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The End of the Carter Doctrine: Part II

In Part I of this report, we identified the need to stabilize three areas of the world prone to war in order to maintain global peace. We focused on the Middle East and discussed the development of the Carter Doctrine, examining how the doctrine has been enforced since its inception. In this week's report, we will discuss the reasons for the breakdown of the order prior to President Trump and follow this discussion with the impact of the current president. We will project the likely actions of the nations in the region and, as always, conclude with market ramifications.

The Breakdown of the Order

The key element of the Carter Doctrine was the explicit threat to use military force to prevent outside powers from gaining influence in the Middle East. The tacit element of it was that the U.S. would enforce stability in the region which included honoring existing borders regardless of the internal social problems that the colonial frontiers created. Since the turn of the century, U.S. actions have tended to undermine regional stability. It began as overreach, but it has evolved into neglect.

After 9/11, the U.S. invaded Afghanistan because the Taliban leadership would not extradite Osama bin Laden for the terrorist attacks on the U.S. The conflict continues to this day.

In 2003, the Bush administration led a small coalition to oust Saddam Hussein from power on the grounds that the Iraqi leader was housing weapons of mass destruction and was willing to give them to terrorist groups. Although the military invasion proved successful, the aftermath was rather rocky. Removing Hussein from power triggered a civil conflict that al Qaeda and Iran exploited. This required a constant U.S. military presence until 2011, when the Obama administration and the Iraqi government could not agree on conditions for continuing U.S. military involvement.

The wars in Afghanistan and Iraq went beyond the mere maintenance of order to regime change. Although the U.S. had participated in fostering regime change before (e.g., supporting the coup against Mosaddegh), the outright invasion and removal of a government was something new. It turned out that nation-building was difficult and expensive. The U.S. liberation of Kuwait did not proceed to "liberate" Baghdad for a reason—the signal the first President Bush wanted to send was that borders would be honored. That policy changed under his son. Although an argument could be made that the region is better off without Saddam Hussein, it's hard to make the case that it is more stable.

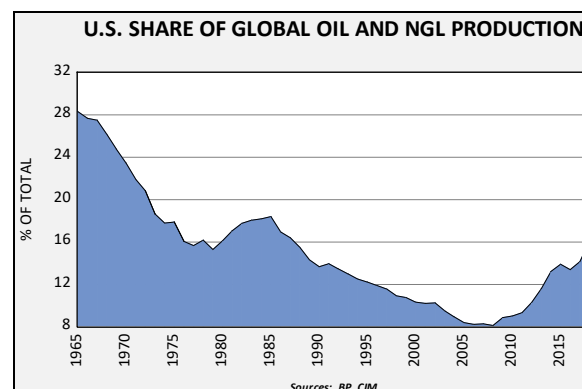
In the aftermath of these two wars, the Obama administration reversed course. In December 2010, the Arab Spring developed. It started in Tunisia when a street vendor self-immolated. Protests expanded rapidly, spreading to Oman, Yemen, Egypt, Syria, Libya and Morocco. In February 2011, the protests were strong enough to unseat

Egyptian President Hosni Mubarak. His ouster was probably helped by the lack of U.S. support. President Obama tended to support the Arab Spring uprisings, seeing them as the organic strivings of oppressed people pushing for democracy. However, there was also an element of various ethnic and religious groups, often majorities in these nations, seeking revenge on a ruling minority.

In Libya, Muammar Gaddafi threatened to massacre the participants of a protest movement which had evolved into an outright civil conflict. The U.S., under U.N. auspices, created a no-fly zone over Libya. The intervention prevented Gaddafi from overwhelming the rebels and the latter eventually won and killed Gaddafi. To date, this civil war continues. In the war, President Obama essentially allowed the Europeans to execute the air war, with the U.S. “leading from behind.” A similar situation developed in Syria. President Obama set “red lines” on the Syrian leadership over using chemical weapons. When the Assad regime deployed these weapons, Obama declined to enforce his red lines, showing a reluctance to use American military force. This created a power vacuum in Syria that Russia rushed to fill. It also allowed for Islamic State to declare a caliphate; for a while, it appeared Islamic State would overthrow the government in Iraq, but the U.S. intervened and eventually contained the terrorist group.

Adding to the issue of American disenchantment with the cost of Middle Eastern wars was the shale oil revolution. Fracking technology unlocked significant oil resources in the U.S. that reduced American dependence on Middle Eastern oil supplies. The chart below shows the U.S. production share of global oil and natural gas liquids supply. In the mid-1960s, U.S. output

represented 28% of global supply. That percentage steadily declined into 1980. High oil prices that lifted U.S. production, coupled with OPEC output reductions (some caused by the Iran/Iraq War), did increase the U.S. share. However, when Saudi Arabia lifted output to retake market share, the proportion of U.S. output steadily declined. U.S. output share troughed in 2008; rising shale output has led to a dramatic lift in U.S. supplies, bringing the U.S. share to 16%, the highest since the mid-1980s. Rising domestic production is an additional disincentive to continue U.S. stabilization activities in the Middle East.



In summary, this is what happened prior to the election of Donald Trump:

1. U.S. policy from Roosevelt through Clinton was to ensure stability in the region by enforcing the existing borders.¹
2. This policy included supporting the governments in these nations despite their authoritarian leanings.
3. This policy, which was encapsulated by the Carter Doctrine, was implemented as a broad effort to contain communism, to

¹ Although the U.S. did allow Israel to keep its territories gained in the Six-Day War, it did not allow it to keep the Sinai Peninsula, which it captured during the Yom Kippur War. Additionally, the U.S. has been reluctant to signal that the “occupied territories” were a permanent part of Israel.

- ensure regional stability and to ensure the region's oil would be readily available to the West.
4. President Bush's decision to oust the sitting governments in Afghanistan and Iraq marked the first time the U.S. had used military force to push an existing government out of power.
 5. The costs of the wars in Afghanistan and Iraq soured the American people on maintaining a presence in the region.
 6. Rising oil production in the U.S. further undercut the rationale for maintaining the Carter Doctrine.
 7. President Obama's presidential campaign ran on opposing the Iraq War. His "leading from behind" in Libya and ignoring of "red lines" in Syria suggested deep reluctance to use the U.S. military to enforce stability.
 8. Obama's policy toward Iran was to move toward normalization. The Middle East was going to need a regional hegemon. It appears that the Iran nuclear deal was the first step in normalizing relations with Iran.
 9. American policy in the region moved from stability to disruption to abandonment.

The Impact of the Trump Presidency

Although there are differences in tactics, the overall strategy in terms of Middle East policy is similar between the Trump and Obama administrations. Both wanted to reduce America's commitment to the region.

President Trump inherited the Afghan War. He has maintained American forces in the country, but his administration has engaged in peace talks with the Taliban. Unlike his predecessor, he was not prepared to elevate Iran to the regional hegemon role. Instead, the U.S. withdrew from the nuclear agreement with Iran and reimplemented sanctions. The election of Trump also led to a change from the Obama administration's

relations with Saudi Arabia and Israel. Under Obama, both nations felt their interests were downgraded. After Trump entered power, both nations took steps to improve relations with Washington. Given that sanctions were implemented on Iran, Saudi Arabia and Israel would likely conclude their efforts were rewarded.

Recent events have brought additional clarity. Iran was accused of launching a missile and drone strike on critical Saudi oil infrastructure. This came after the Iranians shot down a U.S. drone over international waters. The Trump administration failed to respond militarily to the drone strike and the attack on Saudi infrastructure. Under the Carter doctrine, military retaliation would have likely occurred.

The U.S. is most likely going to reduce its influence in the region. As we noted in the introduction, the Middle East was one of the "frozen conflict zones" that the U.S. "kept on ice." It isn't the only such zone; indications suggest the Middle East and Europe are likely to see less American security support so the U.S. can focus on the Far East. This was part of the Obama administration's "pivot to Asia." There is also ample evidence that the Trump administration wants to focus on China. However, even in the Far East, the administration has signaled it is less committed to maintaining the same level of security with Japan and South Korea. Overall, it appears the U.S. is reducing its hegemonic footprint all around the world, including the Middle East.

So, what happens now?

As the U.S. pulls back from the region, nations there must adjust. Here are our expected responses from key nations in the Middle East:

1. **Israel:** Israel has the most potent military in the region and the most modern economy. However, it is a small nation; its territory lacks strategic depth and thus it can't absorb significant territorial losses. Because of this strategic vulnerability Israel has always sought a strong ally. France played that role from the early 1950s until the 1967 Six-Day War. The U.S. replaced France thereafter. Israel will need to find a new patron if the U.S. continues to withdraw. The most likely candidate in the short run is Russia. If Germany rearms, we could see it taking over that role in the long run. We would [also expect Israel to quietly try to make peace overtures to nations in the region.](#)
2. **Saudi Arabia and the Emirate states:** As noted above, relations with the U.S. have improved under Trump but there is a clear reluctance to use the American military to maintain their security. In the absence of the U.S., we expect [these states to make some sort of peace with the Iranians.](#)
3. **Turkey:** Turkey could be a regional hegemon, but it needs to become aggressive in projecting power. Like all the nations in the region, Turkey became reliant on U.S. power and thus its military was mostly focused on internal stability and border protection. Turkey has been outward-looking before; it was the Ottoman Empire prior to becoming Turkey. Nevertheless, to make this change it will need to move quickly.
4. **Iran:** Iran is the most likely candidate for regional hegemony. It has a large population and has experience in projecting power via proxies. But, in order to gain regional hegemony it needs an agreement with the U.S. to normalize relations. The country thought it had one with Obama; somehow, it needs to build one with Trump.
5. **Iraq:** Iraq was a bulwark against Iranian expansionism before the removal of Saddam Hussein. Now, it is barely able to maintain its previous borders. Baghdad tolerates a Kurdish proto-state in its north and doesn't have secure control over its western borders. In addition, Iran has deep influence on its society. As the U.S. withdraws, the most likely outcome is that Iraq becomes aligned with Iran.
6. **Syria:** For much of its history, Syria has been a crossroad for empires. The Assad regime finds itself dependent on both Iran and Russia for security. The American withdrawal will keep this condition in place for the foreseeable future.
7. **Russia:** Russia has had designs on projecting power in the region for decades. As noted above, during the Soviet period, the U.S.S.R. did vie for influence in the Middle East. Russia will likely view the U.S. withdrawal as an opportunity to project power. However, it may not have the resources to take advantage of the opportunity.

Overall, there is no perfect replacement for the U.S. In addition, it is quite likely that hegemonic competition will emerge which will bring instability to the Middle East. Overall, it appears to us that the Carter Doctrine is no longer operational. That development will have important market consequences.

Ramifications

Oil prices are at greatest risk with the end of the Carter Doctrine. First, Saudi Arabia acts as the world's swing producer of oil. It maintains excess capacity ostensibly to keep oil prices higher than a fully free market would bring, but that supply buffer also stabilizes prices. If Saudi security is at risk, so is that supply buffer. Thus, oil price volatility will likely rise. Second, we may

see the regionalization of oil prices. For most of the past 40 years, oil has been a global market. If oil supply insecurity rises, there will be a temptation to fix local supplies and arbitrage opportunism will likely decline. Therefore, oil prices should rise due to security concerns, and second,

rising oil price volatility will have an adverse impact on oil consumers.

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