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## Chairman's Foreword



The GCC states are firmly establishing themselves as important political and economic power brokers not only at the regional level but at the international level as well. Numerous developments in 2022 and 2023 have underlined this growing central role from Saudi Arabia hosting the Arab League Summit in May 2023, the major summit meetings between the GCC and the United States and China respectively, the re-establishment of diplomatic ties between Saudi Arabia and Iran facilitated by China, to the successful hosting of the FIFA World Cup in Qatar and the pending COP28 summit to be held in the United Arab Emirates at the end of 2023. Key geopolitical and geoeconomic events are taking place and are being increasingly influenced by GCC involvement and contribution.

Three key developments stand out when one looks at the Gulf's strategic environment and position as of mid-2023. The first is the centrality of the GCC agency in the diplomatic theater. The rapprochement between Saudi Arabia and Iran is only the most glaring example of this, but the GCC stands front and center of many other regional de-escalation efforts including with Syria, Turkey, Israel, Iraq, Sudan, and Yemen. These mediation and bridge-building efforts even extend to Ukraine and Russia where prison exchanges have benefitted from Arab Gulf involvement.

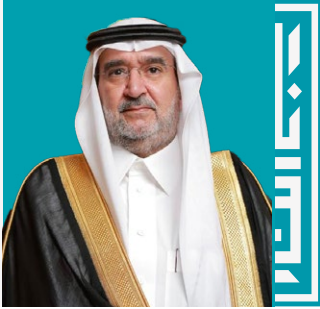
The second is the determination by the GCC countries to place their national and regional interests at the forefront of their policy outreach and not to be identified with any particular camp at the international level. While the United States remains the primary external actor of importance for the GCC states, this relationship does not prevent the region from engaging with, building ties, or strengthening strategic relations with other partners as well. As China plays a growing role in the region, so do other Asian countries such

as South Korea, India, and Indonesia. While still committed to the existing international institutions, emerging multilateral formats like the BRICS and the Shanghai Cooperation Organization are also gaining relevance. There are no pre-determined limits to the GCC's outreach.

Third, and final, is the primacy of economic statecraft at the core of their wider regional and international engagement. Instead of simply rehashing the same geopolitical strategies of the past, the GCC states are fashioning new geoeconomic strategies that build on connectivity and access to broader markets and networks. Technology is seen as a core enabler and the GCC states are determined to take full advantage of the opportunities that the current environment provides.

While the overall security situation in the Gulf and the Middle East remains volatile and fragile, the purview of regional solutions to regional problems has taken hold. The chapters in this volume seek to provide some insight into how the region sees the changing regional and international scene and how their own role is central to the outcome of the developments taking place. I hope you will find these contributions insightful and stimulating.

Dr. Abdulaziz O. Sager  
Chairman  
Gulf Research Center



## Dr. Abdulaziz Sager

### Shaping the Gulf's Regional Environment in 2023

#### Saudi Arabia's Role in Constructive Dialogue: Regional and International Order

The Gulf region continues to be confronted by a highly fluid and volatile political atmosphere. 2023 marks the midpoint since Crown Prince and Prime Minister Mohammed bin Salman launched Vision 2030 in April 2016. Despite the many continuing conflict situations, the past year has provided a platform upon which the GCC states, and in particular Saudi Arabia, have undertaken concrete efforts to help foster the right circumstances to achieve security,

stability, and economic prosperity for the wider Arab region. One of the major outcomes was Saudi Arabia's leading role in the 32nd Arab League Summit on May 19, 2023, which highlighted the Kingdom's revitalized position at the regional and international levels. Through the Arab League summit, Riyadh was able to underscore its priority of the need to reinvigorate Arab ties and improve communication between Arab countries and their neighbors. There is a growing conviction in the Kingdom that in order to confront the challenges it is facing, closer cooperation and constructive dialogue must be had. The developments in Syria, Yemen, and Sudan, in addition to the positive relations between Arab countries and their neighbors, amplify the negative impacts of external interference and signify the need for a strong, unified stance in the Arab world.



here: Al Arabiya English



The time is right for regional dialogue as in March 2023, Saudi Arabia and the Islamic Republic of Iran announced their intention to re-establish diplomatic ties. Overall, Riyadh and the other GCC states are keen on seeing de-escalation take a permanent shape in the region. The resumption of diplomatic relations with Iran can be said to exhibit a high degree of pragmatism and adaptability from all sides, in turn opening the door to potentially ending one of the region's most significant rivalries. The deal does open the door to a wider security dialogue among the Arab Gulf states, Iran, and Iraq, as well as extending broader economic ties across the Gulf. A comprehensive security dialogue could be a venue for states to discuss and develop ways to address their primary security concerns, including continued conflict situations such as those in Yemen, Iraq, Lebanon, and Syria which directly impact the security and stability of the Gulf itself.

There is also an international dimension to be acknowledged. President Zelensky's attendance at the Arab League Summit in Jeddah must be seen in the context of mediation efforts by the GCC states, not only at the regional level but also on the international stage. Saudi Arabia's Crown Prince Mohammed bin Salman expressed his readiness to search for solutions to the war between Moscow and Kyiv, stating: "We reaffirm the Kingdom's readiness to continue mediating efforts between Russia and Ukraine and to support all international efforts aimed at resolving the crisis politically in a way that contributes to achieving security." In terms of the growing crisis situation in Sudan, Saudi Arabia also took the lead in evacuating foreign nationals. Together with the United States, the Kingdom collectively raised the pressure on the warring parties in Sudan by calling for an end to the conflict, establishing a ceasefire, and opening humanitarian corridors.

Throughout the turmoil of the past decades, it cannot be denied that the GCC states have established themselves as some of the most economically sound and modern in the world. The innumerable challenges surrounding their countries have been managed well. As a contiguous region, the GCC states have common interests in security, economy, and similar goals for global, regional, and local prosperity. As a result, Saudi Arabia's role in various regional rapprochement efforts is viewed as part and parcel of a wider Arab Gulf effort to strengthen relations and opportunities for a better future for the Arab people. The GCC countries do openly acknowledge that there will continue to be a significant degree of uncertainty regarding future developments, including a protracted period of volatility regarding global politics and the state of the international order. At the same, the GCC does consider itself to have the responsibility of playing a crucial role in shaping future international arrangements and acting as a link between the continents of Europe, Asia, and Africa. There is simply no denying that

the GCC states have solidified their positions as significant players in what is often referred to as the global south, given the changing international situation.

Back to the regional environment, the GCC plays a crucial role in the region, balancing Egypt, Iran, Israel, and Turkey to protect their security and wield regional influence. In a region gripped by continuous diverging interests and various armed conflicts, it has been a significant development to see Arab leaders sitting at a roundtable and listening to one another. With its presidency and as the host of the Arab League summit in 2023, Saudi Arabia, in particular, showed renewed diplomatic skills and finesse in terms of laying out the path for a new course.

### Rapprochement Efforts with Iran

When Iranian evacuees from Sudan were being flown out of Saudi Arabia, the Kingdom greeted the departing Iranians with open arms. The images of sixty-five Iranian evacuees being greeted by the Saudi Military in Jeddah would have been largely inconceivable just a short time ago when Iran and Saudi Arabia were engaged in multiple regional proxy conflicts. The diplomatic efforts between Saudi Arabia and Iran were the strongest culmination so far of a strategic pivot away from more than a decade of confrontational foreign policy by both sides.

From the GCC perspective, regional stability is key in developing vital economic diversification plans. Deepening economic cooperation with Tehran is seen as the byproduct of political stability in the region, which the GCC states aim to secure first in addressing their regional security concerns. The Kingdom's two priorities are securing itself against threats and expanding its economic base.

As far as Saudi Arabia is concerned, the Kingdom is determined to pursue all avenues to solve the regional security dilemma, which was clearly demonstrated when Foreign Minister Prince Faisal bin Farhan visited Tehran on June 17, 2023. Prince Faisal's statements during the visit clearly underlined the priorities of the Kingdom and placed the ball for ultimate success squarely in the Iranian court by urging Tehran to refrain from escalating tensions and to end its regional interference.

The prevention of nuclear proliferation and efforts to create a zone free of weapons of mass destruction in the Middle East remains prudent for the region's stability. Iran's continued failure to fulfill its obligations to the International Atomic Energy Agency (IAEA) and its negative attitude toward renegotiating the JCPOA further destabilizes the region and brings Iran closer to confrontation with Israel. A confrontation between Iran and Israel will undermine the stability of the GCC states. Therefore, it remains in



the Gulf countries' interest to resolve matters with Iran diplomatically.

At the same time, Iran must be willing to engage constructively to understand the various threat perceptions in the region. The GCC states have stressed Iran's need to abide by principles of good neighborliness, respect for the sovereignty of states, non-interference in internal affairs, and resolving disputes by peaceful means, avoiding the use of force, and playing the sectarian card.

While the atmosphere between the two sides has markedly improved, the key issues as far as the GCC side is concerned remains the same in terms of Iran's commitment to non-interference policies in the Arab Gulf countries and the wider Arab region. In that context, the current reconciliation remains, for now, a largely tactical de-escalation effort that lowers tensions in the short term rather than solving the strategic issues that underlie the relationship.

Given that the March 2023 declaration is not a comprehensive agreement, it is unlikely to materially alter the regional political environment in the short term as it does not fundamentally transform the strategic calculus of either side. However, the agreement's significance in fostering mutual trust and laying the groundwork for further regional integration must be considered. Yet, the broader outcome of

the Saudi-Iranian rapprochement revolves around whether Tehran will invest in the relationship and expand its efforts to improve its policies in the region, especially regarding its interventionist and deterrence policies. The key question now is what measures should be taken to make the current political climate durable and cohesive enough to achieve the main regional security concerns of all parties concerned. As 2023 winds down, it is therefore critical to ask what is in store for diplomatic relations between GCC members and Iran in the next year.

### Yemeni Truce

On April 10, 2023, the global community witnessed the meeting between the political leader of the Houthi rebels, Mehdi Al-Machat, and the Saudi Ambassador to Yemen, Mohammed Al Jaber. This visit, made possible by mediation from Oman, marks the end of nearly two years of informal talks between two main players in the Yemeni conflict. To some degree, this is an indirect consequence of the recent rapprochement between Saudi Arabia and Iran given Tehran's sponsorship and support of the Houthi rebellion. At the same time, Saudi Arabia has been advocating and searching for a political solution for some time.

The UN's envoy to Yemen, Hans Grundberg, stated that the meeting between Saudi Arabia and the Houthis was the



here: Arab News

nearest Yemen has been to peace since the fighting started. But optimism is clouded by the likelihood of disputes about the delegations to any peace talks, doubts over the Houthis' reliability, and demands from within Yemen's south for a sovereign state. One of the main advantages for Riyadh in repairing relations with Tehran was the possibility of cementing the truce in Yemen. Here, the combination of containment, diplomatic initiatives, and deterrence strategies is essential to helping the area break free from its ongoing cycle of instability, especially when it comes to Yemen. In this context, the situation in Yemen also acts as initial testing grounds to see how viable the Saudi-Iran rapprochement is.

The Yemeni parties to the conflict have been presented with an agreement that calls for a six-month ceasefire in the first phase of negotiations to foster trust, followed by three months of negotiations on handling the transitional phase, which will last two years. During that time, all parties will negotiate a final resolution. If truly concerned about their future, the proposal should be accepted as a viable roadmap to bringing the conflict to a close. However, since the meeting in Sanaa, little further progress has been achieved with the Houthis once again hardening their position and seeking concessions deemed by the international community as unacceptable. This underlines the fact that Yemen ultimately represents a domestic conflict where the

progress on the regional front has only limited impact on the positions within. Whether an acceptable compromise can be found thus remains very much in doubt as of the time of writing.

### Iraq

Still today, armed violence persists in Iraq in different forms, but it is sporadic, fragmented, and localized. However, the country remains fragile and divided, and its people face many deepening challenges that the state struggles to address. Iraq has sought to diversify its diplomatic and economic relations in recent years, including with Arab Gulf states as well as Egypt and Jordan. Iran's influence in Iraq, much exercised through Shia political factions, continues as a major concern and threat to the region, especially as Iranian-backed militia groups have been involved in regional instability. For Saudi Arabia, which shares an 811-kilometer land boundary with Iraq, stressing Iraq's strategic value holds true for Riyadh with the situation in Iraq not seen as much different from the current state in Yemen, in terms of being used as staging grounds for engaging in attacks on the Kingdom.

A main priority for Saudi Arabia is therefore the strategic calculation of counterbalancing Iranian influence in Iraq, especially within the government circles. In addition, the GCC states as a whole want to support Iraq's efforts to



strengthen domestic and economic stability with both sides keen to expand and enhance bilateral cooperation to serve the interests of the two countries in various fields, mainly in trade, investment, culture, education, tourism, and energy levels. This is key for the GCC as it aims to build on the positive results achieved in the exchange of political visits between the countries over the past year including those of Qatar and the visit of the Emir to Iraq in June 2023. The importance of discussing prospects for cooperation and opportunities for integration and striving to build strategic partnerships in special economic zones will allow Iraq to rebuild the country and strengthen its Arab identity and sense of belonging to the region. This will not only enhance wider cooperation among the Arab nations, but most importantly, it will aim to limit instability within Iraq and prevent any destabilization from spilling over to its Arab Gulf neighbors.

### **Egypt – GCC Relations**

The GCC and Egypt remain strategic partners in the Middle East, buoyed by shared interests and certain threat perceptions. The GCC values Egypt's large military force, which helps to protect the strategic body of water, the Red Sea. For Saudi Arabia in particular, Egypt's naval presence in the Red Sea is of great importance and joint naval and land exercises that Egypt carries out with its partners act as a deterrent to those wanting to extend their external interference in the region.

Over the past decade, the GCC states have put in place a protective policy towards Egypt, extending large amounts of assistance to prevent Cairo from collapsing economically and politically. Overall, there remain significant overlaps in the strategic objectives, substantial economic cooperation, and high levels of coordination of both sides.

At the same time, the UAE and Saudi Arabia have announced shifts in their economic policy with a higher emphasis on a return on investment rather than a continuation of an unrestricted aid provision. Equally, in the political realm, Cairo is still being viewed as having pretensions to Arab leadership even though, in recent decades, power in the region has shifted to the Gulf states. As such, the contours of GCC-Egypt ties are undergoing a re-evaluation with the new generation of leaders in the GCC no longer feeling bound by the historic dimension of ties. 2023 has been the first year in which this re-evaluation has become apparent although one should expect a further continuation in such development.

### **Syria's Re-Admission to the Arab Fold**

President Bashar al-Assad's attendance at the Arab League Summit in May 2023 in Jeddah resulted from big policy

shifts by the Arab states that once backed his opponents in Syria's civil war. Riyadh came out strongly against Assad early in the conflict, also reflecting concern about the regional influence of his ally, Iran. As some Arab states changed course on Assad, notably the United Arab Emirates, Saudi Arabia initially showed no sign of bringing him in from the cold.

In 2022 and 2023, the Saudi position began to shift in conjunction with a reassessment of the situation that understood the realities on the ground and the fact that the Assad regime will not be removed any time soon. In addition, any present alternative to the Assad regime proved to be unacceptable and did not meet the concerns and objectives of the Kingdom. Following the devastating February 2023 earthquake that hit northern Syria and southern Turkey killing approximately 56,000 people, there were renewed concerns that Syria could be on the verge of further fragmentation. The subsequent response thus allowed many states to push for improved relations with Damascus through humanitarian access. Saudi Arabia utilized this opportunity to lay the groundwork for possible re-normalization with the Syrian government. Out of this, developed a broader consensus in the Arab world that the status quo of continuing to isolate Syria would not be tenable and that, through an opening, the concerns of the GCC and other Arab states could be better addressed. This includes the continuing Iranian influence in Syria. Through its engagement, therefore, the aim is to preserve Syria's unity, strengthen its Arab identity, and restore it to its Arab surroundings.

Syria's return to the Arab League this year reflects a much larger realignment of the region alongside the restoration of diplomatic ties between Saudi Arabia and Iran. The summit's declaration states that the return of Syria to the Arab League will contribute to the stabilization and reunification of the country and aims at "helping Syria overcome its crisis in line with the joint Arab efforts." This further stresses the GCC's strategic policy by improving relations with adversaries like Syria.

### **Mediation Efforts in Sudan**

On May 6, 2023, Saudi Arabia began hosting pre-negotiation talks between the Sudanese Armed Forces (SAF) led by General Abdel Fattah Al-Burhan, and the paramilitary Rapid Support Forces (RSF), headed by Mohammed Hamdan Dagalo, also known as Hemedti. Saudi Arabia has utilized its influence in Sudan to help broker truce talks between the RSF and SAF. Moreover, the Kingdom has played an active role in evacuating civilians from Sudan. Given Saudi Arabia's geographical proximity to Sudan, as well as the contacts it has with the warring factions in the conflict, it is in a suitable position to tackle not only the humanitarian







crisis caused by the conflict but, more importantly, to also act as a mediator to help end the violence and restore stability.

For the Kingdom, the main concern is to contain and mediate the conflict in order to prevent an escalation of the crisis which in turn could spark major refugee flows in the region and thus have destabilizing impacts not only on the Gulf states but also on Egypt, the Horn of Africa, and the rest of Sudan's neighboring states. There is also the concern that terrorist groups could extend their influence in the shared waters of the Red Sea. The meetings of Jeddah, which commenced on May 6, 2023, among Sudanese groups were the first important step toward an end to the crisis and the restoration of stability in Sudan and potentially the wider region. The crisis at the same time underlines how fragile many of the unresolved conflicts in the region remain and the wider immediate impact they can have in overturning any existing momentum at de-escalation.

### Looking Forward

While the regional environment from a GCC perspective remains fragile and volatile, there is a growing conviction

that communication channels are needed to introduce conflict management and de-escalation efforts to move the region out of its perennial cycle of instability. A key challenge in the coming years will be to improve governance systems in the broader Middle East to cope with the mounting challenges of economic and social development, food security, the energy transition, climate change, and building up health resilience. To be able to start on this road, the emphasis on de-escalation and greater stability must continue to be prioritized. As such, one should expect that the GCC states will not only continue to invest in strengthening their capacities to be more self-reliant and autonomous regarding the pursuit and protection of their national interests but to equally emphasize the need for dialogue and other mechanisms so that initial de-escalation efforts become more sustainable. While a country like Saudi Arabia does not pretend to be an impartial mediator, its voice carries weight with many parties in the region and the Kingdom is intent on using its influence to continue to reduce tensions.



## Dr. Christian Koch

### Between the United States, China, and Europe: The Gulf Region and the International Environment 2022-2023

Since the beginning of 2022, the Gulf region has seen a flurry of diplomatic activity with the region itself taking the lead in terms of conflict resolution steps and opening new pages in relationships. On the whole, one can witness a series of transitions occurring that involve increased regional agency, an environment of multi-alignment based on pragmatic realism, and an absence of Western states from the deals being concluded. As a result, there can be no denying that the Gulf has become somewhat less violent over the past two years although one should also acknowledge that the road ahead remains long and uncertain.

On a broader level, the Gulf region continues to play a crucial role within the wider international context. Due to its natural wealth and geographical location, the Gulf region remains of vital strategic global importance. Continuous conflict and multiple sources of threat within the Gulf have also deemed the region unstable in terms of security and politics. The Iraq-Iran war of 1980-1988, the invasion of Kuwait in 1990, the subsequent war of liberation of Kuwait in 1991, the war against terrorism beginning in 2001, the invasion of Iraq in 2003, as well as the Yemeni war starting in late 2014 have all had implications that stretch far beyond the Gulf itself. The absence of a functional collective security system between the countries of the region has contributed to its overall volatility.

Within this context, the question remains whether one is witnessing a new international order developing or not. Whether or not this is the case, the GCC states are convinced that any transition will largely be characterized by ambiguity and uncertainty, in particular during the period leading to any sort of new and different arrangement. The overall assessment remains elusive but there also exists the general belief within the GCC that the U.S. domination of global affairs is not about to end anytime soon.

The war in Ukraine is seen as a decisive factor in determining

the future of the international order from a Gulf perspective. Two scenarios are envisioned if there is to be a clear outcome to this European conflict. The first is the continuation and even enhancement of the post-1990 international order with the U.S. maintaining its hold on global power arrangements. The second is a new order in which Russia and China are increasingly powerful and influential. In both cases, Europe's declining role, particularly if Russia is able to sustain its campaign, is evident.

Whatever the outcome, the impact on the Gulf region will be significant. In the meantime, the region is trying to integrate the repercussion of a shifting global scene into its own policy-making apparatus and develop response mechanisms that can as best as possible, protect their interests and promote regional stability efforts. This includes a premium being placed on ensuring that regional developments do not derail plans for continued economic diversification and broader social transformation. This, in turn, involves leveraging the instruments of power that the GCC states have at their disposal in a more patient and pragmatic manner. The Saudi-Iran agreement on re-establishing diplomatic ties and the successful holding of the Arab League summit in Jeddah in May 2023 are initial examples of the direction in which increased Gulf agency could be leading the regional environment.

#### Gulf Agency

A key message coming from GCC actors since the beginning of 2022 is the efficacy of regional solutions to regional problems. There is a determination to move the Middle East away from being a region in crisis towards continued de-escalation and hopefully the longer-term resolution of conflicts. Here, the GCC states have taken the lead underscoring their determination to inject new optimism into the region and leading with their agency at the core.

The approach follows a realization within Gulf capitals that for the most part external actors have historically simply managed Middle Eastern affairs rather than actually contributed to or pushed for effective solutions to existing problems. With economic diversification, climate change,



the energy transition, the war in Ukraine, and other unsolved regional conflicts producing a confluence of threats, Gulf states simply do not see themselves as having the luxury of time to continue on this path. Instead, what is required is a more concerted push from within to steer developments in a different direction and to see the region itself take the lead in offering its own solutions.

The Gulf's approach can be seen as highly pragmatic and based on multi-alignment in terms of whoever can deliver the results. In the current environment, there are no automatic alliances to be assumed and relationships are pursued on the basis of how they can contribute to the region's overall stability. What is important to understand is that as far as the GCC states are concerned, certain engagements should not be seen as constituting support for one or the other side in particular as far as the Ukraine conflict is concerned. For example, the UAE President made a visit to President Putin while Ukrainian President Zelensky visited the Arab League Summit in Jeddah. The key is to maintain open channels of communication and to avoid forms of polarization that could negatively impact the stability of the Gulf region. Similarly,

China was able to provide the breakthrough in Saudi-Iran diplomatic ties while key U.S. officials held "constructive" high-level talks with the Saudi leadership in the Kingdom. Saudi Arabia, Egypt, and Turkey in the meantime applied for possible membership in the BRICS International Forum Group. Far from seeing such outreach containing inherent contradictions, the GCC states view this policy as being the only way forward to ensure their own national interests.

Gulf diplomacy itself was on full display during the week of June 16 to 23, 2023. While Saudi Foreign Minister Prince Faisal bin Farhan paid the first visit to Tehran since 2006 to further solidify the re-establishment of diplomatic ties, Saudi Crown Prince Mohammed bin Salman paid a visit to France where he met with President Emmanuel Macron at the Elysée Palace and took part in the Summit for a new Global Financing Pact. UAE President Mohammed bin Zayed Al Nahyan followed his visit to Turkey where he met with newly elected President Recep Tayyip Erdogan with a trip to Russia to hold talks with President Vladimir Putin.



here: Al Jazeera



Meanwhile, Qatar’s Emir Shaikh Tamim bin Hamad Al-Thani traveled to Baghdad during the same week where he met with the Iraqi Prime Minister and pledged billions of dollars of investment “in the coming years.” Also, GCC Secretary-General Jasem Al-Budaiwi visited Brussels where he met with EU High Representative Josep Borrell and the new EU Special Representative for the Gulf Region Luigi Di Maio before traveling on to Germany for further meetings. Both sides engaged in discussions about the next EU-GCC ministerial meeting to be held in Oman in October 2023. Finally, the week was complemented by the visits of Iranian Foreign Minister Hossein Amir-Abdollahian to Oman, Kuwait, Qatar, and the United Arab Emirates during which he stressed the need for the “collective participation of countries in the region” as the most suitable way forward to the resolution of existing challenges. The Sultan of Oman, Haithem bin Tariq Al-Said had himself visited Iran at the end of May 2023.

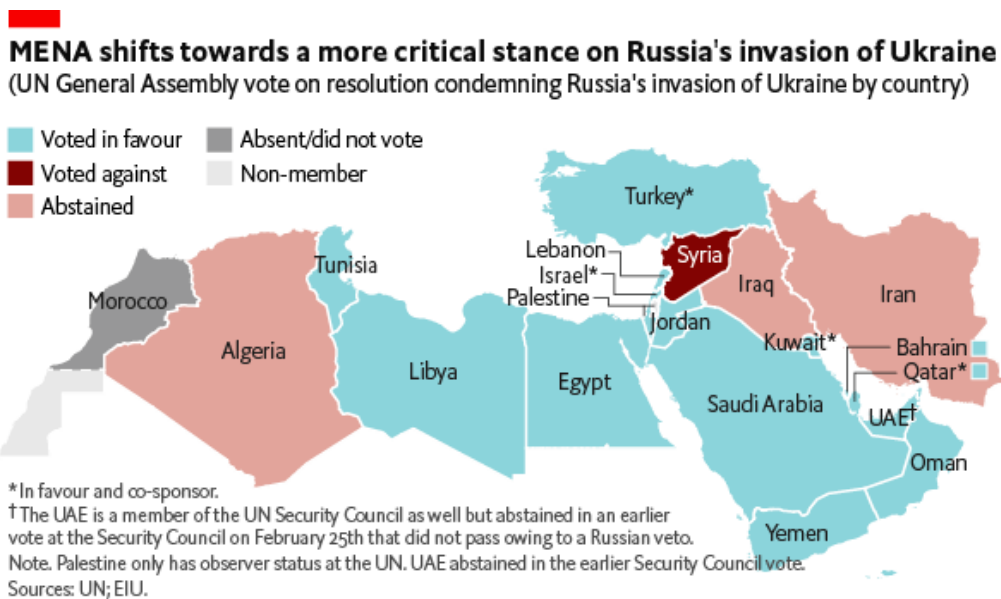
What is important here is not to view the recent developments as one-off events or to expect a significant slowdown anytime soon. Overall, there is presently a clear commitment by the regional states to continue to pursue this diplomatic path and to push for more concrete results. While underlying recent efforts at de-escalation is an honest assessment that one has only taken preliminary steps, there is an equal determination to continue on the sketched-out path. Oman, for example, remains engaged to mediate between the U.S. and Iran to possibly restart nuclear talks, between Saudi Arabia and the Houthis in Yemen to maintain the fragile cease-fire and promote a political process, and even shuttling between Egypt and Iran in their effort to re-

establish ties. Saudi Arabia has also increased its regional efforts as underlined by the smooth Arab League summit held in the Kingdom in May 2023.

All of this suggests a different momentum in place as the Gulf seeks to chart a new course from the conflict-dominated period of the 2010s. The key in the coming period will be to shift the current tactical attempt at de-escalation to a more strategic consideration that ultimately moves the region to a more sustainable and long-lasting system of interaction and cooperation. For now, the Gulf is still a long way away from reaching this stage, but the first initial steps are being taken.

### The Impact of External Actors

The increased Gulf agency in regional affairs did not occur in a vacuum. In fact, it is closely tied to developments in the broader international scene where the past years have witnessed international alignments brought about by globalization, the rise of China, as well as the impact of the COVID-19 pandemic and the Russian invasion of Ukraine. All of the developments have presented opportunities for the GCC states to play more prominent regional and international roles. Due to their geographic location and large-scale economic resources, the GCC states have taken advantage of the situation that has presented itself and have positioned themselves at the heart of many international debates. At the same time, the region is looking at the changes taking place with a certain degree of trepidation fully aware that external actors will continue to be closely connected to the development of the region itself. The role of the United States must be considered first and foremost in this regard.



[here: The Economist Intelligence Unit](#)



## The United States

There is little doubt that in recent years, the Gulf region has witnessed the gradual decline of the traditionally dominant role of the U.S. in this part of the world, a development that has become a source of concern and apprehension. What has emerged as a result is a great deal of confusion about U.S. objectives in the region and its overall policy outlook coming on the heels of the dramatic failure of the American military involvement in Afghanistan and Iraq, as well as their inability to effectively contain the Islamic Republic of Iran.

It would nevertheless be too far-reaching to argue that the U.S. is withdrawing from the region. Whilst still having 35,000 troops on the ground in the region, the U.S. remains the predominant military power and there is no other state that will assume the security role being played by Washington any time soon. Instead, what is occurring is what U.S. Assistant Secretary of Defense Mara Karlin has referred to as a “paradigm shift” in U.S. policy away from the “unrealistic” transformative approach of the past to one that seeks to build on the comparative advantage in existing partnerships and focuses on building effective coalitions that can accomplish clear and achievable aims. It is in fact a move towards the pre-1990 U.S. position composed of a minimal military presence coupled with reliance on regional allies to keep relative stability in place. Overall, it should be seen as a shift in approach, rather than in substance.

It is in this context that one cannot, for example, argue that U.S.-Saudi relations are in fact in a deep crisis. Between

April and June 2023, Secretary of State Antony Blinken, National Security Adviser Jake Sullivan, NSC Coordinator for the Middle East and North Africa Brett McGurk, and Special Presidential Envoy Amos Hochstein all paid visits to the Kingdom. By and large, these visits have signaled a positive shift in the relationship, in which the U.S. recognizes that the Kingdom remains an essential partner in promoting regional and global peace and stability on various fronts. Secretary of State Blinken explained that the bilateral relationship is now at a point of “increasing convergence” and he elaborated: “We’ve had a partnership together for decades that was grounded in security, in cooperation, energy and, in recent years, counterterrorism, and that foundation remains...but what we’re also seeing—and what this visit reconfirms—is that there are important opportunities for our two countries to work together to advance some very positive issues, very positive trends.”

The GCC states remain concerned that the U.S. guarantee of their security is no longer as robust as in the past and they see the myriad of verbal assurances coming from Washington as insufficient. While U.S. President Joe Biden made it clear during his visit to Saudi Arabia in July 2022 that the U.S. will remain actively engaged in the Middle East and that Washington would not walk away and leave a vacuum that Russia, China, or Iran would fill, the region still wonders what will trigger a U.S. response to an event that directly endangers the security of the GCC states. The U.S. response to Iranian attacks on Saudi installations in 2019 as well as the missiles and drones launched from Yemen in early 2022, demonstrate that the question remains yet unanswered.



here: Arab News



It should therefore be acknowledged that U.S.-GCC relations are witnessing a transition of their own where the basic commitment to a strategic relationship remains but where the disagreements over appropriate policy instruments to be applied to certain situations will become more pronounced. Recent cases such as the U.S. criticism of Saudi policy within OPEC+ or similar criticism in terms of the GCC outreach to China, particularly in military and security matters are cases in point. Reports that the UAE withdrew from the U.S. led Combined Maritime Force in response to the U.S. failure to respond to renewed Iranian provocations against international shipping in Gulf waters is another example.

To be sure, the GCC states do not want to become a line of confrontation between the United States and China, and they have made it clear that this is not an either-or choice for them. Neither does this mean that pursuing ties with either Beijing or Washington should be seen as a win or a loss for the other side. Instead, the priority will be on doing what is best to assure regional security from the GCC's own perspective. Knowing that the U.S. would not be able to render results on the de-escalation front as far as Iran was concerned, Riyadh turned to Beijing to deliver an agreement that was considered central to Saudi national interests. In the end, the agreement did little to change the overall strategic situation. While China may have elevated its political role, the U.S. remains the indispensable security partner for the GCC states.

The bottom line appears to be that while the U.S.-GCC relationship remains robust and resilient, developments regionally and globally are moving at such a quick pace that bilateral ties need continuous attention and flexibility. Here, Washington is still adjusting to the newly found activism that the GCC states are putting into practice when it comes to regional affairs.

## China

Following the U.S., most of the attention when it comes to GCC foreign policy has been given to the region's growing relationship with China. The visit of President Xi Jinping to Saudi Arabia in December 2022 where Saudi-China, GCC-China, and Middle East-China summits were all held over the span of several days, signaled a readiness by the GCC states to elevate their ties to a higher level. It was during the visit that President XI made the offer to mediate between Iran and Saudi Arabia and to spend its own political capital to bring an agreement about. For China as for the GCC states, the motivating factor was to bring about a greater degree of stability in the region as stable markets are seen as the key to economic development and thus also domestic political stability.

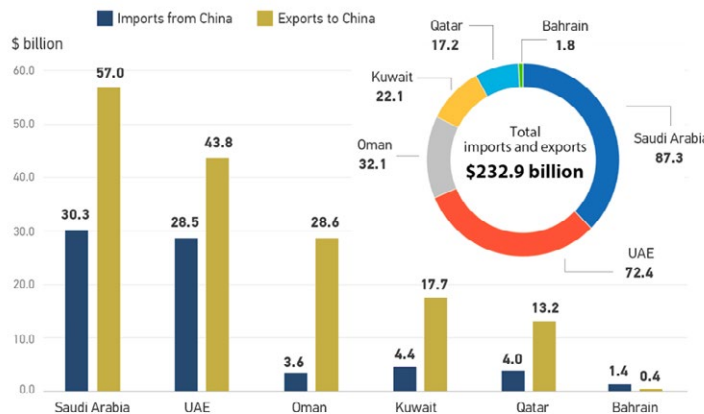
The visit of President Xi to Saudi Arabia made it clear that China was equally interested in dialing down the regional thermostat. By making China part of the equation, the stakes have increased for Beijing to ensure that Iran remains accountable for the "respect for the sovereignty of states and the non-interference in internal affairs of states" as mentioned in the trilateral agreement. This can indeed be considered one of the key achievements of the announcement. Yet, it is also the case that the agreement, as such, has not yet been put to the test and it remains to be seen what steps China is actually ready to undertake should tensions between Iran and Saudi Arabia once again escalate. In general, ties between the GCC and China remain mostly economic. The GCC states are certainly keen to continue strengthening their economic opportunities with China. Total trade between Saudi Arabia and China reached \$116 billion in 2022, a significant increase from the \$87 billion total just a year earlier. Large Chinese companies like PetroChina and Huawei have established a permanent presence in the Kingdom and the 10<sup>th</sup> Arab-China Business Conference held in Riyadh in June 2023 was attended by more than 1,200 Chinese entrepreneurs and business executives. The fact that China does not behave in a conditional manner and that growing economic ties comes with no strings attached suggests that these relations will continue to expand especially as there is a high interest in technology from China for overall Gulf development.

On the geopolitical level, the situation is more problematic because the U.S. wants to ensure that current economic ties do not become more strategic and particularly military in nature. Tensions already exist between the U.S. and the UAE with regard to possible military ties between Beijing and Abu Dhabi. Yet, as shown by Saudi Arabia's purchase of Chinese missiles in the 1980s when these were not available from the U.S., there exists no exclusivity even as far as security ties are concerned from the GCC point of view. The GCC states have also responded positively to political initiatives being put forward by China in the Global Development Initiative, the Global Security Initiative, and the Global Civilization Initiative. Interests shown by Saudi Arabia and the UAE in joining the Shanghai Cooperation Organization or the BRICS Forum are indicative of the view from the GCC states that current existing international organizations do not provide a sufficient role for countries in the so-called Global South. China is seen as a key enabler in extending these states a greater say-so in international affairs.

China is not about to challenge the U.S. security role in the Gulf given that Beijing directly benefits from the U.S. protection of international waterways. What one is likely to see in the coming years is an increased Chinese political role that builds on the economic success already in place. To this point, China is starting to replace the United States and Europe as more of a role model for the region to follow.



### Bilateral trade between China and GCC countries in 2021



### Fossil fuels exported to China in 2021



Source: China's General Administration of Customs

CGTN

[here: CGTN](#)

## Europe

With the Russian war on Ukraine, the Gulf has also taken on an increased role of importance for Europe, in particular as far as energy security is concerned. The green energy transition will become the central focus of EU-GCC ties with Europe eager to secure energy supplies from the Gulf to compensate for the high degree of dependency it has had on Russia in the past. With Europe fully aware that it will rely on energy imports in the future, even in terms of renewable energy, the Gulf's tremendous potential in this regard can be seen as the driving force propelling relations with Europe forward.

During her keynote speech at the 18<sup>th</sup> IISS Manama Dialogue summit in Bahrain in November 2022, European Commission President Ursula von der Leyen clearly stated that: "Gulf security matters to Europe, as Europe's security matters to the Gulf." She further noted that: "Several Gulf countries have been warning for years about the risk that Iran feeds rogue nations around the world with drones. It took us too long to understand a very simple fact that while we work to prevent Iran from developing nuclear weapons, we must also focus on other forms of weapon proliferation, from drones to ballistic missiles." The acknowledgment that

Europe should have listened to its Gulf partners earlier was a significant statement and highlighted a shift in discourse from Europe towards greater coherence and outlook in its overall approach to the Gulf region.

Ms. von der Leyen's address came at the end of the intense year in 2022 in terms of EU-GCC relations which included the first EU-GCC Joint Ministerial Meeting in six years, held in February 2022, followed by the release in May of the European Commission's Joint Communication on "A Strategic Partnership with the Gulf." The document was explicit in stating that "the security and stability of the Gulf region bear direct consequences for the EU" and stressing that "the European Union stands much to gain from a stronger and more strategic partnership with the Gulf Cooperation Council (GCC) and its member states." It further underscored the EU's determination "to partner with the Gulf region and revitalize cooperation through a robust strategic partnership and solid bilateral institutional frameworks." With its approval by the EU Council of Ministers in June 2022, the document became the official policy of the EU.

The EU's outreach towards the GCC states and the broader Gulf region bears attention from several angles. First, the



document provides a broad framework for advancing EU policy in the region. In addition to the traditional areas of promoting trade and investment as well as energy security, it places emphasis on issues such as global health, the green transition, digitalization, mobility, research, development, and humanitarian needs, as well as contributes to the de-escalation of tensions in the broader region. Second, the strategy underlines the active role being played by the GCC states in their neighborhood, characterizes them as “emerging players on the international stage” and emphasizes the “substantial” influence GCC states have, for example, in the field of humanitarian and development aid. This can be seen as an attempt at a more balanced and substantive collaboration between the EU and the GCC member countries.

Third, the document stresses the need to take on a two-pronged approach with both multilateral and bilateral partnerships. It further suggests the involvement of “other key Gulf countries” in certain areas, which is a reference to Iran and Iraq, leaving the EU open to adopting a more comprehensive Gulf policy. Fourth, just as highlighted in the speech by Ms. von der Leyen, there is a shift in terms of a potential European security role in the Gulf region including an acknowledgment that Iranian activities in the broader Middle East have significantly contributed to the region’s volatility. EU Council conclusions issued in 2022 and 2023 have singled out Iran’s destabilizing activities. The EU further recognizes that the nuclear deal with Iran should be seen as a “platform for further efforts to reduce tensions and build confidence in the region,” thus moving closer to the GCC position that any agreement on Iran’s nuclear program cannot be seen as an end in and of itself.

Finally, the document contains specific proposals on how relations can be enhanced including a strengthened EU-GCC Trade and Investment dialogue, the establishment of a dedicated energy and climate expert group, and the holding of an EU-GCC ministerial meeting on humanitarian assistance scheduled now for October 2023. In June 2023, the EU also followed up with the appointment of former Italian Foreign Minister Luigi Di Maio as the newly created EU Special Representative on Gulf security. The idea here is to have a focal point for its Gulf approach including assuring that the different strands of EU member states’ policies come together in a more coherent way from Brussels.

While the momentum of EU-GCC cooperation is apparent, there is at the same time a sense of *déjà vu* as there have been numerous pronouncements in the past that never materialized and other initiatives that did not live up to

their expectations. The failure to come to a Free Trade Area agreement since negotiations came to a halt in 2008 is the most obvious example.

A key question to be considered therefore is how the GCC and the EU can avoid being caught once again in the trap of its so-called unmet potential. On one hand, the sense of greater collaboration is tangible, particularly as far as the issue of Iran and energy are concerned. On the other hand, the institutional set-up remains the same with the economic arena still being the preferred tool through which the EU engages with its external partners. The continued prevailing view from within the GCC states is that Europe remains a hesitant geopolitical actor, focused almost exclusively on soft rather than hard security, and being conditional when it comes to ideas proposed to the GCC countries. The heavy criticism coming from Europe with regard to Qatar hosting the 2022 FIFA World Cup is possibly the most blatant example of how Europe pursues a policy of double standards that do not respect Gulf agency on its own remit. From the EU side, there are concerns that the GCC states are pursuing a policy of fence-sitting, with some in Europe still unclear on exactly where the GCC stands when it comes to critical issues such as condemning the Russian action in Ukraine. As a result, the numerous grey areas in terms of a potential GCC-EU alignment remain unresolved.

Whether EU-GCC ties thus really enter a new era of a “strategic partnership” remains unclear. The current focus on specific action areas suggests a convergence of interests that possibly gives this relationship a real chance. Yet, for Europe, a core takeaway from Gulf diplomacy is that Europe needs to get a quick and better grasp of the new dynamics taking place in the region with Gulf foreign policy at its core. The risk of not grasping the opportunity that the Gulf agency presents means seeing Europe’s role being sidelined or European interests not being given consideration. The GCC states are ready to work with Europe on the basis of shared concerns and interests, but at the same time, the Gulf is also ready to move forward on its own, and with other partners, if need be.

To be sure, Europe is still the partner of choice for the GCC states. Overall relations between the EU and the GCC and the respective member states are broad and comprehensive, and they provide a solid foundation on which to build. Yet, if Europe is serious in its recent proclamation that Gulf security is also European security, then its engagement requires a deeper commitment and a better understanding of the policies being pursued by their regional partners.





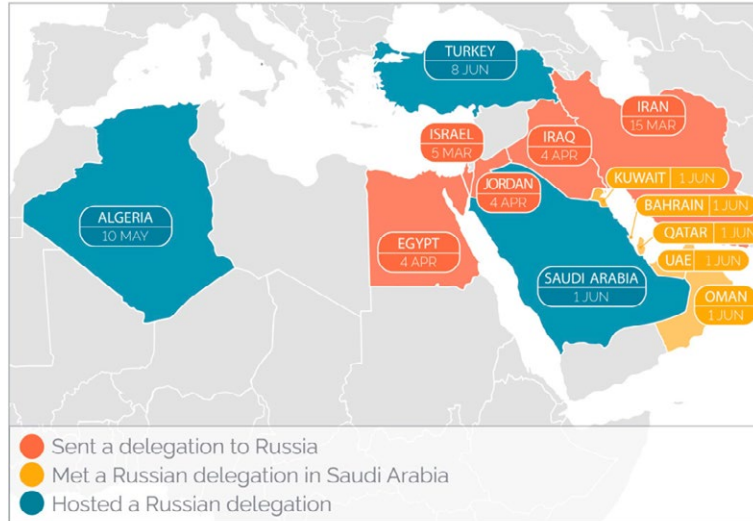
## Russia

The Gulf position on the Ukraine conflict is seen as ambivalent as far as Europe and the United States are concerned. For the GCC states, this ambiguity does not exist. The GCC states acknowledge that for Europe the conflict in Ukraine represents a game changer as far as relations with Moscow and European defense policy are concerned. They also understand the implications the conflict holds for the wider stability of the Gulf region, for example when it comes to food security, weapons proliferation, or increased Russian-Iranian security. The Ukraine crisis is, however, not seen as a strategic threat to the GCC, and as a result, leadership in the region views itself as having some room to maneuver.

In the overall context, the argument from a GCC perspective is that their policies should not be confused with neutrality or non-alignment. As far as Russia is concerned, the GCC states have voted for the UN General Assembly resolutions calling for a military withdrawal of Russia and allowing for access and civilian protections for Ukraine. They have similarly condemned the intervention as such and called for an end to hostilities. During his visit to Moscow in March 2023, Saudi Foreign Minister Prince Faisal bin Farhan Al-Saud stated that it was important to “search for possibilities of facilitating dialogue between the two sides.” The UAE has similarly underlined the need for open lines of communication in order to narrow the gap in polarized positions. Following his visit to Russia, Prince Faisal also

# Russia's activism in the MENA region after Ukraine

Latest high-level meetings between Russia and MENA countries



Sources: Arab News, Reuters, The National, Tass



here: [ISPI](#)

visited Ukraine pledging additional humanitarian assistance while Ukrainian President Zelensky was a guest at the Arab League summit in May 2023 in Jeddah.

The GCC states can be expected to continue their balancing act as far as Russia is concerned although it is also clear that the expectations on the role Russia can play regionally and internationally have been lowered in the Russian battlefield performance. While economic ties remain in place, these have never been as significant as other economic relations the GCC states hold with other countries and there is an increased weariness to consider investments in light of concerns over the future stability of Russia itself. The Russian role in theaters like Syria is also viewed as being diminished with the result that the GCC states are seeking to promote their own role within Syria to fill a potential Russian vacuum. Overall, it is China that is seen as the counterbalance to the United States in the Gulf rather than Russia. While ties with Moscow will be maintained, their value in the overall international environment is in decline with Beijing being the main benefactor.

## Conclusion

Within the realm of the myriad of security challenges being faced by the GCC states, and the corresponding central role played by external actors in the region, much attention is being paid to the shifting contours of international politics. Much of the regional responses will depend on the future role of the U.S. given the central role it has played over the last several decades. On the back of an increased U.S. reluctance to maintain its deep military involvement in the Middle East, as well as within the context of a globalized world, the role of external powers in the Gulf region has, as a result, become more internationalized. While security affairs remain the basis of Gulf ties to the U.S., Europe and Asia do play an increased and more central role in economic terms. China, India, and Japan are all major importers of Gulf energy and a closer relationship with Asian countries is emerging in the field of technology. Europe is engaging with the region through the new “Strategic Partnership with the Gulf” approach through which it seeks to play a





more prominent role in the GCC's economic diversification programs, develop a partnership in the green transition and sustainable energy security, and contribute to regional security.

A more important factor, however, is the increased agency by the GCC states themselves who are no longer willing to simply wait for consequences to their national security as a result of the actions of external powers. What one can witness is an increased readiness to engage in political, economic, and diplomatic endeavors in order to shape the current environment. There is now an emphasis on local development, continued economic diversification as part of the energy transition and efforts to combat climate change, and technological connectivity in order to build capacities and secure the Arab Gulf's economic future. Moreover, since economic development requires regional stability, prominence is given to regional de-escalation policies.

This includes bringing about an end to the conflict in Yemen, establishing political relations with Iran, as well as opening the diplomatic doors to Syria paving the way for reintegration into the Arab world.

What the GCC states do not want is to be caught in the middle of a great power struggle between the United States and China or between the West and Russia. As a result, the pursuit is for balanced policies that allow for as many options as possible when determining the path of their future course. There is a clear recognition by the GCC states that the future period of international politics will be marked by a great deal of uncertainty and an extended period of instability. The GCC states nevertheless see themselves as playing an integral part in the development of the future international order and serving as a bridge between the continents of Europe, Asia, and Africa at whose intersection they geographically lie.



## Dr. Mustafa Alani

### Security Developments within the GCC Countries

The Al-Ula Declaration signed by the leaders of the GCC delegations attending the 41<sup>st</sup> Gulf Summit, held on January 5, 2021, in the city of Al-Ula in the Medina region of Saudi Arabia, played a crucial role in promoting positive changes and reducing tensions among the GCC countries by successfully reinstating cooperation among the council's six member states. It was the starting point for ending internal conflicts and competition between GCC states, in addition to settling disputes and unifying positions. A high-level Saudi-Qatari coordination over various regional political aspects was clearly shown to be effective during this period. 2022 also witnessed most GCC countries ending their imposed Covid-19 restrictions, which were in place during the pandemic's outbreak from 2019 to 2021.

### The Ukraine Invasion

Just like many other countries around the world, the Russian invasion of Ukraine in February 2022 came as an appalling turn of events for the GCC countries. This was in particular the case as the invasion occurred during a period of improved relations between Russia and the Gulf, including the establishment of communication channels between their respective leaders. This also included the OPEC+ Agreement starting in 2016 with the aim to regulate oil prices in the global market. Here, Russia and the Kingdom of Saudi Arabia played a key role to ensure the agreement's continuation and effectiveness. Prior to the Ukrainian crisis, ties between the GCC states and Russia were primarily limited to energy policies, economic cooperation, and investment exchanges. There was no such thing as military alliances or strategic partnerships to speak of. At the same time, relations continued to evolve with leaders engaging in visits early in 2022 in order to enhance ties and strengthen the partnership between the two sides.





Part of the reason for improved Russia-GCC ties is the growing concern within the Gulf about the commitment of the US towards the Gulf, which has led to a decline in trust for America's security role and a growing gap in the strength of overall US-GCC ties. This provided the justification for the Arab Gulf states to take steps towards a gradual understanding with Russia and China. When the Ukrainian crisis broke out, numerous Western powers exerted tremendous pressure on the GCC states to condemn the actions taken by Russia. This put the Arab Gulf states in a quandary and a significant amount of time was spent trying to find a balanced position that would guarantee their continued security while the war in Ukraine continued, without taking clear sides in the conflict.

Most GCC states do not see a benefit in aligning with the efforts by the US-led Western camp to isolate and punish Russia economically and politically. They do not support providing aid to the Ukrainian military or taking NATO's side in containing Russia. The fear of the Russian response to such an approach is not the only driver behind the GCC countries' decline to line up behind Western demands. Instead, there was a clear unwillingness to find themselves in another Cold War scenario of having to choose sides. After all, the war in Ukraine was seen as a European war, geographically speaking, and somewhat removed from the Gulf region in its direct impact. Hence, there was little wisdom in irritating Russia by becoming involved in the conflict.

Despite American and Western pressure, GCC countries managed to adopt a position that protected their national interests and independence. This policy was based on three key pillars:

First, the GCC states condemned the Russian invasion of Ukrainian territories on the basis that this action constituted a violation of international law, as well as the foundations of international legitimacy. This stand was clearly demonstrated in all international forums, including the GCC's support of the resolutions issued by the United Nations (resolutions issued by the United Nations General Assembly on March 2, March 24, April 26, October 12, and November 14, 2022) and its subsidiary organizations (resolutions issued by the United Nations Human Rights Council on March 4 and 5, 2022). Furthermore, the GCC countries joined the majority of the international community in demanding that Russia cease its invasion and pull its forces out of the occupied Ukrainian lands. They also refused to recognize the Russian annexation of parts of Ukraine.

Second, the GCC extended humanitarian aid and financial assistance in support of the Ukrainian people. As of May 2023, the GCC countries have provided almost \$550 million in the form of cash or in-kind aid in support of the

humanitarian aspect in Ukraine. While the Kingdom of Saudi Arabia has provided \$410 million in two packages of aid to Ukraine, the UAE extended \$105 million in assistance, Qatar \$5 million, Kuwait \$2 million, and Bahrain \$1 million. On October 15, 2022, the Saudi Ministry of Foreign Affairs declared that Riyadh would allocate an additional amount of \$400 million as humanitarian aid to Ukraine. The decision followed a phone call held between Crown Prince Muhammad bin Salman and Ukrainian President Volodymyr Zelenskyy. In addition, the King Salman Humanitarian Aid and Relief Center provided medical and housing aid in the amount of \$10 million to the Ukrainian refugees located in neighboring countries, especially in Poland, following coordination with the Polish government, as well as with UN organizations. A memorandum of understanding valuing \$300 million was signed between Saudi Arabia and Ukraine to finance oil purchases. The UAE also provided aid in the form of 2,500 electric generators announced in December 2022 in addition to other financial assistance.

Third, the GCC states sustained their diplomatic relations and political communications with Russia; refrained from joining the sanctions and economic boycott resolutions imposed by the Western world on Russia; and refused to participate in the containment or isolation of Russia.

Through this three-pillar policy, the GCC countries have attempted to maintain a level of balance within the context of the Ukrainian conflict. The GCC countries abandoned their initial position of impartiality or neutrality in the conflict by explicitly condemning the Russian use of force and the invasion of Ukrainian territories. At the same time, there was no advantage to be found in yielding to Western persistence to support a major and humiliating military defeat on the Russian side. While such a scenario would undoubtedly have severe consequences on internal Russian affairs and on the Russian state, it would equally have undesirable consequences on the international scene. As far as the GCC is concerned, a multilateral world with numerous power centers is the preferred option as it increases options within the context of international relations. Still, the position of the Gulf in relation to the Ukrainian crisis cannot be interpreted as being biased toward Russia. Instead, it is a stance that arises from a genuine careful analysis based on the individual and collective national interests of the Arab Gulf countries.

The attempt to develop and adopt a specific and unique position in the Ukraine conflict can be characterized as a new phase in the GCC political approach. Perhaps, and for the first time in their history, the GCC countries have demonstrated sovereign independence when it comes to resolutions regarding matters of international conflict. They have not only taken a unified stance that did not succumb to American pressures, but they have managed to hold their line of argument in the name of protecting their own interests.



## The Role of China

The year 2022 also witnessed significant growth in terms of the Chinese-Gulf relationship. As a result of visits by the Chinese leadership to the Gulf as well as those of Gulf leaders to China, numerous mutual cooperation agreements between the two sides were signed signaling an attempt by the Gulf region to open up to China more broadly. In return, this brought with it an increase in US and Western pressures calling for caution and restraint in the ties to China. Yet, similar to the situation in Ukraine, Gulf leaders found no rational justification for this line of argument nor any gain for their national interests by supporting US-Western projects to contain China. In fact, the general view in the Gulf is that China neither forms a strategic threat to the region nor holds regional ambitions or interventionist intentions that threaten the security and stability of the Gulf. During the China-GCC Summit held in Riyadh in December 2022, the GCC countries underlined their support for the “One China Principle,” a principle that the US and the Western world also continue to support up to the present date.

On July 16, 2022, the “Jeddah Security and Development Summit” was held with the participation of the leaders of the GCC member states plus Jordan, Egypt, and Iraq, as well as representatives of the US. The summit’s objective was to highlight the shared vision of the leaders involved in the summit along with the shared priorities of peace and prosperity in the region. The meeting underscored the need to safeguard the area’s security, stability, and markets while also promoting increased investment. Other aspects included

support for the non-proliferation of nuclear weapons and the need for all countries of the Middle East region to adhere to such non-proliferation standards.

Nevertheless, the year 2022 was dominated by efforts to enhance China-GCC, and more specifically, China-Saudi cooperation. The visit of Chinese President Xi Jinping to Riyadh on December 8, 2022, resulted in the signing of the “Comprehensive Strategic Partnership Agreement” between the Kingdom and China. In addition, numerous cooperation agreements were signed in fields such as joint investments, energy, manufacturing, and mining. The subsequent Arab-Chinese Riyadh Summit for Cooperation and Development was also held under the patronage of the Kingdom.

What is important to highlight is that the Chinese position has shown an understanding of the Gulf’s concerns regarding Iran’s destabilizing conduct. In the closing statement of the China-GCC summit both sides agreed to include a paragraph that highlighted the necessity for ties between the GCC and Iran to be based on the principle of good neighborliness and non-interference in states’ internal affairs; showing due respect to states’ independence, sovereignty, and their territorial security; resolving conflicts by peaceful means according to the United Nations Charter as well as international law; refraining from the use of force or threat to resort to such; and maintaining regional and international security and stability. The leaders gathering at the summit further emphasized the significance of having a wide-ranging dialogue in the presence of the GCC countries to address the Iranian nuclear file as well



here: Arab News



as Iran's destabilizing regional activities. They highlighted the importance of combating the support given to terrorist and sectarian groups and illegal armed organizations. Other topics that were addressed included the prevention of ballistic missiles and drone proliferation, the assurance of the safety of international navigation routes and oil facilities, as well as adherence to the UN resolutions and international legitimacy.

### The Impact of the Yemen Conflict

The continued strife in Yemen continued to pose a major security threat to both the Gulf region and the Arab Peninsula. At the start of 2022, clashes within Yemen intensified, especially in the governorates of Marib and Shabwa and parts of Taiz, with government forces able to regain control over parts of Marib and Shabwa. In April 2022, the UN Special Envoy to Yemen, Hans Grundberg, announced the agreement of a two-month truce between the Yemeni parties which was subsequently renewed two more times. By October 2022 however, the Houthis took a harder line resulting in the failure to see the truce agreement further extended. Even during the truce, the Houthis continued to commit violations and breaches, in addition to there being limited military operations, sporadic terrorist attacks, and assassinations. Such actions were seen by the Houthis as a means to improve their position during the political negotiations.

More significantly, the year witnessed the transition of the leadership of the internationally recognized Yemeni government with the transfer of all executive powers on

April 7 from the leadership of President Abdrabbuh Mansur Hadi to the newly established Presidential Leadership Council headed by Dr. Rashad Muhammad Al Alimi. The council includes seven members, each given the rank of Deputy Chairman of the Council. Shifts also occurred at the higher military level and within civilian-military positions. The new Leadership Council took its constitutional oath before the Yemeni parliament in the city of Aden, serving as the interim capital. Two weeks later, on April 21, the council approved the government of Mr. Maeen Abdulmalik Saeed thus giving the government a formal vote of confidence, eighteen months after its establishment with the Riyadh Agreement of November 2019.

The first quarter of 2022 also witnessed continued attacks by the Houthis from Yemen on Saudi territory, targeting infrastructure with drones and missiles and causing human and material losses. Attacks reached several Saudi cities, including Khamis Mushait, the industrial zone in Ahad Al Masariyah (a city in the south of the Kingdom), Abha International Airport, and King Abdullah Airport in the city of Jazan. Dozens of other attacks were successfully intercepted. The most serious strikes occurred against oil facilities and included the attack on March 10, 2022, on an oil refinery in Riyadh, the March 20 attack on one of Saudi Aramco's oil product distribution stations in Jeddah, and a strike on March 25 targeting the petroleum product distribution station based in Northern Jeddah and Al Mukhtara station in the Jazan region. Despite the intense density of Houthi air raids targeted at the Kingdom, the Saudi air defense proved highly effective with a large number of other attacks not reaching their targets.



In addition to Saudi Arabia, the Houthis also carried out attacks against the UAE. On January 17, 2022, the Abu Dhabi Police Department reported that a fire had resulted in the loss of three lives and injuries to six others. The fire broke out after the explosion of three petroleum fuel transporting tanks in the Musaffah Industrial Area and the new construction area at Abu Dhabi International Airport due to a drone and ballistic missile attack. The UAE's response was rapid. On January 24, the Joint Operations Command of the UAE Ministry of Defense announced the destruction of a ballistic missile launcher based in the Al-Hazm district in Al-Jawf Governorate, Yemen, which was believed to be where the attack on the UAE was launched from. This was followed by a series of further announcements confirming the destruction of both drones and ballistic missile sites in territory under the Houthi militia control in Yemen by the Emirati Air Force.

The continuation of the Yemeni conflict is closely tied to the efforts put forward by the Saudi leadership to finally resolve the crisis and facilitate negotiations between the Yemeni parties. The ultimate objective is to reach a consensus that ensures the safety and stability of a unified Yemen. Within such scope, direct negotiations with the Houthis were held, with a team of negotiators from the Sultanate of Oman and the Kingdom of Saudi Arabia holding talks with the Houthis in Sanaa in the first week of April 2023 in order to reach a comprehensive agreement that would lead to a permanent ceasefire, as well as put an end to the foreign military intervention in the eight-year-old conflict.

The Houthi threats to attack the territories of both the Kingdom of Saudi Arabia and the UAE have continued to reverberate despite the validity of the current truce, the cease of military operations, successful prisoner exchange, the mitigation of the siege imposed on parts of the country falling under the control of the Houthi, and the hopes associated with the direct political negotiations with the leadership of the Houthi rebellion. The legitimate Yemeni leadership, on the one hand, in addition to the Kingdom of Saudi Arabia, the UAE, and the remaining GCC countries, on the other,

has been clear in their acceptance of the Houthis as a key partner in the political process to re-building a unified Yemen. In fact, there is a real desire to reach a peaceful settlement of the conflict stirring in Yemen. At the time of writing, however, such a result remained elusive due to the continued negative responses of the Houthi leadership due to continued influence by external factors and outer powers.

### Other Internal Security Developments

On the domestic front, King Salman of Saudi Arabia issued a resolution at the beginning of 2022 to declare February 22 of each year to be "Saudi Founding Day" to be celebrated annually, both officially and publicly. The idea behind the declaration is to highlight the political history of the Kingdom as well as to confirm its enduring existence and historical depth.

The year 2022 can be referred to as a year when Saudi efforts to enhance and localize the military industry in the Kingdom began to materialize. In March 2022, the General Authority for Military Industries announced the signing of 22 industrial partnership agreements valued at \$2.1 billion with a number of local and international companies specialized in the military and defense industries. The same month also saw the authority's approval to begin the domestic production of interceptor missile launchers (THAAD Missile System) and for missile containers in cooperation with Lockheed Martin-Saudi Arabia Ltd. Shortly thereafter, the Saudi Ministry of Defense announced the signing of ten additional contracts valued at \$1.866 billion to enhance the Kingdom's defense capabilities. In December 2022, the Saudi Ministry of Defense signed a memorandum of understanding with the Spanish shipbuilding company "Navantia" to build a number of multi-mission marine vessels for the Royal Saudi Navy. An "Action Plan for Defense Cooperation" was subsequently signed between the Kingdom of Saudi Arabia and the United Kingdom to support joint security measures and cooperation within the field of defense. Similar to efforts in Saudi Arabia, the UAE also continued the development of its local military industry. This included an MoU signed



here: ZAWYA





in May 2022 between the UAE and Turkey to enhance their cooperation in the field of defense industries.

In November 2022, the Saudi Council of Ministers approved the formation of the “Supreme Space Council” chaired by the Crown Prince with the purpose of developing the Kingdom’s contributions to the exploration of outer space. The council was also formed to set up an integrated spaceflight program in cooperation with international parties.

On March 12, 2022, the Saudi Ministry of Interior carried out the execution of death sentences against 81 convicts of terrorist crimes, including 73 Saudis, 7 Yemenis, and one Syrian, in line with the Kingdom’s policy to strictly address terrorist groups in all of its forms. In August 2022, a terrorist carried out a suicide attack in the governorate of Jeddah during an attempt to arrest him causing injuries to three security members.

In terms of combating international crimes, the GCC Criminal Information Center to Combat Drugs, based in Doha, signed an MoU with Britain’s National Crime Agency to boost cooperation in combatting narcotics trafficking. Furthermore, in October 2022, a “Working Agreement” was signed between the Qatari Ministry of Interior and Europol with the purpose of joining efforts to combat dangerous and terrorist-related crimes.

In the United Arab Emirates, President Sheikh Khalifa bin Zayed Al Nahyan, passed away on May 13, 2022. The following day, the Supreme Council of the Union announced its unanimous decision to elect Sheikh Muhammad bin Zayed Al Nahyan as the next President of the State. The procedures carried out as part of the transfer of power proceeded smoothly and without any complications. The transfer of powers was subsequently greeted positively by all GCC leaders as well as Arab, regional, and international entities.

As far as Qatar is concerned, the resounding success of the FIFA World Cup 2022 held in the country significantly elevated the positive recognition of the state. Opened by the Emir of Qatar, Sheikh Tamim bin Hamad, on November 20, the competition lasted for 29 days with the participation of 32 teams and its success underlined Qatar’s ability to hold such a massive worldwide event in a safe and secure environment and without any security-related interruptions. Throughout the year, Qatar continued to develop its relationship with Turkey by holding eight meetings of the Qatari-Turkish Supreme Strategic Committee, chaired by the heads of the two States. The meeting held on October 14, 2022, in Istanbul, resulted in the signing of 11 new cooperation agreements to enhance the strategic means of cooperation between the two countries.

In November 2022, the Kingdom of Bahrain undertook a new round of elections during which 40 members of parliament and 30 members of the municipalities were elected. Prior to this in June, King Hamad bin Isa Al Khalifa had announced a limited ministerial reshuffle.

Finally, visits by Gulf and Arab leaders to Oman in 2022 led to the signing of a series of cooperation agreements meant to enhance bilateral relationships. This included the visit of the President of Egypt to Muscat in late June, as well as more than ten agreements signed in September during the visit of the UAE’s president. One agreement of strategic significance was on the establishment of the “Al Etihad Rail & Oman Rail Joint Venture” owned equally by the two countries and aimed at designing, developing, and operating a railway network linking the Omani Port of Sohar to the UAE national railway network. During the visit of the Bahraini king to Muscat, ten memoranda of understanding, in addition to seven executive programs, were signed in order to strengthen the Omani-Bahraini relationships.





## Abdullah Almutabagani

### Uncertainties Dominate the State of the GCC Economies

A sense of urgency has prevailed in the Gulf monarchies as the economic symptoms of the Covid-19 crisis and the Ukraine War continue to linger, in particular given the uncertainties in relation to oil price developments. The Ukraine War has not only catalyzed the European switch to renewable energy but also sparked a global reevaluation of national energy security provisions prompting many countries to diversify their energy portfolios. Holding for the possibility of future supply-side exogenous shocks, there is an expectation that the current period may be the last global oil super-cycle, thus indicating the medium to long-term decline in hydrocarbon income. Meanwhile, inflation, food insecurity, and the tightening of global monetary policy are pushing many MENA countries to the brink of

economic collapse. Despite their relative insulation from such pressures, GCC countries are, for multiple reasons, significantly affected by the success or failure of countries like Jordan and Egypt which is why they have historically maintained a policy of economic assistance and support programs with them. Recent changes in GCC aid policy might portend a shift in approach which in turn could further exacerbate current economic tensions.

As a result, the coming years will serve as a litmus test for GCC government bodies and their ability to: 1) Navigate the implementation of ambitious national development plans around shrinking budgets; 2) Shore up confidence by developing non-oil growth and diversifying their economies (their ability to develop non-oil exports will serve as the signal for their success over a longer period); 3) Sift through regional crises to find economic opportunities.



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## Key Challenges

Food prices have stabilized to pre-Ukraine War levels bringing much-needed respite. However, the rising cost of living remains a serious issue for the GCC's middle class. Oil prices, in the meantime, have simply not proven suitable as adequate compensation. The price of the OPEC basket has fallen approximately 60% since June 2022 to \$72.96 per barrel. Fiscal breakeven oil prices are difficult to gauge, but it is likely that except for Qatar and Kuwait, all other GCC countries will fall short of their breakeven oil price for their national budgets.

After a series of earlier cuts, Saudi Arabia announced an additional cut in its oil production by 1 million barrels beginning in July 2023. Saudi Arabia is now producing 1.5 million barrels less than what it was producing earlier in 2023, possibly signaling that the Kingdom has a limited ability, even within OPEC+, to influence final prices. The lack of a clear mechanism to stabilize their budgets means that the GCC countries have to continue to accelerate their economic diversification efforts. In a sense, the challenge for the region during this period remains unchanged, i.e., to eliminate rentierism, diversify exports, increase productivity, and climb up the global value chain.

The economic agenda is pitched against the backdrop of a neighborhood in crisis. Double-digit food price inflation has been highlighted as the primary driver of the MENA region's expected slowdown in GDP growth, particularly in countries that have undergone currency weakness. Food price inflation affected eight of the region's sixteen economies with the impact particularly severe for poorer people who have had to allocate a higher portion of their income to food according to the World Bank. Egypt, for example, recorded an inflation rate of 31.9% in February 2023 coupled with an almost 50% devaluation of the Egyptian pound since March 2022. The dual impact of the Covid-19 crisis and the Ukraine War have hurt Egypt's terms of trade and the crucial tourism sector. Having exhausted its foreign currency reserves in response to the pandemic, the Central Bank had no more mechanism to preserve the value of its currency in the face of the Ukraine War and has subsequently been forced to devalue its currency multiple times. As of today, nearly 60% percent of Egypt's 104 million residents are living in poverty or near the poverty line. Given Egypt's central role in Middle Eastern matters, including overseeing the operations of the Suez Canal, the GCC countries have extended significant support to Egypt in the form of central bank deposits, loans, and grants. Reports suggest that as of 2023, Egypt, in fact, owes Saudi Arabia, the UAE, and Kuwait approximately \$7.72 billion, \$6.43 billion, and \$4.14 billion respectively (Butter, 2020). On top of this, Saudi Arabia's Finance Minister Mohammed Al-Jadaan's statement that there will no longer be any unconditional aid is indicative that Gulf Countries are

tightening their stances. This, in turn, allows for the very real possibility of continued economic migration and even political unrest if the Egyptian economic crisis persists.

Given that GCC banks are financially exposed to Egypt, Egypt's economic success or falter will have direct implications on the region's financial markets. This is also the case with Turkey. According to Fitch Ratings Agency, "Turkish exposures are a risk for GCC banks' capital positions due to currency translation losses from the lira depreciation" (Fitch 2022). The lira has plummeted in value in recent years, with the US dollar/lira exchange rate hovering at 18, compared to 2.2 in January 2014. Fitch estimated that GCC banks' aggregate currency translation losses through 'other comprehensive income' in 2018-2021 were \$6.3 billion, primarily owing to the lira devaluation. During the same period, the total net income of Turkish subsidiary banks was almost \$3.3 billion. As a result, Fitch predicts that currency losses will remain high until at least 2024. While President Erdogan has begun to make adjustments to the country's economic course following his recent re-election, the GCC states will still have to consider different strategies for their foreign economic initiatives and endeavors.

Finally, the issue with pursuing diversification during a global tightening of monetary policy is that FDI becomes increasingly more difficult to attain. Therefore, prospects of establishing joint ventures and strategic partnerships to foster knowledge transfer are deflated to start with. Moreover, the impression that any of the aforementioned agreements will have groundbreaking results should be handled with caution. Gulf industrialists have to prioritize productivity, discover costs, and even "create losers" in order to develop the know-how and optimize costs in a way that will enable them to enter the international marketplace. By charging the private sector with fees and taxes, Saudi Arabia, for example, risks causing a prolonged contraction of the private sector. The increased spending by the government is also likely to crowd out the private sector resulting in state-led growth that makes foreign direct investment difficult to attract.

## Developments

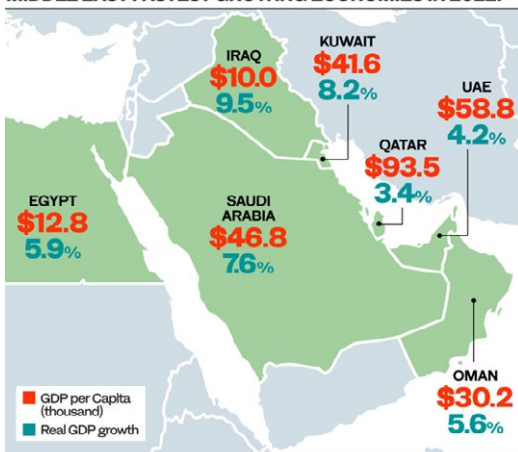
To improve their fiscal position, GCC states have taken the initiative and started taxing their respective populations in different ways. Oman is proposing to tax high-income earners, the UAE is looking to tax corporate profits, and Saudi Arabia has instituted a 15% value-added tax. This adds much-needed firepower to the government budget and its efforts to develop nascent sectors. Furthermore, it adds buffers that are somewhat independent of oil revenues making it easier to budget for projects throughout the year. On the one hand, this has repercussions for the traditional social contract between the population and the government. On the



other hand, it remains unclear if this will affect government accountability in project implementation although it should at least result in more efficient institutional budgeting.

Counterintuitively, another facilitating factor for the economic diversification of the GCC states is the falling oil prices. The diversification experience of the few success stories reveals that diversification usually occurs during

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a period of declining oil revenues (Cherif and Hasanov, 2014). For government institutions that are held accountable to national development goals, a shrinking budget might provide added pressure to develop alternative income streams. Successful strategies have relied on a policy mix that promotes vertical diversification in “comparative advantage” sectors such as oil and gas and petrochemicals, as well as efforts to expand horizontal diversification beyond these sectors. Although it is unlikely that the region will have a flourishing non-oil tradeable sector in the near future, there is already a focus on technological upgrades and international market competition. The UAE’s EDGE group, for example, is slowly setting the standard for how advanced technologies can be developed and exported in the region. From 2021 to 2022, EDGE Group increased the number of items in its portfolio by more than 400% and its export sales by more than 500%, totaling \$4 billion. The landmark deal included the sale of 3 “Corvette” class vessels to Angola, which highlights the Emirates’ ability to find clients in emerging markets.

GCC states have also begun investing in the greater MENA region to foster both stability and returns. Following the launch of the Saudi Egyptian Investment Company (SEIC), a PIF subsidiary, in August 2022, the Kingdom announced six other subsidiaries which will target investments worth up to \$24 billion in Bahrain, Iraq, Jordan, Oman, Sudan, and Egypt. Similarly, after a series of government-backed efforts by private enterprises, the UAE more than doubled

its investments in Egypt during the first half of the fiscal year 2021-2022 (Kamel, 2022). Qatar’s Sheikh Tamim declared in June 2023 during a visit to Iraq that Qatar would invest \$5 billion in various projects in Iraq over the next few years (Mahmoud, 2023). The GCC states are thus attempting to deploy their resources more effectively in order to safeguard the region through commercial development. Although the risks of such moves are high, they must be seen within the context of economic diplomacy strategies. Given that unconditional aid has proven largely ineffective, these investments would appear to be a better policy choice. The Fundación Chile, Chile’s quasi-sovereign wealth fund, offers a valuable lesson in this matter. Despite their wide-ranging investments and sometimes also underperforming investments, their success in the salmon industry alone has managed to cover all their other endeavors.

A brief overlook of some of the developments within the individual GCC economies provides additional insight into the current economic situation.

### The United Arab Emirates

The UAE is expected to grow at a respectable 3.5% in 2023 and is by far the biggest beneficiary of all GCC states in the wake of the Ukraine War. According to the IMF, the UAE has witnessed substantial capital flows out of Russia and into its own real estate sector. Dubai-based agents like Metropolitan Group reported \$2.995 billion in sales in 2022, up 130% from 2021. This demand carried over into 2023 with Better Homes LLC, for example, reporting a 200% increase in sales in January and February 2023 compared to the same months in 2022 (Lillywhite 2023). The UAE has also seen its own industrial development improve with conglomerates like the EDGE Group slowly developing a significant military technologies portfolio. The state-owned firm already has 40 advanced products under development and is now exporting globally to 20 countries.

### Qatar

Due to its successful hosting of the FIFA World Cup at the end of 2022, Qatar has significantly gained in reputation management which will also have positive repercussions for its continued economic outlook. Qatar is expected to grow at a moderate 2.4% in 2023 although no immediate drastic growth in the non-hydrocarbon sector is foreseen. The more important recent development for Qatar this year was a 15-year LNG deal signed with Germany with deliveries to start in 2026. Given the concerns in Europe about future energy supply lines, Qatar has taken the opportunity to further consolidate its position in the European Market with the agreement with Germany. In terms of its nascent agricultural and food processing industries, Hassad Food and Agrico have made great strides and are looking to make significant breakthroughs in the regional market in the coming years.



## The Kingdom of Saudi Arabia

While OPEC+ production cutbacks in April 2023 are predicted to limit total real growth to 2.1% in 2023, non-oil growth is expected to average 5% this year and remain at a high level due to strong consumption expenditure and increased demand to expedite project implementation. The average CPI will be somewhat higher than in 2022, at 2.8%. The large gain in the current account is projected to fade as oil prices stabilize, imports increase, and a sizable investment program increases spending. Lucid Motors, the PIF-owned electric vehicle manufacturer, has posted losses of approximately \$780 million in the first quarter of 2023 and cut its production forecast. This comes at a moment when automotive giants have spurred an EV price war hostile to newcomers. How the Kingdom manages these losses will be telling of its priorities with regard to its automotive experiment.

## Bahrain

Despite dropping oil prices, the construction of the Sitra oil refinery is likely to support GDP growth and keep the fiscal deficit reasonably low during the predicted period. The current account will revert to a slight deficit. In 2023-27, public debt will average more than 100% of GDP, putting a strain on the public purse as interest rates climb (EIU). To that end, the government has instituted financial support for low-income families and the suspension of certain fees to tackle the issue of growing inflation. Nevertheless, the kingdom is set to grow at 3% in 2023 and will manage to curtail inflation down to a healthy 2.2%.

## Kuwait

Friction between the administration and legislature, as well as sluggish bureaucracy, will prevent effective reform measures from being implemented and in turn dissuade some investors. One result could be limiting the flow of public-private partnership projects. Growth is expected to decline to 0.1% in 2023, reflecting agreed-upon OPEC+ oil production cutbacks and slower foreign demand growth. Despite slower real credit growth, non-oil growth is expected to remain solid at 3.8% thanks to fiscal stimulus and a minor return in expatriate employment. As the economic recovery crawls, inflation will stay limited, aided by decreasing global food and energy prices. Overall, fiscal and current account surpluses will decline in 2023 as a result of fiscal expansion and decreasing oil revenues (IMF).

## Oman

The rule of Sultan Haitham bin Tariq al-Said continues to face rising socioeconomic constraints and the potential imposition of economic austerity measures. The Omani

government has been attempting to improve financial indicators by executing a variety of fiscal adjustment measures such as spending cuts, subsidy reductions, and tax implementation. Overall growth is expected to slow to 1.5% in 2023 as global demand softens. As a result, the hydrocarbon sector is expected to contract by 3.3% in 2023, reflecting OPEC+ recent production cuts, while the non-oil economy is expected to grow 3.1% in 2023, supported by frontloading of infrastructure projects, increased industrial capacity from renewable energy, and the tourism sector according to the World Bank.

## Concluding Remarks

With the uncertainty of oil and hydrocarbon revenues and an impending global but switch away from fossil fuels, the GCC states' fears are slowly being realized. Moreover, the ambitious national visions have yet to come to fruition and still require much work more development to be realized. However, as some GCC states have proven with the small successes made in the past 10 years, is that diversification is not an impossible task, but demands steady focus on horizontal industries that are not out of reach of local capabilities and expertise. The likes of ACWA Power and EDGE are slowly establishing a global repertoire which may eventually lead to sizeable operations that create good jobs and galvanize the median income. The troubles of the region might prove to be an opportunity for GCC enterprises to take the first step and test their exports. Given their geographic proximity and their goodwill, GCC producers might have a small niche in the region which they can leverage before reaching economies of scale and becoming truly globally competitive. The question that remains is, will the slowly decreasing oil prices propel Gulf monarchies with urgency, or will it prove too much for overreaching strategies to handle.





## Prof. Giacomo Luciani

### Strategic Challenges in Oil and Gas, 2022-23

The landscape of international oil and gas trade has seen very profound changes in 2022 and the first part of 2023, primarily due to Russia's aggression on Ukraine and the response that it has solicited from the G7 countries.<sup>(1)</sup> The war has brought about a major change in the understanding of energy security.

Before the war, the prevailing view was that energy security is guaranteed primarily by markets. Markets should be free, transparent, and competitive. All players, whether mainly suppliers or mainly demanders, should enjoy equal access, and the allocation of available resources should take place through the discovery of prices that equalize demand and supply, hence guaranteeing the security of supply. Political interference with market mechanisms, albeit rather frequent, was viewed negatively, as a form of market distortion that would make it more difficult to guarantee security of supply to all at the most favorable conditions.

In fact, political interference with international oil and gas investment and trade has been a common occurrence ever since the beginning of the oil industry, and also more recently in the post second World War years. Oil and gas imports from the Soviet bloc have been strongly criticized, especially by the United States, while some European countries more frequently have seen hydrocarbon trade as consolidating peace in Europe. Russia's actions in 2022 contradicted this deep-rooted belief, truly a pillar of European diplomacy, triggering a radical reconsideration.

(1) In this article I will refer to the G7 as the main institutional gathering of countries opposing Russia's war on Ukraine. I find that speaking of "the West" is inappropriate, because some East Asian and Pacific countries participate actively in the opposition. In fact, a larger group of countries is active in supporting Ukraine against the aggression, notably all member countries of the European Union as well as countries in Europe that are not members of the EU. Most countries that actively oppose the Russian aggression are members of the OECD and its affiliate institution, the International Energy Agency. Depending on circumstances, initiatives are undertaken by one or the other of these institutions. Most countries also are members of military alliances, notably NATO – but military institutions are not relevant for the analysis in this chapter.

Oil embargoes have in the past been imposed on countries as diverse as South Africa under Apartheid, Iraq after the invasion of Kuwait, and Libya when Qaddafi was suspected to have been pursuing acquiring nuclear weapons. Sanctions are still imposed on Iran because of the nuclear file, and Venezuela because of perceived disregard for democratic legality and human rights. But each of these episodes, taken individually, did not contradict the underlying belief that energy security should be achieved through free markets.

This is no longer the case. What differs in the situation that was created in February 2022 is the perception that oil and gas exports are politically relevant not just from the point of view of guaranteeing equal access, but also because access to large rent from exports of oil and gas allows some producing states to devote large resources to the buildup of military capacity, which may eventually be used in contrast with established and fundamental international norms, such as the prohibition of the use of military force to solve international disputes as enshrined in the Charter of the United Nations.

In this context, international oil and gas trade has become deeply politicized. Oil exporters have been confronted with the fact that their decisions and policies would inevitably be interpreted as being either in support of or against the G7 effort to isolate Russia economically. The GCC countries have attempted to escape becoming involved in this stark alternative, but it is simply impossible to remain neutral. In actual fact, OPEC has renewed the OPEC+ agreement with Russia: the chosen course has been justified as being in the national interest but has in fact been almost unanimously interpreted as being in support of Russia.

Halting Russia's oil and gas exports in order to deprive the country of the financial means to pursue its aggression was immediately framed as necessary and urgent, including by the European countries most dependent on hydrocarbon supplies from Russia. At the same time, it was well understood that rapid and complete interruption of imports would impose an unbearable cost on the economies of the countries concerned. Indeed, in the early months of the



conflict, much doubt was voiced about cohesion within the G7 and the EU. Dire predictions of impending energy shortages were formulated, and governments were very slow in adopting measures to curb consumption.

The perception of an impending crisis of huge proportions helped push the price of gas in Europe to unheard-of levels, and also impacted the price of oil; front month Brent reached a level of 120 \$/bl, which was not a historical record, especially if prices are measured in constant rather than nominal dollars, but still very high.

G7 governments expected a major economic crisis and refrained from imposing sanctions on Russian oil and gas. In the case of the latter, it was Russia that started creating obstacles to exports, requesting payment in rubles, and eventually cutting off most European customers. More than a case of sanctions, it became a clear case of weaponization of gas exports in an attempt to fan dissension among the European ranks. But the attempt failed, with only Hungary openly dissociating itself from the rest of the European Union, while some other member countries continued receiving some gas by pipeline, notwithstanding imposing sanctions on Russia and supporting Ukraine with weapons deliveries.

With respect to oil, the imposition of a formal European embargo on Russian oil only started in December 2022. In the preceding months, an effort was made to ensure that the global oil market would be well supplied so that prices might be contained. This effort had two concurrent dimensions: on the one hand, nothing was done to dissuade alternative buyers from purchasing Russian oil so that in fact, Russian oil exports barely declined at all; on the other hand, diplomatic initiatives were launched to encourage other oil exporters, notably the Arab Gulf oil exporters, to increase their production and exports.

In view of getting more oil on the market, thus tightening the screw on Russian exports, US officials convinced a reluctant President Biden to visit Saudi Arabia in July 2022, with the expectation that it would lead to a significant increase in Saudi production and exports.<sup>(2)</sup> The expectation was not fulfilled: at the beginning of August OPEC announced a token increase in production of 100,000 barrels per day,<sup>(3)</sup> but already before the end of the month Saudi Arabia was signaling a move in the opposite direction.<sup>(4)</sup> The token

(2) The background to this visit has been investigated and told by the New York Times "U.S. Officials Had a Secret Oil Deal with the Saudis. Or So They Thought," October 25, 2022. In the international press, there was a discussion of how high Saudi Aramco might push its production – see for example Javier Blas "Can Saudi Aramco Meet Its Oil Production Promises?" *Bloomberg*, June 29, 2022; or "Saudi Aramco prepared to increase output to 12m bpd if government asks for, says CEO," *Arab News*, August 14, 2022.

(3) "OPEC+ agrees minimal oil production rise in effort to placate western allies," *Financial Times*, August 3, 2022.

(4) "Saudi Arabia sends message to Biden on oil," *Financial Times*, August 26, 2022.

increase was erased by an equivalent cut of 100,000 barrels per day, which was deliberated by OPEC in September.<sup>(5)</sup>

In the meantime, the United States pursued several initiatives to bring down the price of crude oil, mostly by releasing oil from the Strategic Petroleum Reserve (SPR), encouraging American producers to increase output, and promoting the imposition of a price cap on Russian oil on the part of the G7.

1- Significant volumes of oil were released from the SPR. As of January 1, 2021, the reserve contained just short of 640 million barrels of oil, and by the beginning of June 2023, this was down to 350 million barrels. In other words, an average of 317 thousand barrels per day were made available to the market from the reserve in order to contain prices, notably in the United States, but indirectly, also globally (see graph).

2- The call to US producers to increase their investment and output was underpinned by the extraordinary positive results announced by all international oil companies, showing that they had greatly benefitted from the onset of the war. Of course, only two years earlier in the midst of COVID-19, the same results had been dismal, but memory is short. At least initially, the response of the American oil patch was less than enthusiastic.<sup>(6)</sup> However, eventually those among the international oil companies that had announced a strategy of reducing their oil and gas production in view of environmental preoccupations and civil society criticism announced a revision of their intentions to at least maintain output levels.

3- The principle of imposing a price cap on Russian oil was approved by the G7 countries at the beginning of September,<sup>(7)</sup> and was initially met with some skepticism as to its feasibility,<sup>(8)</sup> but contributed to the forming of bearish sentiments in the market. At the same time, the US encouraged traders to facilitate exports of Russian oil if the price paid was lower than the imposed cap.<sup>(9)</sup>

As the oil prices continued to slide, OPEC became nervous and started blaming market sentiment,<sup>(10)</sup> to little avail. Finally, at the beginning of October, OPEC+ formally

(5) "OPEC+ agrees to cut crude supply in push to lift oil prices," *Financial Times*, September 5, 2022.

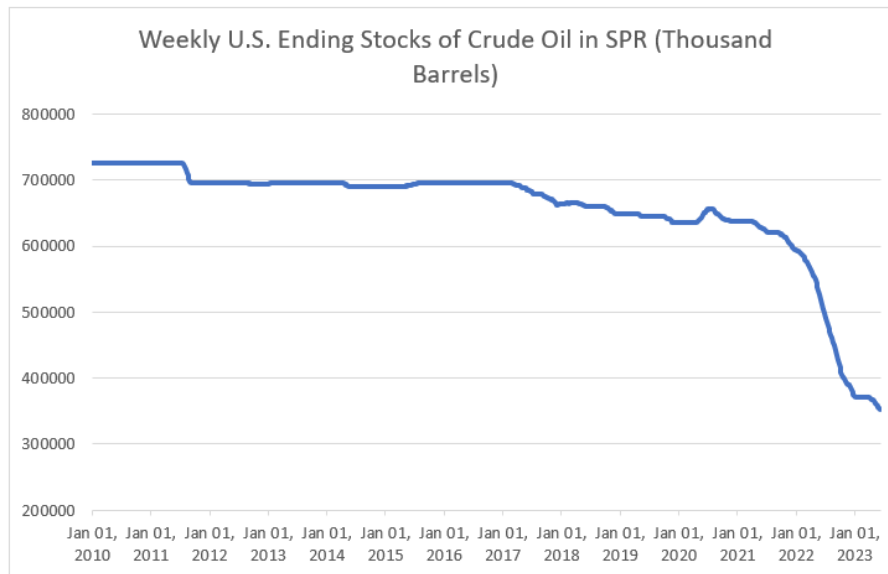
(6) "US oil producers defy calls to open taps and tame war-driven energy prices," *Financial Times*, August 6, 2022; "Biden claims oil companies are 'war profiteering' as he floats windfall tax," *Financial Times*, October 32, 2022.

(7) "G7 countries back price cap on Russian oil," *Financial Times*, September 2, 2022.

(8) "How would a G7 price cap on Russian oil work?" *Financial Times*, September 2, 2022; "US warns of sanctions for buyers that ignore price cap on Russian oil," *Financial Times*, September 10, 2022; "What Price Is Right? Why Capping Russian Oil Is Complicated," *New York Times*, September 19, 2022.

(9) "US taps big trading houses to help move price-capped Russian oil," *Financial Times*, March 9, 2023.

(10) "OPEC says oil sell-off driven by 'erroneous signals' in markets," *Financial Times*, September 13, 2022.



announced an output cut of 2 million barrels.<sup>(11)</sup> The decision was immediately condemned and given a political interpretation by both governments and the press in the G7 countries.<sup>(12)</sup> The United States did not react immediately, but it was said that relations with Saudi Arabia would be subjected to a “review,”<sup>(13)</sup> and conclusions would be announced in due course of time. It later emerged that Crown Prince Mohammed bin Salman formally or informally threatened “major economic consequences for Washington” if the US retaliated against the output cuts.<sup>(14)</sup>

Amidst such rapid deterioration of relations, in fact not much happened in the market. Most notably among what did not happen was the increase in prices that OPEC+’s decision was expected to trigger. The closing price for WTI at Cushing had reached 121.9 USD/bl on June 8, and declined to 77.17 USD/bl on September 26; on October 7, it hit 93 USD/bl in reaction to the OPEC+ decision of two days earlier, but then started declining again, and continued declining with oscillations until March 2023, when it touched 66.6 USD/bl (on March 17). The entry into force of

(11) “OPEC+ agrees to cut output by 2mn barrels a day,” *Financial Times*, October 5, 2022.

(12) “White House accuses OPEC+ of aligning with Russia,” *Financial Times*, October 6, 2022; “OPEC+ unleashes shockwaves with big cut to oil production,” *Financial Times*, October 6, 2022; “US says ‘nothing off the table’ in response to OPEC+ oil cuts,” *Financial Times*, October 7, 2022; “The new oil war: OPEC moves against the US,” *Financial Times*, October 7, 2022; “The Saudi prince’s ominous axis with Putin,” *Financial Times*, October 7, 2022.

(13) “Joe Biden to ‘re-evaluate’ Saudi relations after OPEC cuts, adviser says,” *Financial Times*, October 11, 2022; “Joe Biden warns of ‘consequences’ for Saudi Arabia after oil production cuts,” *Financial Times*, October 12, 2022; “US dismisses Saudi defence of OPEC+ oil production cuts as ‘spin,’” *Financial Times*, October 13, 2022. For a more extended discussion, see Coates Ulrichsen, Finley and Krane, “The OPEC+ Phenomenon of Saudi-Russian Cooperation and Implications for US-Saudi Relations,” Baker Institute, October 18, 2022.

(14) John Hudson “Saudi crown prince threatened ‘major’ economic pain on U.S. amid oil feud,” *Washington Post*, June 8, 2023.

the G7 embargo and price cap on Russian oil in December was feared to cause a sharp increase in prices, but none materialized at all.

Several reasons may have contributed to this outcome:

- Towards the end of 2022, it became clear that the feared energy emergency in Europe was not materializing. Helped by a relatively mild winter (which however might also be the new normal, due to global warming) and by a more vigorous demand response by industry and residential consumers than originally expected, demand for oil and gas declined significantly.

- The surging inflation was met by central banks in the United States and Europe with significant increases in interest rates, asserting the priority of price stability over growth, and in this respect reversing the posture that had prevailed during COVID-19. Expectations of slow growth in the G7 combined with the timid reaction of the Chinese economy to the end of COVID lockdowns, in a context of growing tensions between China and the G7.

- The US persisted in the policy of using the SPR for price intervention, announcing readiness for further withdrawals from the reserve<sup>(15)</sup> if prices increased, while at the same time flagging a floor to prices by stating that purchases to replenish the reserve may start if the price declined to between 67 and 72 USD/bl.<sup>(16)</sup>

(15) “Joe Biden orders officials to prepare for more emergency oil releases,” *Financial Times*, October 19, 2022; “US wields crude stockpile as weapon in global oil price battle,” *Financial Times*, October 23, 2022.

(16) “US to buy back oil for emergency stockpile after fall in price,” *Financial Times*, December 16, 2022.





When the price actually reached this range, US energy secretary Jennifer Granholm indicated that the envisaged purchases would not be immediate nor automatic.<sup>(17)</sup> The US government also continued supporting increased domestic production.

- It also became progressively clear that the feared energy crunch led to a reinforcement, rather than the opposite, of commitments to decisively reduce dependence on fossil fuels. Many countries passed significant measures in this direction, but first and foremost the approval of the Inflation Reduction Act in the United States, which includes enormous financial support for both alternative sources and increased domestic production of fossil fuels, has been perceived as a fundamental turning point.

Persistent weakness in oil prices led in April 2023 to the announcement of further voluntary cuts by Saudi Arabia of 500,000 barrels per day, while Russia simultaneously announced that it would extend a purported cut of 500,000 per day - that in fact simply corresponded to its inability to maintain export volumes. Five other OPEC+ countries also announced voluntary cuts for a total of 1 million barrels per day. Again, the decision was interpreted in light of its geopolitical significance as being in support of Russia and contrary to the wishes of Washington.<sup>(18)</sup> But the reaction was overall less virulent. Although prices did briefly increase above 80 USD/bl (see chart above) they soon started declining again and oscillated between 70 and 75 USD/bl for the whole of May, i.e., in the range desired by the US government. In fact, in mid-April, Secretary Granholm even announced that the government “could begin buying oil to replenish an emergency stockpile later in the year.”<sup>(19)</sup>

(17) “Crude prices fall as US holds off on replenishing reserves,” *Financial Times*, March 25, 2023.

(18) “Oil price surges after OPEC+ nations make surprise output cut,” *Financial Times*, April 3, 2022.

(19) “US energy secretary signals plan to rebuild oil reserve,” *Financial Times*, April 13, 2022.

When the time came for the regular OPEC conference in June, Saudi Arabia was clearly signaling frustration,<sup>(20)</sup> while exports from Russia were said to have further increased.<sup>(21)</sup> The conference concluded with a complex agreement that saw OPEC members accept the independent evaluation of the maximum production capacity of each in view of redefining more realistic quotas for 2024 (i.e. reducing the quota of countries that in practice are unable to fill them because of insufficient capacity). In this context, the quota of the UAE, which had long complained about not being able to exploit its increasing capacity, was raised by 250,000 barrels. Finally, Saudi Arabia surprised the gathering with the announcement of a further unilateral cut of 1 million barrels per day, initially for the month of July.<sup>(22)</sup> Press reports indicated that Saudi Arabia found itself pretty much isolated<sup>(23)</sup> in the pursuit of further production cuts, and in addition, the issue of Russian exports does not seem to have been solved.<sup>(24)</sup>

Once again, the announcement of the conclusions reached at the OPEC conference failed to lift oil benchmark prices. One week later, WTI had declined by 1.12 USD/bl to just above 70 USD/bl, and Brent had declined by 1.8 USD/bl to just short of 75 USD/bl. Considering that the Saudi

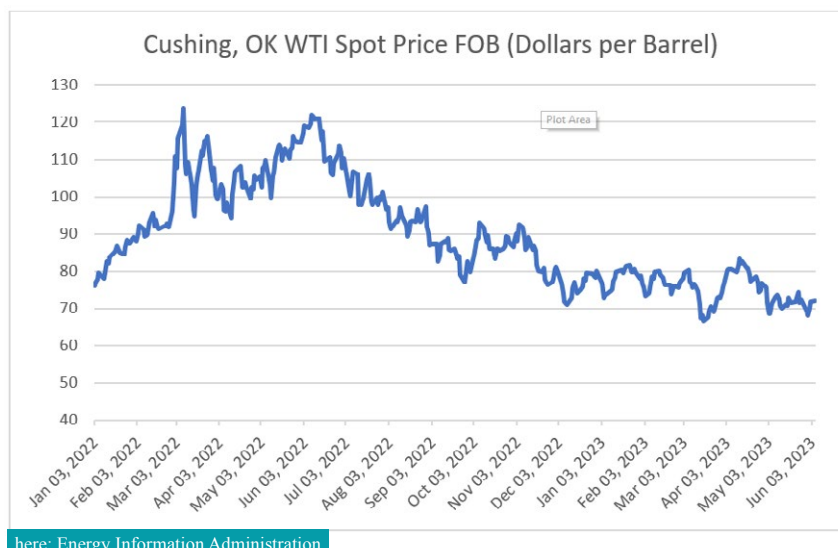
(20) “OPEC+ must be vigilant and proactive to maintain oil market stability, Saudi minister says,” *The National*, May 23, 2023; see also, David Fickling, “Saudi Arabia Can’t Win Its Fight with the Short Sellers,” *Bloomberg*, May 24, 2023.

(21) “Russian oil exports hit post-invasion high,” *Financial Times*, May 16, 2023; see also, “Saudi Arabia, Russia Ties Under Strain Over Oil-Production Cuts,” *Wall Street Journal*, May 27, 2023.

(22) “Saudi Arabia seeks to boost oil price with output cut of 1mn barrels a day,” *Financial Times*, June 5, 2023.

(23) David Sheppard, “OPEC+ is not on board with Saudi’s ‘whatever it takes’ message,” *Financial Times*, June 5, 2023; see also, Javier Blas, “Saudi Arabia’s Solo Oil Production Cut Is a Risky Strategy,” *Bloomberg*, June 6, 2023.

(24) Lex, “OPEC+: Russian output leaves hawkish Saudis isolated,” *Financial Times*, June 5, 2023; see also, “Russia and Saudi Arabia’s Oil Partnership Shows Strain,” *The New York Times*, June 7, 2023.





maximum production capacity is said to be 12 million barrels per day, the successive cuts mean that production will be restricted to 9 million barrels per day, i.e., 25% below maximum capacity. At the same time, the price has declined so overall, the Kingdom has taken a loss with respect to oil income. Current prices may not allow the balancing of the Saudi budget over the year.<sup>(25)</sup> The argument according to which production cuts are in the best national interest of Saudi Arabia is, for the time being, not supported by market realities.

The judgment on this depends on the counterfactual that is retained. The Saudi Minister of Energy has argued that the policy is prudent and aimed at stabilizing the market. The implication is that had Saudi Arabia not cut production, prices would have collapsed. But is this the case? Had Saudi Arabia accepted Biden's call to supply more oil to the market, restrictions on Russian exports could have been implemented more forcefully. In contrast, continuing exports have been tolerated and even encouraged. The net effect has been that Russia has been able to maintain exports, refiners in China and especially India have enjoyed cheap Russian oil (thanks to the price cap), and Saudi Arabia has cut production but not benefitted from higher prices.

It is of course possible that the situation may change in the second half of the year. This is what a majority of observers expect, as demand may still increase and the market eventually may shift to a deficit that would progressively erode accumulated commercial stocks, and reverse market expectations. If this happens, it may be easier for Saudi Arabia to maintain discipline within OPEC+, and the potential conflict with continuing high-level Russian exports would lose some importance. At the same time, it is to be expected that the conflict with Washington would flare up again: the Biden administration has, so far, only very mildly reacted to the unwelcome Saudi decisions, because after all the market has delivered the result that Washington has been seeking – so no need to double down. But if prices rise again, or Russia becomes more effective in evading the price cap imposed by the G7, it is clear that the rift will open again with virulence.

One only has to read the final communiqué of the meeting of G7 Ministers of Climate, Energy, and Environment in Sapporo to get a taste of their view. The opening lines read: “We condemn Russia's illegal, unjustifiable, and unprovoked war of aggression against Ukraine, violation of the Charter of the United Nations (UN) and disregard to the impacts that its war is having on people worldwide. We condemn Russia's attempts to use energy and food as tools of geopolitical coercion and reiterate our commitment to supporting those most affected by Russia's weaponization of energy and food. We are deeply concerned about the

(25) “Saudi Arabia's Oil Cut Risks Leaving Bitter Taste for Budget,” *Bloomberg*, June 7, 2023.

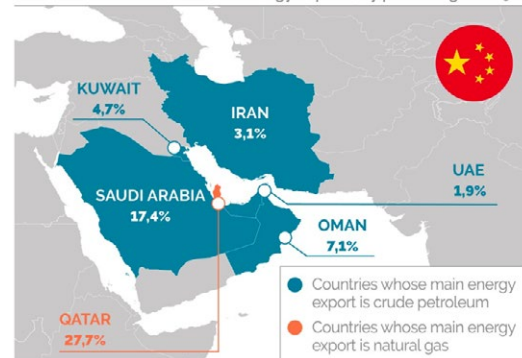
devastating impacts of Russia's war of aggression against Ukraine including on the environment, *provoking an unprecedented global energy crisis characterized by high-energy prices, market volatility, and disruptions to energy supply*; inflation causing real economic impacts on people's lives; a spike in the world's grain and fertilizer prices which increased food insecurity and malnutrition” (emphasis added). Hence the energy crisis is directly related to Russia's aggression, and it will not be accepted that OPEC supports high prices to the benefit of Russia.

But possibly the expectation that oil prices will rise in the second half of 2023 may be proven wrong. This remains the opinion of some authoritative experts, such as Edward Morse<sup>(26)</sup> or Carole Nakhle,<sup>(27)</sup> and should not be dismissed lightly. In this case, discipline within OPEC would become more problematic, and the objective competition for market share with Russia more intense. The position of the UAE may be crucial: the Baker Institute has concluded that the UAE would gain out of abandoning OPEC.<sup>(28)</sup>

Much of course will also depend on developments on the battlefield, but the prospects of a ceasefire in Ukraine remain dim. While the fighting continues, the politicization of oil decisions remains unavoidable, and the Gulf oil and gas producers may face very significant challenges in the months ahead.

## How much energy does China import from the Gulf?

Gulf countries' share in China's energy imports, by percentage (2019)



Source: Observatory of Economic Complexity

here: ISPI

ISPI

(26) See “The bear market case for oil,” *Financial Times*, June 13, 2023.

(27) Carole Nakhle, “Global economic uncertainty means oil prices – and your fuel bill – will continue to surprise this year,” *The Conversation*, April 25, 2023.

(28) “We find that the UAE's departure from OPEC would lead to clear short-term gains and the unfettering of the country's oil production. Such a move could bring upward of \$50 billion in additional yearly revenues based on current spare capacity and the completion of ongoing capital investment. Further benefits include prospects for improved relations with the United States. Such gains would have to be weighed against the likelihood of fractured relations with neighboring Saudi Arabia and the potential for a damaging price war.” Krane, Coates Ulrichsen and Finley, “Should Abu Dhabi Quit OPEC? Reconsidering the UAE's Membership,” Baker Institute, June 1, 2023.



## Dr. Mohamed Abdelraouf and Asuka Nagasawa

### Climate Change, the Environment, and COP28: The GCC's Balancing Act

Gulf Cooperation Council (GCC) countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) have economies uniquely reliant on fossil fuels. Despite global growth slowing down to 2.8%, the GCC expects resilient growth at 3.2%.<sup>(29)</sup> The World Bank estimates that, if GCC countries successfully implement a green growth strategy, their combined GDP could reach over \$13 trillion USD by 2050, more than double the current projections of \$6 trillion USD.<sup>(30)</sup>

The below table shows the expected growth of GCC countries in 2023. It is interesting to note that growth in Saudi Arabia was 8.7% and UAE 7.6% in 2022, thus showing a decline in growth rates for these two member states.<sup>(31)</sup>

**Table 1: Expected growth in 2023 in GCC countries**

Country	Growth in 2023
Bahrain	2.7%
Kuwait	1.5%
Oman	2.6%
Qatar	2.7%
Saudi Arabia	3.5%
United Arab Emirates	3.7%

(29) Imogen Lillywhite, "GCC economies somewhat insulated from 'rocky recovery' - PwC," ZAWYA, May 9, 2023, <https://www.zawya.com/en/economy/gcc-economies-somewhat-insulated-from-rocky-recovery-pwc-n7z71i0b>.

(30) World Bank, "GCC Economies Expected to Expand by 6.9% in 2022," Press release, October 31, 2022, <https://www.worldbank.org/en/news/press-release/2022/10/31/gcc-economies-expected-to-expand-by-6-9-in-2022> (Accessed May 12, 2023).

(31) Anant Chandak, "Gulf economies to grow at much slower pace in 2023 on lower oil revenues, Reuters poll shows," Reuters, April 26, 2023, <https://www.reuters.com/world/middle-east/gulf-economies-grow-much-slower-pace-2023-lower-oil-revenues-2023-04-26/> (accessed May 12, 2023).

### Overview of Climate Change and Other Environmental Strategies

Despite the relatively positive short-term economic outlook, there can be no doubt that it is climate change that poses great medium to long-term threats to the region. The GCC countries are particularly vulnerable to climate change impacts such as rising temperatures, flooding, water scarcity, public health risks, and threats to ecosystems and biodiversity. The region is already experiencing rising temperatures at a rate twice as fast as the global average, leading to increased energy demand for cooling and affecting human health and productivity. Flooding events have become more frequent, causing significant damage and impacting construction work. Water scarcity is a pressing issue, as the GCC states heavily rely on the desalination of seawater for drinking water, and rising salinity due to climate change can affect the effectiveness of desalination plants.

Climate change also poses risks to public health, with heat waves, extreme weather events, and poor air quality contributing to health issues. The unique marine and coastal habitats in the GCC, including coral reefs, seagrasses, and mangroves, are at risk due to rising sea temperatures and ocean acidification.<sup>(32)</sup>

For GCC countries to mitigate environmental and socioeconomic risk, the region should continue to pursue economic diversification, especially in "green" sectors, given that global trends are moving in this direction. As of 2023, renewables account for 7% of the region's power generation capacity.<sup>(33)</sup> The capacity and growth vary greatly between regions, as seen in Table 2.

(32) Middle East Institute. "Insight 285: Climate Change Adaptation in the GCC." NUS – Middle East Institute, October 4, 2022, <https://mei.nus.edu.sg/publication/insight-285-climate-change-adaptation-in-the-gcc/>

(33) Harry Clynch, "Regulations on Middle East renewable energy industry starting to take shape," Al-Monitor PRO Trend Report, May 2023, <https://www.al-monitor.com/pro-trend-reports/regulations-middle-east-renewable-energy-industry-starting-take-shape>.

**Table 2: Total Renewable Energy Capacity (in MW) (Source: IRENA)(1)**(1) International Renewable Energy Agency, *Renewable Capacity Statistics 2023*.

Country	2018	2019	2020	2021	2022
<b>Bahrain</b>	7	10	10	12	12
<b>Kuwait</b>	55	106	106	106	106
<b>Oman</b>	8	59	162	188	688
<b>Qatar</b>	24	24	24	24	824
<b>Saudi Arabia</b>	87	113	113	443	443
<b>UAE</b>	559	1919	2062	2734	3058

The UAE and Oman have publicly announced their net zero targets for 2050 while Saudi Arabia and Bahrain have set 2060 targets. Even without net zero targets, all GCC countries have pledged to increase renewable energy in their energy mix.<sup>(34)</sup>

The increasing focus on green energy also brings interest in green finance. While the green bond market in the GCC is still in its early stages, the region's significant investments in renewables, particularly solar power, create opportunities for transactions funded through green finance. GCC governments are laying the groundwork for a green finance sector, with Dubai aiming to become a regional hub. Given the ambitious targets to reach clean energy goals, the region's transition to a low-carbon economy will require substantial investment, and green finance can play a role in funding renewable projects. The real estate sector in the GCC is also expected to benefit from green finance, given the allocation of green bond proceeds to green building projects. As the region's renewable energy capacity accelerates, the development of a GCC project bond market and the growth of green sukuk (Islamic financial instruments) is further anticipated. Overall, the GCC countries are positioning themselves to attract capital for sustainable projects and contribute to global efforts to address climate change.<sup>(35)</sup>

Other environmental measures are being implemented as well. In 2022, Abu Dhabi<sup>(36)</sup> and Dubai<sup>(37)</sup> in the UAE and Bahrain<sup>(38)</sup> announced the ban or curbing of single-use plastic bags. Additionally, the region is currently experiencing a notable surge in the popularity of electric vehicles (EVs), aligning it more closely with the trends observed in Western markets. The global electric car market is undergoing rapid growth, with sales doubling in 2021 and capturing nearly 9% of the global car market. In response to this momentum, countries within the GCC, including Saudi Arabia and the UAE, have set ambitious targets for EV adoption, and are making substantial investments in infrastructure development and manufacturing facilities. The fervor for EVs has ignited intense competition among prominent brands such as Tesla, BMW, Audi, and Mercedes-Benz, propelling the EV market in the GCC.<sup>(39)</sup>

### Bahrain

Bahrain is the third country after UAE and Saudi Arabia to commit to net zero targets, which are set for 2060. In 2023, Bahrain announced that to achieve these goals, it will increase its share of renewable energy to 20% of the total energy mix by 2035.

(36) Associated Press, "Abu Dhabi to ban single-use plastic bags from June," *AP News*, April 6, 2022, <https://apnews.com/article/business-dubai-united-arab-emirates-middle-east-abu-dhabi-20370e896614cd5950b960b2169f0430>.

(37) Associated Press, "Dubai to charge for plastic bags, aims to outlaw in 2 years," *AP News*, February 2, 2022, <https://apnews.com/article/middle-east-environment-and-nature-dubai-united-arab-emirates-88899cd93a26ddc6e-7c49d1f811b0b1a>.

(38) Associated Press, "Bahrain to ban single-use plastic bags from September," *AP News*, April 24, 2022, <https://apnews.com/article/business-environment-middle-east-united-arab-emirates-bahrain-9f277839463391a7101b-1b33975743c6>.

(39) Khamis, Jumana, "Growing GCC ownership of electric vehicles bodes well for a zero-emissions future," *Arab News*, May 3, 2022, <https://www.arabnews.com/node/2071226/business-economy> (accessed May 31, 2023).

(34) "Oman, GCC reaffirm commitment to energy transition, green economy," *Oman Observer*, May 3, 2023, <https://www.omanobserver.om/article/1136573/business/energy/oman-gcc-reaffirm-commitment-to-energy-transition-green-economy>.

(35) Timucin Engin, "Green Finance Takes Hold In The GCC," S&P Global Ratings, February 18, 2019, <https://www.spglobal.com/en/research-insights/articles/green-finance-takes-hold-in-the-gcc>, (accessed May 17, 2023).



Additionally, it engages in emissions monitoring of large industrial emitters to ensure compliance.<sup>(40)</sup>

In November 2021, the Central Bank of Bahrain gave all licensees instructions to increase their knowledge of climate-related risks inside their organizations and evaluate how they would recognize and manage these risks. Al Baraka Banking Group, Gulf International Bank (GIB), National Bank of Bahrain, and Bahrain Islamic Bank all have their own sustainability initiatives in place. In particular, the UK branch of GIB has joined the UN- Principles for responsible investment and UN- Principles for responsible Banking (UN-PRB and UN-PRI). State actors have signed sustainability-related syndications, notably Aluminium Bahrain and the Oil and Gas Holding Company (nogaholding).<sup>(41)</sup> Bahrain has also shown initiative to reduce pollution by banning single-use plastics.<sup>(42)</sup>

### Kuwait

In order to achieve the Paris Agreement's goal of keeping global warming to 1.5C by 2030, Kuwait has committed to reducing greenhouse gas emissions by 7.4 percent by 2035. This aim, however, is far below the 45 percent reduction required.<sup>(43)</sup> Furthermore, according to Kuwait's foreign minister, the country committed to becoming carbon neutral in its oil and gas industry by 2050 and in all other sectors by 2060. Kuwait has, however, not been specific on deadlines, implementation, or policy up until this point.

Since oil accounts for over 50% of GDP, 95% of exports, and 90% of government export revenue, reaching net zero may prove difficult. Additionally, the political climate in Kuwait has slowed down important reforms, which could delay the implementation of its climate policy.<sup>(44)</sup> According to the Environment Public Authority, parts of the country could see an increase in temperature by as much as 4.5°C

(40) Fareed Rahman, "Bahrain aims to double renewable energy targets as Gulf countries step up production," *The National*, May 8, 2023, <https://www.thenationalnews.com/business/energy/2023/05/08/bahrain-aims-to-double-renewable-energy-targets-as-gulf-countries-step-up-production/>

(41) Omar Shaikh, "COP28 in Dubai: The landscape of climate commitments in the GCC," *Khaleej Times*, May 17, 2023, <https://www.zawya.com/en/opinion/business-insights/cop28-in-dubai-the-landscape-of-climate-commitments-in-the-gcc-bgm7z0h8>

(42) Associated Press, "Bahrain to ban single-use plastic bags from September," *AP News*, April 24, 2022, <https://apnews.com/article/business-environment-middle-east-united-arab-emirates-bahrain-9f277839463391a7101b1b33975743c6>

(43) Bloomberg, "Kuwait discusses steps to lower emissions as temperatures rise," *Bloomberg*, January 18, 2022, <https://www.arabianbusiness.com/politics-economics/kuwait-discusses-steps-to-lower-emissions-as-temperatures-rise>

(44) Shaikh, "COP28 in Dubai: The landscape of climate commitments in the GCC," op.cit.

from 2071 to 2100 compared with the historical average.<sup>(45)</sup> This has caused fears that Kuwait's people are vulnerable to even becoming environmental migration/climate refugees in the future.<sup>(46)</sup>

### Oman

With Oman's 2040 Vision, Oman announced its ambitions to reach net zero by 2050.<sup>(47)</sup> This was accompanied by the launch of the Oman Sustainability Center. Although it has wide objectives, it does not include implementation schedules or monitoring and reporting procedures.

State players have also committed to net zero by 2050, notably Petroleum Development Oman, the largest oil and gas producer in the nation. According to officials, it has projects in place to cut its GHG emissions in half by 2030. The Central Bank of Oman (CBO) admitted that risks connected to the climate pose serious issues for the financial system and that, as a result, it is expanding its capacity to include risks related to the climate in its evaluation of the country's fiscal stability. To make it possible to sell sustainable or green financial securities, the CBO is developing an ESG financing framework. Similar to this, the Capital Market Authority is creating a framework for ESG bonds and sukuk to help local sustainable debt issuances.<sup>(48)</sup>

Oman has highly regarded regulatory policies for renewable energies. It was ranked sixth in the world and first within the GCC region for its regulatory indicators. Specifically, its renewable energy legal framework and renewable energy expansion achieved a maximum score.<sup>(49)</sup>

### Qatar

In October 2021, Qatar announced its climate change action plan to decrease emissions by 25% by the year 2030. It will intensify efforts to supply and make LNGs less carbon-intensive. Qatar hopes that LNG will contribute to the energy transition. It is globally the largest producer of LNG and shares ambitions to increase production. LNGs are less polluting than oil and coal, and more widely available than

(45) Bloomberg, "Kuwait discusses steps to lower emissions as temperatures rise," *Bloomberg*, January 18, 2022, <https://www.arabianbusiness.com/politics-economics/kuwait-discusses-steps-to-lower-emissions-as-temperatures-rise>

(46) Ghloum, Ghadeer, "Are residents of Kuwait at risk of becoming climate refugees?," *Kuwait Times*, <https://www.msn.com/en-ae/news/featured/are-residents-of-kuwait-at-risk-of-becoming-climate-refugees/AA1b2fag> (accessed May 12, 2023).

(47) Mina Aldroubi, "Oman sets 2050 goal to achieve net-zero carbon emissions," *Khaleej Times*, October 11, 2022, <https://www.thenationalnews.com/gulf-news/oman/2022/10/11/oman-sets-2050-goal-to-achieve-net-zero-carbon-emissions/>

(48) Shaikh, op.cit.

(49) Muscat Daily, "Oman 6th in world, 1st in MENA in renewable energy regulatory index," *Muscat Daily*, January 17, 2023, <https://www.muscatdaily.com/2023/01/17/oman-6th-in-world-1st-in-mena-in-renewable-energy-regulatory-index/>



renewable energies. This makes LNGs an interesting product to rely on until renewable energy becomes more accessible. Moreover, by fortifying carbon capture and storage, it aims to decrease the footprint of the LNG it produces.

The largest lender in the nation, Qatar National Bank, has already entered the green bond market while Doha Bank and Commercial Bank of Qatar have stated that they plan to issue green bonds. According to its finance minister, the Qatari government will issue green sovereign bonds, subject to market conditions. The Sustainable Sukuk and Bonds Framework was developed by the Qatar Financial Centre in accordance with the Green Bond Principles, Social Bond Principles, and Sustainable Bond Guidelines of the International Capital Markets Association.

While Qatar still has a long way to go before achieving its sustainability goals, according to reports, 70% of the increase in emissions would be accounted for by the recently begun expansion of the North Field, the largest single non-associated natural gas field in the world, off the northeastern coast of Qatar.<sup>(50)</sup>

### Saudi Arabia

In 2021, Saudi Arabia updated its Paris Agreement pledge to announce its net zero targets for 2060. At the same time, however, it was made clear that if international climate change policies negatively affect fossil fuel exports, it can amend its pledges.<sup>(51)</sup>

The Saudi Green Initiative (SGI) is a national policy to address climate change that was announced by the Saudi government as part of Vision 2030, the Kingdom's post-oil economic vision. By 2030, the monarchy wants to generate 50% of its electricity from renewable sources. Additionally, it aims to use the Global Methane Pledge to cut methane emissions by 30% by 2030.<sup>(52)</sup> Additionally, Saudi Arabia wants to have at least 30% of its automotive fleet comprised of electric-powered vehicles by 2030. In this regard, the Kingdom has devised plans to establish an international manufacturing plant.<sup>(53)</sup>

Other key players have announced decarbonization targets. The majority-state-owned oil corporation Saudi Aramco promised that by 2050, all of its fully owned and operated assets would have net-zero Scope 1 and Scope 2 GHG emissions. The Public Investment Fund (PIF) promised to be net zero by 2050. PIF released its Green Finance Framework in February 2022, followed in September 2022

with the sale of its first \$3 billion Green bond. Other non-state entities have created their own financial frameworks and issued sustainable sukuk, such as Saudi Electricity Company and Riyadh Bank.<sup>(54)</sup>

Saudi Arabia also launched the Middle East Green Initiative which received praise from the UN deputy chief for its value as a regional commitment.<sup>(55)</sup> The Middle East Green Initiative plans to secure \$10.4 billion as investment funds with 15% of the funds contributed by Saudi Arabia. Saudi Crown Prince Mohammed Bin Salman further stated that the Kingdom will establish an investment fund for carbon circular economy solutions and offer clean energy solutions to address global food security. The initiative seeks to reduce carbon emissions in the region's hydrocarbon industry by 60% and combat desertification through massive tree planting. At an event attended by world leaders and climate envoys ahead of the COP26 conference in Glasgow, the Kingdom announced plans for infrastructure development, including a regional carbon capture and storage center. Gulf states are investing in renewable and clean energy while recognizing the continued importance of hydrocarbons for global energy security.<sup>(56)</sup>

This initiative is, however, not free of criticism. Critics argue that many of the moves are a smokescreen to maintain reliance on fossil fuels citing Saudi Arabia's plans to increase crude production despite the need to decrease reliance on fossil fuels. The Kingdom justifies this contradiction by proposing a "circular carbon economy" that combines extraction with carbon capture and offset schemes. Here, the effectiveness of carbon capture technology and the feasibility of relying on it remains questionable.<sup>(57)</sup>

### United Arab Emirates

The UAE has the strongest net zero target in the Gulf, set for 2050. It first publicly announced its net zero targets in October 2021 and was the first Gulf country to announce its commitments. In last year's COP27 negotiations, UAE shared its "National Net Zero by 2050 pathway," and in March 2023 signed the UAE Governments Net Zero 2050 Charter.

(54) Shaikh, op.cit.

(55) UN News, "Middle East Green Initiative: 'pathbreaking work' to protect the planet," UN News, October 25, 2021, <https://news.un.org/en/story/2021/10/1103992> (accessed May 30, 2023).

(56) Azhar, Saeed and Yousef Saba, "Saudi Arabia outlines plans under Mideast Green Initiative," Reuters, October 25, 2021, <https://www.reuters.com/business/cop/mideast-green-initiative-invest-104-blm-says-saudi-crown-prince-2021-10-25/> (accessed May 30, 2023).

(57) Kennedy, Robert, "'Dangerous and delusional': Critics denounce Saudi climate plan," Al Jazeera, October 26, 2021, <https://www.aljazeera.com/news/2021/10/26/green-or-greenwashing-saudi-arabias-climate-change-pledges> (accessed October 26, 2021).

(50) Shaikh, op.cit.

(51) Climate Action Tracker, "Saudi Arabia," November 4, 2021, <https://climateactiontracker.org/countries/saudi-arabia/>.

(52) Shaikh, op.cit.

(53) Khamis, Jumana, "Growing GCC ownership of electric vehicles bodes well for a zero-emissions future." op.cit.


**Table 3: Developments to Environmental Policy by Country**

Country	Net Zero Target	Renewable Energy Targets	Green Hydrogen Initiatives	Other Environmental Measures	Green Finance Initiatives
<b>Bahrain</b>	2060	20% by 2035	Exploring opportunities for green hydrogen projects, potential investments	Ban on single-use plastics	Sustainability initiatives by banks, development of green finance sector
<b>Kuwait</b>	2050 (oil & gas by 2060)	Not specified	Exploring opportunities for green hydrogen projects, potential investments	Vulnerability to climate change, slow reforms	NA
<b>Oman</b>	2050	Not specified	Launch of Hydrom, targeting 1 million tons of annual green hydrogen production by 2030	Regulatory policies for renewable energy, developing ESG financing framework	Development of ESG bonds and sukuk, sustainable debt issuances
<b>Qatar</b>	NA	25% emissions reduction by 2030	Exploring opportunities for green hydrogen projects, potential investments	Carbon capture and storage, focus on LNGs	Green bond market, plans for green sovereign bonds
<b>Saudi Arabia</b>	2060	50% renewable electricity by 2030, 30% EV fleet by 2030	Building the world's largest green hydrogen plant, a joint venture between ACWA Power, Air Products, and NEOM	Saudi Green Initiative, Middle East Green Initiative	Green finance frameworks, issuance of sustainable sukuk and bonds
<b>UAE</b>	2050	Increasing non-oil GDP, significant investments in renewable energy and EVs	Producing green hydrogen for manufacturing green steel; aims to produce up to 1 million tons of green hydrogen annually by 2030	Ban on single-use plastics, diversification of economy	Net Zero 2050 strategic initiative, plans for EV adoption, renewable energy investments



At the same time, the Climate Action Tracker rates the UAE as “highly insufficient,” especially for its Nationally Determined Contribution target which is said to lack information on transparency, target architecture, and scope. Furthermore, there has not been a submission of a long-term strategy to the UNFCCC. This approach does not align with the Paris agreed 1.5°C, but rather would take the globe to an increase of 4°C if other countries did the same.<sup>(58)</sup>

Nonetheless, the UAE is also a leader within the Gulf in the reduction of plastic pollution, renewable energy, and EVs. In addition to its bans on single-use plastics in Abu Dhabi and Dubai, the UAE is pursuing a wide variety of renewable energy projects that combine for a total of 70% of the overall GCC renewable capacity.<sup>(59)</sup> Over \$160.0 billion in investments have been announced over the next 3 decades including the Mohammed bin Rashid Solar Park with an expected capacity of 5 gigawatts as the largest solar plant.<sup>(60)</sup> On the EV side, the country stated that it hopes to deploy 42,000 EVs on its streets within the next decade and it has already inaugurated its EV manufacturing facility.<sup>(61)</sup> The UAE has also maintained steady advances in diversifying its economy, with the non-oil GDP reaching 59% in 2021 and moving towards its 2030 target of 64%.

### Green Hydrogen as a Catalyst

Hydrogen plays a key role in the GCC countries’ green future because it is a key enabler for achieving net-zero targets and generating sustainable revenue streams. The GCC region has significant advantages in producing clean hydrogen due to abundant low-cost solar and wind energy resources, world-class infrastructure, established export markets, and growing domestic demand. However, there are challenges to overcome before green hydrogen can be fully commercialized, such as transportation costs to export markets. Cost and technological barriers need to be addressed before a complete transition to green hydrogen can occur.<sup>(62)</sup> Currently, GCC producers convert green hydrogen to green ammonia using renewable energy for export to East Asia, where the ammonia is cracked to extract hydrogen.

Hydrogen has many advantages, including its infinite and sustainable nature, energy density, and its potential to replace fossil fuels and contribute to decarbonization. Green

(58) Climate Action Tracker, “UAE,” April 5, 2023, <https://climateactiontracker.org/countries/uae/>.

(59) Pearson, Tamara, “How Saudi Aramco is powering the global climate crisis,” *The New Arab*, October 14, 2019, <https://www.newarab.com/opinion/how-saudi-aramco-powering-global-climate-crisis>.

(60) Fareed Rahman, “Bahrain aims to double renewable energy targets as Gulf countries step up production,” op.cit.

(61) Khamis, op. cit.

(62) Valentina Olabi, “The role of hydrogen in the GCC’s green future,” *GPCA Analysis*, March 26, 2023. <https://www.gpca.org.ae/2023/03/26/the-role-of-hydrogen-in-the-gccs-green-future/>

hydrogen production costs are predicted to decrease with technological improvements and cheap renewable energy, making commercial implementation likely by 2030. The global demand for green hydrogen is expected to reach over 530 million tons by 2050.

The GCC countries have advantages in pioneering the hydrogen market, including advanced Carbon Capture, Utilization, and Storage (CCUS) infrastructure, availability of salt caverns for hydrogen storage, and low production costs for renewables. However, further developments are needed to reduce electrolysis costs, establish infrastructure networks, refine export models, and meet growing domestic demand.<sup>(63)</sup>

Sovereign funds and government entities are investing billions of dollars in the development of green hydrogen plants. Saudi Arabia, in particular, is leading the way by building the world’s largest green hydrogen plant. The plant, a joint venture between ACWA Power, Air Products, and NEOM, is set to become the world’s largest green hydrogen production facility and is scheduled for completion by the end of 2026. It will cover an area of 300km<sup>2</sup>, generate up to 2.2GW of solar energy, and produce 600 tons per day of carbon-free hydrogen for global transportation. This is expected to eliminate around five million tons of CO<sub>2</sub> emissions per year. Saudi Arabia aims to produce 2.9 million tons of hydrogen per year by 2030 and 4 million tons by 2035. The region stands to generate significant economic gains, with potential revenues of \$120 to \$200 billion by 2050 by exporting green hydrogen and derivatives.

Other GCC countries are also developing hydrogen plants. The UAE’s Abu Dhabi National Energy Company (TAQA) is partnering with Emirates Steel to produce green hydrogen for manufacturing green steel. Masdar, another Abu Dhabi entity, aims to produce up to 1 million tons of green hydrogen annually by 2030, establishing the emirate as a global hub for hydrogen production and export. Oman is also making significant investments in green hydrogen and has launched Hydrom, targeting 1 million tons of annual production by 2030.<sup>(64)</sup>

Blue hydrogen, produced through steam methane reforming (SMR) with Carbon Capture, Utilization, and Storage (CCUS), can also be leveraged. Blue hydrogen serves as an intermediate step towards green hydrogen and allows oil and gas producers in the GCC to utilize existing infrastructure. The region’s advantages for blue hydrogen production include transport and storage infrastructure, CCUS mechanisms, abundant natural gas, and suitable geological features.

While hydrogen’s role in the Middle East’s energy mix is expected to remain minor in the coming decades, the

(63) Ibid.

(64) Matt Smith, “GCC states, Egypt vie to become global leaders in green hydrogen,” *ZAWYA*, May 22, 2023, <https://www.zawya.com/en/business/energy/gcc-states-egypt-vie-to-become-global-leaders-in-green-hydrogen-hw71tm9k>.





potential for its growth is significant. Estimates suggest that hydrogen could account for up to 18% of global energy consumption by 2050. Overcoming the challenges and advancing the hydrogen industry will require substantial commitment and collaboration from stakeholders.<sup>(65)</sup>

### Gulf Countries in COP Negotiations

The United Nations COP28 climate talks are scheduled to commence in November 2023 in Dubai, UAE. Environmental activists have voiced their skepticism about the potential outcome of this round of climate talks. The choice of Sultan Al-Jaber, as President of COP28, has sparked some degree of controversy due to his role as CEO of Abu Dhabi National Oil Company. Another concern prevalent from the previous discussion is the hosting of COP in the Middle East, a region known for its reliance on fossil fuels. Climate activists remain convinced that an energy transition that includes fossil fuels cannot be successful and have therefore campaigned for the quick phasing out of all fossil fuels. Such a step, however, would at this stage be detrimental to the GCC economies.

A key point of dispute includes the significance of technology in decarbonization and the focus on fossil fuels. Countries such as Saudi Arabia claim that future technologies such as direct air capture could be utilized for their envisioned “Circular Carbon Economy.” There has been advocacy, both private and public, by Gulf states for the use of carbon capture technologies. Al-Jaber himself has stated that “we must be laser-focused on phasing out fossil fuel emissions while phasing up viable, affordable zero-carbon alternatives.”<sup>(66)</sup> He described the chairing of the negotiations as an “opportunity” for the energy industry to engage in a “technological revolution.” He has also shown optimism in furthering talks about the funding needed for decarbonization<sup>(67)</sup> and has promised to utilize his entrepreneurial and management experience, unlike previous COP presidents, to lead the talks and engage the private sector in unlocking massive funding.<sup>(68)</sup>

(65) Oxford Business Group, “Hydrogen holds promise as a sustainable energy source in the Gulf,” <https://oxford-businessgroup.com/reports/bahrain/-report/economy/powering-the-transition-hydrogen-holds-promise-for-sustainable-energy-in-the-gulf-2>

(66) Damian Carrington, “Cop28 host UAE’s approach is ‘dangerous’, says UN’s ex-climate chief,” *The Guardian*, May 16, 2023, <https://www.theguardian.com/environment/2023/may/16/cop28-host-uae-climate-united-arab-emirates>, (accessed May 16, 2023).

(67) Jon Gambrell, “UAE’s COP28 leader: ‘Fight climate change, not each other’,” AP News, February 14, 2023, <https://apnews.com/article/united-nations-dubai-business-climate-and-environment-bd39075255f4407b-7b8542a60d927b>.

(68) Fiona Harvey, “Cop28 president: world needs business mindset to tackle climate crisis,” *The Guardian*, April 7, 2023, <https://www.theguardian.com/environment/2023/apr/07/cop28-president-world-needs-business-mindset-tackle-climate-crisis-sultan-al-jaber>.

What is clear is that the position of the COP president can bring about risks and opportunities. Countries reliant on hydrocarbons tend to be criticized during negotiations such as COP, particularly for influencing agendas and setting back discussions. This scrutiny may amplify if the chair does not show a neutral position in negotiations. Specifically, because Al-Jaber is someone with expertise in the private sector, there may be fear of influencing the agenda and not balancing the diverse interests that members of the COP negotiations are bound to bring.

At the same time, the unprecedented chairing of COP28 with the head of an oil company may bring about more dialogue surrounding the financial aspect of the energy transition. Al-Jaber announced that funding the transition will be on the agenda. Fostering consensus and collaboration to this could become a great legacy, enhancing international reputation and perhaps influence.<sup>(69)</sup>

Overall, the selection of Egypt and the UAE as hosts for the COP27 and COP28 conferences has great implications for the region. It is expected to drive clean energy initiatives and attract international investment to the Arab world’s renewable energy goals. The Middle East has been instrumental in reducing the cost of utility-scale renewable energy production and has set global records in wind and solar energy generation. Hosting these conferences presents a significant opportunity for the region to attract more investment and accelerate the transition to clean energy.

The events are also seen as platforms to boost economic development through climate action and job creation. The UAE and Saudi Arabia have already made commitments to increase the share of renewable energy in their energy mix, while Egypt aims to significantly increase its electricity supply from renewables. These countries’ efforts, along with the decisions and agreements expected to be made at COP27 and COP28, will further accelerate the transition to clean energy. However, there is still a need for increased financing and green investment in the region to support sustainable development. Overall, hosting these conferences is seen as crucial for the Middle East, which is highly vulnerable to the impacts of climate change, and will help showcase its progress and commitment to sustainable energy and emission reduction.<sup>(70)</sup>

How COP28 can contribute to this development over the longer term remains to be seen. By taking a leadership role in the climate conference, the UAE can prioritize discussions

(69) Ruth Michaelson and Patrick Greenfield, “UAE using role as COP28 host to lobby on its climate reputation,” *The Guardian*, November 16, 2022, <https://www.theguardian.com/environment/2022/nov/16/uae-cop28-host-lobby-climate-reputation-cop27>

(70) Heriot Watt University, “Hosting COP27 and COP28 will accelerate MENA’s clean energy ambitions,” February 28, 2022, <https://www.hw.ac.uk/news/articles/2022/hosting-cop27-and-cop28-will-accelerate-mena.htm>.



and initiatives related to technological advancements in the energy sector. This emphasis on technology opens up opportunities for the GCC countries to continue their pursuit of fossil fuels for the Circular Carbon Economy while integrating green energy solutions to remain relevant in the green transition. By showcasing their commitment to developing and adopting clean technologies, the GCC nations can attract investments, partnerships, and expertise in renewable energy and sustainable practices. This approach allows them to diversify their economies, reduce carbon emissions, and ensure long-term economic sustainability. Furthermore, by actively engaging in discussions about technology transfer, research and development, and innovation, the GCC countries can enhance their competitiveness, foster local industries, and strengthen their position as global players in the energy market.

### Conclusion

The GCC countries are making notable strides in their efforts to address climate change and transition towards more sustainable and environmentally friendly economies. While these countries have traditionally relied on fossil fuels, they are now recognizing the need to diversify their economies and reduce their carbon footprints. Important steps include

setting net zero targets (UAE and Oman for 2050, and Bahrain and Saudi Arabia for 2060), increasing renewable energy in their energy mix, and mitigating environmental risks by implementing policies to reduce pollution and curb single-use plastics. The GCC countries also recognize the potential of green hydrogen as a catalyst for their green future. With abundant renewable energy resources, these countries are well-positioned to become pioneers in the green hydrogen market.

At the same time, there are still significant areas for improvement. Some GCC countries, such as Kuwait and Qatar, have yet to announce specific net zero targets or take significant steps toward environmental policy development. Additionally, concerns have been raised about the hosting of COP28 negotiations in the UAE and whether the meeting will result in an outcome that can truly be considered historic in the climate change debate. To be sure, the upcoming COP28 negotiations can provide an opportunity for dialogue, collaboration, and finding innovative funding solutions to accelerate the energy transition in the region and beyond. It would be for the benefit of everyone if this opportunity is taken advantage of.





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## Annex

Below please find links to some of the relevant and official documents referred to in this report.

43rd Session of GCC Supreme Council Issues Final Communiqué: <https://sp.spa.gov.sa/viewfullstory.php?lang=en&newsid=2408155>

A Joint Statement (Jeddah Communiqué) Between the Kingdom of Saudi Arabia and the United States of America Issued: <https://sp.spa.gov.sa/viewfullstory.php?lang=en&newsid=2370228>

Jeddah Declaration: Arab Leaders Affirm the Importance of Promoting Joint Arab Action Based on Common Foundations, Values, Interests and One Destiny: <https://www.spa.gov.sa/en/47e1778aaao>

Joint Communication to the European Parliament and the Council - A Strategic Partnership with the Gulf: <https://www.eeas.europa.eu/sites/default/files/documents/Joint%20Communication%20to%20the%20European%20Parliament%20and%20the%20Council%20-%20A%20Strategic%20Partnership%20with%20the%20Gulf.pdf>

Joint Statement at the Conclusion of the Saudi-Chinese Summit: <https://sp.spa.gov.sa/viewfullstory.php?lang=en&newsid=2407997>

Joint Trilateral Statement by the Kingdom of Saudi Arabia, the Islamic Republic of Iran, and the People's Republic of China: <https://www.spa.gov.sa/en/ed7aabfefaw>

Riyadh Arab-China Summit for Cooperation and Development Issues Final Communiqué: <https://sp.spa.gov.sa/viewfullstory.php?lang=en&newsid=2408273>

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