate financing gap

(FSB 2021). Philanthropies are also well positioned to lend a hand. In recent years, philanthropic funds targeting climate action have grown rapidly. In 2020, climate-mitigation financing ranged between \$6 billion and \$10 billion, which, put in perspective, is less than 2 percent of all philanthropic financing worldwide.

This urgent need for funds has prompted an international call for a restructured global financial architecture to step up climate action and crowd in private investment for countries most in need. Among the most ambitious are the Bridgetown Initiative and the G20 Capital Adequacy Framework.

Leveraging financial opportunities and forging synergy between climate action and sustainable development were the impetus for the *Sharm El Sheikh Guidebook for Just Financing*, launched by Egypt, which held the COP27 presidency. The goal is to help stakeholders move more efficiently from pledges to implementation by identifying key players, including climate capital providers, and clarifying opportunities, risks, and potential partnerships for a climate-resilient future.

The guidebook introduced the first definition of “just financing” to transcend the notions of climate justice and just transition. The initiative puts people first. It focuses on the equitable allocation of benefits and burdens, and it emphasizes safeguarding the social dimension of the transition to a climate-resilient future. In a nutshell, it attempts to operationalize the principle of common but differentiated responsibilities and respective capabilities by addressing country ownership, access, affordability, and resource allocation bias. It also promotes “additionality”—benefits that are attributable solely to an intervention—and good governance. Along with 12 corresponding guiding principles, just financing “accounts for historical responsibility for climate change while ensuring equitable access to quality and quantity climate financing that supports resilient development pathways, leaving no one behind.”

Accelerating the transition to a low-carbon and climate-resilient future



requires collective action and the power of multistakeholder partnerships. This means unlocking funds from public, private, and philanthropic financial actors and boosting climate financing to developing and emerging market economies. The problem is that 77 percent of developing economies’ sovereign credit ratings are “non-investment grade” and hence associated with high risk. There are also large information gaps regarding opportunities, investor appetite, and investment impact.

Closing the information gap is critical both for governments and investors and could, in turn, shed light on risk-return profiles, lower transaction costs, enable new financing mechanisms, and help generate high-impact investable projects that are Paris-aligned and contribute to country priorities.

Moving from policy to practice, Egypt is a case in point with the launch of its Country Platform for the Nexus of Water, Food and Energy (NWFE نُؤْفِي) during COP27 to emphasize country ownership and adopt a country-led, programmatic, bottom-up approach. NWFE نُؤْفِي (the Arabic means “fulfilling pledges”) introduces the missing link of investable projects and bridges the information gap. It also harmonizes efforts to ensure sustainable and productive interaction between stakeholders. Through the design, structur-

ing, and preparation of concrete and implementable mitigation and adaptation projects, NWFE was able to mobilize concessional financing and catalyze private investment. It made use of innovative financing, including blended and debt swaps for climate action (Al-Mashat and Berglöf 2023).

In the lead-up to COP28 in the United Arab Emirates later this year, it is important to take stock of successful experiences and promote knowledge sharing. The *Sharm El Sheikh Guidebook for Just Financing* provides a blueprint for countries to work together to address climate-related challenges and catalyze financing for our low-carbon future. **F&D**

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