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The conflict in the Middle East puts Gulf states at risk

To stand any chance of realising their ambitious economic diversification goals, the rulers in the Persian Gulf need regional stability

Since the political upheavals of the so-called Arab Spring over a decade ago, the Arab world has undergone a fundamental transformation and reorganisation. Formerly influential power centres such as Egypt, Syria or Iraq have become weaker, undermined by wars, crises and conflicts, and have thus lost their former predominance in the region.

In their place, the oil- and gas-rich monarchies in the Gulf region, above all Saudi Arabia, the United Arab Emirates (UAE) and Qatar, have come to the fore, filling the power vacuum left by the receding powers in Cairo, Baghdad and Damascus. The past 10 years can hence be described as a decade of Gulf Arab rise to power.

Saudi Arabia's global aspirations

A new generation of leaders has established itself in the Gulf region. They have been able, by a combination of uncompromising power politics, ambitious economic diversification targets, societal liberalisation and brutal repression, not only to consolidate their own status as undisputed leaders but also to develop a business model intended to have a global reach. Under the impetus of their high oil and gas revenues, in recent decades, they have developed an economic model based on the principle of (economic) rent allocation. Revenues from oil and gas production put the ruling dynasties in the comfortable position of being able to offer their societies a comprehensive welfare system, providing free health care and tax concessions in exchange for political loyalty.

But now, this system is facing collapse. Oil resources are running out, and the global energy transition in response to climate change can be delayed, but not halted. The Gulf states have realised this and are acting accordingly. In Saudi Arabia, a new generation is pressing into the labour market and cannot be looked after from oil revenues alone. The powerful

Crown Prince Mohammed bin Salman is thus stepping up economic diversification, aiming to become independent of oil, promoting new economic sectors and creating new jobs for young people. Billions are being invested in giga projects such as Neom, the man-made 'cognitive city' on the Red Sea, as well as tourism, the entertainment industry and sports to create more jobs, nationalise the labour market and build up the domestic economy.

Crown Prince Mohammed bin Salman's strategy is based on a combination of societal opening and political repression.

The mighty Saudi Public Investment Fund (PIF), headed by the crown prince, has become a potent instrument in the country's worldwide investment drive. In 2022, the PIF had $776 bn in assets, a 10 per cent increase from the previous year. In the same period, the PIF founded 25 companies and acquired stakes in existing ones, including Saudi companies such as oil giant Aramco but also Facebook, Disney, e-gaming giants EA Sports and Konami, aircraft manufacturer Boeing and Bank of America. The PIF is now among the five richest funds in the world.

With the PIF's help and under the aegis of the ambitious modernisation programme Vision 2030, Saudi Arabia wants to become a global trade hub, a lucrative investment location and an attractive tourist destination. The crown prince is pursuing these targets eagerly. He portrays himself as the 'architect of a new Saudi Arabia' and is offering many young people the prospect of breaking free from the archaic patriarchal patronage system and of re-inventing themselves. This strategy is based on a combination of societal opening and political repression — opposition and criticisms of the regime are not tolerated. Still, it is women in particular that have been granted more rights and opportunities on the labour market. Young people are being given the chance to pursue their business, artistic or sporting dreams — as long as no one questions the status quo.

Perfected business models, also in the Saudi neighbourhood

Saudi Arabia is thus, in some respects, emulating the smaller Gulf states; neighbouring Qatar and the UAE. That is where the global success story began in the early 2000s. In the meantime, Dubai has established itself as a financial and tourist centre, while UAE president and ruler of Abu Dhabi, Mohamed bin Zayed Al Nahyan, an influential puppet master

with excellent connections, has developed the UAE into a 'little Sparta' and a 'modern Venice'. Under him, the UAE has been able to pursue its national interests as a military power in regional conflicts, for example in Libya and Yemen, while backing a number of controversial figures. The country has simultaneously built up a global maritime logistical network, extending from the Gulf to Latin America through the Mediterranean. As the organiser of EXPO 2020 and the UN Climate Conference in November/December 2023, the UAE has also presented itself as a platform for international dialogue and a champion of technological progress and energy diversification.

Qatar, under Emir Tamim bin Hamad Al Thani, has also perfected its business model, establishing itself as a networker, mediator and partner. The high point to date was surely hosting the 2022 World Cup. Despite much criticism and controversy, this turned out to be a resounding success and a symbol of how far Qatar has come. The World Cup shows that Qatar, despite its small size, now ranks among the major players, making a name for itself as an organiser of international sports events, a reliable gas supplier, as well as a mediator in regional conflicts.

To stand any chance of realising their ambitious economic diversification goals, Gulf rulers require regional stability. The war between Hamas and Israel jeopardises such ambitions.

After the Taliban's takeover in Afghanistan, the Qatari leadership's conciliatory ties with Kabul's new rulers enabled it to organise the evacuation of international aid workers. Qatar is also mediating between Hamas and Israel for hostage releases amidst the current escalation of violence. Furthermore, Hamas has had an office in Qatar for years, and one of its political leaders, Ismail Haniyeh, lives in the Qatari capital Doha. Such examples show that Qatar is pursuing a strategy of talking to everyone in order to position itself as indispensable in a crisis. Although its close relations with Hamas have been criticised, Qatar will be needed to mediate in order to free the hostages.

However, the current escalation of violence in the Middle East endangers this pragmatism of the Arab states. To stand any chance of realising their ambitious economic diversification goals, the rulers of the Persian Gulf require regional stability. The war between Hamas and Israel jeopardises such ambitions, giving the Gulf states every incentive to prevent wider escalation and to contain the conflict. But this involves walking a tightrope. On one hand, the governments of most Gulf monarchies publicly back the Palestinians and criticise Israel. On the other, Bahrain and the UAE normalised relations with Israel in 2020, while in recent

months, Saudi Arabia, together with the US, has held talks on establishing diplomatic relations.

This rapprochement is part of a de-escalation process within the region. Saudi Arabia not only increased its (unofficial) cooperation with Israel but also sought a tactical understanding with its bitterest regional rival, Iran, which led to the resumption of diplomatic relations in March 2023 after a seven-year hiatus. At the same time, the Gulf states' complex rivalry has also relaxed, with the end of a blockade of Qatar in 2017 by Saudi Arabia, the UAE, Bahrain and Egypt in January 2021.

This trend away from denunciation towards de-escalation expresses a new pragmatism, based on tactical conflict management. Regional rapprochement is aimed at improving the investment climate and strengthening national business models. But any extension of the Middle East conflict puts this strategy under threat. The Gulf states, therefore, face a delicate challenge — namely to find new avenues towards regional stabilisation so they can keep on pursuing their national interests.



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