What are the impacts of Sliding Oil Prices on Regional Security and Stability in the Gulf Region?

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Abstract. Empirical analyses have determined a correlation between high oil prices and the potential for inter-state conflict and instability. This correlation has been proof for countries where oil exports represent more than the 10 per cent of the GDP. Between mid-2014 and the third quarter of 2017, oil prices have been constantly marking historical minimums. Framing this context, old and new diplomatic, political, financial, societal and geopolitical factors have been configuring an international ecosystem submerged into deep contradictions and radical and unexpected shifts. This paper assesses the impacts of a long period of low oil prices on regional stability and security by focusing on the Gulf region. The findings reveal that a long span of time with sliding oil prices has accentuated the risk of potential conflict and regional instability.

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1. Introduction:
Since 2011 the entire Middle East and North Africa region (MENA) is undergoing a number of challenges of different nature which are piling up rapidly. Among them; Demographic growth and unemployment; low capacity to diversify the economy and generate new jobs; the rise of popular aspirations towards the achievement of more political participation; the more influential role of the Muslim brotherhood; regional turmoil toppled by the Syrian conflict and Daesh; the increasing influence of Iran; the US disengagement from the Middle East. In addition to these elements, from mid-2014 to the end of 2017 oil prices have marked historic minimums.

Discourses and practices around oil prices have very much determined world’s economics, politics, as well as featuring power struggles and conflict. The oil industry and the logics associated to price fluctuations have featured contradictory narratives. It has been defined as the incipient destruction of the World economy and on the other hand as an opportunity for less industrialized countries to get rid of formulas of economic colonialism and control (Skeet, 1988). Nevertheless, from 1980 to 2006, the share of petroleum consumption compared to total energy consumption has climbed up to 36.3 per cent (Yanal et al. 2010). In considering this fact there is scholarly consensus around the common believe that oil price fluctuations have a direct impact economic growth, financial markets and stability at local, regional and global scales (Yucel & Brown, 2002; Roeger, 2005; Barrell & Kirby, 2008; Hamilton, 2012).

These dynamics have generated new and changing alliances and unexpected rebalances among nations as well as allowing certain countries to increase their bargaining power and influence over time. In considering the linkages between oil prices, politics, risk and stability it is commonly accepted the correlation between high oil prices and political instability. In general, oil producing and exporting countries are exposed to more civil conflicts than non-oil producing conflicts. That feature may contribute to generate more political instability and volatility. Conversely, “petrostates” are characterized for having long-lasting authoritarian regimes (Colgan, 2014). Empirical analyses have determined that links between oil-exporter status and interstate conflict are implicitly price contingent (Hendrix, 2015). According to his analyses in oil-producing countries where exports represent more than the 10 per cent of the GDP, high oil prices would increase significantly the chances of seeking for dispute. Whereas higher oil prices would have a null effect on non-oil producing countries (Hendrix, 2015; 576). In following this rationale, it would be possible to suggest that with low oil prices the incentives for oil-producing states to behave aggressively or offensively would be lower. This paper aims at discussing to what extent this hypothesis can be
adapted to the Gulf region in considering a longer context of sliding oil prices, which started mid-2014. By focusing on historical, economic, political, social and geostrategic factors the paper concludes that a long period of sliding oil prices have contributed to increase associated risks at the base of political instability and regional conflict.

2. Theoretical Framework and Methodology:

Theoretically speaking this paper acknowledges some conceptual attributes featured by theories such as the dependency theory and economic dualism. However, the dependency-underdevelopment theory does not fully explain the cases of Gulf countries (Yates, 1996). Equally, economic dualism cannot be applied as a general theory to a wide array of different socio-cultural, economic and political systems (Higgins, 1956). These theoretical approaches have been useful to explain how certain formulas of economic growth may lead to resource curse and how a potential oil curse may also lead to less democracy and more potential conflict and insecurity (Ross, 1999; Ross 2012).

In considering that, the research question proposed in this paper entails understanding how long periods of low oil prices may contribute to increase regional instability and conflict. In that sense in assessing post-cold war security paradigms, some authors have considered that regionalism and therefore, regions, have to be seen as areas subjected to new forms of rivalries and potential conflicts to be managed and monitored (Lake & Morgan, 2010; Hettne & Sönderbaum, 2010). This regional approach was integrated and developed by the Regional Security Complex Theory (Buzan & Waever, 2003). This theoretical framework is interesting for explaining regional and security dynamics in the Persian Gulf from 2003 onward given that it integrates dimensions such as securitization, politicization, ontological security and social aspects of security (Shayan, 2017). A new regionalism has been raising in the entire Middle Eastern region after the events of the Arab Spring compromising regional cooperation and trust (Fawcett, 2016). Given that these economies and the region itself relies very much on oil, price fluctuations can be considered a valid factor compromising regional security.

Beyond this overarching theoretical apparatus, given that the paper examines also the impact of socio-cultural and demographic factors the paper builds upon a number of additional theories. Demographically speaking the challenges posed by a growing population is well explained and documented by the youth bulge theory. Within the context of the Middle East and North Africa region (MENA), the youth bulge theory associated to a difficult labor market and sufficient economic diversification represents an additional challenge to dropping oil prices. This theory acquires special significance in Gulf countries where, according to the Theory of Planned Behavior (TPB) the incentives for developing entrepreneurial activities among the youth although they are desired, they are low and socially unsupported (Almoibareek and Manolova, 2012; Ajzen, 1991).

Methodologically, to respond to the research question the paper’s design has responded to a multidisciplinary exigence. First a comparative approach selecting a number of case studies has been predefined (Lijphard, 1975). Considering the Gulf region, the countries which have been considered are: Saudi Arabia, Oman, United Arab Emirates, Bahrain, Qatar, Kuwait, Iran and Iraq. For the purposes of better understanding regional dynamics, the inclusion of countries such as Iraq and Iran are fundamental due to the fact that this study transcends the boundaries of the Gulf Cooperation Council (GCC). Within this first section the focus is put on investigating the main historical, cultural, political and economic keys related to nation building and regional integration within the Gulf region. From that point, it is investigated how the very notion of regional security/insecurity and or risk is associated to the ways these socio-economic and political entities born, raised and interrelated. This section describes also the processes of capital formation, economic growth strategies are political representation, which are very much linked to socio-cultural and religious factors challenging frameworks such as the power-elite theory (Mills, 2000).

Second, the paper has focused on understanding how Gulf countries have been implementing their economic diversification strategies. This is important in order to achieve a higher understanding of how the success or failure of those diversification strategies may pose severe problems of socio-political stability within the medium and long run across the region. The accent has been put on Saudi Arabia because it represents the most emblematic of the entire region considering both its economic, political and normative power.

The third section focuses on investigating how a long-standing trend pushing oil prices downward has deepened regional crises such as Iran-Saudi Arabia tension as well as limited coordination among GCC members. Within this section it has been evidenced that Gulf countries, despite suffering the consequences of amassing lower revenues from the oil industry they have been increasing the public expenditure on weaponry. This very fact reinforces the original hypothesis regarding the escalation of regional instability. Quantitatively speaking, all the sections of this paper have been constructed by mixing qualitative and quantitative data from both primary and secondary sources. As per quantitative related data the paper has retrieved, gathered and processed primary and secondary statistical data from official sources both in English and in Arabic. This research strategy has allowed to confront and validate information from different sources.
3. Nation Building, Regional Integration and Security:

The scholarly literature available on the formation and evolution of the new nations in the Arabian Peninsula has been growing slowly over the years (Galal, 1980; Anderson, 1991; Al-Rasheed, 2002; Lucas, 2004; Potter, 2009; Rogan, 2011; Hertog, 2016). Gulf economies have been developing rapidly since the WWII (Lynn Karl, 1997). Oil and politics have been intimately linked over these decades and they have determined the Gulf’s institutional building, state formation and political evolution (Crystal, 1995). Because of their increasingly influential role in world’s affairs due to their “oil leverage”, they have become global players especially after the first Gulf war in 1991 (Lieber, 1992). However, they have been always aware of their strategic position and the difficult balances they have to play in order to maintain acceptable levels of regional security.

Cooperation among Gulf countries has been crucial for both regional and international stability and security. First, the atomized reality of different and scattered emirates had to join forces to survive (Davidson, 2005). The United Arab Emirates (UAE) as well as Qatar ended up their dependency from Britain only in 1971 and they become independent political entities (Said Zahlan, 2016). Oman, once Sultan Qaboos bin Sa'id acceded to the throne in 1970 after a coup d’état against his father had also to unify the country (Valeri, 2009). These processes of political aggregation were a constant across new Gulf states, as global competition started to press towards the end of the Cold War and these new nations had to strengthen cooperation to survive.

An emblematic step forward towards the regional integration was represented by the establishment of the Gulf Cooperation Council (GCC) back in 1981. The main objectives were related to the consolidation of common economic objectives as well as promoting development and reversing internal subversion and external threats (Rizvi, 1982). It was established in Riyadh as symbol of Saudi’s leading role in the process. The establishment of the GCC can be seen as a collective effort to respond to the potential dangers generated by the Iranian Revolution and the Iran-Iraq war (Abdulla, 1999).

Within this context and as a baseline, peninsular Gulf countries were mostly motivated to engage in a common project mostly for security reasons at both national and international levels (Koch, 2010). Within the following decades and spurred by the confidence provided by their wealthy finances, all members engaged in expanding both the scopes and objectives of their cooperation: common military (Peninsula Shield Force) in 1984 and the GCC common market which started in 2008. The ultimate integration process has aimed at creating and adopting a common currency. This project started to be discussed in the early 1980s. Despite a number of contexts when the project gathered momentum the implementation has not been achieved (Jadresic, 2002).

4. Capital Formation, Oil Dependency and Cultural Bounds

During the process of regional integration and forced solidarity aiming at ensuring internal and external security, capital formation in the region has played a fundamental role because those resources have been necessary to underpin the strength of the conglomerate worldwide. In considering that, Hahieh has coined the concept of Khaleeji capital. This concept “represents a new set of social relations that are developing around pan-GCC space. Consequently, capital formation and accumulation is increasingly conceived at the regional scale rather than through a nationally bound perspective” (Hahieh, 2011: 103).

This view would entail a certain degree of regional solidarity, which should be also seen as instrumental as it happens currently. The formation of this capitalist class across the Gulf was state-supported and it was largely driven by family-based trading groups between the 1960s and the 1970s. New organizational schemes, however, were rooted in traditional and tribal forms of social organization and power concentration which featured the pre-oil era (Onley & Khalaf, 2006).

This strategy has been consolidated since then given that for instance in the UAE nationals represent nearly the 20% of the total population and therefore for the stability of the regimes it is important to ensure local loyalty, trust and commitment (Frauke, 2005). For this capitalistic class, petroleum –as pearling in the past- is not merely an important extractive product for their economies. Oil personalizes a set of values embodying the way nations across the Gulf understand business and relations with the world (Simpson, 2014: 33).

Graph number 1 compares the variations of oil rents as percentage of their GDP in eight relevant Gulf economies from 1990 to 2015/16. Oil rents are computed as the difference between the value of crude oil production at world prices and total costs of production (World Bank, 2017). All economies represented in this graph, with the exception of Bahrain, have increased their oil rents as a percentage of the GDP over time with the exception of shrinking periods in 1998, 2009 and from 2014 onward. The economies suffering the greater decrease have been Kuwait, Saudi Arabia, Qatar, UAE and Oman. This picture represents the notable reliance of these economies on revenues from oil extraction and export activities.

The following graph suggests that both considering the cultural values embodied by oil and the socio-political and economic bases of the Khaleeji capital, these economies are scarcely diversified. Within this context local private initiative and entrepreneurs beyond the domain of oil related products have not been unleashing their potential in order to avoid the oil curse and dependency on fluctuations of international oil prices (Ross, 2012).
Economic Development and Diversification Strategies

The phenomenal economic and financial development of Gulf nations is widely recognized. However, linked with the aforementioned problem related to the dependency on oil and the rigid socio-political structures ensuring local, national, and international security, little has been invested to promote science and technology. Within a context of regional integration based upon a common security objective mostly led by Saudi Arabia, it is clear that the GCC needed to also become a global economic player. As Hanieh mentions, GCC members adopted neoliberal economies strategies to go global (Hanieh, 2011). Peninsular Gulf countries acknowledge the importance of business development and promotion as an agent to ensure national and regional stability. Although beyond this common acceptance both the size of the private sector and the interactions among stakeholders remain the main obstacle (Menatullah, 2016). Beyond historical accounts, already in mid-1970s, amid an important period of regional and international transformations, Halliday wrote a book which depicted existing problems related to oil’s impact on state systems and class structures (Halliday, 1974). This excessive reliance on oil’s revenues would condition the future of each single nation as well as the stability of the entire region. Before the Arab Spring broke up, it was evident that the region needed to upgrade the bases of the “social contracts” that ensured a certain degree of certainty and stability (Forstenlechner & Rutledge, 2010). Right after the events related to the Arab Spring, Davidson followed a similar trend anticipating the melting-down of Gulf’s monarchies (Davidson, 2012).

The consensus among scholars and practitioners, both in the region and abroad, is that the biggest risk to manage by the Gulf monarchies is related to their political and economic model which has been based on buying the loyalty of the population by issuing generous subsidies and social benefits (Byman & Green, 1999). This strategy can be also understood as the backbone of all security policies pertaining to Gulf monarchies to ensure national and regional stability (Safran, 1985).

Gulf countries are aware about the risks associated to the excessive dependence to oil and gas. To attempt to solve that reliance, Gulf economies have been designing some strategies aiming at diversifying their revenue streams over the last years. Economic diversification strategies are very much related to the development of the private sector and the development of local entrepreneurship. Due to a booming economic expansion which required skilled labor, since the 1970s GCC countries have implemented an open-door policy to attract foreign manpower. As a result, since early 2000s, three fourths of GCC manpower is not native (Fasano & Iqbal, 2003). Therefore programs to increase local manpower such as Emiratization in the UAE or Omanization in Oman have been part and parcel of the local initiatives to increase –directly and indirectly– local private initiative and entrepreneurship without the expected success (Al-Shanfari, 2012).

Since 1992 the UAE, among other initiatives, have been implementing the Tawazun Economic Program with the objective of diversifying the economy and promoting local entrepreneurship. Some Emirates of the UAE have been practicing these principles consistently while embracing a pro-business strategy emphasized by an increasing liberalization of markets and economic openness in order to escape from the rentier state model. However despite following these international trends, these economies –emulating the “Dubai model” have refrained from removing the basic structures of the traditional neo-patrimonial leadership (Hvidt, 2011). Although the basis for stimulating the economic diversification to buffer the
dependency from oil have been laid, the UAE still have to fully implement and develop them (Al Sadoun, 2016).

Qatar has been following similar diversification strategy. In 2008 the General Secretariat for Development Planning developed and implemented the Qatar National Vision 2030 (GSDP, 2008). By following a differentiated philosophy and approach to international relations Qatar has been investing more on increasing its appeal as a touristic destination and on cultural diplomacy (Eggeiling, 2017; Morakabati, Beavis & Fletcher, 2014). Nevertheless, as it is going to be explained later, Qatar’s model of understanding and playing its regional and international role has not been appreciated by Saudi Arabia. Within a context of low oil prices, regional and international political and diplomatic turmoil, strong tensions and political countermeasures lead by Saudi Arabia have hit Qatar.

Oman started to develop policies to counter oil dependency from 1976 onwards when it was created the first Five-year development plan. Since then every five years the Sultanate has launched a quinquennial development plan. In 1995 Oman adopted the Oman Vision 2020 with the objective of reducing oil and gas share of GDP from 39 per cent in 1996 to 19 per cent by 2020. It was envisaged to increase non-oil and gas economy from 6 per cent of the GDP in 1996 to 81 per cent by 2020 (Vision 2020). Against these plans by 2012 the share of oil and gas of the GDP totalized 52.2 per cent whereas non-oil and gas activities amounted to the 4 per cent (WTO, 2014). These figures evidence that achieving a consolidated economic diversification strategy has failed.

In 2013 it was adopted the In-Country Value (ICV) as a strategy to further develop and harmonize both industry and societal components (Ureta, 2017). The ICV plan, can be considered as a socio-economic and political innovation born in the aftermaths of the Arab spring in order to ensure stability by meeting current social demands and prevent future revolts within an environment of uncertainty. In designing a new strategy to achieve economic diversification, in 2015, the Sultanate developed the Oman Vision 2040.

From its side, Saudi Arabia implemented its National Transformation Program (Saudi Vision 2030) to revert some risks associated to the effects of the possible oil curse by boosting private entrepreneurial activities from 2020 onward. The initial investment for the 2016-2021 period was budgeted in SR296bn (Saudi Vision 2030). Further explanations focusing on the Saudi case follow in the next section.

In considering all cases, it is evident that if low oil prices carry on for extended periods of time, and sustainable economic diversification is not attained progressively, the possibilities of funding these programs may be doomed to fail and therefore the possible collapse of regimes may be likely.

As the graph 2 shows, all studied countries have relaxed their legislations aiming at reducing the bureaucracy to initiate businesses. Despite these concessions private business activities have not overtaken the attractiveness of both the public sector and oil related industries.

Despite the wealth amassed in Gulf countries, diversification strategies have not been successful. The Gulf region lags behind advancing Asian countries in terms of Science and Technology indicators (S&T). S&T as well as R&D are mostly concentrated within public and third education sectors having small impact on the private sector (Nour, 2005). This fact highlights again the failure of bland diversification policies which have not been consistently implemented. The events of the Arab Spring challenged the apparent stability and prosperity of Gulf nations.

6. Monarchies Reacting to Low Oil Prices.

The sustainability of this security model, which is basically a social contract, is strictly bounded to Gulf’s monarchies capacity to keep on funding local and regional loyalties. The Arab Spring stressed the region and the short-mid –term re-stabilization of the region depended on
more public expenditure from Saudi Arabia, to Bahrain, to Oman (Ureta, 2017). Saudi Arabia alarmed by the uprisings in neighboring countries spent USD133bn to buy off local opposition in 2011. To better contextualize this figure it’s noteworthy to mention that Saudi Arabia in 2013 engaged into a long-term investment scheme of USD133bn to build a number of power plants and water projects over a time span of 10 years.

In accessing to the throne King Salman immediately implemented a policy to buy local loyalties which, between February and March 2015, represented the 5 per cent of the Saudi Central Bank’s foreign assets –USD36bn in total-. Oman –as well as Bahrain- followed the same policy. Among other measures, Sultan Qaboos bin al-Said promised the creation of 50.000 new jobs as well as increasing unemployment benefits up to USD390 per month and the 50 per cent of the budget was devoted to maintain government ministries which absorbed 36.000 new national workers from 2011 to 2013 (Worrall, 2014).

These and other promises had to be funded by oil revenues considering that for Oman in 2013 the breakeven price per barrel was USD103 (Dickinson, 2013). The direct consequences of these sliding oil prices on Gulf’s economies have widened fiscal deficits.

The following graph has been built by gaining access to official statistics from the Saudi government. Full data series span from 2005 to 2016 and are provided both in English and Arabic. For the purpose of this paper, the interest of the research focused on better understanding the structure of total revenues and their variations across time and varying political and economic contexts. This choice is bounded to the main objective of the paper which searches to better explain the causal relations between the lack of consistent economic diversification with the incremental risk of political meltdown and conflict in the region.

As represented in graph 3, the revenues from the oil and gas sectors follow their own independent course above the rest of economic sectors. Between 2005 and 2008 the average percentage of total revenues from the oil and gas sector represented 43.82 per cent of the total national. From 2009 to 2011 this share decreased not only because an increase of other strategic economic sectors but mainly because after the 2008 global economic and financial crisis oil prices decreased from USD 147 to a minimum of USD 32.

That behavior means that the increase of other relevant economic sectors did not entail a substitution effect which may suggest the progressive achievement of the needed economic diversification. This hypothesis is confirmed by the evolution of the national revenues from 2011 onwards when oil prices rose again recording a spot price of Brent averaged USD 111.26 per barrel. Despite the
positive progression of the rest of economic sectors represented below, between 2011 and 2013 oil revenues averaged 42.03 per cent of national total. From 2014 oil prices started to slide down consistently –on the 19th January 2016 oil prices dropped to USD27.36. From 2014 to 2016 total revenues from the oil and gas sector averaged 28.11 per cent.

Again, this drop does not represent a context of convergence between the oil and gas sectors and the others represented below. It mainly confirms that economic diversification in Saudi Arabia is very slow and fully dominated by the overwhelming influence of the hydrocarbons sector on the national economy. Nevertheless as far as Saudi Arabia is concerned, the kingdom can still manage a long-standing situation of low oil prices due to their extraction and production costs which span from USD 10 to 20 per barrel. This comparative advantage entails at least two political and economic effects both at national and international levels.

Politically and economically speaking, considering at least the short and medium run, Saudi Arabia can still exert an influencing role in regional politics by overpowering oil producing neighboring countries with high reliance on oil, lower production and higher net production costs. This will be explained later. However internally, lower revenues also mean the diminishing capacity of the government to efficiently address pressing social demands and retain control and internal stability. As a matter of fact, and in times of economic slowdown Gulf citizens are increasingly using in their dialogues the word “Shafafia” which literally means “transparency”. This is a request addressed directly to the ruling classes to better know where all the resources have been going over the years (Halliday, 1974). Confirming this trend, as of November 2017, Saudi Crown Prince Mohammad bin Salman initiated a purge and an anti-corruption operation among the Saudi royalty. The purposes of this cleaning operation may be at least interpreted along two main hypotheses: The prince wishes to show to the Saudi population his commitment to fight corruption in order to demonstrate his engagement in modernizing the power structures and relations; the prince needs to strengthen his leadership by eliminating opposition.

7. Budget Deficits and Islamic Finances as Factors of Regional Competition

The Khaleeji capitalist class has allowed the development of the financial sector in the Gulf as it was shown in the precedent section. Focusing on Saudi Arabia from 2005 to 2006, the revenues from financial intermediation nearly trebled. In that sense Islamic finance has been achieving higher degrees of performance and international influence over the latest years. By October 2013 the British government announced the issuance of the first Islamic bond –Sukuk- entering this way in fierce competition with Dubai and with Kuala Lumpur (Bianchi, 2013). As the World Islamic Banking Competitiveness Report 2013-2014 indicated Islamic banking growth at a rate of more than 17 per cent per year (WIBCR, 2013-2014). Within this industry in 2016 Gulf countries, Malaysia and Iran hold the 80 per cent of the industry assets.

With sliding oil prices, however, the only market which did not shrink in 2016-2017 was Malaysia. Dubai’s ambitions to become the world’s leader in Islamic finance are clear in its statement written in the 2017 Islamic Finance Outlook: “Dubai has the elements needed to become the world’s capital for Islamic economy to become the world’s capital for Islamic economy, supported by DIFC as a hub for Islamic Finance” (IFO, 2017: 7). As a matter of fact, Dubai Islamic Bank was established in 1975 while the first Bank authorized in Saudi Arabia to start operating that sector was the Al-Rajhi Bank in 1987.

Dubai’s leading position as a hub for Islamic Finance was greatly supported politically and financially by Saudi Arabia. Saudi Arabia wanted to contribute to the Emirate to become central in retaining the leadership of the Islamic finance industry. However this regional strategy to fund the Emirati financial hub has been vanishing as soon as the effects of the low oil prices have been challenging Gulf economies. According to the Gulf Bond and Sukuk Association, GCC members contributed over 14 per cent of the total emerging market capital market issuance in 2016 (GBSA, 2017). This trend shows that Gulf nations have been acceding to international markets aiming at finding a solution for their sharp deficits provoked by low oil prices.

In 2016 the Saudi government recorded a fiscal deficit which shrank to SR297bn –USD79bn. That figure summed up to the gap registered in 2015 which amounted to SR367bn- USD97.61bn. In this situation the Saudi Government structured a financial strategy to recover from the impacts of that sharp deficit due to sliding oil prices. In January 2017 Saudi Arabia announced the issuance of a Sukuk which would represent Saudi’s record-breaking first appearance on global debt markets. In 2017 Saudi Arabia by following this procedure raised USD9bn with its inaugural Islamic bond (Narayan & Sharif, 2017).

Oman and Bahrain by following the same strategy to fill their financial gaps due to low oil prices have been issuing their respective Sukuk to raise money from international markets. In particular, in 2017 Oman issued one USD2bn Sukuk while Bahrain issued a USD3bn bond (Allen, 2017). These new financial trends that respond to national needs of credit, on one hand, are evidencing each nation’s survival strategy. On the other hand, these survival strategies are generating new alliances and potential conflicts with neighboring countries which were allies in the past and competitors currently. Within this context, Saudi Arabia has the opportunity of taking advantage of other GCC members’ weaknesses to reassure regional
loyalty and boost its regional leadership against threats such as Iraq or Iran’s.

8. Oil Prices, Changing alliances and Regional Security

Saudi Arabia has been a traditional ally of the United States from 1933 onwards despite their lack of mutual understanding towards the other’s culture (Long, 2004; Blanchard, 2009). Nevertheless from the 9/11 onwards US-Saudi relations have been worsening (Bahgat, 2004; Cordesman, 2006; Ottaway, 2009). Since then raising powers such as China and Russia have been increasing their bargaining power worldwide. Sino-Russian relations should be understood more as a consolidated stable strategic partnership, rather than a marriage of convenience (Ying, 2016).

Both Russia and China vetoed UN Security Council Resolution (UNSCR) on Syria. That behavior – contextualized within the philosophy of the global war on terror and its consequences- has re-balanced world affairs by generating a situation of degenerative deadlock (Buzan, 2008). The new context integrates the ingredients of a new cold war where countries try to define their positions and to develop new alliances, even though, deep contradictions and quick and unexpected shifts dominate the political and diplomatic narrative and practice. On the other hand it is important to remind the good relations that China and Iran have developed since 1979 (Carrier & Dorraj, 2009).

Nevertheless, this new international cold war is not an isolated phenomenon. The Arab world is reviving its own version of cold war repeating a high number of factors that characterized Arab relations between 1950s and 1960s (Kerr, 1971). As in the past, the aftermaths of the Arab uprisings have brought powers struggles, proxy wars as well as ideological, religious and identity conflicts (Ryan, 2012). As in the former Arab cold war, Arab nations are, on one hand, engaged in blocking new waves of change across the regional system. On the other hand, they want to reposition themselves within a context of international disorder where new leaders can fight for gaining more regional and international influence.

From September 2017 Iran and Iraq have boosted oil exports to confront Saudis’ oil export looking for new markets (Dipaola & Lee, 2017). As the graph 4 shows Iraqi oil exports to the US are covering the gap left by Saudi Arabia. However, the reduction of oil exports practiced by Saudi Arabia can be also understood as a medium and long-term attempt to drain oil stocks globally. Although economic aspects and oil-related issues do not fully explain the geopolitical transformations the Middle Eastern region is ensuing. Saudi-Iraq relations seemed to improve from January 2015 when Riyadh reopened its embassy in Tehran after 25 years break. However this improved understanding did not last. Since January 2016, when Riyadh executed the Shiite cleric Nimr-alNimr, Saudi-Iraq relations have been increasingly worsening. AlNimr was not an appreciated figure in Saudi Arabia since his outspoken communicational style has provoked tensions like in 2009 when he threatened with the secession of Saudi’s Eastern province (Lacroix, 2011).

These tensions are not merely motivated by economic reasons and by the competition on oil exports both countries are playing (Ramani, 2017). First, there is a clear interest from Baghdad to reinforce economic, military and diplomatic relations with Tehran building upon the Shia connective factor (Kemp, 2005). Second, Saudi support to anti-Assad forces in Syria have also contributed to generate tensions between Riyadh and Baghdad. Finally, Iraq is increasingly concerned about Saudi Arabia efforts

![Graph 4. US Net oil imports. Saudi Arabia and Iraq, 2000-2013. Source: IEA. Data elaborated by the author.](image-url)
to unite Iraqi Shiites around al-Abadi’s government (Ramani, 2017).

The Iraq-Iran strategic connections are clearly threatening Saudi Arabia’s foreign policy and interests. Militarily speaking a potential Iraqi-Iranian joint intervention against Saudi Arabia would eventually overpower Riyadh and the Saudis are aware of that. Beyond the improvement of bilateral relations between Iraq and Iran it is important to remind that in 2015, these two countries associated themselves with Russia and Syria— including Hezbollah—to fight against Daesh in Syria. This coalition results stronger and more influential than the 34 partners organized by Riyadh.

As graphic 5 shows, US imports from Saudi petrol has declined from 2011 onward. While in graph 6 it is represented that from August 2013 US exports of oil have increased notably.

The correlation between these two graphs suggests that Saudi Arabia has strategically decided from June 2017 to reduce exports to the US but that the US prefer to become a more influential country by exporting oil worldwide. In this regards the US became the world’s top net exporter of fuel in 2016. This strategy has been shored up by the shale oil revolution which started greatly developed in 2010.

This strategy coincides with Trump’s statement of June 2017 when he differentiated his discourse on reducing energy dependency – a term used frequently by former US presidents- coining the concept of “Energy dominance”. With this strategic objective in mind, and by deregulating both oil and gas production, the US administration aims at increasing their international leveraging capacity.

In following this rationale and within this context, Saudi Arabia wishes to develop a national strategy to strengthen its influential role both regionally and internationally. Saudi-Russian relations started to improve in mid-2015 when Riyadh started to plan one USD10bn fund to invest in Russia (Hille, 2015).

This initial collaboration has developed recently. On the 4th October 2017 it was opened a new episode of Gulf relations which– in theory- may carry a new way of understanding and approaching not only regional security but also international affairs.
The King Salman of Saudi Arabia paid the first official visit to Vladimir Putin. This visit shows that the Kingdom of Saudi Arabia now has entered in a new era – in principle a turning point- where the country wishes to decide its own foreign policy as well as its partners. Al-Jubeir, Saudi Arabia’s minister of foreign affairs and his Russian homologous Lavrov stated that “the further strengthening of Russian-Saudi relations will have a positive impact on strengthening stability and security in the region and the world” (Al Jubeir, 2017).

This diplomatic gesture indicates that Saudi Arabia acknowledges that Russia has become a gatekeeper in the Middle Eastern region. The outcomes of this visit have been numerous: A USD 3bn arms contract; a USD1bn fund to boost oil, gas, electricity and renewable energies; operationalizing the Memorandum of Understanding (MoU) of the Saudi sovereign fund of USD10bn to invest in Russia. However tensions over Syria remain. Aside of this Saudi Arabia requested also Russia to deal accordingly with Iran, Saudi’s number one enemy.

This happened 1 month before Turkey signed a USD 2.5bn deal to buy S-400 air defense missiles to Russia. During the meeting Riyadh and Moscow strengthened cooperation to negotiate between OPEC members and other oil producers to cut oil output at least until the end of March 2018. This strategy is twofold. First it would force US shale oil producers to increase their production. Second it is expected that as a consequence of that strategy, oil prices should increase improving both Saudi Arabia’s and Russia’s domestic finances (IAE, 2017). Riyadh’s movements approaching Russia could be seen as a strategy geared to explicitly cut links with the US (Wasser & Shatz, 2017). However in following a strategy of realpolitik few days later after the Saudi visit to Russia, Washington approved the sale of USD15bn missile defense system to Riyadh. The escalation of regional and international turmoil is also supported by analyzing how “petrostates” have been investing heavily on weaponry despite low oil prices and high deficits.

9. Oil Price Fluctuations and Military Expenditure

Graph 7 shows how countries around the Persian Gulf have been purchasing weaponry from 2000 to 2016. This graph show how Oman, the neutral country of the Gulf, have been investing the highest percentage of the GDP in military expenditure practically over the entire period analyzed with special emphasis over the period between 2010 and 2013 when oil prices were high. Despite Oman’s deep deficit both in 2015 and 2016 military expenditure was reduced only the 8 per cent and 4.6 per cent in 2017 whereas the drop in subsidies amounted to 64 per cent (PWC, 2017). Following a similar trend the rest of countries have been following a similar trend by increasing their military expenditure from 2010 onward spurred by high oil prices.

Graph 7. Military expenditure % GDP. Source: SIPRI, Elaborated by the author.

Graph 8 shows that Saudi Arabia tops the list of Gulf countries in military expenditure. The military expenditure in Saudi Arabia has been growing from 2004 onwards experiencing a notable increase from 2010 stimulated by high oil prices and a decline coinciding with low oil prices from 2014 onward. The same trend affects the rest of countries displayed in the graph. Saudi’s overwhelming investment on military equipment reinforces the vision of a country which beyond the fact of being economically and financially stronger than its neighbors feels itself threatened by a number factors linked to ideological and religious concerns. On top of that, by ensuring its leading position as the strongest military force in the Arabian Peninsula, its bargaining and negotiation power vis-à-vis other GCC members as well as other Arab nations increase. Therefore the capacity of re-elaborating, maintaining or renewing alliances to face unexpected crises remains higher placing Saudi Arabia into a more protected ecosystem.

Graph 9 shows the cumulative investment on military expenditure materialized by selected countries of the Gulf region. The line evidences a consistent growth over the analyzed spam of time. This increase becomes more evident from 2010 onward coinciding with higher oil prices. On the contrary it seems that there is a relation
between sliding oil prices - with its relative impact on revenues from oil-and military expenditure. However as it was seen in the previous graphs the percentage of expenditure related to the GDP remains high compared to other categories of public expenditure. This trend shows that despite disposing lower levels of revenues from oil products, Gulf countries decide to continue funding a policy of high investments on weaponry.

The reasons behind this behavior are linked to three types of security interplaying in the current scenario of uncertainty: regimen security, national security and regional-international security (Ulrichsen, 2009). Security related aspects on these three fronts have escalated with the aftermaths of the Arab Spring, sliding oil prices, reduction of oil demands worldwide and increasing regional geopolitical instability favored by the ascension of raising powers contending for influence like Russia, China or to some extent Iran (Almezaini & Rickli, 2016; Young, 2015).

Within this turbulent context, small gulf countries have achieved more influence and the both traditional regional powers such as Saudi Arabia and the international community have to include them in their security agendas. This context generates a number of new strategies and decisions that apparently may appear as contradictory or ambiguous. For instance Oman which is known by its neutral stance has to balance between a friendly relation with Iran and the objectives shared by GCC members lead by Saudi Arabia. As a matter of fact, Oman-Saudi relations have been tense over the last years as Muscat have not agreed on some strategic defence objectives pushed forward by Saudi Arabia and other GCC members (Esfandiary & Tabatabai, 2017).

Solid oil prices and strong revenues allowed the Sultanate of Oman to play a more independent role distancing itself from the idea of creating a union rather than continuing working as a Council. However, a weaker and more exposed financial situation can propel unexpected agreements and changes of strategy. For instance in December 2016 Oman formally joined the multinational Islamic military alliance (IMAFT) lead by Saudi Arabia since 2015 (Riedel, 2015). Few months later amid the diplomatic crisis sponsored by Riyadh against Qatar, both Oman and Iran announced their will to deepen cooperation and strengthen ties.

Since July 2017, the Gulf region has suffered an escalation of political and diplomatic instability. Saudi Arabia lead a coalition to exert a blockade against Qatar. Saudi Arabia accused Doha of sponsoring terrorism and following Riyadh’s initiative, Egypt, the UAE and Bahrain...
cut ties with Qatar (Qiblawi et al., 2017). However, the number of reasons behind this strategic blockage can be linked to Qatar’s alternative and autonomous way of understanding domestic and foreign policies. And mostly, due to the restoration of diplomatic and business relations between Doha and Tehran due to their shared interests around the South Pars/North Dome field. The largest gas reserve in the world. This situation has generated the worst diplomatic crisis in the Gulf in decades amid a situation of low oil prices. This deep breach affecting relations among GCC members have also spread all over the region with international impacts: the US unilaterally cancelled the Iran deal; the Iraq Kurdish referendum for independence have also shaken Iraq, Kurdistan and Turkey relations as well as challenging international oil markets and prices.

9. Conclusions:

This paper discusses the impacts and the implications of low oil prices on the regional stability and security in the Gulf region. As per theoretical related aspects, the paper has considered empirical evidence that shows a correlation between high oil prices and inter-state conflict potential and instability. The paper has focused on discussing how Gulf countries have developed their nation-building processes. They have evolved and developed by considering the importance of engaging in integration processes which would ensure domestic cohesion and regional security. These strategies have been underpinned and funded by oil revenues and these nations despite being aware of their dependency on these resources have made little progress in successfully diversifying their economies.

The internal stability in Gulf countries has been equally funded by revenues from oil by establishing a social contract with the aiming of guaranteeing loyalty to the regime and a sense of belonging. Although important episodes of low oil prices have challenged these economies in the past, the radical changes that conducd to explosion of the Arab Spring and the following aftermaths have added increasing quotas of uncertainty to the entire economic, political, social and diplomatic ecosystem of the Gulf.

The Gulf monarchies pressed by these societal, economic, cultural and political forces have tried to mitigate their potential meltdown by sponsoring and by buying with high sums of money and resources new loyalties, new balances and new alliances. In parallel these economies have been investing massively in weaponry considering the long-standing rivalries and conflicts with neighboring countries such as Iran. This investment strategy has been spurred by high oil prices between 2010 and 2014.

From mid-2014 onwards, international oil prices plummeted and Gulf countries started to experience fiscal deficits which did not allow them to continue with their generous subsidies and policies to ensure both domestic and international security and stability. Despite the negative economic and financial prospect, these countries continued their policy of high investments on weaponry, especially Saudi Arabia and Oman. Gulf countries challenged by an international context where the disengagement of the US has been progressive, had tried to rehearse new diplomatic, political and economic formulas to allow them to progress as a Union, although lately the GCC has been acting more as a Council undergoing several pressures and transformations. A long-lasting context of sliding oil prices have generated more regional atomization as Gulf states aim at maximizing, individually or in coalition, their benefits within an environment of latent conflict. In this vein, low oil prices have generated more uncertainty and insecurity in the entire region, endangering the continuity of the current regimes and boosting the potential for conflict and instability.

Considering this scenario, and in accepting that the global oil demand will diminish over the next years if Gulf states fail in efficiently and sustainably implement economic diversification policies, the collapse of the gulf monarchies will be a matter of time. However, this process of possible meltdown may entail long processes of readjustments and will increase the potential of conflict and instability across the entire Middle Eastern space.

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